



*2003 Risk Management Honor Roll:
Roger L. Andrews • William G. Chapin • Johanna M. Zschomler*

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Business Insurance®

April 7, 2003

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\$4



**Risk Manager
of the
Year**

Sheila Small
Assistant Treasurer
Risk Management & Insurance
Verizon Communications Inc.



Report questions asbestos
reserve adequacy / **3**

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benefit plan exclusion / **4**

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From left, Lloyd's of London Chairman Peter Levene, Lord Levene of Portsoken; Chief Executive Officer Nick Prettejohn; and Director of Finance Andrew Moss announce the market's return to profit in 2002.

Lloyd's of London returns to profit 2002 marks end of loss trend

By SARAH VEYSEY

LONDON—Marking the reversal of a five-year trend, Lloyd's of London reported profitable results for its 2002 underwriting year.

Lloyd's 2002 profits—£834 million (\$1.34 billion) on an annual accounting basis—also are in dramatic contrast to the market's worst-ever loss of £3.11 billion (\$4.53 billion) in 2001.

Last year's performance is projected to look even more attractive under Lloyd's traditional three-year accounting system, which is being

phased out to make the market more directly comparable with competitors. Under the traditional Lloyd's accounting, which allows more time for claims to fully develop and reinsurance recoveries to be made, it is estimated the 2002 account would generate a £1.48 billion (\$2.38 billion) profit, which would be the market's largest ever, according to Chief Executive Nick Prettejohn.

Mr. Prettejohn described 2002 as, "by any stretch of the imagination, an excellent year for Lloyd's."

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Late News

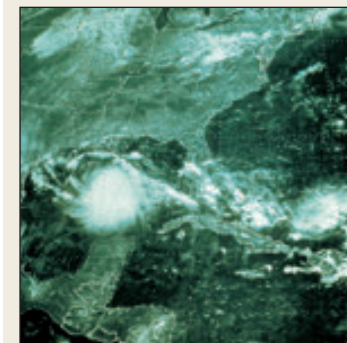


PHOTO: NOAA

Hurricane team predicts above-average season

The Atlantic and Gulf Coasts should experience above-average hurricane activity this year, according to Colorado State University's Tropical Meteorology Project. The hurricane prediction team, which is headed by renowned hurricane researcher William Gray, issued a prediction Friday calling for eight hurricanes during this year's hurricane season, which runs from June 1 to Nov. 30. That compares with an average of 5.9 hurricanes annually since 1950. Three of this season's hurricanes will be "intense"—packing winds of at least 111 mph.

Adjusters form global network

VeriClaim Inc. and four other international commercial property/casualty claims adjusters have formed a network to serve global insurers and international corporations. In addition to U.S. company VeriClaim, the UNI-VERSE Adjusters Network L.L.C. includes Paris-based Seri Expert; Madrid, Spain-based Revenga; Dusseldorf, Germany-based Gielisch; and Singapore-based Insight. UNI-VERSE operates in 65 countries with 300 offices and is looking to add more partners, said Joe Dotoli, president and chief executive officer of VeriClaim.

Asbestos liability reform bill introduced

A new asbestos liability reform bill calls for setting national medical criteria to determine how claimants should be compensated for asbestos-related illnesses. The Asbestos Compensation Fairness Act of 2003, which was introduced by Rep. Chris Cannon, R-Utah, would require claimants to prove that they suffer from an asbestos-related physical impairment before they can pursue a claim and sets

See **LATE NEWS**/page 87

Fire-following coverage threatened Policy changes spark worries

By MEG FLETCHER

Risk managers in several states who have retained coverage for some terrorism exposures thanks to statutory provisions in traditional fire policies could soon see that coverage eroded.

An insurer-driven lobbying effort in about a dozen states this year is seeking to limit fire coverage, especially to exclude direct losses resulting from a terrorist attack.

Proponents of that effort are already tallying wins in Virginia and Nebraska, which in the past two weeks have enacted laws expected to limit coverage for most direct fire-related losses. Such coverage is underwritten primarily by admitted insurers using standard forms based

on a 1943 New York model.

This year, insurer proponents also are lobbying for bills with similar goals in Connecticut, Massachusetts, Michigan, Minnesota, New Hampshire and Oklahoma, according to spokesmen for a coalition of property/casualty trade associations, several major insurers and the Reinsurance Assn. of America.

Supporters also plan this year to try to influence legislators and regulators in Illinois, Louisiana, New Jersey, Pennsylvania and Washington, spokesmen say. Ultimately, they want all 29 jurisdictions with fire-following laws to amend or rescind them.

Fire-following coverage typically protects a policyholder from most

See **FIRE**/page 88

Changes to FLSA unlikely to abate overtime lawsuits

By SALLY ROBERTS

WASHINGTON—Employers should not expect any letup in the flurry of overtime lawsuits being filed against corporations, even if proposed changes to the Fair Labor Standards Act are approved later this year, labor attorneys say.

While the proposals will help clarify and simplify how employers determine who is exempt from overtime pay requirements under federal law, most of the overtime litigation is arising from state wage and hour laws, they say. And even if the proposed regulations do curtail federal overtime lawsuits, it will be some time before any impact will be felt, attorneys note.

Last week, the U.S. Department of Labor published a proposal to modernize the 65-year-old FLSA,

which was created to protect industrial workers from exploitation. Under the act, an employee is guaranteed time-and-a-half pay for all hours worked beyond the regular 40-hour work week, unless he or she is salaried and falls into one of three main exempt categories: professional, executive or administrative.

Under the proposed changes, which will likely take effect late this year or in early 2004, job duties will be clarified and updated, making it easier for employers to determine overtime exemptions. The proposed regulations also would raise the salary threshold—below which workers automatically qualify for overtime pay—to \$425 per week from \$155 per week.

Attorneys say it is the gray area

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Begins on page 10



2003 RISK MANAGEMENT HONOR ROLL MEMBERS

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April 7, 2003

New York Mayor Bloomberg urges reform Cleanup immunity sought

By MICHAEL PRINCE

Lawsuits arising from cleaning up after the World Trade Center terrorist attacks could bankrupt New York City in the future, New York Mayor Michael Bloomberg testified before a federal commission investigating the Sept. 11, 2001, attacks.

"Personal injury claims regarding alleged long-term health damage could bankrupt our city over the next 20 years," the mayor told the National Commission on Terrorist Attacks upon the United States, which held a hearing Monday in New York.

Over 2,300 lawsuits have been

filed against New York City arising from the cleanup of the World Trade Center site seeking an aggregate \$12 billion in damages, according to Lawrence Kahn, chief litigating assistant in the New York City Law Department who also testified at the hearing.



Mr. Bloomberg

PHOTO: GETTY

"The majority of the claims against the city have been brought by city employees and others who claim to have sustained respiratory injuries during the rescue and clean-up operations," he said.

The city has \$79 million in private insurance coverage and has limited coverage under a congressional act to pay the claims, Mr.

Kahn said. This coverage, however, is not sufficient to meet the city's needs, he said.

To stave off bankruptcy, Mr. Bloomberg urged Congress to enact a program that would indemnify New York City to protect the city from personal injury lawsuits alleging long-term illnesses resulting from the attacks.

The program should also provide indemnification or federal insurance coverage for all municipalities and contractors who respond to future terrorist attacks, he said. Failure to create this program could mean delays by local governments and contractors in undertaking any recovery or cleanup work following future attacks, he testified.

"Without congressional action, the nation will be unprepared to respond to the destruction by any future terrorist attacks," Mr. Bloomberg said.

Insurers' assumptions on asbestos questioned S&P suggests cedents relying too much on reinsurance

By DOUGLAS McLEOD

Huge asbestos reserve increases by several insurers are only making a dent in the industry's overall reserving problem and raise the question of whether insurers are counting too heavily on reinsurance recoveries that may end up in dispute, a new report warns.

The insurance industry as a whole is still dramatically under-reserved for asbestos exposures despite the handful of big reserve boosts, and many insurers are assuming "an unrealistic level of reinsurance backing," analysts caution in a Standard & Poor's Corp. report.

While some insurers have taken steps to build asbestos reserves, reinsurers have largely failed to follow suit, partly because of a natural



lag in the process and partly because reinsurers may not yet recognize the level of reimbursement ceding insurers are expecting, S&P says.

"Disputes between insurers and reinsurers appear to be intensifying," Stephen Dreyer, an S&P managing director, said in the company's report. "The tone is getting ugly. Large cessations to reinsurers of asbestos liability, especially in-

curred-but-not-reported losses, will only invite more contention."

"There probably has been a disconnect between what the primary companies assume is recoverable and what reinsurers are assuming they will have to pay," agreed Michael Paisan, an analyst with Legg Mason Inc. in New York. "That will obviously heighten tensions when it comes to negotiations over who has to pay what."

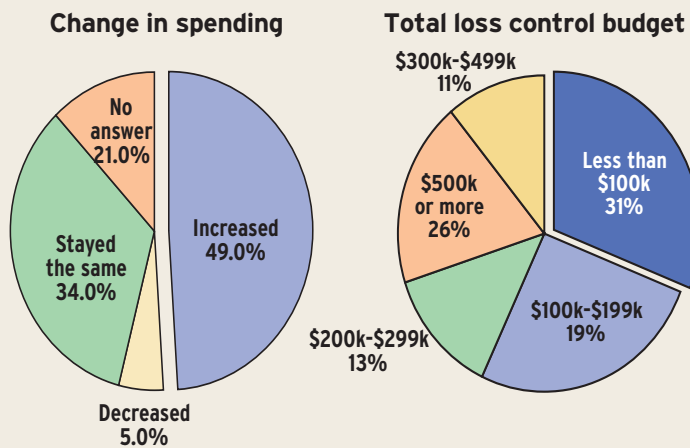
Reinsurers' credit quality could suffer if they ultimately have to recognize the huge asbestos liabilities now confronting ceding insurers, S&P Managing Director Robert Partridge said in the report.

The insurance industry is still facing severe reserve shortfalls for the explosion of asbestos liabilities that

See **ASBESTOS**/page 86

PUTTING MONEY WHERE THEIR RISK IS

Chubb surveyed nearly 400 risk managers on their spending on loss control programs in 2002.



Source: Chubb & Son Inc.

Chubb survey looks at loss control Spending grows on emerging risks

By JOANNE WOJCIK

Despite the hard market and worldwide economic downturn, companies spent 17% more on loss control services during 2002 than they did the year before, a survey has found.

Much of the increased spending was to control emerging risks such as terrorism and corporate governance, according to the survey of nearly 400 risk managers released this week by the Chubb Group of Insurance Cos. at the 41st Risk & Insurance Management Society Inc. Annual Conference & Exhibition in Chicago.

To come up with the funds to pay for these targeted loss control services, many companies shifted budget dollars away from traditional loss control categories, such as product liability.

"I've been in this discipline for 32 years, so it thrills me to no end to see increased spending on loss control," said Jimmy R. Deaderick, managing director of Chubb & Son Inc. and worldwide loss control manager of Chubb Commercial Insurance

based in Whitehouse Station, N.J.

But, risk managers "may be robbing Peter to pay Paul" by shifting loss control dollars from traditional areas to these new risks, Mr. Deaderick warned.

"When you have a limited pool of money, you make adjustments and concentrate on the exposures where loss control will have the most impact," he acknowledged. "But we must not forget that workers compensation and product liability remain significant long-term exposures that face escalating costs."

Nearly 50% of the respondents to "Managing the Cost of Risk: Chubb's 2003 Loss Control Spending Survey" increased their loss control spending in the past year, 34% held their budgets constant and 5% reduced their loss control spending.

The survey found that companies increased their loss control spending, on average, by 17%. But larger companies—defined as those with annual sales of \$500 million or more—paid an aver-

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Inside Business Insurance

High Court upholds Kentucky HMO law

A Supreme Court ruling denying ERISA pre-emption of a state provider law could limit employers' cost-cutting efforts. **Page 4**

Tennessee drops RRG filing fee

Tennessee has eliminated a fee it charged risk retention groups operating in the state. **Page 4**

Scoring coverage for office sports pools

Fantasy sports fan Paul Winston wonders whether there is an untapped market for fantasy insurance. **Page 6**

Risk manager honorees show the way

The Risk Manager of the Year and honor roll members stand as role models for their peers. **Page 8**



Risk management growing in Cuba

Companies in Cuba are gradually adopting risk management techniques as their business environment changes. **Page 81**

Online

• Online **Chicago Tourism Guide** for visitors to the annual RIMS conference.

• The **Datebook** calendar lists upcoming industry seminars and meetings and allows you to add info on your own event.

• Searchable **directories** of all the listings of industry vendors found in *B/I's* Market Sourcebook.

• New **Opinion Poll** for readers: When will property/casualty insurance rate increases begin to level-off?

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REPORTING ON CORPORATE RISK AND EMPLOYEE BENEFIT MANAGEMENT NEWS.

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Harkavy's next targets: Colorado and Oklahoma

Tennessee agrees to drop fees on RRGs

By JERRY GEISEL

NASHVILLE, Tenn.—Risk retention groups that operate in Tennessee but are licensed in other states will no longer be required to pay a \$515 annual filing that is imposed on other insurers, but the battle over similar fees continues in other states.

Tennessee insurance regulators, responding to the complaints of risk retention groups that the filing fee was illegal under federal law,

have agreed to scrap it.

In a letter sent to the groups, S. Jop Bunyasrie, a tax analyst with the Tennessee Department of Commerce and Insurance, said an earlier notice stating that risk retention groups are required to pay the fee should be disregarded, adding that the department was sorry for the error.

That change in position came after Jon Harkavy, vp and general counsel for captive and RRG manager Risk Services L.L.C. in Arling-

ton, Va., sent a letter to the department, saying that such fees were pre-empted by the Risk Retention Act, the federal law that authorized the special, multiple-owner captives, a point which several courts have affirmed.

"This was a very nice, pleasant result," said Heather Ross, director of regulatory compliance at Risk Services.

Fresh from the victory in Tennessee, Risk Services is now seeking a similar outcome in two other



Mr. Harkavy

states: Oklahoma, which is imposing a \$150 licensing fee and a \$500 annual statement review fee on nondomiciliary groups; and Colorado, which imposes a filing fee based on premium volume but with a minimum of \$670 a year. A spokesman for the Oklahoma Insurance Department said the issue is under review. Colorado Insurance Commissioner Doug Dean said he is reviewing the issue and hopes to make a decision in the very near fu-

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Supreme Court rules any willing provider law not pre-empted by ERISA

Health plans fear cost increase

By MARK A. HOFMANN

WASHINGTON—Some observers fear that a unanimous Supreme Court decision upholding Kentucky's "any willing provider" laws will undercut the ability of employers to hold down health care costs.

At issue in *Kentucky Assn. of Health Plans vs. Miller*, which the high court decided on April 2, was whether health maintenance organizations should be regulated under state insurance laws or governed by the federal Employee Retirement Income Security Act, which pre-empts state laws relating to employer-provided benefits.

Lower courts had upheld the state's right to regulate HMOs in the same way it regulates insurers (*BI*, Jan. 6).

The HMOs appealed to the Supreme Court, arguing that Kentucky's any willing provider laws—which prohibit managed care plans from discriminating against any provider that prac-

tices within the geographic areas served by the plan and is willing to abide by the plan's terms and conditions—violate ERISA's pre-emption provision.

The Supreme Court agreed with the lower courts. Writing for the high court, Associate Justice Antonin Scalia said that because Kentucky's any willing provider laws increase the number of providers from which a plan beneficiary can receive services, they "alter the scope of permissible bargains between insurers and insureds in a way similar" to state laws mandating certain benefits—laws the high court has already upheld.

The American Assn. of Health Plans, a Washington-based group that represents HMOs, said in a statement that the ruling "changes little in the current health care delivery system," noting that insurers have operated under Kentucky's any willing provider laws since 1994.

But other observers saw more

See HMO/page 85

Equitas to pay \$472 million for Honeywell asbestos claims

By DOUGLAS MCLEOD

MORRISTOWN, N.J.—Equitas Ltd. will pay \$472 million to Honeywell International Inc. in a policy buyback, settling all of Honeywell's asbestos and other claims against Lloyd's of London syndicates reinsured by Equitas, the two sides announced.

The payment resolves Honeywell claims for asbestos liabilities of its former North American Refractories Co. unit and its Bendix automotive brake business, which Honeywell agreed in January to sell to Federal-Mogul Corp.

"This settlement is another significant step in Honeywell's comprehensive strategy to resolve all issues related to the NARCO and Bendix asbestos cases and is consistent with the assumptions on which our existing reserves are based," Peter Kreindler, Honeywell's general counsel, said in a

statement.

NARCO filed for Chapter 11 bankruptcy last year and is pursuing a plan to resolve current and future asbestos claims through a bankruptcy trust fund for claimants. The plan calls for Honeywell to pay current claims over a four-year period and would cap the company's annual payments to the trust to fund future claims. Honeywell took a \$900 million aftertax charge in last year's fourth quarter to fund the proposed NARCO trust.

Southfield, Mich.-based Federal-Mogul filed for Chapter 11 reorganization in 2001 but plans to set up a trust for Bendix asbestos claimants as part of its deal to acquire the company. Honeywell would contribute the proceeds of its Bendix-related insurance policies to the trust.

Honeywell would be shielded from future asbestos claims under the NARCO and Federal-Mogul

plans, which still must be confirmed by bankruptcy courts.

A Honeywell spokesman declined to say how much of the Equitas settlement will be allocated to the NARCO and Bendix asbestos trusts.

In its 2002 10-K filing with the Securities and Exchange Commission last month, Honeywell reported having \$1.8 billion in insurance limits available to cover asbestos claims, about \$900 million of which was recoverable from Equitas and other London market insurers.

Tuesday's settlement involves only Equitas—the runoff reinsurer for Lloyd's pre-1993 long-tail liabilities—and does not include other London market companies.

An Equitas spokesman declined comment on whether the reinsurer had reserved more than \$472 million for Honeywell claims, saying the information could hamper future policy buyback negotiations.

Court upholds employer right to exclude workers from plan

By JUDY GREENWALD

PHILADELPHIA—An employer has the right to preclude any group of employees from its benefit plans, as long as its exclusion is not based on age or length of service, a federal appeals court has ruled.

The March 25 decision by the 3rd U.S. Circuit Court of Appeals in *John Bauer vs. Summit Bancorp* sets a precedent as the first federal court opinion to focus on the issue of whether an employer violates the Employment Retirement Income Security Act when it excludes hourly employees as plan participants.

Despite its precedential value, legal observers say that the opinion merely reaffirms established principles rather than breaking any new legal ground.

According to the decision, Mr. Bauer worked as a sales representa-

tive for Princeton, N.J.-based Summit Bancorp—which was acquired by Boston-based FleetBoston Financial Corp. in 2001—as an hourly employee for about 18 and one-half years. He then became a salaried employee for a little over three and one-half years before retiring in 1999.

Mr. Bauer applied for benefits under Summit's retirement plan, which covers salaried employees who are at least 21 years old and have completed one year of service. Hourly employees are not eligible to participate in the plan.

Mr. Bauer was told that while his time as an hourly employee counted in satisfying the plan's five-year vesting period, his retirement benefits would be based only on his relatively brief period as a salaried em-

ployee. Mr. Bauer sued, claiming he was entitled to participate in the plan based on each of his 22 years with the company. A lower court granted Summit summary judgment in the case.

A three-judge panel of the 3rd Circuit upheld the lower court's dismissal.

"Perhaps due to the clear language of the statute...the case law

has focused not on whether the salaried-only

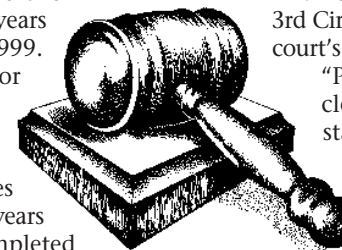
plan classifica-

tion was allowable

under the statute but whether it discriminated in favor of highly compensated employees (to the detriment of the excluded hourly workers) as it was applied," the panel's opinion stated.

But Mr. Bauer is not claiming dis-

See ERISA/page 86





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Paul Winston

Covering bets on insurance league

If your office is anything like mine, the month of March means one thing: March Madness.

This year, not even the sober reality of the war in Iraq could dissuade the faithful from trying to divine the fortunes of the 64 teams in the NCAA men's college basketball tournament. In fact, according to a column in USA Today last week, even the U.S. troops in the Middle East were hastily completing their brackets last month and are following the tournament in the midst of the conflict.

And the march to the Final Four is not the only time when office betting on sports occurs. With April comes the start of rotisserie baseball leagues. August brings fantasy football—college and pro—contests. And fantasy soccer, already enormously popular elsewhere in the world, is starting to take hold in the United States, as office colleagues vie in fantasy Premiership and Bundesliga contests, among others.

Although betting money on office pools is illegal in many states, few if any district attorneys are prosecuting (probably because they are in their own office pools). That said, many management pundits have decried the diversion of workplace human resources from productive tasks to following the fortunes of fantasy teams on the office clock. But I think it's a harmless distraction that takes no more time away from the tasks at hand than the usual mindless Internet surfing taking place during working hours. And I can assure you that as long as the boss' picks are still in the running by the Final Four, he or she is not worrying that the rank-and-file are wasting time on pools. For the record, if Texas wins the NCAA tournament, I win the office pool.

Observing this obsession with competing against coworkers with virtual sports teams and players, and the apparent effort by many online services to find new sources of competition, got me to thinking.

Why not a fantasy insurance competition?

Insurance is perfectly suited to such a contest. It's a numbers-based field, with any number of benchmarks for determining winners and losers. It's an industry already familiar with the use of Monte Carlo simulations. And the entire business is founded on the concept of gambling. By that, I mean that insurers in the course of business gamble that their calculation of premiums will offset expected losses. And policyholders routinely gamble that the amount of coverage

they buy will cover the size and frequency of losses they incur.

There already are many organizations well suited to organizing fantasy betting on various insurance outcomes. Consider A.M. Best Co., which gathers reams of data annually. Or the Insurance Information Institute, which already organizes a Groundhog Day forecast of insurer results among industry analysts. Creating an Ill March Madness competition would be a natural. For the computer wonks at modeling companies like RMS and AIR, setting up online pools would be a snap compared to modeling terrorism or hurricane risks.

What would contestants bet on in the insurance arena? The possibilities are endless.

For those who favor the simple style of an office baby pool, you could have people enter their picks for insurance industry premium volume, policyholder surplus, net income or loss and combined ratio.

For people who favor the bracket style of a tournament pool,

such as the NCAA contest, you could pick the 32 largest insurers, seed them based on factors like profitability, and then have them go head to head based on quarterly results. A No. 1 seed such as AIG, for example, might be matched up in the first round against an 8th-seeded insurer team like Ohio Casualty. The brackets would continue quarter by quarter until year-end, when an insurer champion would emerge.

Another elimination-style contest, though admittedly one that could drag out over a few years, could involve picking insurers that will survive the ever-present pressures of consolidation. Pick the companies that will survive M&A attempts and win. Alternatively, start with a pool of reinsurers, or maybe all the new companies created in the fourth quarter of 2001, and pick which will still be standing a year or two from now.

For those interested in more exotic or unusual friendly wagering, bet on the outcome of such things as the Silverstein coverage litigation or the vote on asbestos liability reform legislation in the U.S. Congress.

If any of the above stir your passion for competition and your craving for a new source of office competition after the NCAA tournament is over, let me know and I'll see what I can do. In the meantime, hook 'em Horns!

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Paul Winston

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Editorial

Award criteria still strong, relevant

IT HAS BEEN MORE THAN 25 years since *Business Insurance* first introduced the Risk Manager of the Year award. In that time, there have been significant changes in the nature of risks facing managers, as well as in the tools at their disposal.

Yet the criteria developed to select the winners of the annual award, which today is co-sponsored by the Risk & Insurance Management Society Inc., still remain strong and relevant benchmarks for successful risk management. And they continue to successfully guide the panel of independent judges to select the best in the profession for recognition, as they have each year since 1977.

Those criteria require that a risk manager:

- Establish and implement an effective risk management program within the organization.

- Tackle and solve one or more major problems for his or her organization.

- Innovatively apply the diverse tools of risk management and insurance.

- Creatively and effectively use the insurance markets to structure an insurance program that serves the needs of the organization.

- Establish a workable intelligence system inside and outside the organization, culminating in a flow of information about events and activities that affect the organization's risk management and insurance.

- Skillfully perform the functions of management in the overall orga-

nization and within the risk management/insurance department.

- Achieve the most effective program at the optimum cost over the long term.

- Develop technical expertise in any or all of the broad categories included within risk management, leading to a better managerial grasp of the operational aspects of the job.

- Exhibit an attitude and perform activities fostering the advancement of the risk management profession.

- Develop in his or her career.

As the profiles in this week's issue show, those qualities are embodied in the 2003 Risk Manager of the Year and the three members of the 2003 Risk Management Honor Roll.

For her achievements, we salute

Risk Manager of the Year Sheila Small, assistant treasurer-risk management and insurance at Verizon Communications Inc. And we acclaim the members of the Risk Management Honor Roll: Roger L. Andrews, director of risk management for E.D. Bullard Co.; William G. Chapin, director of facilities and risk management for the Diocese of Rockville Centre; and Johanna Zschomler, director of the risk management division for the state of North Dakota.

Now that they have attained these honors, there is one more challenge for them—but it is one for which they are uniquely well suited: Serving as role models for others in the profession and leading others to excellence in risk management.

Schillerstrom



Letters to the Editor

NAIC president promises health insurance progress

To the editor: A friend brought me a copy of the March 17 *Business Insurance* article, "NAIC Stir over AHP Testimony," and asked if I thought the National Assn. of Insurance Commissioners had any credibility to lose when it came to health insurance issues. I asked for an explanation of the question.

She noted the NAIC had in the past supported guaranteed issue, which many believe has led to a death spiral and the demise of the small-group market. She asked me what the NAIC had offered in the way of constructive solutions to the health insurance problems, including increasing costs, etc. This person is a health insurance agent/small-business owner who supports the association health plans proposal because she is desperate for solutions, any solutions. She did not quite understand the regulatory reasons I gave her for our strong opposition to AHPs. She explained the NAIC should identify the causes of the market problems and offer solutions, not just criticize.

It has been our experience here in Arkansas that costly government mandates like guaranteed issue have devastated the small-group market, increased the cost of health insurance, increased the number of uninsured, and exploded the population and cost of our high-risk pool coverage. Our consumers have made it clear they want the right to choose lower-cost, mandate-free policies; the right to purchase coverage through fully insured health insurance purchasing groups, which retain state jurisdiction and vital solvency and market conduct consumer protections (which is what Deputy Commissioner John Hartney testified about in the U.S. House committee); and the right to tax credits for the purchase of

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Retiree protections needed

BETHLEHEM STEEL CORP. RETIREES, thanks to the efforts of the company, their union and a group of retired workers, are no longer facing an imminent health care coverage crisis.

Such a crisis loomed when Bethlehem Steel, which is in bankruptcy and is selling assets to another company, said it was terminating its decades-old retiree health care program March 31, which covers more than 90,000 retirees and dependents.

At the 11th hour, Bethlehem Steel agreed, as a result of negotiations with the United Steel Workers of America, to extend COBRA health care continuation coverage through the end of September. While that agreement only applied

to retirees represented by the union, the steelmaker voluntarily agreed to extend COBRA to all retirees.

Enrolling in COBRA, while not cheap, assures continuity of coverage for retirees for a limited time. That gives them time to explore and assess other health care programs.

In addition, an organization formed by nonunion retirees has put together group insurance programs that will cost much less than COBRA, though they carry much higher cost-sharing requirements.

And legislators are doing their part to reduce the burden of the plan termination.

Anticipating the demise of retiree health care plans, Congress includ-

ed in trade legislation it passed last year a provision that would provide a 65% tax credit to offset COBRA and certain other health premiums for retirees age 55 through 64 whose pension plans have been taken over by the Pension Benefit Guaranty Corp., as will soon be the case with Bethlehem Steel.

In addition, some states, like Maryland, are setting up state health insurance pools whose coverage would be eligible for the 65% tax credit.

These efforts certainly will help retirees. But more needs to be done—perhaps new tax incentives for employers and retirees to pre-fund benefits—to assure that assets will be available to meet obligations.

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

Risk Manager of the Year



PHOTO: MICHAEL MARCOTTE

Sheila Small Assistant Treasurer Risk Management and Insurance Verizon Communications Inc.

Small sets the tone for Verizon's success

By **DAVE LENCKUS**

A painting commissioned by the former Bell System telephone monopoly depicts a snowshoe-clad telephone lineman battling a powerful blizzard in March 1888 to maintain the only long distance line between New York and Boston.

The storm shut down the Northeast, but that line stayed open.

A video produced 113 years later for internal viewing at Verizon Communications Inc., a descendant of the Bell System, captured the same resolve in the telecommunications giant's employees in the wake of the Sept. 11, 2001, terrorist attacks. The video shows Verizon technicians racing to re-establish

telecommunications service at the New York Stock Exchange to meet the deadline that President Bush established to reopen the exchange and America for business.

The race was close, but the exchange reopened as planned.

Despite the differences between 19th and 21st century telecommunications technology, the painting and video reflect the same concept: a company's dedication to building and maintaining the communications bridges linking businesses and individuals with one another.

Her tools and materials are different, but like that solitary lineman and the crews of Verizon technicians more than a century later, Sheila Small believes one of her vital re-

sponsibilities as Verizon's top risk manager is to build bridges—from risk management to the rest of the company.

The assertive and ever-analytical Ms. Small, assistant treasurer-risk management and insurance, does not like to wait for opportunities to come to her or for problems to arise before managing them.

She goes after them and liaisons with others in the company—in legal, human resources, marketing or wherever her cause takes her—to complete the task at hand.

"There's a personal element about Sheila and her commitment and desire to match up the needs of the corporation and fulfill the needs of the needs of the corporation" with resources that she has the ability to find, ob-

served her boss, William F. Heitmann, senior vp and treasurer.

"I think one thing she does extremely well is communicate" by making herself accessible to others in the company as well as by reaching out to them, said Doreen A. Toben, chief financial officer and executive vp.

Thomas R. Tizzio, senior vice chairman of New York-based American International Group Inc., a major player in Verizon's risk financing program, describes Ms. Small as smart, driven and forceful.

In addition, "she's not afraid to take on a new program, something different," Mr. Tizzio said.

But even with those projects that have a

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Risk Manager of the Year

Continued from previous page

distinctive business development bent, Ms. Small always has "an eye on what's prudent risk management for Verizon," said Chris Varin, a senior vp in Burlington, Vt., with Marsh Management Services Inc., Verizon's captive manager.

Ms. Small and the risk management program she has fashioned similarly have impressed nine independent judges, who have selected her as the 2003 Risk Manager of the Year.

Ms. Small ascribes part of her nature to the work ethic she says she developed as a child working on the family's New Jersey chicken farm.

Another part—her analytical side—might be genetic. Ms. Small, like her older brother, majored in math. And her love of math prompted her to earn a master's de-

gree in statistics after obtaining a master of business administration degree. She also has obtained the Associate in Risk Management and Certified Property Casualty Underwriter designations.

The importance that Ms. Small places on education extends to her staff. Ms. Small encourages her staff of 22 to further their professional education for their own benefit as well as the department's.

Another quality she brings to risk management is her thorough understanding of the company's operations, Mr. Heitmann said.

Ms. Small has been with Verizon or its predecessor companies for 30 years, beginning as an engineer responsible for designing manholes. She advanced to positions in corporate planning and finance before her familiarity with operations and her education earned her the top risk management position with Bell Atlantic Corp. in 1990.

Bell Atlantic merged with GTE Corp. in 2000 to form Verizon.

That was the second major merger for Bell Atlantic within three years. Like the GTE deal, the 1997 merger with fellow regional telephone holding company NYNEX included a captive insurer.

The Vermont-based captives would become centerpiece of Ms. Small's risk management program (see story, page 14).

One captive, GTE Re, fronts for insurers on the high excess layers of

Verizon's manuscripted property insurance program, which allows Verizon to obtain terrorism coverage at far lower rates than commercial insurers offer.

The other captive, Exchange Indemnity Co., underwrites the large deductibles that Verizon assumes



zoned units that otherwise would be handcuffed by capital budget restrictions to replace the equipment immediately.

Verizon can take tax deductions on the insurance premiums it pays its captives because of the amount of third-party risk the captives un-

derwrite. Significant for Verizon, however, is that under Ms. Small's direction, that third-party insurance covers familiar risks and results in other benefits for the company.

Sheila Small has two master's degrees as well as the ARM and CPCU professional designations, and she places importance on education not only for herself but also for her staff.

automobile and homeowners insurance at discounted rates from a selection of insurers and pay their premiums through payroll or pension deductions. It is cost-free to Verizon, fosters employee goodwill and generates third-party business for Verizon's GTE Re captive, which reinsures a portion of the risk.

While Verizon's captive insurers are important elements of Ms. Small's risk management program, there are others. Under her direction, Verizon's surety program has been retooled to eliminate waste, speed up bond procurement, track the status of Verizon's more than 1,000 bonds and free up some capacity in a tremendously tight market.

And, Verizon's property broker says, by keeping on top of Verizon's extra expense costs in the wake of the Sept. 11, 2001, terrorist attacks, Verizon has recovered a larger percentage of policy limits than any other policyholder with terrorism-related losses that he knows.

That effort has raised risk management's visibility within Verizon, Ms. Toben said.

All of that makes Ms. Small's department a satisfying place to ply risk management, according to Charles A. Yaunches, director-property risk management.

"Sheila has a pretty cool team that really does risk management, not just buys insurance," Mr. Yaunches asserted.

Sheila Small

Title: Assistant treasurer-risk management and insurance at Verizon Communications Inc.

Previous experience:

Executive director-corporate risk management at Bell Atlantic Corp., 1997-2000; director of risk management at Bell Atlantic, 1990-1997; director-financial results and measurements, New Jersey Bell Telephone Co., 1979-1990; staff manager-corporate planning, New Jersey Bell, 1977-1979; engineer-special studies, New Jersey Bell, 1976-1977; manhole design and placement course developer and trainer, New Jersey Bell, 1975-1976; assistant engineer, New Jersey Bell, 1973-1975.

Professional designations:

Certified Property Casualty Underwriter, 1998; Associate in Risk Management, 1992.

Education:

Master of science degree in statistics, Rutgers University, 1979; master of business administration degree, with focus on finance, Rider University, 1977; bachelor of arts degree in mathematics, Douglass College, 1972.

Memberships:

Phi Beta Kappa, Pi Mu Epsilon Mathematical Honor Society, Risk & Insurance Management Society Inc., CPCU Society, Philadelphia Insurance Managers Assn., Zurich American Risk Management Council, American International Group Inc. National Accounts Advisory Board and Telecommunications Risk Management Council, Aon Corp. Client Advisory Board, The Vermont Captive Assn. Tax Legislation Committee.

Family:

Husband, Leonard; daughters Risa, 21, Jara, 19, and Jolie, 17; and son Benjamin, 13.

Hobbies:

Attending theater performances and movies, running, needlework, cooking, baking and reading.

Verizon traces lineage to phone's inventor

Mergers from Baby Bells created telecommunications giant

By DAVE LENKUS

Verizon Communications Inc. will mark its three-year anniversary in June, but the amalgamation of two large U.S. telephone companies and one worldwide telecommunications leader can trace its roots to the telephone industry's earliest days.

The New York-based Fortune 10 company was created on June 30, 2000, when telecommunications powerhouses Bell Atlantic Corp. and GTE Corp. merged.

The new company took on the moniker Verizon, a combination of the Latin word veritas—meaning truth and connoting reliability—and horizon—to signify a visionary outlook.

Verizon—which has approximately 229,500 employees, 75,000 vehicles and thousands of buildings worldwide—reported \$67 billion of revenues last year. It provides wireline telephone service to more than one-third of the nation's households and Fortune 500 headquarters as well as to the federal government; it is the nation's largest wireless communications provider; it has a wireline or wireless presence in 33 countries; and it is the world's largest provider of print and online directory information.

Verizon consists of a big chunk of the former American Telephone & Telegraph Co.—which Alexander Graham Bell's Bell Telephone Co. formed in 1885—and what was the

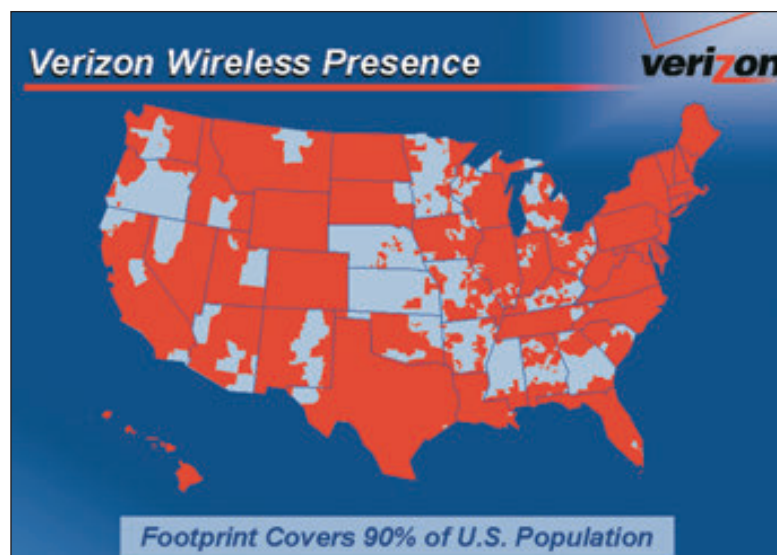
nation's largest independent telephone company.

While AT&T had been a legally sanctioned and regulated telephone monopoly since the early 20th century, an antitrust lawsuit led to a 1982 settlement that required Ma Bell to divest itself of 22 local telephone companies. In 1984, those companies were formed into seven regional "Baby Bell" holding companies of nearly equal size.

Two of the Baby Bells were Philadelphia-based Bell Atlantic and New York-based NYNEX, which would eventually merge. The companies served customers in 13 states from Maine to Virginia and in the District of Columbia. Technological firsts that were introduced by the two Baby Bells after the AT&T breakup include such telecommunications industry staples as Caller ID, statewide cellular service and wireline voice-activated dialing.

In a 1995 partnership, Bell Atlantic and NYNEX combined their wireless business and began offering service to 55 million potential customers along the East Coast and in the Southwest. The venture marked the launch of what is known today as Verizon Wireless.

Bell Atlantic's and NYNEX's fortunes would become far more intertwined less than a year later. In April 1996, the companies announced a merger agreement then valued at \$23 billion. After complet-



Verizon unit Verizon Wireless' service area, shown in red, suggests the vastness of the operations for which Sheila Small is responsible.

ing the merger in August 1997, the company retained the Bell Atlantic name but was based in New York.

Just weeks before the agreement was announced, President Clinton signed the 1996 Telecommunications Act, which was designed to allow any communications business to compete against any other in any market. The act opened up new business opportunities for the Baby Bells, which had been barred under the AT&T divestiture agreement from providing long-distance telephone service within their own jurisdictions.

But, the 1996 act restricted Baby Bells from offering long-distance service before proving that their local telecommunications markets were fully open to competition. Bell Atlantic was the first of the former Baby Bells that obtained permission to enter the long-distance market. The company began providing long-distance service in New York state in January 2000, just six months ahead of the completion of its merger with GTE.

Meanwhile, in September 1999, Bell Atlantic and London-based

See VERIZON/next page

Risk Manager of the Year

Verizon: Company traces its lineage to the phone's inventor

Continued from previous page

Vodafone AirTouch P.L.C., now Vodafone Group P.L.C., agreed to create a new national wireless business under a single brand consisting of the two companies' U.S. wireless assets: Bell Atlantic Mobile, AirTouch Cellular, PrimeCo Personal Communications and AirTouch Paging. The new Verizon Wireless operation was launched in April 2000, about four months before Bell Atlantic's merger with GTE was completed.

The merger with GTE, valued at more than \$52 billion when it was announced in 1998, was designed

to combine the Bell Atlantic network serving a dense, data-intensive customer base in 13 states along the Eastern seaboard with GTE's national footprint, advanced data communications capabilities and long-distance expertise. The new company would be able to provide long-distance and data services nationwide as part of a full package of other communications services, subject to regulatory restrictions.

Even before the merger was completed, GTE was one of the largest telecommunications companies in the world, generating more than \$25 billion of revenues in 1999. The

company served wireline and wireless customers through subsidiaries or affiliates in the United States, Canada, the Dominican Republic, Puerto Rico and Venezuela. It also provided wireless service in Argentina and Taiwan.

GTE's history is rooted in the independent telephone industry, and it was the largest independent in the United States before merging with Bell Atlantic.

The independent phone industry sprung up after Mr. Bell's original patents expired in the mid-1890s. But, for nearly 20 years, customers of an independent could call only

other customers of the same company.

That changed under the 1913 federal act that authorized AT&T's telephone monopoly. The act required Ma Bell to allow independents to connect to the Bell system. Because of how independents and Bell system companies were regulated differently thereafter, GTE's many local independent subsidiaries already were providing long-distance service when Bell Atlantic was seeking such authorization under the 1996 Telecommunications Act.

The entity that became GTE in

the 1950s grew in large part out of the merger and acquisition of hundreds of independents.

Theodore Gary & Co., one of three companies that merged during the 1950s to create GTE, acquired its first independent telephone company in 1897. In the 62 years after acquiring the Macon, Mo., telephone exchange, Gary acquired numerous domestic and international telephone companies.

In 1918, John F. O'Connell, Sigurd L. Odegard and John A. Pratt began purchasing small Wisconsin telephone companies and an independent in Long Beach, Calif. They formed Associated Telephone Utilities Co. in 1926 as a holding company for those properties. Associat-

Verizon provides wireline telephone service to more than one-third of the nation's households and Fortune 500 headquarters and to the federal government. In addition, it is the nation's largest wireless communications provider.

ed served 500,000 telephones by 1929, but the Great Depression forced the corporation into receivership in 1933. The company reorganized as General Telephone Corp. two years later.

General Telephone and Gary were the nation's two largest independents when they merged in 1955.

The third business that would become a key component of GTE was Sylvania Electric Products. Sylvania began as a renewer of burned-out light bulbs during the second decade of the 20th century and grew to become a leader in electronics, lighting, television and radio production, and chemistry and metallurgy by the late 1950s. After Sylvania merged with General Telephone in 1959, the new company was called General Telephone & Electric.

GTE sold its electronics holdings in 1981 and its Sylvania lighting and related precision materials operation in 1993.

In 1983, the company acquired long-distance carrier U.S. Sprint but sold its controlling interest in that operation five years later to United Telecommunications Inc. GTE sold the remainder of the business in 1992.

In 1991, GTE became the largest U.S.-based local telephone company and the nation's second-largest cellular phone company when it acquired Contel Corp. That transaction, valued at \$6.6 billion, was the largest merger in telecommunications history at that time.

Other key developments for GTE during the 1990s included its entry into the Internet access business for residential and business customers in 1993; its 1997 acquisition of Internet services provider BBN Corp.; and its 1999 acquisition of Puerto Rico Telephone Co.

Congratulations!

Sheila Small

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Risk Manager of the Year

Third-party risks important part of captive programs

By **DAVE LENCKUS**

Verizon Communications Inc. can take tax deductions on the premiums it pays its two captive insurance companies because of the amount of third-party risk the captives underwrite.

Significant for Verizon, however, is that a substantial and growing portion of that unrelated business consists of risks that Verizon risk management is both familiar with and comfortable having the captives assume. Those programs include an owner-controlled insur-

ance program for construction contractors who work on Verizon's building maintenance and remodeling projects as well as cell phone insurance for customers of its majority-owned subsidiary Verizon Wireless.

Another captive also profitably reinsures a voluntary benefits program under which Verizon employees and retirees can purchase discounted automobile and homeowners insurance as well as other personal lines coverage (see story, page 22).

Unrelated business is important

to Verizon. Because of tax rulings, Verizon can take deductions on the premiums it pays its captive for a variety of coverages, since the captive writes a significant amount of third-party risks.

But these unrelated risks are not unfamiliar to Verizon.

Indeed, construction, cell phone and personal lines risks are so closely linked to Verizon's business—though not part of its corporate risks—that Sheila Small, assistant treasurer-risk management and insurance, has dubbed them "related unrelated risks."

Besides the comfort those third-party risks give Verizon risk management, they also help boost customer satisfaction and employee morale. And that is all part of the bridges Ms. Small likes to build between risk management and the rest of Verizon.

Verizon captive Exchange Indemnity Co., domiciled in Vermont, underwrites part of the construction and cell phone insurance programs. The captive was formed in 1995 by regional telephone holding company NYNEX, which merged in 1997 with fellow tele-

phone holding company Bell Atlantic Corp., where Ms. Small was executive director-corporate risk management. Verizon was created when Bell Atlantic and telecommunications giant GTE Corp. merged in 2000.

Risk management plans to move the voluntary benefits program into Exchange Indemnity this summer after a captive restructuring project. The program currently is in GTE Re, a Vermont captive that Verizon acquired in the GTE merger.

GTE Re also is running off some truly unrelated third-party risk it wrote before the 2000 merger. That business will remain in GTE Re after the captive restructuring project has been completed.

Wrap-up coverage

The general liability and workers compensation risks of contractors performing building maintenance and remodeling work for Verizon were the first "related unrelated risks" that Exchange Indemnity wrote.

"OCIP was ideal for that," said Philip Baumeister, who oversees the program in his capacity as corporate risk manager-risk management at Verizon.

Like typical wrap-up programs, Verizon's OCIP curbs contractors' costs by providing them less expensive insurance than they could obtain themselves.

Unlike typical wrap-up programs, it is not designed for contractors involved in new construction projects for Verizon. Indeed, because Verizon's century-old wireline telephone operations long ago built their facilities, "we really don't build anything," Mr. Baumeister noted.

Instead, Verizon's OCIP covers the contractors that perform the extensive remodeling and maintenance work at Verizon's various facilities in New York and throughout the New England area.

For example, in New York, a local ordinance requires that property owners tuckpoint their brick and mortar buildings once every few years.

"And, we're forever changing the interior of buildings," of which Verizon owns thousands in New York and throughout the New England region, Mr. Baumeister observed.

He estimated that 80% of the contracting work is performed in New York and the remainder in New England.

Verizon anticipates also using the captive insurance program for projects in Western states, "but we have to wait for projects to get big enough," Mr. Baumeister said.

NYNEX had implemented the OCIP before the company's merger with Bell Atlantic, but Ms. Small made two significant improvements.

Ms. Small, who became president of Exchange Indemnity after the Bell Atlantic/NYNEX merger, saw the advantages of using the captive to cover working-layer losses for

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Risk Manager of the Year

Captives: Third-party risks important

Continued from page 14
contractors.

The third-party risks covered by such a program would help create enough unrelated risk for the captive to allow Bell Atlantic and then Verizon to take tax deductions on the premiums it paid the captive for various coverages. And the program's good loss experience made the risk a safe bet that the program would not financially drain the captive.

In addition, commercial insurance rates are at their highest for the working layer of coverage, Mr. Baumeister said. "So, we tried to

keep some of that money in the captive."

By the numbers

Under the program, implemented in mid-1997, ACE USA fronts the coverage, but Exchange Indemnity retains the first \$250,000 of contractors' general liability and workers compensation risks.

Over the \$250,000 retention, ACE USA, a unit of ACE Ltd., writes the first excess layer of \$25 million. Underwriters at Lloyd's of London provide the next \$50 million excess layer of coverage, and Royal &

SunAlliance Group P.L.C. writes \$25 million excess of \$75 million.

Zurich Financial Services Group previously wrote the first \$25 million excess layer, but it wanted Exchange Indemnity to increase its retention to \$750,000 per loss, Mr. Baumeister noted. Because of the program's good loss experience, Ms. Small objected and switched to ACE USA as of Jan. 1.

The program also provides contractors \$10 million of builder's risk coverage over a \$100,000 retention that Exchange Indemnity largely assumes. For Verizon's purposes, the builder's risk insurance covers the

loss of building materials due to various perils, such as fire.

Exchange Indemnity retains \$99,000 per loss above a \$1,000 retention by the contractor that sustained the loss. Liberty Mutual Insurance Co. writes the \$10 million of excess coverage.

The Hobbs Group L.L.C., a subsidiary of Hilb, Rogal & Hamilton Co., places the coverage and oversees loss control.

Ms. Small made another modification that cleared up an accounting problem the NYNEX program created.

Originally under the program, NYNEX—as is customary in OCIPs—gave the program's insurers large, up-front deposit premiums

that were based on the anticipated total premium for the covered construction projects. At the end of the policy period, the remaining premium would be "trued up" based on construction work actually completed.

But because of the numerous projects the program covered at Bell Atlantic and subsequently Verizon, matching premiums to the completed projects "was a very difficult process," said Richard N. White, a Stamford, Conn.-based senior vp for Hobbs.

Another headache the program created for Bell Atlantic was accounting for the premium expense associated with a planned project that would not begin for some time, Mr. Baumeister noted. State commissions responsible for regulating the telecommunications industry prohibited Bell Atlantic units from accounting for such expenses before the project was underway, he explained.

Ms. Small resolved those accounting issues by developing a deposit premium schedule that allows Verizon to make quarterly, rather than annual, deposits that are matched to specific projects scheduled to begin shortly.

Profitable cell phone cover

The cell phone insurance programs for Verizon Wireless customers cover another third-party risk that Ms. Small considers safe for Exchange Indemnity.

The coverage is so popular that it alone generates enough third-party business to allow Verizon to take a tax deduction on its own captive insurance premiums.

It also fulfills a marketing need and generates a profit for the captive, which reinsures a significant portion of both programs.

The first of the two programs, which covers the loss, theft or damage of wireless customers' cell phones, came to fruition in 1999, after Bell Atlantic's merger with NYNEX but before the GTE merger.

Ms. Small approached the finance department for the NYNEX operations with her idea of creating a cell phone insurance plan that would be available to all of Bell Atlantic's wireless customers and that Exchange Indemnity could reinsure.

Her idea did not generate any interest initially, because NYNEX marketing recently had lined up a cell phone insurance plan for its New York wireless customers. The captive, however, did not participate on the risk.

Seven or eight months later, however, a NYNEX marketing representative who had learned of Ms. Small's idea from NYNEX finance contacted her. The marketing representative was unhappy with the incumbent insurer of the program and was interested in Ms. Small's idea of expanding the insurance program to all Bell Atlantic wireless customers.

After reviewing the existing cell phone insurance program and other market opportunities, Ms. Small selected Asurion Corp. of San Mateo, Calif., to underwrite the risk.

See CAPTIVES/next page



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Risk Manager of the Year

Captive: Third-party risks important

Continued from previous page

Asurion offers various customer service products to telecommunications providers.

Before it merged with Bell Atlantic, GTE already had established a similar program that the company reinsured through its GTE Re captive.

Ms. Small kept both programs. The Asurion program covers wireless customers in what had been Bell Atlantic and NYNEX territories before 2000.

Lock/line L.L.C. continues to produce the cell phone program for the wireless customers of what had been GTE. Lock/line currently places the coverage with CNA Financial Corp.

Ms. Small moved the Lock/line program to Exchange Indemnity in 2001 to consolidate the "related unrelated business" in that captive.

Coverage and loss control

Both cell phone programs are profitable, but there were periods when one or the other lost money. Several important changes, though, have turned the programs into consistent moneymakers, Ms. Small explained.

While Verizon wanted to offer

the cheapest possible coverage to attract business, its premiums for coverage through the Asurion program initially did not cover billing, premium collection and claims costs.

To shave program costs, Verizon imposed higher deductibles on customers in some regions but maintained the low premiums.

Premiums were raised in some cases, but by amounts not expected to drive away business.

For example, a premium hike among New York customers was considered relatively safe. One reason was that the company's New York customers typically purchased higher-quality—and therefore more expensive—cell phones than did customers in other regions.

In addition, because New Yorkers are used to paying more for everything, they would expect to pay higher premiums, too, Ms. Small explained.

The program also reduced claim expenses by cutting shipping costs on replacement phones. Twenty-four-hour delivery was cut to 48-hour delivery.

New anti-fraud measures cut claim costs as well. For example, some policyholders signed up for the coverage only after losing or

damaging their phones. To combat this problem, risk management implemented a coverage provision that bars claims filed within a month of purchasing the coverage. The rationale is that wireless customers who lose or damage their phones and have not purchased the replacement insurance will not want to buy the coverage after a loss and wait a month to file a claim for a replacement phone, Ms. Small explained.

The success of the program exceeded even Ms. Small's expectations. "I didn't realize it would generate as much as it did," she said.

Now that the programs are profitable, risk management will evaluate the premium structure further to ensure that it does not begin to drive away customers.

Verizon Wireless charges \$3.25 to \$4.25 per month for the insurance.

If that is not a problem and the programs remain profitable, risk management has two possible options, Ms. Small noted. It still could reduce premiums in an effort to generate new business, or it could maintain the premium structure and use the profit to reduce the cost of various other coverages that Verizon Wireless purchases from the captive.

Captive program put to unusual uses

Risk management at the predecessor company to Verizon Communications Inc. used its already uncharacteristic owner-controlled insurance program in an even more unusual fashion during the Year 2000 computer crisis to speed along its computer system recoding efforts.

The program covered the general liability and workers compensation risks of information technology vendors that Verizon's predecessor, Bell Atlantic Corp., brought onsite to rid its computer systems of the millennium bug.

Bell Atlantic merged with GTE Corp. in 2000 to form Verizon.

Wrap-up programs like Verizon's typically cover the general liability, workers compensation and builders' risks of contractors working on a single, new-construction project. Verizon's program covers contractors working on various remodeling and maintenance projects.

For the Y2K work that IT vendors were hired to conduct at thousands of its facilities, Bell Atlantic normally would have required certificates of insurance showing that the vendors had general liability and workers comp coverage.

Vendors would have needed three or four days to produce the certificates, and they would not have been able to start their projects before then, said Richard N. White, a Stamford, Conn.-based senior vp for The Hobbs Group L.L.C., the Hilb, Rogal & Hamilton Co. subsidiary that places Verizon's OCIP coverage.

Those few days, when multiplied by the number systems that had to be reprogrammed, would have created tremendous delays, he said.

To avoid those delays, Bell Atlantic covered the IT vendors through its existing OCIP program. Under the fronted program, a Verizon captive retained a primary layer of risk, and several insurers underwrote a layered excess program.

Normally, insurers that would participate in a wrap-up program would not have been interested in covering the IT vendors, because the risks would not generate sufficient premium volume, Mr. White said. But, because the captive OCIP program existed to cover various remodeling projects on an ongoing basis, adding the IT vendors' coverage was "not an issue," he said.

—By Dave Lenckus

Verizon quickly restored service after terrorist attacks

\$600 million paid on claims

By DAVE LENCKUS

In the frenzied hours and days after the human carnage and property devastation that terrorists unleashed on Sept. 11, 2001, telecommunications giant Verizon Communications Inc. raced the clock—for the nation's economic well being as well as its own.

As search and rescue crews labored feverishly at Ground Zero, Verizon technicians toiled nearby to complete a different task. To minimize the nation's economic damage and demonstrate U.S. strength and resolve, the president asked for the restoration of telecommunications service to the New York Stock Exchange so it could reopen within days.

While Verizon technicians hustled to meet that ambitious goal, Verizon risk management was in its own race.

As one of only a couple organizations to sustain property damage at all three sites the terrorists struck, Verizon faced a huge loss. Indeed, Sheila Small, assistant treasurer-risk management and insurance, quickly and accurately predicted that Verizon faced an insurance limits-busting \$1 billion loss.

Even for a Fortune 10 company, promptly recovering damages of that magnitude from insurers is financially important.

So that Verizon could quickly recover its extra expense losses, covered by a \$400 million sublimit in its property insurance policy, risk

management immediately triggered a "key cost" system designed to immediately capture the company's loss-response costs.

Compiling those "key costs" later, rather than when incurred, is "what typically delays initial recovery" of insurance proceeds, Ms. Small said.

Charles A. Yaanches, director of property risk management for Verizon, said that the cost-capturing system reflects risk management's finance function of "getting money back to the company as fast as we can."

Because of the system, Verizon already has recovered \$600 million from insurers. Verizon has recovered not only more insurance proceeds than any other policyholder with terrorist-related losses but also the largest percentage of total policy limits, according to Al Tobin, a New York-based managing director for Aon Corp., which is Verizon's property insurance broker.

At the same time that Ms. Small and her staff engaged the key costs system, senior Verizon executives consulted her about which losses and extra expenses insurance likely would cover. Those assessments were factored into management's early response, Mr. Tobin noted.

Verizon suffered its most significant losses in New York. During the collapse of the north tower and World Trade Center building 7, missile-like debris shaved off the back and punched holes in the company's facility at 140 West St.



Sheila Small stands where a wall once was in one of Verizon Communications Inc.'s New York facilities overlooking the World Trade Center site.

With more than 4 million data circuits and 300,000 dial tone lines running through it, the facility is an important hub in Verizon's New York system. It serves the New York Stock Exchange, the mayor's command center, city hall, a city police plaza and a federal plaza.

It also houses the city's main 911 switch. Verizon quickly rerouted that emergency phone service so the city did not lose it in the aftermath of the attacks.

Other losses for Verizon in New York included local telephone line switches in the World Trade Center

complex, switches for tenants of the towers, miles and miles of cable and wireless antennae.

At the Pentagon crash site in Arlington, Va., Verizon suffered a loss totaling tens of millions of dollars, according to Mr. Yaanches. The crash damaged the Verizon switching network for the 25,000 or more phones at the nation's defense headquarters. But that loss likely would have been much worse if Verizon employees had not stood alongside firefighters and protected the system's switches from the water sprayed on nearby fires.

There were losses even in the Pennsylvania countryside, where one of the four hijacked planes that day crashed after passengers and crew revolted against their hijackers.

The GTE Airfones on the United Airlines jet were Verizon property. Under a revenue-sharing agreement with the airline, the phones were installed by GTE Corp., which merged with Bell Atlantic Corp. in 2000 to form Verizon.

A large part, though not all, of the response costs that risk management

See **ATTACKS**/page 20



SHEILA SMALL

2003 RISK MANAGER OF THE YEAR

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Attacks: Verizon quickly restored services in N.Y.

Continued from page 17

ment needed to capture was for measures the company took in New York. Risk management kept on top of the costs though a company intranet-based cost tracking system that risk management designed. All of Verizon's response costs were tagged with the same identification number so risk management could track and tally the costs easily.

"That allowed us to walk into the claims adjustment process with a tremendous amount of initial data," Mr. Yauches said. GAB Robins North America Inc. adjusted Verizon's claims.

In the hours immediately after the attacks, Verizon gave away thousands of cell phones to New York housing authority residents and businesses that lost phone service as well as to emergency organizations responding to the Pennsylvania crash. Verizon also made public pay phones available for free in Manhattan.

Within a day, President Bush and New York Gov. George Pataki were calling for the New York Stock Exchange to reopen no later than the following Monday. That meant getting the heavily damaged facility at 140 West St. back in operation.

To support that effort, Verizon built a plywood structure to temporarily house generators, air conditioning units and other equipment necessary to restore power to the facility.

The company also rented a nearby parking lot where it built what Mr. Yauches called "Verizon City": a collection of plywood shacks and trailers that served as the command and control center for the work at 140 West St.

The lot also served as Verizon's vehicle maintenance center. Vehicles needed constant attention because of the airborne particles that quickly clogged their air filters and otherwise choked them.

Verizon spent \$1 million on three tractor-trailer loads of plywood for all of the temporary structures, according to Mr. Yauches.

After restoring power to the building, Verizon began emergency repairs to the damaged phone cable system. To bypass damaged cable in the facility, technicians ran new cable out of the facility's windows and connected them to the undamaged part of the system through manholes in the streets below.

Verizon technicians had saved the facility's switches earlier. As World Trade Center building 7 was burning and near collapse, and with water flooding the Verizon facility, technicians shut down the switches as well as the building's environmental systems, which could have drawn harmful contaminants from the outside air into the switches.

Verizon workers, clad in hazardous materials suits and respirators, also had saved data servers dedicated to the stock exchange by carrying them down 23 flights of stairs in the darkened 140 West St.

facility to the makeshift building power plant. Rebuilding the data in other servers would have forced the exchange to remain closed at least a week beyond the president's goal.

During all of this, Verizon responded to requests from the mayor, the Red Cross and the Federal Emergency Management Agency to install hundreds of new phone lines at their makeshift operations centers.

Verizon completed re-establishing the NYSE telecommunication network just hours before the exchange was scheduled to reopen. As for the rest of the damaged phone and data network—which was the size and complexity of one serving a city the size of Cincinnati—Verizon restored it in less than 90 days, according to the company.

Besides its key costs system, risk management's efforts to swiftly adjust Verizon's losses hastened the company's insurance recoveries.

After the terrorist attacks, risk management immediately assembled a claims preparation team. Within 14 days, it had the claims team at the 140 West St. site with a GAB Robins adjuster, "who was given full access, despite the fact it was still a crime scene," Mr. Yauches said.

The authorities, however, initially barred the adjuster from the site, fearing that pictures at the site might capture images at Ground Zero they did not want released to the public, Mr. Yauches said. Some images could have compromised the security of exposed high value assets of commercial enterprises and the government, and others could have further upset victims' families, he said.

Risk management met with the authorities to explain what risk management needed to do to facilitate Verizon's insurance recovery and to provide assurances it would "control the situation," Mr. Yauches said.

As Verizon works on obtaining additional insurance recoveries, Ms. Small also is pressing the Lower Manhattan Development Corp. to cover some of Verizon's uninsured losses. The LMDC is the joint state and city organization created to help plan and coordinate the rebuilding and revitalization of Lower Manhattan.

About \$400 million of LMDC funds have been appropriated to cover some of the costs of restoring telecommunications as well as other core infrastructure services. The LMDC, though, has not determined how it will distribute those funds.

The funds could help cover at least some of the approximately \$75 million uninsured loss that Verizon sustained to its transmission and distribution lines, which are the wires, conduits and pipes that run above and through the streets. Verizon had \$25 million of separate T&D coverage, but its eventual loss could total \$100 million.

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Risk Manager of the Year

Personal lines program proves a multifaceted tool

Of benefit to employees and company alike

By **DAVE LENCKUS**

Call it her baby. Call it her legacy.

That is how Sheila Small thinks of the unusual personal lines insurance program that she created as a voluntary benefit for employees and retirees at Verizon Communications Inc. and as a tool for the telecommunication giant's risk management department.

Under the first-of-its-kind, coordinated program, which only a few

other employers subsequently have implemented, Verizon employees and retirees can purchase discounted automobile and homeowners insurance as well as other personal lines coverages from among a choice of three insurers and pay their premiums through payroll or pension deductions.

Ms. Small, assistant treasurer-risk management and insurance at Verizon, developed the program at about the same time she created a

cell phone insurance program for the company's wireless customers—with a common goal for both programs. Her plan was to create enough third-party risk for Verizon's captive insurance company to allow Verizon to take tax deductions on the premiums it paid the captive for its own various coverages (see story, page 14).

It succeeded.

But just as the cell phone coverage also was a means of retaining

business by offering customers another reason not to look elsewhere for service, the employee personal lines program has aided Verizon beyond creating another source of plain vanilla third-party risks for the company's captive insurer.

Ms. Small was certain that employees would appreciate the opportunity to purchase personal lines insurance from highly rated insurers for less than they could purchase it elsewhere. She was sure that this employee benefit would help Verizon retain employees. And, at a time when employers are

trimming costs by reducing benefits, Verizon could offer its employees an additional benefit at no cost to the company.

Verizon's human resources department initially had misgivings about the timing of developing the program, called "Verizon Advantage: Your Source for Auto & Home Insurance." Meanwhile, the insurers Ms. Small tapped to participate in the program objected to sharing Verizon's group among each other.

But Ms. Small said she had too much faith in the program's promise not to address those concerns and generate support for the program so it would not get derailed.

"I like to call it bridge-building—a team effort," Ms. Small said.

But, clearly, she was the lead architect of the program, which she developed and implemented at regional telephone holding company Bell Atlantic Corp. in 1999, less than a year before the company merged with GTE Corp. to form Verizon.

"I just wanted to prove this was a great program," Ms. Small said.

"It had all the markings of a first-class program. It was great for employees and great for the corporation," she said.

The response to the voluntary benefits program has exceeded Ms. Small's goals.

Among the more than 355,500 eligible plan participants—about 40% of whom are employees and the remainder retirees—around 45,000 purchase coverage through the program, according to Mark B. Cohon, a vp at New York-based American Benefits & Compensation Systems Inc., the program's administrator, technical advisor and employee advocate. Program participants currently are covered by nearly 50,000 policies that they have purchased through the program, Mr. Cohon said.

ABC Systems, which draws its fees from program-generated premiums, coordinated the insurers' administrative requirements with Verizon and developed and maintains the toll-free telephone system that policyholders and those investigating the program can use to contact the participating insurers.

ABC Systems also serves as the liaison between Verizon and the participating insurers and is in charge of marketing the program to Verizon employees and retirees.

Employee and corporate benefits

The three insurers that participate in the program are Liberty Mutual Insurance Co., Metropolitan Life Insurance Co. and Travelers Property Casualty Corp.

Auto and homeowners coverages are the program's main attractions, but the insurers also offer all of the personal lines property/casualty coverages, such as boaters insurance and coverage options that they make available through their agents. But, for Verizon Advantage participants, the insurers offer a

See **EMPLOYEES**/page 24

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Risk Manager of the Year



Mark B. Cohon is a vp of American Benefits & Compensation Systems Inc., which administers the personal lines benefits program Sheila Small sought to implement at Verizon Communications Inc.

PHOTO: MICHAEL MARCOTTE

Employees: Program a boon to all

Continued from page 22

couple of notable advantages—lower rates and sometimes greater availability.

Automobile rates typically are 7% to 10% lower, and the insurers cut their homeowners rates 5% to 10%.

The insurers typically do not pare their rates, or offer only modest discounts, for other personal lines coverages. But insurer representatives said the program offers Verizon participants the convenience of purchasing those coverages at the same time they are buying other, discounted coverages.

The program reduces insurance

costs in other ways for Verizon employees. The insurers drop their normal service fees and premium installment charges if employees elect to pay their premiums through payroll, pension or checking account deductions.

In addition, Verizon employees and retirees who reside in states where the insurers have limited their coverage offerings are not subjected to those restrictions.

Generally, Verizon captive insurer GTE Re, which is domiciled in Vermont, reinsures between 30% and 35% of the program's business, depending on the insurer, accord-

ing to Ms. Small.

But all ongoing Verizon and third-party business is scheduled to be moved to Verizon's other captive, Vermont-based Exchange Indemnity Co., this summer, after Verizon completes a captive restructuring project. Exchange Indemnity underwrites most of the risk that Verizon self-insures as well as significant third-party risks that allow Verizon to take tax deductions on its own captive insurance premiums without fear of getting socked with huge, unrelated losses.

Verizon acquired GTE Re along with its parent company, GTE Corp., in the 2000 merger with Bell Atlantic. Exchange Indemnity was acquired along with its parent, regional telephone holding company NYNEX, in a 1997 merger with Bell Atlantic.

Fighting the good fight

Representatives of the programs' three insurers, ABC Systems and Verizon risk management and human resources gathered in February to review the program and address any concerns.

That amicable gathering, where no substantive problems were identified and the insurers agreed that they all were comfortably co-existing in and profiting from the program, did not reflect the misgivings the various players had when Ms. Small first suggested the program.

Ms. Small said she felt that dispelling those doubts quickly and pushing ahead with implementing the voluntary benefits program immediately was necessary to save her idea.

Despite the advantages the program offered the company and its employees, the program would have fallen behind higher-priority projects if it were delayed until after the Bell Atlantic/GTE Corp. merger, Ms. Small said.

She said she also was afraid that long delays would kill her own enthusiasm for the program. "I thought the model was unique and a great idea. I wanted to see it happen."

Bell Atlantic's human resources department liked Ms. Small's idea but not the timing of it.

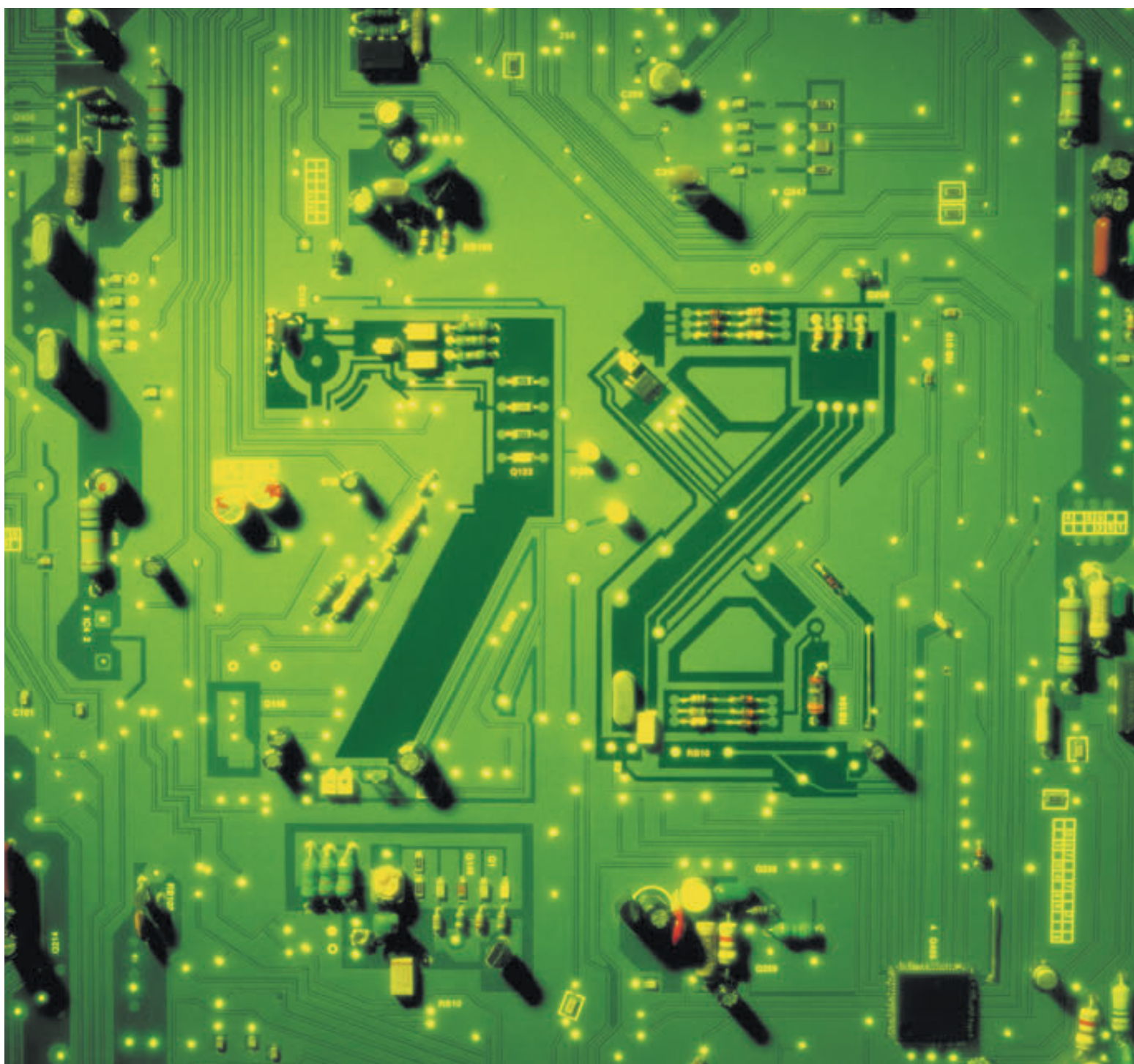
In 1999, the company was in the midst of preparing to merge with GTE Corp. in less than a year. Human resources did not want to initiate any project that would have an impact on the merger.

Even more pressing for the company was its race with the clock to delouse its computer systems of any Year 2000 computer programming bugs. Human resources did not want to approach the company's payroll department as it was debugging its various systems and ask it to program a new payroll deduction that would begin the same time the department might have to respond to any payroll system debugging problems.

Referring to human resources, Ms. Small said: "They were inclined to say, 'Let's wait and see. Let's not make any major change'" while the company is juggling those other

Continued on next page

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Risk Manager of the Year

Continued from previous page critical projects.

But Ms. Small refused to delay the project by what likely would have been years over concerns that she believed could be resolved without delay.

She argued that the voluntary benefits program would not have any impact on the merger. It would not create any additional costs for the company if underwritten properly. And while GTE employees would not be folded into the program immediately after the merger, the company already had established a voluntary benefit program that offered discounted personal lines coverages—albeit from a single insurer.

Ms. Small also dispensed of the millennium bug concerns handily. She approached the head of payroll, whom she already knew, and worked out a compromise. While ABC Systems and the insurers would work with payroll and run tests to implement the premiums deductions, the insurers agreed to wait until March 2000—two months after they began providing coverage through the program—to begin receiving their premium installments. That lag time would give payroll a couple months to resolve any potential millennium bug problems without also having to deal with any new payroll deduction issues.

The insurers collected the missed premium installments by spreading out policyholders' annual premiums over 10 months in 2000.

A big-enough pie

At the same time human resources was expressing misgivings, Liberty Mutual and Travelers, the

original two insurers in the Bell Atlantic program, "said we didn't know what we were doing," Ms. Small said.

The insurers protested that program would not generate enough business to satisfy all of the insurers and that one insurer would cherry-pick the best risks and leave the other insurers with an adverse selection.

But Ms. Small pressed her case with the insurers. "People want choices," she said.

Putting the company brand on the voluntary benefits program showed employees and retirees that their employer performed due diligence in selecting insurers committed to providing good service.

"The reality has been much different" than what the insurers had anticipated, ABC Systems' Mr. Cohon observed.

With large national groups, the program has demonstrated that there is enough business for multiple insurers to profitably share, the various players agree.

"What we have subsequently learned, and Verizon was a catalyst for this, is that with really large employers...no one insurer is going to be competitive in all 50 jurisdictions" where plan participants reside, said Wayne A. Tryon, a Hartford, Conn.-based sales director for personal lines business in Travelers' affinity business group.

Typically, just one of the insurers

in a region captures most of the business in that area, because that insurer's underwriting guidelines and marketing plans make its coverage the most economical in that region, Mr. Cohon explained.

That scenario is repeated from region to region, with a different insurer capturing most of the Verizon employee business in a given region, Mr. Cohon said.

The less-attractive business that the market leader in an area does not underwrite may turn to one of the other two insurers, but their higher rates should factor in the higher risk associated with that business while still offering those buyers some price breaks, Mr. Cohon explained.

He noted that the program has generated comparable profits for the three insurers, even though their market shares are not evenly split. MetLife and Liberty Mutual each have captured about 40% of the program's business, but Travelers is more profitable on its 20% share, Mr. Cohon explained.

"Now we're all winners," Ms. Small said.

Lessons learned

Marketing the program with first the Bell Atlantic and then the Verizon brand and providing a single toll-free phone number where program participants conveniently could contact all three insurers to purchase coverage and file claims has set the program apart from voluntary benefit programs other employers offered.

Putting the company brand on the program showed employees and retirees that their employer performed due diligence in selecting insurers committed to providing

program participants with good service, Ms. Small said. Without branding, an employer risks creating a perception among its employees and retirees that the employer "just unleashed" an insurer on them, she said.

Ms. Small noted that GTE created a similar voluntary benefit in the mid-1990s, but it was not branded. The program has garnered greater interest from among that employee and retiree segment since Verizon began branding it after GTE's merger with Bell Atlantic. Even more interest was generated after Verizon was able to offer Liberty Mutual's and Travelers' products to that employee/retiree segment in 2002. Due to payroll priorities, Verizon was unable to combine the two programs until last year.

Like GTE, most employers that earlier had offered their employees and retirees a voluntary personal lines benefit lined up a single underwriter to participate in the program. Others that had lined up two insurers did not coordinate the marketing of the program or provide a single toll-free telephone number that plan participants could use to contact the program's insurers, Ms. Small and Mr. Cohon observed.

The Verizon Advantage model is generating significant interest among ABC Systems' clients, and the company even has received a few unsolicited calls about the program, Mr. Cohon said.

Besides the importance of employer branding of such programs, Verizon's experience underscores some significant lessons for others contemplating a similar program, he said.

While program participants want coverage choices, three insurers is

the optimal number, a recent internal study among some ABC Systems clients showed, Mr. Cohon said. More choices would lead to confusion among plan participants, respondents said.

Another important factor in sustaining the program was assembling a group of insurers that did not include a company that would "throw the pricing out of whack" in a significant number of regions in which plan participants reside, Mr. Cohon said.

And, in lining up support within a company for such a program, the payroll department is a key ally, according to Mr. Cohon. Among employers that have interest in such a program but have run into internal roadblocks, the most common obstacle is that their payroll department complains that arranging additional payroll deductions would be too difficult, he said.

Mr. Cohon applauded Ms. Small for overcoming that and other obstacles she faced.

"What made Sheila special was that she didn't take 'no' for an answer," Mr. Cohon observed.

In addition, she had more clout within her organization than do others who typically try to spearhead such programs, he said.

The program is not offered to employees of Verizon Wireless because that majority-owned subsidiary is structured differently from other Verizon groups and has a separate human resources department and a different benefit structure. But it is developing a similar program, Ms. Small said.

Some unions also asked Verizon not to offer the voluntary benefit to their members so it would not compete with union-sponsored insurance programs.



PHOTO: MICHAEL MARCOTTE

Verizon's risk management team. Top row, from left: Deanna Young, specialist; Russell Griffie, senior staff consultant; Michael Kilmurray, claims specialist; Jim O'Neill, claims counsel; Charles Yaunches, director; Jerry Saunders, director; Ron del Pino, claims manager; Rachel Kitchen, specialist; David Salvucci, manager; Peter Berman, claims specialist. Front row, from left: Karen Fleming, senior staff consultant; Molly McGuire, senior staff consultant; Sheila Small, assistant treasurer; Ann Winston, senior staff consultant; Al Rosenthal, Verizon Wireless risk manager; Phil Baumeister, manager; Regina Rixon, analyst; Francine Stobnitzky, specialist; Paul Johnson, director; Beverly Northington, executive assistant. Missing from the picture are Lana K. Hirai, specialist; Chona Villanueva, specialist; Thomas F. Ziegler Jr., senior staff consultant; Christine Point, executive assistant.

Risk Manager of the Year

Verizon makes use of customized captive programs

Exchange Indemnity covers EPLI defense costs, laptop losses

By **DAVE LENCKUS**

Verizon Communications Inc. uses captive insurance to cover more than anticipated losses or risks for which commercial insurance has disappeared or become exorbitantly expensive.

One custom captive insurance program helps company departments smooth their budgets by covering employment practices liability defense costs that fall within Ver-

izon's insurance deductible.

Another custom program covers the loss or theft of laptop computers.

Sheila Small, assistant treasurer-risk management and insurance at Verizon, designed the defense cost program and enhanced the laptop coverage program. The premiums for both are tax deductible because of the amount of third-party business written by Verizon's Vermont captive, Exchange Indemnity Co.

The program covering the cost of defending employment practices claims smoothed the budget for Verizon's legal department.

Ms. Small created the coverage when Bell Atlantic Corp. and GTE Corp. merged in 2000 to form Verizon.

Two converging factors necessitated a risk-financing response to the company's employment practices defense costs, Ms. Small explained. As a result of the merger,

the number of claims against Verizon was significantly higher than Bell Atlantic or GTE faced separately, and the rate of claim filings was increasing. Meanwhile, employment practices liability insurers were imposing increasingly higher coverage deductibles.

The additional claims and higher retentions would have saddled Verizon's legal department with an increasingly heavy financial burden—even though most claims were, and

continue to be, settled for little or nothing before trial, Ms. Small said.

Given that all parts of the company are targets for employment practices liability claims, Ms. Small said she believes that the captive insurance program provides a judicious method "to almost pre-budget the cost of outside counsel" needed to defend the company.

While Ms. Small developed the captive coverage, she credits GTE with first addressing the issue of handling those costs more effectively than running them through the legal department's budget.

Rather than using its captive, however, GTE created a financing vehicle that accrued a fund to cover those defense costs, Ms. Small explained. Unlike the defense cost coverage underwritten by Verizon's captive, GTE's approach did not

The captive insurance program provides a judicious method 'to almost pre-budget the cost of outside council' needed to defend the company.

Sheila Small
Verizon Communications Inc.

create risk transfer and there was no insurance premium tax deduction advantage for the company.

But, because of the structure of GTE's financing vehicle, Ms. Small was able to design the new program to retroactively cover the EPLI defense costs that GTE incurred defending claims filed against the company the previous year.

Verizon's program does not cover indemnity costs that fall within the company's EPLI deductible, because "we didn't think it was fair to assess the whole company" for a loss that can be traced to a particular unit, Ms. Small explained.

Verizon risk management does not handle EPLI defense cost claims. Instead, Verizon's EPLI insurer, New York-based American International Group Inc., handles the claims, which is beneficial for Verizon and AIG, Ms. Small said.

For example, consider a situation in which AIG determines that its EPLI policy would not cover a claim that led to the defense cost claim. In that case, the captive program would not cover the defense cost claim, because it did not arise from a covered EPLI claim, Ms. Small said.

AIG benefits from its third-party administrator role, "because it gives them much more underwriting data," Ms. Small said. Typically, an insurer would not have extensive data on claims that fall within a policyholder's deductible, she said.

Verizon also benefits when its insurers understand the company's true exposure and how well Verizon handles EPLI claims, Ms. Small said.

The other captive program that smooths budgets for various Verizon subsidiaries covers the loss or

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Risk Manager of the Year

Captive: Company makes innovative use of insurer

Continued from page 26

theft of company laptop computers.

Ms. Small improved that program, which risk management inherited from NYNEX, the regional telephone holding company that merged with Bell Atlantic in 1997. At that time, Ms. Small was executive director-corporate risk management for Bell Atlantic.

Besides the disruption in operations caused by the missing laptops and the data they contained, company departments had no place to turn before the following fiscal year for funds that would cover the cost of replacing the equipment, Ms. Small explained.

No property insurance recoveries were available, because the cost of

replacing the equipment fell within the insurance deductible.

The laptops could not be expensed, because their value exceeds the company's expensing limits.

Departments also could not draw from their capital funds when they needed to replace lost or stolen equipment. Capital expenditure budgets, developed at the beginning of fiscal years, are very specific, Ms. Small observed. "When you put a capital budget together, you always have to say what you're buying," and it does not allow discretionary spending, she said.

The laptop insurance, underwritten by Exchange Indemnity, covers the cost of replacing a laptop after a 20% deductible, which can be expensed.

Ms. Small has expanded the program to subsidiaries that are 100% owned by Verizon.

The program covers as many as 40,000 laptops corporatewide. A fraction of those laptops are sophisticated, high-end "smart terminals"

Even with its fraud-deterrence features, the captive program allows employees to replace lost laptops 'very expeditiously.' The employee can 'get up and running very quickly.'

Sheila Small

Verizon Communications Inc.



Verizon Communication Inc.'s captive insurer covers the loss or theft of laptop computers.

that Ms. Small has added to the program.

Before the captive indemnifies the department for the cost of replacing a missing laptop, the employee must report the loss or theft to Verizon security, and in most cases, to the police. The employee's department then files a claim with risk management through the company's intranet. Online claim reporting became available in 2000.

A risk management claims handler reviews the security and police reports to verify that the missing equipment was Verizon property and was indeed lost or stolen and not merely misplaced. The claims handler also verifies that the claimant is a Verizon employee.

Even with its fraud-deterrence features, the program allows em-

ployees to replace lost laptops "very expeditiously," Ms. Small said. The employee can "get up and running very quickly."

The captive charges subsidiaries a per-employee premium, for which they can budget. Premiums are based on the total anticipated costs of replacing laptops corporatewide. That estimate is drawn from prior years' experience and current laptop prices, which have been dropping recently, Ms. Small explained.

But subsidiaries that use the higher-end "smart terminal" laptops are charged higher premiums to cover the additional cost of replacing that

equipment.

Premiums charged by the captive are at least \$500,000 less than what Verizon would spend annually to purchase such coverage in the commercial insurance market, according to Ms. Small.

And the coverage has generated \$800,000 in profits for the captive since the program's inception, she said.

But the goal of the coverage was to smooth departments' budgets—not generate profits, Ms. Small said. "I don't use my captive as a profit center. If it happens, that's a nice thing," she said.

EPLI policy pays off for Verizon

Initial purchase unpopular

By DAVE LENCKUS

Sheila Small was among the first risk managers to purchase employment practices liability insurance—a decision that initially was unpopular among her company's legal staff.

That changed a few years later, though, when the coverage responded to a multimillion dollar EPLI loss.

Ms. Small, assistant treasurer-risk management and insurance at Verizon Communications Inc., first investigated the coverage after she was named as a defendant in an employment practices claim in 1993. At that time, Ms. Small was director of risk management for Bell Atlantic Corp., which merged with GTE Corp. to create Verizon in 2000.

The claimant, whom Ms. Small said she never met before he filed his claim, was upset that he was hired for a lower-level position than he had held during his previous tenure with Bell Atlantic. The lawsuit named every Bell Atlantic supervisor whose department had an opening equivalent to the claimant's former job level at the time he was rehired.

Ms. Small said she never even saw the claimant's resume, and the company fought the claim. But it lost the case in federal district court and on appeal. Bell Atlantic eventually paid the claimant nearly \$500,000 in damages, Ms. Small said.

After that, "I went on a mission" looking for coverage to protect the company from employment practices claims, Ms. Small said.

At that time, few Fortune 500 companies had such coverage, she said.

Verizon's current liability insurance broker, Edward G. Kloos, recalled that few employ-

ers wanted to buy what was then a brand-new coverage. Risk managers, who were used to soft market conditions, did not want to pay what they considered steep premiums and high deductibles for restrictive coverage and inadequate limits, said Mr. Kloos, a managing director with Marsh Inc. of New York.

But stung by Bell Atlantic's loss, Ms. Small purchased EPLI coverage for the first time in December 1994. For a \$385,000 premium, Chubb Corp. wrote the \$10 million of coverage over a \$250,000 retention. The premium and the retention would be bargains today, according to Mr. Kloos.

The coverage, though, drew criticism from Bell Atlantic's lawyers, Ms. Small recalled.

"They said I wasted money," because the insurance did not cover the EPLI losses that Bell Atlantic suffered over the next year or so. But those losses arose from claims that already existed at the policy's inception date and were barred from coverage under the policy's prior and pending exclusion, she explained.

Ms. Small asked the attorneys to be patient. "I said, 'This policy is like wine; you've got to let it age.'"

In 1996, a class of employees filed a racial discrimination claim against Bell Atlantic and won a \$10 million judgment. Though its limits were exhausted by payment of the judgment, Bell Atlantic's employers practices insurance fully covered the claim.

In 1997, when the company merged with fellow Baby Bell regional telephone holding company NYNEX, only Bell Atlantic had EPLI coverage, Ms. Small noted. Her first insurance purchase as part of the merger was EPLI coverage for NYNEX's operations, she said.

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Risk Manager of the Year

Verizon surety bond management yields savings

By DAVE LENCKUS

The 2000 merger that created Verizon Communications Inc. also produced one of the nation's largest users of surety bonds—just ahead of a dramatic market contraction that challenged risk management to continue providing an important tool in the company's growth and risk financing plans.

Less than three years later, risk management has freed up surety market capacity for Verizon's continually growing needs by more than halving the company's surety

bond count. In large measure, risk management accomplished this by eliminating unnecessary bond renewals that were costly and potentially risky for the company.

Risk management also has implemented an online system that both significantly improves bond procurement efficiency and feeds a database that helps the company manage its bonds.

At the same time, risk management is training Verizon field offices how to factor the realities of the surety bond market into contract negotiations with clients so

the offices do not make promises that the surety market will not guarantee.

In some cases, that means negotiating some guarantees out of contracts. In other cases, Verizon is using other instruments in place of surety bonds.

Sheila Small, assistant treasurer-risk management and insurance, has led that effort at Verizon, sufficiently resolving the problem so that it did not have to be brought to the company's highest officials for action.

"Given the nature of our business

and the number of surety bonds we've posted at any one time...it's certainly a high priority of the operations people," said William F. Heitmann, senior vp-treasurer and Ms. Small's immediate supervisor.

"The lack of surety bonds or the lack of acceptable alternatives would have an impact on the company," he said. "Sheila took the issue off the table" before it would have had to move beyond Mr. Heitmann's office, he said.

Ms. Small has called on Karen Fleming, manager-risk management, to directly oversee the effort.

"Under Sheila's outstanding leadership and Karen's outstanding day-to-day active management, we've not had a bond issue that we've not been able to address," noted Verizon bond broker Douglas Hite, a senior vp at Near North Insurance Brokerage Inc. in Arlington, Va.

Verizon's bond requirements are substantial. The company seeks hundreds of millions of dollars of surety bond capacity annually, and its capacity requirements are growing as the telecommunications giant expands its wireline and wireless services nationally.

Verizon routinely must post a variety of bonds, including bid and performance bonds as well as license and permit bonds that, for example, guarantee that public streets torn up during telecommunication cable installations will be restored to their original condition.

In addition, Verizon posts bonds in the several states where it self-insures workers compensation risks of local telephone companies that are part of the Verizon organization.

Verizon also posts court bonds.

'Under Sheila's outstanding leadership and Karen's outstanding day-to-day active management, we've not had a bond issue that we've not been able to address.'

*Douglas Hite
Near North Insurance Brokerage Inc.*

The bond market today bears little resemblance to the 2000 market. Underwriters, crushed under a wave of losses triggered by a series of huge corporate failures, are much tougher and offer far less capacity now. Exacerbating the problem is that nearly half of the top 15 underwriters three years ago have either pulled out of the market or have been acquired, Mr. Hite noted.

Verizon's surety premiums have increased as much as eightfold, and it has had to tap seven or eight surety writers—compared to only two a couple of years ago—to obtain sufficient capacity.

Risk management got a jump on responding to the surety market problems in mid-2000, before the market began contracting significantly.

That is when Bell Atlantic Corp. and GTE Corp. merged to form Verizon. Two years earlier, Bell Atlantic and another regional telephone holding company, NYNEX, had merged.

Risk management for the newly created Verizon found it had some troubling difficulties determining the number of bonds Verizon had in force, what the bonds were for and whether they still were necessary.

Three brokers were placing bonds for the company at that time, and the difference in how they handled the business created bond-tracking

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Risk Manager of the Year

Surety: Better surety bond management yields savings

Continued from page 30

problems for Verizon risk management, Ms. Fleming explained.

Further complicating risk management's bond-tracking efforts then and now is that Verizon is routinely engaged in selling pieces of business or downsizing, as well as merging, which means units and individuals that originally obtained bonds are no longer part of the company.

"It was a huge undertaking," Ms. Fleming said. "We were trying to find out who needed the bond, what it was for and how we could get rid of it."

Risk management eventually found that some inexpensive bonds were being renewed routinely, even though the Verizon units that posted the bonds had long since completed their projects for the clients that requested the bonds.

In the developing hard market, such unnecessary renewals would have become very costly and would have needlessly drained market capacity, she said.

The unnecessary renewals also meant that clients could draw on those bonds to cover the cost of problems created by different contractors, Ms. Fleming noted.

Similarly, ostensibly non-cancelable long-term bonds that were still in force for projects that already

were completed were not being managed. Those bonds could be canceled by obtaining a release from the bond obligee, Ms. Fleming noted.

In other cases, the license bonds that Bell Atlantic and GTE each had posted for the same public entity

Risk management eventually found that some inexpensive bonds were being renewed routinely, even though the Verizon units that posted the bonds had long since completed their projects for the clients that requested the bonds.

became redundant after the two companies merged.

At risk management's behest, Verizon field offices successfully have pressed some clients to not only reduce their bond requirements but also to drop their bond demands. "We explain to them there is a contractual obligation on our part, and it's to everyone's best

interest to complete the job," Ms. Fleming said.

"The combination of all these things was very sweet" over the past 2½ years, as Verizon shaved its annual bond count by more than half to around 1,000, Ms. Fleming noted.

"The premium savings in an increasingly hard market became significant," she said.

That effort also freed up some surety market capacity and gave sureties, as well as Verizon, a much better idea about the company's total liabilities.

To keep Verizon's once-muddled bond picture in sharp focus, risk management made some other bond procurement changes.

It selected Near North as its bond broker and required all Verizon departments to request bonds through the broker's BondMaster online system. Verizon departments and risk management benefit from the system in several ways.

Because a representative with the Verizon department seeking the bond must request it through BondMaster, obtaining bonds has become significantly less labor intensive for risk management, Ms. Small pointed out.

The new procurement process also puts the onus on those requesting bonds to be keenly aware of whether contract terms likely will be acceptable to sureties, Ms. Fleming said. Conflicts could delay the issuance of bonds, she noted.

And, West Coast operations that learn near the end of their workday—when risk management's East Coast offices already have closed—that they need to post bonds no longer must wait until the following day to ask risk management to procure them.

Through this process, relatively small bonds can be issued within 24 hours of requests, Ms. Small said. Departments seeking very large bonds, however, often are contacted by Near North and surety underwriters so they can analyze the underlying contractual documents to ensure Verizon and the sureties are comfortable with the contract terms.

For risk management, BondMaster creates a detailed bond database that helps the company manage its various bonds.

With the system, Ms. Fleming easily can track bonds. As bond renewal dates approach, Ms. Fleming contacts bond obligees and the Verizon departments that posted the bonds to ascertain whether their projects have been completed or some remaining minor work can be wrapped up quickly. When the project is completed, Verizon can obtain liability releases from the obligees and cancel the bonds.

The system also allows Ms. Fleming to generate various reports that risk management can use to manage the company's bonds.

For example, she can determine Verizon's bond liabilities by department. With that information, Ms. Fleming can confirm with those departments that their bond costs are built into project costs.

Ms. Fleming also has used the



Sheila Small, assistant treasurer-risk management and insurance, stands with her supervisor, William F. Heitmann, Verizon Communication Inc.'s senior vp and treasurer.

BondMaster system to rank Verizon departments by their bond liabilities to ensure that the sales and marketing groups that most frequently request bonds go through a bond education program that risk management has developed.

"The whole focus of the bond program is to educate customers on what bonds do and don't do," which Verizon field offices should be able to accomplish after completing the education program, Ms. Fleming said.

Customers need to understand that our bond costs are "a cost of business that's passed back to them" in many cases, said Ms.

'The whole focus of the bond program is to educate customers on what bonds do and don't do.'

Karen Fleming
Verizon Communications Inc.

Fleming, noting that bond costs range from \$5,000 to \$100,000, depending on the project.

Verizon, however, cannot pass along the cost of a license bond that a public entity requires.

The education program encourages field offices to reduce or eliminate bond requirement whenever possible. For example, the program underscores the surety market's reluctance to underwrite long-term warranties. Contracts these days should offer only short-term warranties, because the bonds that back those promises are less expensive and easier to procure, Ms. Fleming explained.

Customers also have to understand that, with no or little new surety market capacity, the number of contractors that will be able to afford increasingly expensive surety

bonds will continue to diminish, Ms. Fleming said. That will lead to less competition for customers' business.

So customers will help themselves by eliminating bond requirements where they can to free up surety underwriters' capacity, Ms. Fleming said.

Indeed, an analysis of Verizon's size and financial strength had prompted some customers to drop their bond requirements, Ms. Fleming said.

The education program aids risk management in other ways, too, Ms. Fleming noted.

It keeps risk management "in the loop" of the new products and ventures Verizon is planning. With that information, risk management can analyze potential risks and develop solutions before unanticipated problems arise, Ms. Fleming said.

Risk management also uses the education program to cross-market the department's services to sales and marketing.

Meanwhile, at the earliest signs that capacity problems were developing, Verizon risk management altered its approach toward the surety market.

To reassure underwriters of Verizon's financial strength and that it remained a safe bet for their capacity, Ms. Small arranged for underwriters to meet with senior management at Verizon to discuss the company's financials.

In the past, surety companies did not require meetings with senior management, as they routinely do now, Mr. Hite noted. "Verizon was on the front edge of recognizing that was changing and needed to change and encouraged those meetings" in 2002, he said.

With some insurers that do not write huge volumes of surety business, risk management leveraged Verizon's business with them on other risks to obtain some additional surety capacity, Ms. Small noted.

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April 7, 2003

Risk Manager of the Year

Changes to liability program save millions at renewal

Unbundling claims services among key moves

By DAVE LENCKUS

Unbundling claims services from Verizon Communications Inc.'s complex liability insurance program and assuming higher deductibles saved the company millions of dollars last year.

Just as importantly, separating claims services from risk transfer in Verizon's combined general liability, auto liability and workers compensation insurance program is designed to allow risk management to easily change insurers in the future without the hassle of also switching claims management.

Sheila Small, assistant treasurer-risk management and insurance at Verizon, also has used one of the company's captive insurers to curb not only Verizon's combined liability insurance costs but also the company's employment practices liability and errors and omissions liability insurance costs.

Those measures, along with combining coverages and assuming higher deductibles, allowed Verizon to renew its liability insurance program for as much as \$25 million less than Verizon's broker had projected the company would pay to renew its expiring program.

Verizon's use of its captive insurer, Vermont-domiciled Exchange Indemnity Co., alone makes the company's liability insurance program more complex than many others'.

Adding to that complexity, the captive underwrites substantial third-party risks so that Verizon can take tax deductions on the premium it pays its captive for its own coverages.

But those third-party coverages also are designed to aid Verizon in other ways. The coverages curb remodeling and maintenance contractors' costs, help retain Verizon's wireless customers and help the company retain employees by offering them discounted auto and homeowners insurance (see stories, pages 14 and 22).

Unbundling claims services in Verizon's combined liability insurance program, which renews July 1, was one of a couple moves Ms. Small made last year to control costs and give risk management more flexibility in future coverage negotiations.

When Verizon bid out its combined liability insurance program without seeking claims services from insurers, more insurers sought the business and offered more reasonable rates than when Verizon bid out the program as a bundled package, Ms. Small said.

Moreover, if the hard market continues and risk management wants to change insurers again, the risk transfer piece can be moved without upsetting the claims management part of the program, Ms. Small noted.

New York-based American International Group Inc. won the risk transfer piece of the combined liability business, and risk manage-

ment awarded claims-handling services for the program to Sedgwick Claims Management Services Inc. in Stamford, Conn.

But before unbundling claims services last year, Ms. Small consolidated four separate combined liability insurance programs for various operations at Verizon into two programs. Those separate programs were created before Bell Atlantic Corp. and GTE Corp. merged in 2000 to create Verizon.

'By using the captive and having a planned strategy for a large loss, it enabled me to convince Verizon to take on a large (E&O) risk.'

*Sheila Small
Verizon Communications Inc.*

Before the July 2002 renewals, Verizon had a combined liability program for all of the operations that had been part of GTE Corp.; a similar program for the non-telephone company operations that had been part of Bell Atlantic; another program for the company's majority-owned Verizon Wireless subsidiary; and a general liability and auto liability program for telephone operations that had been part of Bell Atlantic.

At last year's renewals, risk management consolidated the four combined liability programs into two: One covers all of Verizon's majority-owned U.S. operations, with the exception of Verizon Wireless. The other program covers Verizon Wireless.

AIG underwrites the \$5 million primary layer of the combined liability program for Verizon's majority-owned operations. But Verizon subsidiaries are subject to a \$1 million deductible per loss. Exchange Indemnity underwrites the deductible.

Various insurers participate on a \$400 million layer excess of \$5 million.

While the program covers the workers comp risks of many Verizon operations, the program does not cover those risks for Verizon's telephone company subsidiaries. Those operations are qualified self-insured workers comp risks in 15 states.

Self-insuring those risks is a tradition carried over from when those companies were part of AT&T Corp.'s federally regulated telephone system monopoly, which the government broke up in 1984.

Verizon self-insures those risks up to \$1 million per loss and purchases a separate stop-loss policy from AIG to cover losses up to the maximum statutory benefits.

Under the combined liability program for Verizon Wireless, Zurich Financial Services Group of Zurich, Switzerland, underwrites the \$5 million primary layer, subject to a \$500,000 deductible. Exchange In-

demnity underwrites the deductible.

Risk management bid out the primary coverage separately because Verizon management at that time was contemplating an initial public offering for Verizon Wireless that would have reduced Verizon's stake in the company to less than 50% but still would have left Verizon as the largest stakeholder. If the IPO, which Verizon has since shelved, had occurred, Verizon Wireless would have had to scramble to replace its primary coverage if a separate program had not been arranged, said Jeremy B. Saunders, director-casualty risk management.

In addition, risk management saved money by arranging a separate combined liability program for Verizon Wireless as opposed to including the company's risks in Verizon's combined program, according to Mr. Saunders.

But Verizon Wireless is covered by the same excess liability insurance program that covers Verizon's combined liability program. Verizon risk management concluded that Verizon Wireless could have easily put together an excess program if the IPO had occurred, Mr. Saunders explained.

For employment practices liability losses, the captive retains the first \$2.5 million of defense costs, while

majority-owned subsidiaries worldwide retain individual responsibility for the same amount of any actual damages (see story, page 26). AIG writes \$25 million of limits excess of \$2.5 million, and various insurers complete a \$125 million excess layer that attaches over AIG's coverage.

Under the company's captive E&O program, Verizon requires its majority-owned subsidiaries worldwide to retain the first \$2.5 million of loss, which is important in encouraging the units to avoid and minimize losses, Mr. Saunders said.

Above that self-insured retention, Exchange Indemnity provides \$22.5 million of limits. AIG writes \$25 million of excess limits over the captive's E&O coverage.

Ms. Small first incorporated the captive in Verizon's E&O program last July. Verizon then faced tremendously higher rates, and the incumbent underwriter wanted to include a "swing factor" in its rates that essentially was designed to force Verizon to make up for the low rates the insurer charged in prior years, Ms. Small noted.

In addition, Verizon faced problems finding sufficient E&O capacity and would have had to assume a self-insured retention so high that the company would have been responsible for retaining much more of its defense costs, which would have necessitated increasing the company's legal budget.

Ms. Small explained the situation to senior management and suggested using the captive to underwrite part of the company's E&O coverage.

After much discussion, risk management placed the program in the captive, with the limits Verizon wanted but with a lower self-insured retention than the commercial market had required.

The captive coverage also eliminated the swing factor payment underwriters had sought, gave Verizon an immediate tax deduction for the premiums it paid the captive and allowed the company to keep down its legal department's budget.

"By using the captive and having a planned strategy for a large loss, it enabled me to convince Verizon to take on a large risk," Ms. Small said.

Verizon's comfort with placing its E&O coverage in the captive also prompted insurers to approach the company with new, more reasonable quotes. Risk management decided to purchase the \$25 million of excess coverage that sits above the captive's coverage.

Even with all of the advantages that the captive liability insurance programs create for Verizon, Ms. Small notes that she will not shy away from overhauling Verizon's risk-financing structure if doing so would create economic advantages for the company.

"It doesn't mean it will happen that way next year," she said.

Use of captive for terror risks puts Verizon in the vanguard

By DAVE LENCKUS

Led by its risk management department, Verizon Communications Inc. was among the first captive insurance company owners to investigate how it could use its facility to obtain affordable terrorism coverage.

The use of the captive to hold down Verizon's terrorism insurance costs is just one of several unusual elements of the company's manuscripted property insurance program. Other features include special deductible buydowns in the event of catastrophic events.

Verizon uses its GTE Re captive, which is domiciled in Vermont, as a fronting insurer on a large portion of the highest layers of the company's \$1 billion property insurance program. With GTE Re fronting much of the coverage excess of \$400 million, the captive charges Verizon a much lower rate for terrorism coverage than other insurers would, explained Al Tobin, a managing director in New York for Aon Corp., Verizon's property insurance broker.

GTE Re then fully reinsures all of the risk it assumes, with the exception of the terrorism insurance coverage.



Captive GTE Re's participation in Verizon's property program saved the company 'several million dollars.'

*Al Tobin
Aon Corp.*

GTE Re's participation in the property program saved Verizon "several million dollars," Mr. Tobin said.

Verizon risk management and Aon determined that, based on GTE Re's capacity and the terrorism rates that all of the participating insurers sought, the captive would provide Verizon the greatest savings by fronting for the insurers on the highest excess layers, Mr. Tobin explained. While rates typically decrease for high excess insurance, the terrorism coverage rate as a percentage of the total rate increased on

the high excess layers, he noted.

Under the government-sponsored terrorism reinsurance program established by the Terrorism Risk Insurance Act of 2002, insurers are subject to a deductible of 7% of written premiums and a 10% coinsurance requirement.

But the coverage applies only to losses arising from certified acts of terrorism and when those losses exceed \$5 million on an aggregate basis from a single event. TRIA caps the amount of covered losses at \$100 billion in any calendar year. The government can recover a portion of its losses through premium surcharges.

While TRIA requires insurers to offer terrorism coverage to policyholders, the act does not regulate rates.

The rates that many insurers have sought for the coverage have discouraged most insurance buyers from purchasing the coverage.

According to a recent survey by the Council of Insurance Agents & Brokers of its members, 48% of

See **PROPERTY**/next page

Risk Manager of the Year

Property: Captive terror coverage puts Verizon in vanguard

Continued from previous page

the 212 survey respondents reported that less than 20% of large companies purchase terrorism insurance. More than 60% of the respondents reported that less than 20% of mid-sized and small companies purchase the coverage.

The survey also found that the average cost of terrorism coverage, as a percentage of property premiums, is greatest for the largest policyholders.

Mr. Tobin said that Verizon, represented by Sheila Small, assistant treasurer-risk management and insurance, was possibly the first cap-

tive owner to investigate how to put its facility to use to obtain the terrorism coverage most cost efficiently.

Similarly, Chris Varin, a senior vp with the captive's manager, Marsh Management Services Inc. of Burlington, Vt., recalled that Verizon was among the first captive owners to investigate how it could use its facility effectively to obtain terrorism coverage.

"Verizon, as is often the case, was in front of the curve" in monitoring TRIA as it wended through Congress and in evaluating its applicability to the company's risk fi-

nancing program, Mr. Varin said.

"It goes to Sheila's approach" to all phases of risk management, Mr. Varin said.

Overall, Verizon's global master property policy is "very unique," said Charles A. Yaunches, director-property risk management.

Verizon's global master property insurance policy is manuscripted, with coverage tailored specifically for the telecommunications industry.

The manuscripted policy provides broader coverage than does a standard property policy, Mr. Tobin said. Aon designed the policy in

1997.

The tight property market essentially bars insurance buyers from purchasing limits that would cover the total value of their properties. To arrive at Verizon's \$1 billion policy limit, risk management evaluated the company's largest potential loss from a single event, such as a hurricane hitting the Eastern Seaboard, Mr. Yaunches explained.

More than two dozen U.S. and European insurers underwrite the program. Several insurers participate in each layer of the multilayered coverage. Insurers on any given layer underwrite as little as 2% to

as much as 40% of that layer.

But, especially in the lower layers, some insurers' participation spans several layers, while others' don't.

Some insurers that participate in the lower layers of coverage also write a portion of the highest excess layers.

GTE Re retains a small percentage of risk on a couple excess layers, as well as fronts for several insurers on high layers.

Deductibles under the program not only take into account the financial muscle of the Verizon subsidiary that sustains a loss but also automatically decrease when losses are sustained during catastrophic events, Mr. Yaunches explained.

'Verizon, as is often the case, was in front of the curve' in monitoring the Terrorism Risk Insurance Act of 2002 and evaluating its applicability to the company's risk financing program.

*Chris Varin
Marsh Management Services Inc.*

Generally, subsidiaries with asset values exceeding \$5 million are subject to \$10 million deductibles. Most smaller units are subject to \$1 million deductibles. Small, foreign-based units are subject to \$100,000 deductibles, for which the units are covered through GTE Re.

But, the deductibles for most of Verizon's largest units drop to \$1 million if those units sustain losses during a catastrophic event such as a hurricane or earthquake.

The catastrophe deductible works differently for Verizon's large telephone company subsidiaries in the Dominican Republic and Puerto Rico. If a hurricane reaches Category 3 or 4 status at a prescribed point between those islands, then their deductibles drop to the greater of \$2 million or 5% of the loss.

Mr. Yaunches noted that Verizon is investigating arranging similar deductibles for its units in the Pacific region.

One portion of Verizon's property risk is not commercially insured. Verizon's other Vermont-domiciled captive, Exchange Indemnity Co., underwrites the telecommunication company's coverage for its transmission and distribution lines. The captive writes \$25 million of limits, subject to a \$25 million deductible.

Verizon has insured the risk in the past. Even last year, 15 insurers participated on the \$25 million excess program, in which Exchange Indemnity retained only 3% to 5% of losses, Mr. Yaunches noted.

But Ms. Small and Mr. Tobin said few underwriters currently are interested in underwriting the risk at a rate that is reasonable even by hard market standards.

The cost of commercial coverage in the current market is "unbearable to Verizon," Mr. Tobin observed.

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Risk Manager of the Year

Other companies see value in model

Verizon develops program to calculate replacement values on old properties

By DAVE LENCKUS

When purchasing property insurance, how does a company with a large portfolio of facilities constructed during the early 20th century make sure that it is covered for today's replacement values?

It is not easy.

Indeed, the task was so problematical for Verizon Communications Inc. that its risk management department created its own model to derive those values.

Now, a couple of property insurers and many other companies, especially those in the telecommunications and electric power industries, are asking Verizon's risk management department to share its model, according to Charles A. Yaunches, director-property risk management.

Buildings that were constructed nearly a century ago typically pose valuation problems for policyholders and insurers.

Differences between the two sides over how to derive an old building's replacement value often lead to coverage disputes after losses.

Drawing on various available databases that focus on real estate property management and square footage costs, among other factors, the Verizon risk management department spent six months last year fashioning its valuation model, Mr. Yaunches said.

Risk management then fine-tuned the model by plugging in conversion factors to account for the specialized nature of Verizon's telecommunications operations, he noted.

To test the accuracy of its model, the Verizon risk management department hired architects in several areas of the country to draw up plans to replace various older buildings.

The construction costs that the model estimated varied from the architects' cost quotes between 0.7% and 1.2%, according to Mr. Yaunches.

Verizon risk management now is evaluating how to make the model available to other companies, Mr. Yaunches said.

He added that it is doubtful Verizon could patent the model, because it draws on available databases.

Verizon departments cooperate to resolve old insurance claims

By DAVE LENCKUS

Resolving old insurance claims was a top priority for both the risk management department and legal staff following the long regulatory approval process for the merger that created Verizon Communications Inc.

Although elements of both departments had come from different companies before the merger, they were able to immediately pool their resources to resolve most of the outstanding claims, recovering millions of dollars of insurance proceeds for Verizon.

The legal team investigating the claims is headed by a Verizon legal department official who formerly was with GTE Corp. The risk management department at Verizon largely consists of employees from the former Bell Atlantic Corp. department. The two companies merged to form Verizon in June 2000—more than two years after the merger agreement was announced.

The old insurance claims involved approximately 10 complex general liability losses for GTE.

The success of the insurance recovery effort is a prime example of the benefits that risk management generates by "building bridges" throughout the organization, said Sheila Small, assistant treasurer-risk management and insurance at Verizon. Before the merger, Ms. Small

was executive director-corporate risk management at Bell Atlantic.

Steven Zipperstein, senior vp and deputy general counsel for Verizon, applauded the cooperation between the company's risk management and legal staff.

'This was really a matter of teamwork between a tremendously talented risk management department and legal, as well as with our brokers and insurers.'

*Steven Zipperstein
Verizon Communications Inc.*

"This was really a matter of teamwork between a tremendously talented risk management department and legal, as well as with our brokers and insurers," he said. Before the merger, Mr. Zipperstein was vp and deputy general counsel for GTE.

At the time of the losses, GTE provided claims notices to its insurers, and the insurers did not reserve their rights to deny coverage, Mr. Zipperstein noted.

Although there had been some indication that the insurers were investigating the losses, months and then years passed with seemingly no or little activity, he said.

GTE defended against the underlying claims but it did not press the coverage issue with its insurers. The company was more focused on other pressing concerns—its merger with Bell Atlantic and reprogramming its computer systems to exterminate the Year 2000 bug, Mr. Zipperstein noted.

After the merger, when the Verizon legal department began systematically addressing the older, unresolved claims, it found that Ms. Small and her risk management

team already "were on the same page" of wanting to review and resolve those claims, Mr. Zipperstein said.

"So this was not an adversarial exercise (with insurers) but an exercise in dusting off old claims that involved cover and where there was not a lot of dispute," he noted.

Among the complex claims for which Verizon sought and obtained partial coverage were those arising from what Ms. Small characterized as telephone directory publication and advertising problems. GTE had resolved the underlying claims by changing some business processes and making some other concessions to the claimants rather than agreeing to pay monetary damages.

Verizon recovered \$4.5 million from two insurers for the costs it incurred in resolving the claims. One insurer settled in early 2002, and the other settled earlier this year.

Both Ms. Small and Mr. Zipperstein for the most part praised the insurers, which they would not identify, for working to resolve the claims amicably. A lot of that success can be traced Verizon's strong relationships with the insurers, Ms. Small said.

But, Ms. Small did have to engage in "some pushing" occasionally to resolve coverage negotiations, she said.

Regarding the more recent coverage settlement, she noted that she "got nowhere" with the insurer in March 2002 during a settlement discussion.

She approached the insurer again in late January, and she obtained a settlement agreement. "My philosophy is I like to get in their faces," she said.

As for the partnership in Verizon that has netted the insurance recoveries, Mr. Zipperstein said there now is "closer teamwork between legal and risk management than in GTE, which was terrific."

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Risk Manager of the Year

Education, work ethic aid Small's drive to the top

Risk management a 'midlife career change'

By **DAVE LENCKUS**

Sheila Small's route to the head risk management office at Verizon Communications Inc.'s Manhattan headquarters stretches from a New Jersey chicken farm and winds along a road dotted with phone utility manholes.

Ms. Small assumed the Fortune 10 company's top risk management post when former Baby Bell telephone company Bell Atlantic Corp., where Ms. Small was executive director-corporate risk management, merged with GTE Corp. in 2000 to form Verizon.

She was a seasoned risk manager when the new telecommunications giant selected her to manage its risks, but her entry into the risk management field 10 years earlier was a "wonderful midlife career change."

Before then, Ms. Small's career path had cut through the operations and finance sides of the telecommunications industry as she

'We worked extremely hard. My parents worked very hard. I think I got my work ethic from that.'

*Sheila Small
Verizon Communications Inc.*

also earned two master's degrees and reared four children with her husband.

That work ethic and determination were bred on her parents' chicken farm in Lakewood, N.J.

Her parents, survivors of the Holocaust, started the farm in 1950 after emigrating from Poland with her older brother. Ms. Small recalled a "tough childhood" of coping with the demands of farm life and a lack of luxuries in rural New Jersey.

"We worked extremely hard," recollected Ms. Small, who said she grew up as a tomboy with an independent nature. "My parents worked very hard. I think I got my work ethic from that. My mother said I was the best egg packer around."

Entwined with that work ethic were strong family values, Ms. Small said. "It was a very family-oriented house. Family was very important. We ate dinner together."

Education also was important to her parents, whose own schooling was cut short by World War II. Both Ms. Small and her brother went to college, and both majored in math. Ms. Small earned her bachelor's degree from Douglas College in New Brunswick, N.J., in 1972, a year after marrying her high school sweetheart.

During a job search the following year, Ms. Small lost a job opportunity to another candidate whose master of business administration degree made him more qualified for the position, the employer explained to her.

"I was determined not to let that happen again," she said. She enrolled in an MBA program, with an emphasis in finance, that September—the same time she landed a job as an outside plant engineer at New Jersey Bell Telephone Co.

Ms. Small did not have an engineering background. The opportunity arose as part of an effort by New Jersey Bell, like many other large companies at that time, to cre-

ate a more diversified work force by broadening the scope of capabilities it would seek from job candidates. Ms. Small's math background, combined with the four-month training program the company provided, qualified her for a position as an assistant engineer, she explained.

The work consisted of designing cable placements in new housing developments, evaluating whether and how to replace current cable in-

stallations, and designing and engineering manholes.

By 1975, Ms. Small had so impressed New Jersey Bell management with her manhole engineering capabilities that they tapped her to co-develop and teach a two-week course on manhole design and placement.

With that background, she moved into general staff engineering the next year. In that position, she conducted audits of individual New Jersey Bell plant engineering offices, including their projects, design work and cost estimates.

In 1977, Ms. Small had earned her MBA degree and was able to move into a corporate finance position, an area more in line with her educational background. As a staff manager in corporate planning, Ms. Small got involved in developing and analyzing financial measures for New Jersey Bell's five-year corporate planning.

She also headed right back to school. The MBA degree she had just earned was a key aide in furthering her career. The master of science degree in statistics she pur-

Continued on next page

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April 7, 2003

Risk Manager of the Year

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PHOTO: MICHAEL MARCOTTE



Sheila and Leonard Small are surrounded by their children, from left, Benjamin, 13; Risa, 21; Jara, 19; and Jolie, 17.

Continued from previous page

sued next was a self-fulfillment goal.

In 1979, after more than half a decade of advancing in the corporate ranks through various operations and finance jobs, Ms. Small landed a finance position that she would hold until 1990. As director of financial results and measurements for New Jersey Bell, Ms. Small was responsible for developing and tracking expense budgets and work force projections as well as preparing a six-year business plan and aiding in negotiating reduced state tariffs.

Ms. Small's entry into the risk management field was an unplanned development that arose

during her pregnancy with her fourth child.

As Ms. Small headed into maternity leave in 1990, Bell Atlantic, like other Baby Bells, was trying to create cost efficiencies by consolidating some personnel from among its many telephone company operating units. The company consolidated Ms. Small's Newark, N.J.-based group into an Arlington, Va.-based group, so Ms. Small had to find a position to come back to after her leave ended.

Complicating the situation for Ms. Small, both her boss and his supervisor planned on retiring while she was on leave.

But, before he left, her boss helped her land a position as a resi-

dential and commercial customer complaint representative—a position nowhere near as challenging as others she had held at New Jersey Bell.

While Ms. Small was on maternity leave, however, her new boss expressed his concerns that she would not be happy in the customer complaint position. She concurred.

With her permission, he circulated her resume throughout Bell Atlantic, and it caught the attention of the executive director of security and risk management, who was looking to fill an opening in risk management.

During a nearly five-hour-long interview, Ms. Small told the now-retired official: "I don't know why you're talking to me. I can't even buy my homeowner's insurance. He said, 'That's okay. You have the operations experience and the finance background. You know the company. You'll learn the insurance.'"

'The team knew much, much more than I did. The fact that they were willing to help me and train me—allowing me to manage the job—was extremely helpful.'

*Sheila Small
Verizon Communications Inc.*

Ms. Small trusted his assessment, but she needed a final decision from him quickly, because she was entertaining another job offer.

The next morning, the official offered her the position of director of risk management at Bell Atlantic.

Ms. Small said that the strength she brought into risk management was an ability to formulate strategy that was in the corporation's best interests and based on an appreciation of the budget process and corporate financial considerations.

But she also quickly acknowledges that the success corporate risk management achieved under her direction is rooted in the initial support she received from the risk management team, particularly Charles A. Yaanches, now director-property risk management, and Jeremy B. Saunders, now director-casualty risk management.

"The team knew much, much more than I did," Ms. Small said. "The fact that they were willing to help me and train me—allowing me to manage the job—was extremely helpful." She added that Bell Atlantic's various brokers aided her tremendously, as well.

Now, 12½ years later, "I can't say I'm bored," Ms. Small observed. "I still feel there's so much out there to learn and so much more to accomplish. Things are always changing."

Ms. Small and her husband, Leonard, have four children: Risa, 21; Jara, 19; Jolie, 17; and Benjamin, 13. The family resides in East Windsor, N.J.

Among Ms. Small's hobbies are attending theater performances and movies, running, needlework, cooking, baking and reading.

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Risk Manager of the Year

PHOTO: MICHAEL MARCOTTE



Sheila Small, assistant treasurer-risk management and insurance at Verizon Communications Inc., stands with *Business Insurance* staffers, from left, Publisher Martin J. Ross, Editor Paul D. Winston, and Senior Editor Dave Lenckus.

Small wins 'award to which every risk manager aspires'

Says award belongs to team members

By DAVE LENCKUS

Attendees at the Risk Manager of the Year Award luncheon for Sheila Small came away with a glimpse of a typical workday for the risk manager, her career path and her reaction to the day that shook America and inflicted heavy losses on her company.

Based on 10 criteria, a panel of

nine independent judges selected Ms. Small, assistant treasurer-risk management and insurance at Verizon Communications Inc. of New York, as the 2003 Risk Manager of the Year.

Representatives of *Business Insurance*, which created and sponsors the award, and the Risk & Insurance Management Society Inc., the award's co-sponsor, presented Ms.

Small with the 26th annual honor during a March 18 luncheon ceremony in New York.

"This is an award to which every risk manager aspires," Ms. Small told the gathering after receiving the award.

But she immediately stressed that the honor also "belongs to every team member" in Verizon's risk management department as well as to the insurers and brokers "who are an integral part" of the solutions that team devises.

"As it is throughout Verizon, the team is more than the sum of its individual parts," she said.

Ms. Small briefly summarized her path into risk management and recounted the professional challenges she faced during the large mergers that led to Verizon's creation.

"I've been truly blessed over the years" with the aid of many insurance and risk management professionals and senior Verizon management who have played roles in managing the company's risk, as well as by support from her



PHOTO: MICHAEL MARCOTTE

Risk Manager of the Year Sheila Small said the terrorist attacks of Sept. 11, 2001, were her biggest professional challenge.

husband and four children, she said.

The terrorist attacks of Sept. 11, 2001, though, created her biggest professional challenge—which she credits her boss with helping her overcome.

"Unfortunately, we all lost friends and co-workers that day who will remain in our hearts forever," Ms. Small said.

The mammoth losses that Verizon suffered in the attacks—about \$1.4 billion—also fueled some self-doubt about whether she was the person who should guide risk management as it dealt with the losses in the years ahead.

She expressed her apprehensions to her boss, William F. Heitmann, senior vp and treasurer.

Ms. Small thanked Mr. Heitmann "for doing what he normally does—he never listens to me."

Remarks by guests after Ms. Small had completed her acceptance

See LUNCHEON/page 42

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Risk Manager of the Year



At left, *Business Insurance* Senior Editor Dave Lenckus, and Nancy Chambers, (right) the incoming first vp of the Risk & Insurance Management Society, present Sheila Small with the Risk Manager of the Year award.

At right, Ms. Small is congratulated on her award. From left are Simon Methven, executive director property global risks, Aon Ltd.; Lizabeth Carmody, vp property-energy and communications, Lexington Insurance Co.; Ms. Small; Robert P Williams, executive vp, Aon; Gary Marchitello, managing director national property syndication, Aon; Christine Simone, national property syndication, Aon; and Alfred P. Tobin, managing director property syndication, Aon.



PHOTOS: MICHAEL MARCOTTE

Continued from page 40

ranged from congratulatory to tongue-in-cheek.

Mr. Heitmann said the ceremony, which included a recitation of many of Ms. Small's accomplishments at Verizon, was "very informative" and demonstrated that he and the honoree had more in common than he had realized.

"While Sheila complains that I don't listen to her, I see that Sheila also doesn't listen to me," he jested.

Mr. Heitmann then noted that while Ms. Small is the 2003 award recipient, her work has helped Verizon and its predecessor meet their

'In our organization, we say "What would Sheila think." It's a good mantra for us.'

*Rodney Schlosser
Asurion Corp.*

risk management challenges over many years.

Nancy L. Chambers, incoming first vp for RIMS and risk manager at Waterloo Region Municipalities Insurance Pool of Kitchener, Ontario, praised Ms. Small for her "broad view of risk management." Ms. Chambers said the award recognizes not only the competence of Ms. Small and her staff but also their work in advancing risk management.

Echoing that assessment, Rodney Schlosser, an executive with a specialty insurer that underwrites handset coverage for Verizon Wireless customers, said Ms. Small and her staff have changed the insurer's approach to Verizon and other companies in the wireless industry. Under Ms. Small's direction, a Verizon captive reinsures much of that risk.

"In our organization, we say, 'What would Sheila think?' It's a good mantra for us," said Mr. Schlosser, senior vp for business development and strategic partnerships with Asurion Corp. of San Mateo, Calif.

Several brokers who place various coverages for Verizon offered their impressions of Ms. Small.

Al Tobin, Verizon's property insurance broker, told Ms. Small: "We've watched your risk management department develop into a truly world-class department unlike any other organization's in the

Continued on next page



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B



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D



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April 7, 2003

Risk Manager of the Year

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Present at the Risk Manager of the Year luncheon were, from left, Stephen D. Becker, vp of Marsh Inc.; Ms. Small; Harold R. Johnson, retired managing director of Marsh; Michael J. Talty Jr., managing director, Marsh.



Richard N. White, senior vp of Hobbs Group L.L.C., congratulates Ms. Small on her award.

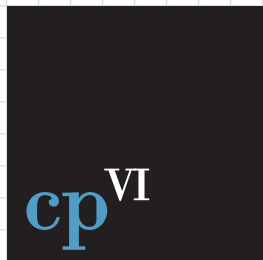


Ms. Small is flanked by Verizon executives, William F. Heitmann, senior vp and treasurer, and Doreen Toben, executive vp and chief financial officer.

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Continued from previous page world."

Mr. Tobin, a New York-based managing director with Aon Corp., said Ms. Small likes being a teacher. "She always asking you what you think," even though she has an answer in mind, because "she is helping you work through the problem."

Ed Kloos, a managing director in New York with Marsh Inc., revealed that when Ms. Small investigated whether to offer the broker's New York office the opportunity to place all of Verizon's liability insurance, he checked out her reputation as well. He said she was considered smart, tough and fair.

"Once I heard that, I wanted to be your account executive," Mr. Kloos told her.

Richard N. White, who places Verizon's owner-controlled insurance program, noted the wealth of sources Ms. Small will approach for help in solving a problem.

"It keeps a broker on his toes because she, as well as you, has contacts," said Mr. White, a Stamford, Conn.-based senior vp for The Hobbs Group L.L.C., a subsidiary of Hilb, Rogal & Hamilton Co.

Verizon surety broker Douglas Hite characterized Ms. Small as "an excellent business person" who "cuts to the chase and gets right to the heart of the issue."

"Those qualities make her Risk Manager of the Year," said Mr. Hite, a senior vp at Near North Insurance Brokerage Inc. in Arlington, Va.

With a nod toward Ms. Small's husband and four children, Mr. Hite said: "If you spend time with them and get to know them, it would tell you all you need to know about Sheila Small as a human being."

Ms. Small's oldest daughter, Risa, presented a lighthearted rundown of her mother's typical schedule on any given workday.

It includes four miles of treadmill work at 6 a.m., working through lunch, returning home around 8 p.m. and immediately helping her children sort through myriad issues. Those range from helping Risa select a medical school to assisting 13-year-old son Benjamin with his homework.

"You're truly an inspiration to all women who have similar goals" of raising a family and having a successful career, Risa said. "I still don't understand what risk management is, but I'm proud of you."

AGENT/BROKER TOPICS

A MONTHLY EDITORIAL SECTION SENT EXCLUSIVELY TO AGENTS, BROKERS AND CONSULTANTS

Employee Recruiting & Training

Soft job market broadens talent pool

Grads show interest in industry

By MEG FLETCHER

The uncertain economy is making campus recruiting a good way for insurance brokers and insurers to find candidates for full-time jobs and internships.

"The job market is very soft right now. It's a buyer's market," said John Foulds, a second vp with Stamford, Conn.-based General Reinsurance Corp. As primary overseer of staff recruiting for the company's operations in the United States, he expects to interview about 300 graduating seniors this year to hire about 15 facultative underwriters. The company employs about 4,000 people worldwide.

Brokers with increased staffing budgets are benefiting from cutbacks by other industries, which have "broadened the talent pool," said Robert Meder, director of marketing and client services for Hagedorn & Co., a New York-based middle-market broker. His firm recruits at New York schools to hire an average of one or two graduates annually.

"In previous years, a lot of students who would have looked at dot-coms or Wall Street are giving insurance a second look because of the availability of jobs," said Terry Hennen, director of training and communications at broker Arthur J. Gallagher & Co. in Itasca, Ill.

"We have had a tremendous increase in the number of internship applications, especially in the past two years," Gallagher's Mr. Hennen said. He expects to hire at least 50 students—especially sophomores or juniors—for summer intern sales jobs this year. Students who successfully complete one or more summer internships often are offered full-time employment after graduation, he said.

"There are more candidates, but we still battle for the cream of the crop," said Allison Keeton, director of college relations for Travelers Property Casualty Corp. in Hartford, Conn. The company typically seeks to hire recent graduates for its Hartford-based leadership programs, including financial management and auditing and its national program for underwriters and account executives providing claims services. In addition, Travelers hires about 100 college students for annual summer internships, some of whom then work part-time for the company throughout the school year.

Broker Willis Group Holdings Ltd. is also vying for talented prospects, said Nicole Seiffert, regional human resources manager for the northeastern United States. "Campus recruiting for Willis is an extremely important program," Ms. Seiffert said, noting that she expects to hire applicants numbering "in the double digits."

In New York, generally, the "insurance industry is seeing a skills gap," as some people have chosen to leave the city, Ms. Seiffert said.

Some programs, such as leadership programs offered by Endurance Specialty Holdings Ltd. and Travelers, prefer students that have majored in subjects such as math that give them a good foundation in analytical and quantitative thinking.

Others, such as those at Gallagher and Gen Re,

are more open to hiring undergraduates who have majored in a variety of disciplines, including biology and humanities.

"The key is the applicant's personality and potential for development, not specific insurance knowledge," said Gallagher's Mr. Hennen. "We'll teach them what they need to know."

"Our goal is to hire very bright, talented people with communication skills who can then deal effectively with clients," Gen Re's Mr. Foulds said.

Many observers say the process of recruiting and hiring candidates for insurance-related jobs has become easier because of the increased use of Internet tools by college placement offices, applicants and recruiters.

For example, a company recruiter might post an opening on a college recruiting Web site, and interested students could send their resumes to college placement officials. The resumes would then be batched and sent to the recruiter, who would use e-mail to schedule interviews.

The Internet "has really simplified communications," Mr. Foulds said. "It has tightened up the timeliness and made it a much more seamless process."

Many brokers and insurers also receive many applications from their own companies' Web sites, they say.

"The hard problem is wading through the large number of unqualified applicants," Mr. Foulds said.

Meanwhile, companies are using other approaches to attract new talent to the insurance industry.

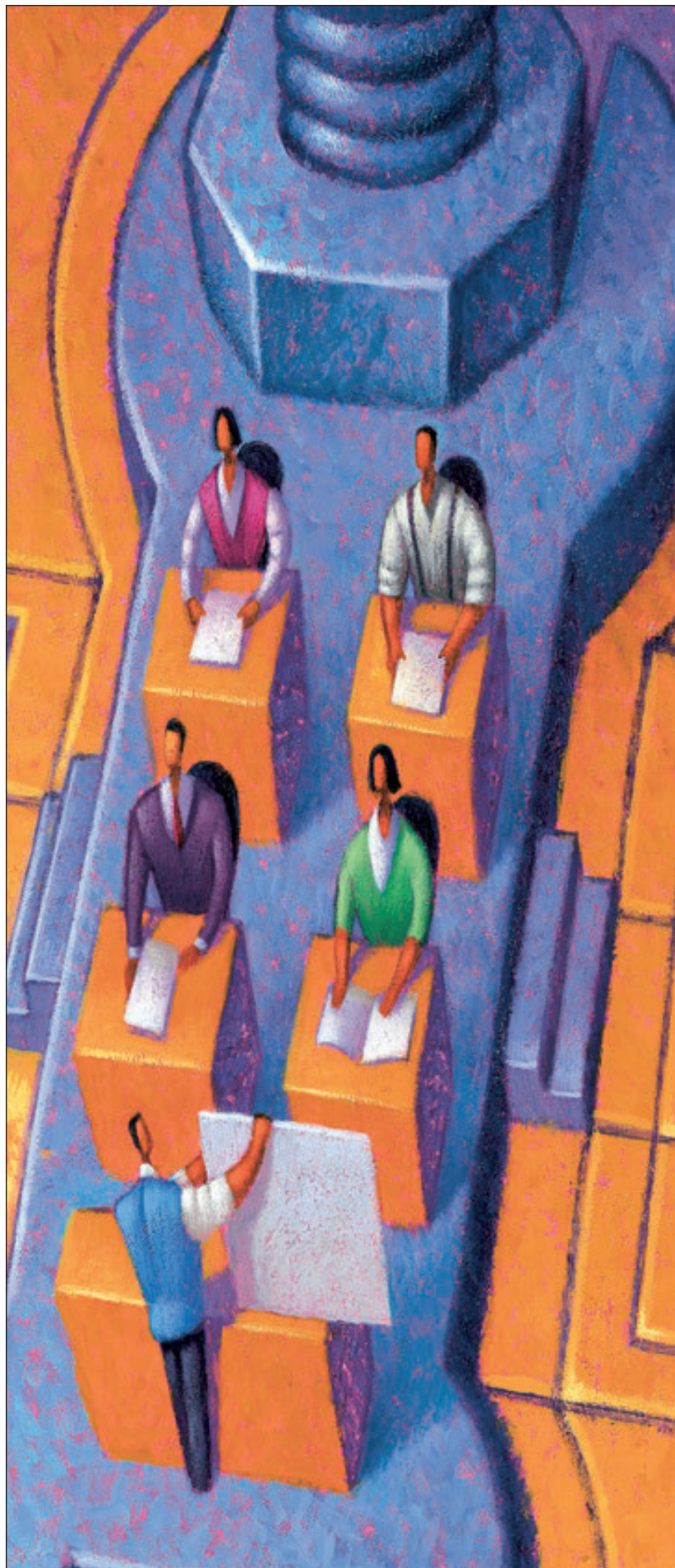
Kenneth J. LeStrange, chief executive officer of Bermuda-based Endurance Specialty, previously relied on personal referrals from college professors and others to find job candidates for his company, which was established in December of 2001. Now that his staff has grown to 138 employees in three offices, he plans to begin recruiting on campus to find three to five new graduates to hire, he said.

The Independent Insurance Agents & Brokers of America is taking a different approach to developing future insurance industry talent through a for-credit course offered in 235 high schools and community colleges in 35 states, said Jim Armitage, chairman of the board of InVEST, which stands for Insurance Vocational Education Student Training.

The course teaches students by having them operate a mock auto insurance agency, but the scope of the program should be expanded by the fall to include commercial lines and, ultimately, home and life insurance, said Mr. Armitage, vp of the Arroyo Insurance Services Inc. in South Pasadena, Calif.

"We are getting calls all the time" from producers looking to hire course graduates, especially for part-time jobs, Mr. Armitage said. In addition, the organization offers scholarships and internships, he said.

Meanwhile, John K. Rauschenberger, a partner at OPTIS Partners L.L.C. in Chicago who specializes in helping agencies recruit and develop new producers, said that he has a bias toward recruiting new producers between the ages of 28 and 45. He said an agency can be more successful by hiring an individual who has had more life experiences than a recent college graduate.



**In-house education
can be outstanding/ 44B**

**Q&A with
an online educator/ 44C**

**In praise of
workplace diversity/ 44D**

AGENT/BROKER TOPICS

For continuing education classes, in-house sessions stand out

Onsite programs offer more control, candor

By MICHAEL PRINCE

When Aon Corp.'s Paul Angeli walked into a conference room at his office in New York, he saw only familiar faces.

Perhaps more importantly, he did not see any brokers from rival firms at the continuing education class. While he has nothing personal against other brokers, they would have cut into his plans to delve into the topic of brokers' errors and omissions issues, said Mr. Angeli, a director at Aon Corp. in New York.

Because this was an in-house education class, filled only with Aon personnel, the attendees were free to engage in a candid discussion. This comfort level made the day-long class more productive and informative, he said.

"We all can be very honest," Mr. Angeli said. "You're hesitant to talk about real situations" when brokers from other firms are present, he added.

The give and take among the students and the instructor turned out to be perhaps the most valuable part of the class, Mr. Angeli said. When brokers raised specific examples, the class jumped into these real-life situations. Mr. Angeli speculated that if brokers from other organizations had been present, this freewheeling discussion would not have been possible.

"It's much more valuable doing it in-house," he said.

Improving the value of continuing education classes is not the only advantage of in-house classes. In-house continuing education classes let the broker control the course content and decide who attends, said Janet Pane, compliance officer for Willis Risk Solutions North America in New York. Each Willis office has its own in-house program, offering both half-day and full-day classes.

Because Willis hosts the sessions, attendees can still get some work done during the day.

"At a break, the guys can jump back to their offices," Ms. Pane said.

In addition, on-site classes create a better learning environment, she said. The class size is smaller than they are for most outside classes, which are often held in large lecture halls.

Furthermore, the brokerage has total control over the quality of the instructor and the written materials, she said.

With smaller-sized classes, Willis can create an environment in which attendees can truly learn, Ms. Pane said. Willis' philosophy is to use the classes to enhance its brokers' knowledge, not simply to fulfill state-mandated continuing education requirements, she said.

In addition, the more-intimate settings generate robust discussions of the issues.

"There is a more-open forum when it's an in-house session," she said.

Improving its continuing education was Aon's strategy when it started Aon University in 1997, said Paul Hodder, vp of Aon University, a unit of Aon Corp. in Chicago. The university is offering about 90 programs this year, covering topics such as the basics of insurance, captive insurance companies and errors and omissions, Mr. Hodder said.

Many programs are held in Chicago for employees located at that office and for others around the country to attend. But the majority of the classes are conducted at Aon's various locations across the United States.

'Most people will attend locally. We try to run as many of these programs as close to the brokers' home office as possible.'

*Paul Hodder
Aon University*

"Most people will attend locally. We try to run as many of these programs as close to the brokers' home office as possible," Mr. Hodder said.

The classes are led either by Aon personnel or by outside instructors specifically chosen for their expertise, Mr. Hodder said.

He noted that in-house classes give the broker more control over content and result in more-consistent training throughout the United States. In addition, in-house classes cost less than outside classes, Mr. Hodder said.

But not every broker has the resources to maintain a full-fledged in-house program. For those that can't, the next best approach is to use the classes that lead to specific designations such as Chartered

Property & Casualty Underwriter or Associate in Risk Management, said Jim Kitchin, president of Hilb, Rogal & Hamilton of Va. in Richmond.

The nondesignation classes are "abysmal," Mr. Kitchin said.

"It's just basic stuff. It doesn't get beyond the entry-level person," he added.

Conversely, the classes offered for designations plunge into the topic and provide greater depth.

"That's really where we are pushing most of our people," Mr. Kitchin said.

And Aon and Willis are looking to make their already-strong in-house programs better. This month, Aon University takes a big leap forward by holding its first satellite TV class. About 400 employees at 24 offices will tune in for the all-day class. They will join about 50 people sitting in on the class in Chicago.

If the venture is successful, it may lead to more multilocation classes, Mr. Hodder said. But he is still unsure that TV classes can fully replace a live instructor.

"We don't know how people will take to sitting for a long time in front of a television set," he said.

Willis is evaluating whether to centrally coordinate all their in-house educational activities, Ms. Pane said.

The brokerage is also seeking to add Web-based classes. They are currently being offered at the firm's California, Oregon and Washington offices.

Willis will evaluate their benefits and drawbacks and determine if they should continue.

One big concern with Web classes, Ms. Pane said, is the potential loss of the strong learning environment they currently have.

"You don't want to lose that personal interaction," she said. "We just don't want to put bodies in a room and say they attended."

Founder of Middleton Group, newsletter author is dead

Carol A. Hammes, the founder and president of The Middleton Group Inc. and the author of The Middleton Letter, died Feb. 22 in Littleton, Colo. She was 54.

A respected agency consultant, Ms. Hammes specialized in agency valuations, appraisals and compensation structures, among other

subjects.

The future of The Middleton Group and its monthly newsletter on agency issues is unclear at this time.

Donations can be made in Ms. Hammes' name to the National Parks Conservation Assn., 1300 19th St. N.W., Washington, D.C. 20036.



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April 7, 2003

AGENT/BROKER TOPICS

Online education provider finds niche in insurance

With a doctorate in the management of technology and a university teaching background, it's only logical that Neal Gersony would end up developing an online continuing education company. Why he decided to target the insurance industry, however, is another story.

As Mr. Gersony tells it, it was a combination of a new law in Connecticut requiring continuing education for insurance professionals, and a dinner party he attended with his wife.



"My wife worked for a bank, and it had just bought an insurance operation. I was at one of their dinners and told them that I had

this new way of delivering continuing education," Mr. Gersony recalled. "They practically got down on their hands and knees and said, 'Do it for us, because we've got this new law and we don't know where to get our credits from.'"

CE University Inc. had found its niche.

Created by the 2000 merger of Mr. Gersony's Online Learning International L.L.C. and the Graduate School Online Inc., a similar learning management system created at Yale University for the medical industry, CEU.com continues to grow at a quick pace.

"From the time that I started in 1998 until 2000, I had come up with a format that the Connecticut Department of Insurance accepted as a format for continuing ed, and by 2000 we were up

to five courses and we were approved in four states," Mr. Gersony said. "In the three years since, we've moved into an office in downtown New Haven, we have 18 approved courses and another 12 in the pipeline, and we've gone from four states to 48 states. We're still waiting on the two last ones and hope to get that shortly," he said.

Mr. Gersony, chairman and chief operating officer of CEU.com, recently spoke with Senior Editor Sally Roberts about the company and the growth in online continuing education in the insurance industry.

Q: When you began this venture, who did you think would take your courses?

A: It was kind of an unknown. We expected younger agents, who are more computer oriented, to take our courses. We expected more of a rural population rather than a population in an area with more classroom courses available. And for people who were extremely busy, we thought this would be a good way to go.

Q: What was the result?

A: It seems to be a lot of people who are very close to their deadline. We get a lot of calls from people who say, 'I hear that you're the people to go to if our (CE) deadline is tomorrow.' And they're right; we can get them signed up, get the courses taken and get the courses out all in the same day.

So that ended up being a large market for us.

Q: Is it just independent agents that you're targeting?

A: We're very oriented to the independent agent. The independent agent can go onto our site, look at all the courses, look at our delivery system without giving us any information and, if they like it, they can register and pay for the course online and go right into our system, which is very self-explanatory.

While we started off being very easy to use for the independent agent or someone in a rural location who could not get the courses, we're now integrating into learning management systems.

Q: What are learning management systems?

A: It's an elaborate piece of software purchased by an insurance company or financial services company that allows their employees and agents to log in and take a variety of courses. This software also allows for third-party vendors, like us, to plug in, so agents can come in and take our courses and the insurer's learning management system keeps track of it.

Q: Have you integrated into any insurer's LMS?

A: We're in the process. We have one major customer that is using a particular LMS, and then once we're integrated into that one, there are a number of others who are interested in using us as well.

Q: What are the benefits of taking a

course at CEU.com?

A: There's an efficiency in our courses, where you can really focus on information that you may not be particularly strong in. And if you go through areas of the course where you are highly knowledgeable, you can go through that pretty quickly.

And it's in a fun, easy-to-use way with lots of color, graphics and sound, so you don't have to pour over lots of books and text material.

Q: How has your background in teaching at a university helped?

A: Coming out of higher education myself, I feel like I have a pretty good understanding of how people learn. And the way they learn is that they learn in different ways. So we offer our courses—we have a certain content material—but we offer it in different ways, like a text version they can print out and take with them or they can listen to it. We have sound for all our courses and slides. And then we have graphic slides, which summarize the information for each topic.

Part of the theory behind our system was to be a pull theory of education, where you go into our system and you don't get the whole kitchen sink thrown at you. You go through and pull out what is important for you. This allows you to go through the course faster and have better retention and understanding of particular areas so you're not wasting time on stuff you've been doing for 20 years.

It's a more efficient use of your time.

See **GERSONY**/next page

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AGENT/BROKER TOPICS

Gersony: Finding niche in insurance

Continued from previous page

Q: Do you think online continuing education will eventually replace classroom learning?

A: There's always going to be a place for classroom learning, because there are certain things you can do in the classroom that you can't do online.

Q: Such as?

A: Sometimes people like a break from their work and look forward to being in a different environment

where they can sit quietly and get their material. Or they may want to fly off to Bermuda for a conference to get their credits from a conference. And then there's also networking. Some people go to these things to network.

Q: How does online learning compare to classroom learning in terms of market share and growth?

A: It's extremely fast growing, but only 3% to 4% of the market is done online right now. We think it

will be on par with classroom learning, about 50/50, in four to five years. So it's going to be moving pretty rapidly. And I think five to 10 years after that, it will be reversed, where online learning will be the dominant way to do it.

Q: Is changing a person's mindset the biggest challenge for CEU.com?

A: The hardest thing to do is to get people to do things in a different way. I think it's mostly momentum. This is how they've always

done it. They've got their classroom they drive a half-hour to, and they've been doing it that way for the last 10 to 15 years and they know it works and they are comfortable with that. So, it's a matter of slowly chipping away at that and getting a few people to try us.

So as word of mouth percolates out there and people try us once, we think it's very unlikely they are going to go back to the classroom.

Q: How many insurance professionals have taken a course on CEU.com?

A: We're getting close to the 2,000 mark.

Q: What's in the future for CEU.com?

A: We keep making our courses better. We've upgraded...to a flash system so now the connection speed makes no difference whether you're on a high-speed modem or a 56K modem, you can access our courses just as easily. Now we're looking to do other things.

Q: Like what?

A: Features like video and three-dimensional graphics and more interactive things, so people can click and drag objects on the screen so we can illustrate points by having them do various exercises.

Having a diverse workforce lends competitive advantages

By Roderick Hudson

Perspective

Providing opportunities for people of all backgrounds in the workplace is not just the right thing to do—it's the smart thing to do to gain a competitive advantage in the insurance industry.

Recent government statistics estimate that minority groups have a collective spending power of well over \$1 trillion. Women and minorities are starting new businesses and growing existing ones at a fast pace, and they represent a huge market for professional and commercial insurance products.

Estimates of the property/casualty marketplace for minority groups range between \$10 billion and \$15 billion in commercial premiums. It is also estimated that, within the next four years, 85% of new entrants to the workforce will be women or minorities.

A talent pool comprising diverse backgrounds and experiences will help provide stronger communications, new ideas and innovative solutions for this emerging marketplace, resulting in a distinct business advantage.

Although there has been noteworthy improvement, management and professional positions at most insurance industry companies fall far short of the statistics above and do not reflect the diversity of the marketplace the industry serves. In fact, claims alleging job discrimination based on religion, age, race or national origin experienced double-digit increases in 2002, according to the Equal Employment Opportunity Commission (*BI*, Feb. 10).

Hiring myths

Many companies do not promote

diversity or are reluctant to do so because they believe it is a social issue synonymous with affirmative action. This is not true. The distinction between the two became blurred over time because legal efforts to hire employees of diverse backgrounds (affirmative action) were linked to voluntary programs to provide a work environment in which all employees can be successful (diversity in the workplace).

It has also been mistakenly believed that diversity efforts involve lower standards for hiring and promotions and are designed to benefit only women and nonwhites. Diversity efforts do not mean lower standards, quota systems or preferences and must not rely on fixed categories or numbers. Poor public relations and resentment have undermined workplace diversity when companies have hired individuals primarily based on demographics in order to polish their public image.

Questionable personnel choices are not limited to misguided attempts at diversity, though, and it is a mistake to hire anyone for reasons that are not based on qualifications.

To be effective, diversity initiatives must involve hiring and employment practices that focus on individual qualifications based on merit, productivity and success, with the goal of ensuring that everyone has the opportunity to succeed. Company policies, procedures, compensation systems, work arrangements, training and orientation programs must be reviewed and modified as part of an ongoing process to provide support as necessary. These policies and procedures must be carried out on a consistent basis for diversity efforts to succeed but should not constitute a set-aside program.

Although corporate policies are a crucial element of success, aspiring executives must not assume that credentials alone will ensure advancement. Once on board, individuals must take responsibility for their own career development;

they will rise or fall based on merit. **Suggested actions**

Insurance industry staff who want to advance should consider the following:

- Make an honest assessment of your job, skills and career path and company plan for the future.
- Develop a game plan for your career with continuous reviews and updates. Use your career strategy as a guide to assess what is important to you and your career and how you want to spend your time.
- Enhance your skills whenever possible.
- Network within and outside your company.
- Take the initiative to ask for visible or challenging assignments.
- Do not be afraid to challenge sacred cows.
- Strive to exceed expectations.
- Maintain a positive attitude; stay focused and persistent.
- Be smart, keep informed and stay motivated.
- Reach out to get and give as much support as possible as your career evolves.
- Above all, make sure you have the skills, tools and strategy to move forward.

An insurance organization's most valuable asset is its workforce, and diversity increases this asset. Demographic trends suggest that companies will gain an advantage by aligning supply and demand; diverse customers will gravitate to diverse companies. For this reason, a diverse workforce must be part of a company's strategic process and treated as critical to its future growth and success.

Any company that doesn't support diversity—attracting, developing and retaining qualified people, regardless of race, age, ethnicity or gender, at all levels—is cutting itself off from more than half of the talent pool.

Insurance organizations whose employees understand—and reflect—the diversity of the marketplace will be better positioned to increase market share and, ultimately, profits.

Roderick Hudson is Eastern region manager-national accounts at Allianz Insurance Co. in New York.

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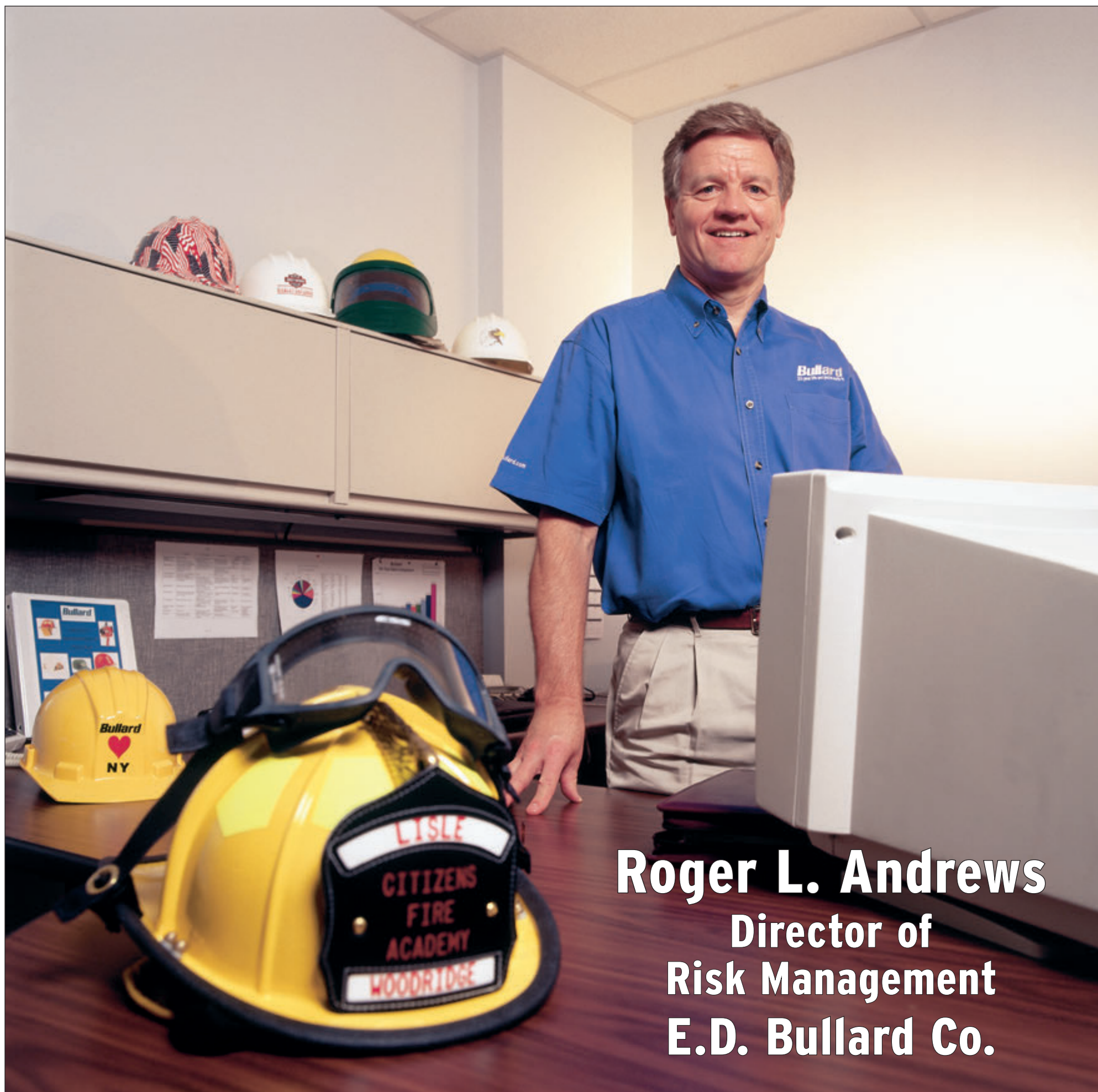


PHOTO: MICHAEL MARCOTTE

Roger L. Andrews Director of Risk Management E.D. Bullard Co.

Andrews rises to risk management challenges

By MICHAEL BRADFORD

Roger L. Andrews found something he loved in a company mired in the rising costs of litigation and insurance—a challenge.

When he went to work at E.D. Bullard Co. in the summer of 1991, Mr. Andrews found the company—a manufacturer of personal safety equipment for workers such as firefighters, sandblasters and construction workers—beset by litigation costs that were draining 3% of its \$21 million in annual sales and by product liability premiums that were cost-

ing nearly as much.

The company, its headquarters recently relocated to Cynthiana, Ky., was coming to grips with the value of risk management.

Until Mr. Andrews arrived, there was no true risk manager at Bullard. Those duties were performed by an executive vp and a paralegal, whose job was recordkeeping and making sure lawsuits were passed along to outside counsel.

Richard C. Miller, president and chief executive officer at Bullard, said the company was doing a “bootstrap job” of risk management.

“It was a recognized need and we had bright people working on it, but they were not professionals” in the area of risk management, he said.

When Bullard in 1990 decided to move its headquarters from Sausalito, Calif., to its manufacturing facility in Cynthiana, Ky., where it remains based today, the two employees handling risk management duties decided not to go along. The timing was right to bring in a risk management professional.

Twelve years after he arrived, through an aggressive defense posture and a more effec-

tive use of the company’s self-insured retention, Mr. Andrews, who is an attorney as well as a risk manager, has reduced litigation expenses from nearly \$700,000 per year to practically zero (see story, page 50). As of early this year, the company had only one open specific-injury case. That suit was filed in February and is the first in the last four years.

While specific-injury cases are rare, Bullard has been named in hundreds of cases in which plaintiffs claim that their asbestosis and silicosis ailments were caused partly by

See **ANDREWS**/page 46

Andrews: Rising to risk management challenges

Continued from page 44

Bullard products. The company consistently maintains it has no liability in such cases and has settled or been dismissed from many.

While nearly eliminating litigation costs related to specific-injury claims, Mr. Andrews worked with his broker and insurer to reduce product liability premiums by more than half. At the same time, limits were increased. All this was accomplished as the company's sales have risen, reaching \$70 million last year.

Among his other accomplishments, Mr. Andrews has:

- Introduced a culture of risk management that permeates the Bullard workplace. Maintained through periodic training sessions, this culture influences all aspects of the company's business, from product development through marketing and sales.

It also allows Mr. Andrews to hold a rare position among risk managers—that of telecommuter. With the risk management attitude so ingrained in the Bullard workplace, he is able to spend much of his time on litigation matters from a home office in Provo, Utah (see story, page 58).

- Developed Bullard's risk management manual, which documents the company's commitment to risk management and provides details on product design, manufacturing, marketing, systems and other functions. The manual is presented to underwriters, and, along with face-to-face meetings, is credited

with helping Bullard significantly lower its insurance costs.

- Forged a 10-year partnership with an insurer that resulted in consistent price and coverage improvements. Coverage was set above a self-insured retention that allows

'Every employee has a risk management responsibility, and it really depends on what his or her job is. My job is training employees in what to do and what not to do and how to address our concerns about product quality.'

Roger L. Andrews
E.D. Bullard Co.

Bullard to manage claims and control protection of company assets (see story, page 48).

- Boosted dismal participation rates in the company's 401(k) plan to around 97% (see story, page 52).

These are among the achievements that earned Mr. Andrews a place on the 2003 Risk Management Honor Roll. He was selected in the small corporation category, representing companies with less than \$300 million in annual sales.

Mr. Andrews' success is due to more than hard work, according to William B. LaFrance, who is senior vp at C.J. McCarthy Insurance Agency Inc. in Wilmington, Mass., and the broker for Bullard's property/casualty and employee benefits business. "I think it also plays into his life philosophy of doing the right thing. It relates to his underlying philosophies in his church" and

the honest and innovative culture that he has helped create at Bullard, Mr. LaFrance pointed out.

Mr. Andrews is known for his dedication to the Church of Jesus Christ of Latter-day Saints. The spiritual culture of Provo, about 40

San Francisco as a distributor of acetylene, carbide lamps and mining equipment, shifted its focus in 1919 when Mr. Bullard's son invented the hard hat, a canvas and resin headpiece that launched the company into the personal protective equipment business.

Today, the Cynthiana facility still turns out hard hats and has added air-supply respiratory equipment, thermal-imaging cameras for firefighters and other products to its line.

As a maker of equipment for such risky professions as firefighting and construction, Bullard not only has insurance and litigation concerns, but also must meet a host of federal standards. Hard hats must be manufactured to specifications set forth by the American National Standards Institute and firefighter helmets must adhere to National Fire Protection Assn. standards. The respirators fall under standards published by the National Institute of Occupational Safety and Health. And, regulations established by the Occupational Safety and Health Administration apply to Bullard's products and their ultimate use in workplaces.

Managers are assigned to each product line, and "it is their job to work with the standards," Mr. Andrews explained. If a claim related to one of the products were to be filed, Mr. Andrews acknowledged he would have to "get up to speed" on the relevant standards. It's not that difficult, he noted, because "these things don't change that often. If you think Congress is slow, you ought to see how these regulators work."

Building on a risk management culture in which everyone is involved is how Mr. Andrews makes sure all the bases are covered.

"He helped engrain that," Mr. Miller said of Bullard's risk management philosophy. "It existed before Roger got here," he noted, "but he made it more real, more concrete for people."

"Every employee has a risk management responsibility," Mr. Andrews emphasized, "and it really depends on what his or her job is. My job is training employees in what to do and what not to do and how to address our concerns about product quality."

Product managers, for example, are "johnny-on-the-spot" if a client needs training on how to use a product. "They don't hesitate to go where they need to go," to take care of customer concerns and keep the company's quality image intact, Mr. Andrews explained.

Mr. Miller, in his introduction to the company's risk management manual, reinforced the notion that everyone at Bullard has risk management responsibilities. Marketing and sales personnel are "active participants in the risk management process by understanding our customers' requirements and recommending the appropriate product," he stated. "Using their understanding of both product performance and user behavior, Bullard product management, engineering and risk

management personnel work together to assure the accuracy of product claims and to fashion appropriate warning messages for product labels, instructional materials and packaging."

"A big part of product development is the literature," Mr. Andrews confirmed. "I review all the literature that goes out. If we have a new product coming on line, I meet with the product engineers and find out what it's being used for, we brainstorm on possible misuses" which can help not only with product design but gives Mr. Andrews and the engineers ideas on how to write product warnings.

"It's integral to what we do," he said of the effort to make sure warnings are clear, "because (Bullard products) are worn by people for safety reasons. Risk management considerations have always been a part of Bullard's work, but it's been accentuated in recent years."

The risk management philosophy is spread partly through a two-hour seminar for employees conducted periodically by Mr. Andrews. Seminar topics cover Bullard's risk management and insurance programs, claims handling under the SIR, current legal issues, the significance of oral and written statements, how to report claims and how lawsuits are avoided and defended.

A risk management bulletin is published periodically and distributed to all employees. The one-page circular has dealt with topics such as liability in cyberspace, confidentiality agreements, the use of company automobiles, anthrax contamination and others.

Mr. Andrews takes the risk management message to senior management in the form of a quarterly report. The report summarizes open claims and includes an explanation of litigation trends in those claims areas. It details Bullard's insurance renewal process and includes a chart summarizing each policy. Other risk management concerns are covered in the report as well.

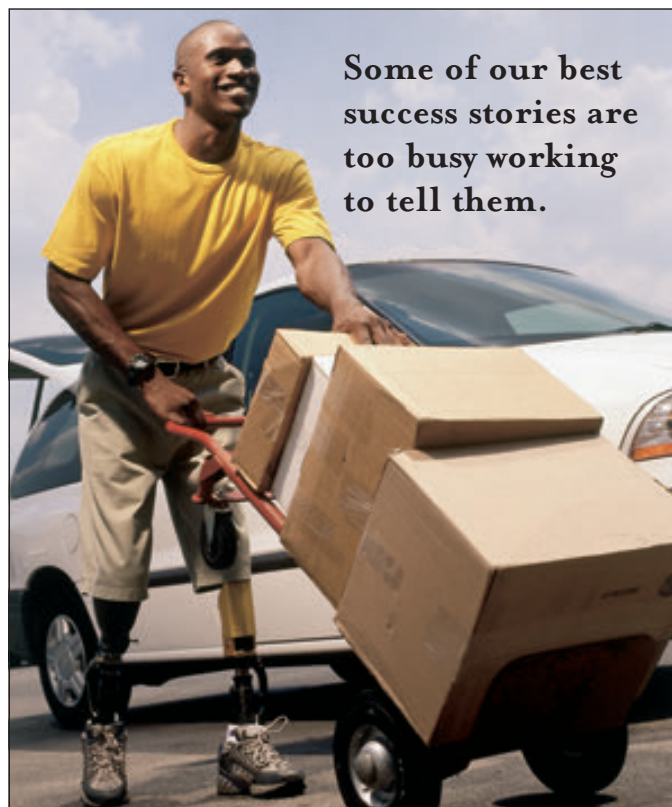
Mr. Andrews also presents oral reports to Bullard's board of directors.

He acknowledges that his background as an attorney has been a benefit to his work as a risk manager. In fact, most of his day-to-day work is litigation management and his legal experience helps, Mr. Andrews said. "I've always handled litigation wherever I've been; it hasn't always been as big of a part of the function, but that's one aspect of the job I really do enjoy."

"Any other risk management position I've had has been three or four years," Mr. Andrews pointed out. In many cases, "once you get a risk management program up and going, it kind of loses its challenge and so you've got to move on," he said.

But the challenge remains at Bullard "because of how much litigation is involved and how that landscape changes," he said.

The company, he added, "has been a good place for me, as evidenced by the fact that I've been there 12 years now."



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Risk Management Honor Roll

Risk manual helps Bullard improve coverage

By MICHAEL BRADFORD

A long history of distributing and manufacturing products for high-hazard industries led to pressing product liability coverage problems for E.D. Bullard Co. in the early 1990s.

In many cases, insurers simply refused to offer quotes to a company that could incur serious product liability claims related to its hard hats, air-supply respiratory equipment and other products. A hard-hat case that Bullard maintains was badly handled and settled in the 1980s for \$2 million didn't help its argument for affordable coverage.

When Roger L. Andrews arrived in 1991 to take on risk management at Bullard, National Union Fire Insurance Co. of Pittsburgh, Pa., a unit of American International Group Inc., was writing Bullard's product and general liability coverage to per occurrence limits of \$1 million, with a \$2 million aggregate. Bullard funded a \$250,000 self-insured retention with no aggregate stop-loss protection. Defense costs were covered outside the SIR.

Umbrella coverage was written to

a \$5 million limit above the primary coverage by AIG unit Insurance Co. of the State of Pennsylvania.

In terms of Bullard's exposures, product liability is the "biggie," Mr. Andrews said. "We don't have a big property risk or a big fleet. Anything else is small compared to the product liability." Bullard has property coverage through Fireman's Fund Insurance Co., and workers compensation exposures are underwritten by Liberty Mutual Insurance Co., he said.

When Mr. Andrews arrived, Bullard had three locations—one in Sausalito, Calif., and two in the Kentucky cities of Cynthiana and Stanford. The company has since consolidated operations into a single Cynthiana location. Bullard also has a sales office, Bullard GmbH, in Bonn, Germany, but Mr. Andrews said that location require little risk management oversight.

Bullard began operations in 1898 in San Francisco as a distributor of acetylene, carbide lamps and mining equipment. In 1919, company founder E.D. Bullard's son invented the hard hat and established the company as a manufacturer and

distributor of personal protective equipment. Over the years, the company also began making fire helmets, respiratory products for firefighters and sandblasters, thermal-imaging cameras to detect heat sources in buildings and other environments, as well as related products.

All of this left Bullard vulnerable not only to product liability claims, but users of the company's products also would come to file claims against Bullard for work-related ailments. Sandblasters were among the claimants, charging that the respiratory products were partly responsible for silicosis ailments. Until 1985, Bullard also distributed products made by other companies, including clothing for foundry workers, that contained asbestos. Although Bullard never manufactured products that contained asbestos, the company continues to face a volume of asbestos claims.

Retooling coverage

When he arrived in Kentucky, Mr. Andrews recalled, his first move was to straighten out Bullard's insurance program. The company's coverage was being handled by a West Coast broker that had held the account since the company was based in Sausalito, and "I figured it would be good for the company to have some fresh eyes look at it," he said.

Having worked as an underwriter for Travelers Insurance Co. in the 1970s, Mr. Andrews realized the value of properly marketing a company's risk portfolio, and he knew what kinds of information insurers wanted. To aid his case, he and Bullard employees put together a risk management manual that he would use in face-to-face meetings with underwriters.

The manual, still an integral part of Bullard's insurance marketing and risk management program, provides in-depth details about Bullard. It begins with an introduction by Richard C. Miller, the com-

pany's president and chief executive officer, as well as a brief history of the company. Information and resumes of senior executives, an organizational chart, summaries of production capabilities and facilities and a statement of Bullard's commitment to quality also are included. The manual also outlines the company's risk management philosophy and claims procedures. Annual sales by product line, audited financials and detailed claims histories are included along with brochures and product literature.

Mr. Miller said the manual shows that Bullard isn't "a run-of-the-mill risk" but is professional in how it approaches its business.

With the manual completed, Mr. Andrews selected the brokerage known at the time as Alexander & Alexander Services Inc. in Boston to handle Bullard's account. William B. LaFrance, who worked on the account with A&A, still handles the Bullard coverage as a senior vp at C.J. McCarthy Insurance Agency Inc. in Wilmington, Mass.

Mr. LaFrance said the manual was a big help in shopping the coverage. "There weren't many clients that I would say have such an impressive document describing how they approach risk management and how they see the connection between the services they provide and the products they produce and management of the company."

The effort showed underwriters "a level of professionalism that may exist with other companies, but that they don't see" when considering whether to write coverage, he noted. "Many don't see the risk manager; they get a written submission." Bullard's approach has helped the policyholder and the brokerage establish "some very good bonds" with insurers.

Mr. Andrews' moves paid off. Admiral Insurance Co. agreed to write the company's product liability and general liability at primary limits of \$2 million above a \$150,000 self-insured retention. The annual aggregate was \$500,000. Defense costs were included in the retention and therefore did not drain primary coverage limits.

While Bullard's previous coverage excluded claims for ailments related to silica and asbestos, the Admiral policy did not carry such exclusions. Also, it included an endorsement to cover claims from earlier claims-made policies.

In addition, \$5 million of umbrella coverage, combined with a \$10 million excess policy, increased total limits to \$17 million, compared with the \$7 million Bullard carried under its previous coverage.

And, the increased coverage was cheaper. Whereas Bullard had paid premiums of \$659,831 for its prior coverage, the Admiral coverage was written for \$305,000. Premiums under the new arrangement represented 1.4% of \$21.6 million in sales, compared with 3% of \$21 million in sales under the prior program.

Changes in the coverage have dropped Bullard's SIR to \$100,000, and the aggregate limit has been reduced to \$300,000. Meanwhile,

umbrella and excess limits were increased to \$20 million. In 2001, the coverage cost \$370,000, a mere 0.68% of the company's \$54.7 million in sales.

The arrangement lasted 10 years. In 2002, the program was marketed again and, despite hard market conditions, Mr. Andrews and his broker were able to renew at the same limits while reducing the cost by 35%.

Under Bullard's current program, AIG's Lexington Insurance Co. unit writes the company's primary products and general liability insurance. Chubb Corp. writes umbrella coverage, and Royal Insurance Co. of America provides excess layers of coverage.

A new deal

More recently, Mr. Andrews was able to strike a deal that produced further savings and removed a large liability from Bullard's books. That arrangement also showed there is value in participating in professional societies.

From 1984 until 1992, when National Union wrote Bullard's coverage, claims related to silicosis and asbestos were excluded. As a result, Bullard each year spent \$10,000 to \$14,000 on an actuarial study to determine the amount of liability related to potential claims. At one point, this liability carried on Bullard's balance sheet was around \$1.8 million.

"I was trying to reduce the liability by taking care of the claims," he said. "And that was working; we were down from \$1.8 million to \$900,000."

In 1999, Mr. Andrews was serving on the Executive Council of the Risk & Insurance Management Society Inc. While attending an Idaho chapter's spring conference in Boise as the council liaison, Mr. Andrews heard one of the speakers discussing portfolio transfers. It spurred him to think of a new way to get rid of the lingering liability on Bullard's books.

It wouldn't be a true portfolio transfer, Mr. Andrews realized, because "there was no book of claims with reserves," which underwriters generally take for a price. "But maybe we could get some carrier to offer it under the same concept as a portfolio transfer. So I started working that angle."

He found that insurers weren't interested. The only offers came at a price that was nearly the amount of the liability. "I said no way. This is only a balance-sheet transaction; it's not a real liability."

He tried to assure underwriters that there was a very low probability of claims by noting that silicosis takes longer to develop in users of sandblasting equipment than the length of Bullard's uninsured years. In other words, an employee could not have used the equipment long enough during the uninsured period to develop the disease. Also, Bullard fights silicosis and asbestosis cases. "But still," he added, "I was getting nowhere."

Finally, Mr. Andrews convinced

See **COVERAGE**/page 50



PHOTO: MICHAEL MARCOTTE

Richard C. Miller, (right) president and chief executive officer of E.D. Bullard Co., said the risk management manual put together by Roger L. Andrews shows the company isn't a 'run-of-the-mill risk.'

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Risk Management Honor Roll

Coverage: Manual

Continued from page 48

AIG to structure the transfer. He recalls telling the underwriter it was worth \$250,000 to remove the liability from Bullard's books and, because no claims were expected, "you will make a quarter of a million dollars." After negotiation, Mr. Andrews agreed to pay \$270,000.

It was nice for Bullard to reap some benefit from an idea that originated at a RIMS meeting, he said, because the company has allowed him to spend so much time working for the society.

"I've always said that I don't believe I've ever attended a conference or a meeting where I didn't come away with something that would benefit Bullard. But that was probably the biggest," he said.

Mr. Miller agreed, saying Mr. Andrews' association with RIMS has "been good for Bullard." "We've been exposed to ideas, new products and potential new vendors" that have helped the organization, he said.

And the coverage deal with AIG has so far been a win-win, according to Mr. Andrews, because "we haven't had a claim on it and we don't expect to have a claim."

Aggressive strategy cuts litigation costs

By MICHAEL BRADFORD

As soon as he spotted the Federal Express envelope on the desk, Roger L. Andrews had a feeling that another asbestosis or silicosis case had been filed against E.D. Bullard Co.

He was wrong. It was a lawsuit, but not an occupational injury claim. The papers that welcomed him home from a business trip in February ended the long stretch Bullard had enjoyed without facing a specific-injury case. A plaintiff in the Northeast was claiming injuries sustained at work were the fault of the Bullard-made hard hat he was wearing.

With an aggressive litigation strategy that has established Bullard as a company that will defend itself against what it feels are groundless claims, not many plaintiffs these days choose to take on the Cynthiana, Ky.-based maker of protective gear and other safety-related products. And the method for handling such claims that was put in place four years ago is the one Mr. Andrews plans to use in the current case.

When Mr. Andrews was hired in 1991, "there were lots of cases open," he recalled. "A whole myriad of lawsuits" related to the company's hard hats, safety hooks, a line of bicycle helmets it manufac-

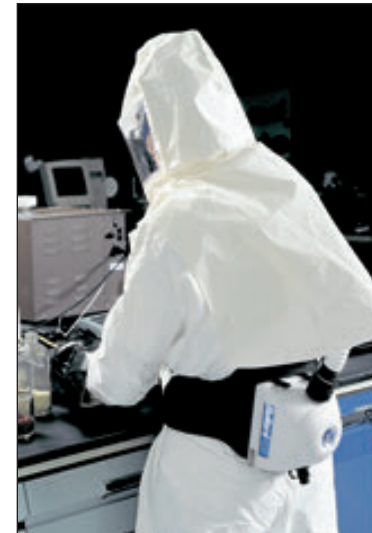
tured in the 1980s and other products "were just churning, and they weren't really going anywhere."

"My first focus was on the specific claims themselves, trying to either resolve them, settle them or see what we could do to control costs," Mr. Andrews said. "Eventually, we either paid our way out of or litigated our way out of those cases; they were closed one way or the other."

He emphasized that "the important thing was to take an aggressive stance when we got a new one."

With the newly arrived case, "instead of sending this to outside counsel to deal with, I'll deal with the plaintiff's lawyer," Mr. Andrews explained. After he outlines why he believes Bullard has no liability in the case, Mr. Andrews said that the plaintiff's lawyer, "if he's smart, he'll dismiss us. If he's not, we'll have to defend the case. And we will; we'll defend it."

Mr. Andrews started at Bullard equipped with a law degree from Western State University College of Law—since renamed Thomas Jefferson School of Law—in San Diego, and years of experience in insurance and risk management. His legal background proved valuable in developing a strategy for a company that sorely needed a way to cut litigation costs that had reached



PHOTOS: COURTESY OF E.D. BULLARD CO.

After adopting an aggressive litigation strategy, E.D. Bullard Co. has faced fewer lawsuits related to its hard hats and respirators.

around \$640,000 per year—or nearly 3% of sales in 1991.

Apart from specific-injury cases, Bullard was involved in various lawsuits filed by plaintiffs who claimed their asbestosis and silicosis ailments were partly the result of products manufactured or distributed by Bullard. From the date of the company's founding in 1898 until 1985, Bullard distributed certain products manufactured by other companies, but Bullard has never

manufactured any products containing asbestos. Bullard also makes air-supply respiratory equipment that is used by sandblasters, and the company has been named in lawsuits seeking damages for silicosis allegedly stemming from their use.

Much of Mr. Andrews' time is spent on the occupational disease claims, although he no longer holds the title of general counsel. When he moved to Provo, Utah, in

See LITIGATION/page 52

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Risk Management Honor Roll

Litigation: Aggressive defense strategy cuts case load, costs

Continued from page 50

1997 and began a telecommuting arrangement, it was decided that the general counsel position would be best suited to someone based at the Cynthiana facility. He still fulfills some of those duties, though, as the position has not been filled.

Bullard has been named in hundreds of silicosis lawsuits filed by thousands of plaintiffs, mostly in Texas, Mississippi and Louisiana. "It's getting to be like asbestos now," Mr. Andrews said of such claims. "The plaintiffs we see in the multipoint suits don't have any lung impairment at all, or, they have what you and I would have by the time we reached 60 or 70 years of age. If you've walked by sandblasting, if you've jogged by it, if you've smelled sandblasting, you can sign up and sue."

Mississippi has become "a big forum" for such cases, Mr. Andrews noted. "In just the last two years, our litigation has tripled in Mississippi alone." He said plaintiffs have won several large verdicts in the state's courts.

Bullard also faces hundreds of asbestos-injury claims in Michigan, as well as about a dozen in California. "We're going to fight all of them," he vowed.

Mr. Andrews' strategy, he noted, "has always been to meet with the plaintiff's lawyer and have a heart-to-heart discussion...you talk about liability and their chances of winning and those kinds of issues."

He acknowledged that he is more likely to meet with attorneys in specific-injury cases these days as opposed to those involved in the asbestosis and silicosis cases. While those sit-downs do still occur in some of the occupational injury cases, there now are so many plaintiffs with various allegations that such meetings with all attorneys are impractical. And, Mr. Andrews noted, Bullard is developing such a solid position relative to the cases that the meetings are not as vital.

When discussions are held with attorneys in either type of case, part of the meeting will cover Bullard's

liability insurance program. That sometimes "changes the atmosphere," because plaintiffs attorneys realize the company's pockets may not be as deep as they believed, Mr. Andrews said.

Bullard carries a \$100,000 per occurrence self-insured retention with

'I don't want it to sound like a knock against the insurance industry and the claims adjuster, but frankly, people who understand their products usually will do a better job defending their products.'

Roger L. Andrews
E.D. Bullard Co.

an aggregate limit of \$300,000. Above that, Lexington Insurance Co., a unit of American International Group Inc., which began writing Bullard's coverage last year, provides product and general liability coverage to limits of \$2 million. Umbrella coverage written by Chubb Corp. and an excess layer provided by Royal Insurance Co. of America total another \$20 million.

Bullard was uninsured for silicosis and asbestos claims from 1984 through 1992. Liability for those claims was taken care of in a portfolio transfer arrangement with AIG (see story, page 48).

The company's aggressive litigation stance has paid off. Since 1992, when Mr. Andrews reworked Bullard's insurance program, no claim has approached the limit of the self-insured retention. Bullard's coverage was written by Admiral Insurance Co. for 10 years after Mr. Andrews put the coverage out to market and, for the first two years, carried a \$150,000 deductible.

Litigation costs have dropped dramatically during Mr. Andrews' tenure, falling from 3% of sales in 1991—then \$21 million—to a mi-

nuscle percentage of \$70 million in sales 10 years later.

In fact, in 1999 and 2000, Bullard's litigation costs under its SIR were zero. In 2001, Bullard spent \$6,963 on defense costs as it extricated itself from a suit filed by a worker for the state of Florida who was injured in the early 1990s while wearing a Bullard hard hat.

Mr. Andrews said he believes one of his most effective claims and litigation management tools has been to set the company's SIR at \$100,000, a level that helps hold down the cost of coverage written above it while not exposing Bullard to a large financial risk.

And with defense costs covered by the SIR, Bullard has control of its claims from the outset, he said.

"I don't want it to sound like a knock against the insurance industry and the claims adjuster," he said, "but, frankly, people who understand their products usually will do a better job defending their products."

If an insurer assigns an adjuster to handle a claim, the company loses the ability to have that first meeting with the plaintiff's attorney, Mr. Andrews said. "I'll give the carrier notice of this case," he said of the one that was filed in February, "but I'll be the one to meet with the plaintiff's lawyer, decide where we go and see how reasonable he's going to be."

The strategy appears to have worked, as specific-injury lawsuits at Bullard have become rare since Mr. Andrews took over the company's risk management duties. Before then, Bullard saw an average of four to six such suits each year.

Mr. Andrews said he believes Bullard's aggressive strategy is known in legal circles, a reputation that deters would-be plaintiffs. "I think it gets around—I think there's a network in the plaintiffs bar," and attorneys are aware of the company's willingness to fight, he said. "I have no other explanation."

In one example of how a face-to-face meeting with a plaintiffs attorney can make a difference, Mr. An-

draws was able to convince a lawyer that Bullard had no liability because the employer of a worker killed on the job had actually run afoul of federal safety standards.

The suit, which named Bullard and one other defendant, was filed in Ohio by survivors of the employee of Morris Bean & Co. "It involved one of our air-supplied respirators" that the worker was preparing to use while cleaning a furnace, Mr. Andrews explained. Not having used the respirator hood before, the worker mistakenly connected its air hose to a line containing nitrogen. He died immediately.

"He was 27 years old with a wife, two kids and one on the way," Mr. Andrews said. "It was real sad."

In a meeting with the plaintiff's attorney, Mr. Andrews said that the Occupational Safety and Health Administration "requires the employer to make the breathing connection incompatible with the nitrogen. He shouldn't have ever been able to hook that in there. I pointed out the law that shows that and he ended up dismissing us from the case."

With so few claims, it doesn't take a large claims department to handle the ones that do arrive. "I'm

it," Mr. Andrews said of Bullard's claims staff. "Most claims come in as lawsuits," he said, "although we have employee claims, too. They're kind of rare, but we do have employee claims" from the 300 workers that are on the rolls at Bullard.

In another effort that helps keep Bullard out of the courtroom and users of its products safe, Mr. Andrews sometimes has to warn makers of after-market or "pirate" replacement parts that are sold for Bullard's respirators or other products. He points out that use of such items voids the approval of federal standards agencies and can be grounds for an OSHA action.

"It's a big problem," he acknowledged, although he has not had to contact the after-market companies as frequently as in the past. "I've think I've done one in the last six months. Invariably, when I write a letter to somebody that is reported as a pirate-part manufacturer, I copy the compliance people at OSHA and" the National Institute of Occupational Safety and Health.

In return, he generally receives a letter from the agencies "thanking me for keeping people safe," Mr. Andrews noted.

Position has varied responsibilities

Duties include safety, benefits

By MICHAEL BRADFORD

From protecting E.D. Bullard Co.'s employees to shopping the company's benefit programs, Roger L. Andrews has broad responsibilities.

At a company where the biggest risk is the product liability exposure, his legal experience and risk management background are a plus. He is in charge of structuring insurance coverage for the company and making sure the workplace is safe. Mr. Andrews, director of risk management, handles workers compensation claims as well, although the company sees very few.

In the early 1990s, he became involved in the effort by Bullard's quality department to obtain certification—known as ISO 9001—from the International Standards Organization. The certification involved an exhaustive process of evaluating management systems and job functions as well as documenting the procedures in place to produce quality products.

"It pervades the whole company," Mr. Andrews said. "For every position, we had to document the procedure of how the job was done. Documentation was the name of the game all through the company. It was a massive effort to evaluate every position, to document it and to write up instructions on how to do it. It's a quality process."

Mr. Andrews described the process as "a very good effort. It was good for us. We've always made

quality products, but just that additional impetus to document what we do was helpful. From a risk management standpoint, you couldn't ask for anything better."

In a sense, the certification can be considered "collateral," Mr. An-

'We've had ergonomics people come in and we've changed people's jobs if they have any complaint. It's not a big problem. I think everyone has a carpal tunnel case or two.'

Roger L. Andrews
E.D. Bullard Co.

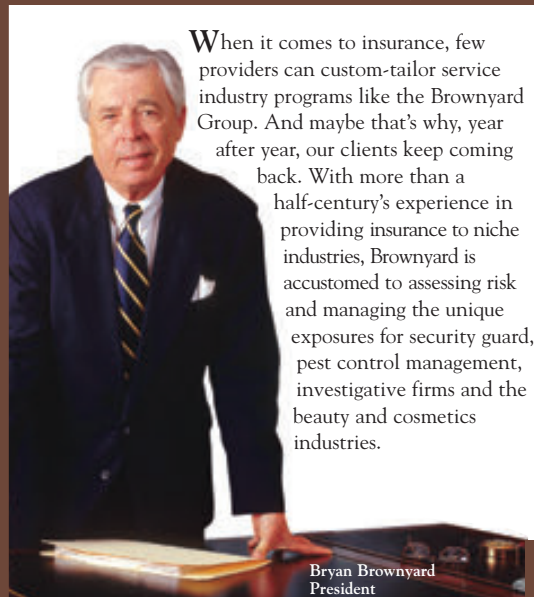
draws remarked. For example, if a lawsuit were to charge that an injury was caused by a poorly made hard hat, the documentation helps prove otherwise, even though the hat exceeds standards set by the American National Standards Institute, he explained. "The documentation helps when you're defending cases, if you've done things according to your documentation."

Risk management procedures at Cynthiana, Ky.-based Bullard are so ingrained that the company rarely has an injury at its manufacturing facility.

Most products are injection molded by large presses at the Cynthiana facility. The units use differ-

See RESPONSIBILITIES/page 54

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Risk Management Honor Roll

Responsibilities: Position has broad range of duties

Continued from page 52

ent types of plastics to mold the hard hats, fire helmets and other products. "That's the raw part; then the suspensions that go in the hats are hand made, they are sewn by workers there," as are the capes that are part of the air-supply respiratory equipment that is used by firefighters and sandblasters, Mr. Andrews explained.

There are very few workplace safety problems at Bullard. "We can go for a long time without a lost-time injury," Mr. Andrews said.

He recalled the last serious injury in the plant, which occurred in 1993. A worker on a late shift decided to remove the safety glass on a press so that he could more quickly remove hard hats as they were molded. "He got his hand in the press and got his hand severed."

Repetitive motion complaints arise occasionally and generally are handled by making workstation changes, Mr. Andrews said. "We've had ergonomics people come in and we've changed people's jobs if they have any complaints. It's not a big problem; I think everybody has a carpal tunnel case or two."

Keeping the workplace safe is partly the task of Bullard's safety committee. The group "comes up with meaningful incentives," Mr.

Andrews pointed out. "For example, recognizing that worker productivity is a key to consistency in manufacturing, they have an annual drawing for a vehicle" among workers who have perfect attendance, he said.

This year a pickup truck will go to the winner, Mr. Andrews said, and "the odds are pretty good when you're part of a small workforce. That's a real incentive."

The safety committee "comes up with all kinds of things," he added, such as educational programs that are capped with opportunities to earn prizes such as a jacket bearing the Bullard logo by answering questions correctly on a safety questionnaire. "They're doing these kinds of things pretty much constantly," Mr. Andrews noted.

Mr. Andrews has had success motivating employees in benefit programs, too.

For example, Bullard Co.'s 401(k) plan, stuck in the rut of low employee participation, began picking up steam when a decision was made in the mid-1990s to fund each employee's account with a \$100 contribution.

Many of Bullard's employees from the small-town region around the Cynthiana facility "were pretty skeptical of putting money away"

in a place where it would be difficult to retrieve, said Mr. Andrews. "So we didn't get great participation from a lot of our employees."

Among those who were enrolled, many would apply for hardship loans that allowed them to borrow money from their plans, "so it really wasn't benefiting them much," Mr. Andrews said.

A one-time \$100 contribution to each employee's 401(k) account helped bring participation in the plan to around 97%.

With a low participation rate from the hourly wage employees, "that made it tough for anybody else," Mr. Andrews noted. "When the salaried people would contribute, it would become top-heavy and wouldn't pass the annual (nondiscrimination) tests."

He suggested to Bullard management that the company could open an account for every employee and "hopefully enroll them. So we did that by making a one-time contri-

bution. After that, our participation started taking off."

Once word got around that workers were signing up, the train began to roll. Participation in the plan now is around 97%, and "we haven't had any nondiscrimination problems in a long time," Mr. Andrews said.

Employees can defer from 1% to 20% of their earnings into the plan, up to the federal maximum, and Bullard fully matches to 5% of the deferral. It's a "pretty generous program," Mr. Andrews noted.

Bullard put such controls in the plan as a processing fee for loan applications and a restriction of two per year on the number of loans an employee could make against his or her account. "Of course, you can never take out more than 50% of your vested corpus anyway," Mr. Andrews pointed out.

"So it's running really well," he said, or at least "as well as it can these days with the market the way it is. But that's something we don't have much control over."

While the day-to-day administration of employee benefits is handled by Bullard's director of human resources, Mr. Andrews is involved in shopping the company's programs.

Bullard recently completed a

marketing of its programs, using a single broker, C.J. McCarthy Insurance Agency Inc. in Wilmington, Mass.

"We had marketed this a couple of years ago," Mr. Andrews pointed out, and Bullard chose United HealthCare Inc. to provide health coverage for its 300 employees. Aetna Healthcare Inc. had provided the coverage in the previous year. "Most of the markets came in pretty much in the same ballpark," he said, "but UHC wrote it at about \$400,000 less than anybody else."

He acknowledged that because of the low cost, "we were a little skeptical about it at the time, but every other thing about UHC seemed to look good," and the company determined that it would "benefit from it for at least a year. It took two years before they wanted to raise it, and, of course, in this market we decided to shop around anyway."

Bullard settled on CIGNA Corp. as the new health care provider. CIGNA had provided Bullard's coverage before Aetna was given the account. "We're moving back to them because they were the most competitive," Mr. Andrews said of CIGNA. Bullard offers its workers access to CIGNA's preferred provider network.

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Risk Management Honor Roll

Guided by the love of a challenge and desire to serve

Amid career twists and turns, Roger Andrews discovers his calling in risk management

By MICHAEL BRADFORD

Like most other risk managers, Roger L. Andrews took the long and winding road to the profession.

In a sense, the journey took him back to where it began.

A native of Maine, Mr. Andrews began his college studies out West, earning an associate's degree from Ricks College in Rexburg, Idaho, in 1967. That same year, he left to spend 28 months in France and Switzerland as a missionary for the Church of Jesus Christ of Latter-Day Saints.

In 1972, Mr. Andrews graduated from Brigham Young University in Provo, Utah, with a degree in political science. Soon after, he found himself on the curving path to a career in risk management. Through the twists and turns, he would find his career guided by the love of challenge and a need to serve. Along the way he would discover his calling in risk management and eventually hold the presidency of its largest professional society.

After leaving BYU, Mr. Andrews headed for San Diego with the notion of going to law school. Short on funds, he stayed with his sister there and took a job with Travelers Insurance Co. as a commercial underwriter trainee.

Travelers moved him to its international department in Hartford, Conn., partly because he could speak French. With law school derailed, he decided to transfer to Brussels when the insurer opened an office there. When eight months passed and it looked as though that location would not soon materialize, his plans changed again.

Mr. Andrews returned to San Diego, this time determined to earn his law degree.

While in school at Western State

University College of Law, now called Thomas Jefferson School of Law, Mr. Andrews found another calling—that of husband. "In the third year of law school, I met her," he said of his wife, Joelyn. They were married in 1976.

While in school, Mr. Andrews took a job as a security clerk with the Federal Bureau of Investigation. He and another employee worked after-hours. "We did secure transmissions—teletypes—that we would send to other FBI offices," he said.

In a convoluted arrangement of responsibilities as the executive secretary of the Maine Insurance Advisory Board, Roger Andrews actually wrote the board out of existence.

His next job, though, would be a return to the insurance world. Instead of working for low wages as a law clerk while waiting several months for his bar exam results, Mr. Andrews went to work for broker John Burnham & Co. in San Diego as an account manager.

In 1979, Mr. Andrews, his wife and two children moved to Maine. There, he joined the Maine Bureau of Insurance as supervisor of the property/casualty division. From there, he was hired by the Maine Insurance Advisory Board as executive secretary and began his involvement in risk management.

"That was a risk management position," he explained, as the executive secretary's job was to handle that function.

But in a convoluted arrangement of responsibilities, Mr. Andrews actually wrote the board out of existence.

"That was an interesting experience," he said. As he attended the advisory board's monthly meetings, "it didn't take long to realize that these guys didn't know anything about insurance" apart from a limited knowledge of life insurance, Mr. Andrews noted.

Encouraged when he learned that the state's governor was receptive to eliminating the board, Mr. Andrews drafted a bill that would do that by creating Maine's risk management division.

The advisory board, though, opposed its elimination and instructed Mr. Andrews to draft testimony against the move. The governor, meanwhile, asked him to write testimony supporting the division's creation. His testimony in favor of the new division was the more persuasive, and the board was disbanded.

Mr. Andrews served as Maine's first director of risk management. His legal background proved useful, because he was responsible for administering claims under the Maine Tort Claims Act. He also was responsible for managing the state's insurance and self-insurance programs.

In order to beef up his knowledge of risk management, Mr. Andrews sought help from the Risk & Insurance Management Society Inc. "I joined RIMS pretty quickly," he said, attending some meetings of the Boston chapter, which was around a four-hour drive from his office. He made a point to attend the national conference, spending the entire week in educational sessions, looking for ways to hone his risk management skills.



PHOTO: MICHAEL MARCOTTE

Roger Andrews took the gavel as the president of the Risk & Insurance Management Society Inc. in 2000.

Because the Boston chapter was so far away, Mr. Andrews tried to organize a Portland-area chapter in Maine. "We just didn't have enough risk managers" in the area to create a chapter, he said. Most companies large enough to have a risk manager had them based at facilities outside Portland.

In 1984, he left the state job and was hired as manager of insurance and safety at Hannaford Bros. Co., a Portland-based food and drug store chain. While there, he consolidated all the company's major liability coverages with one insurer, saving Hannaford more than \$500,000 in premiums during a hard market.

But the job took its toll. Although he enjoyed the challenge of the work, it left him burned out, Mr. Andrews said. Hannaford was growing quickly, and he worked with a very small department.

Four years after joining Hannaford, he left to work for Bath Iron Works, a U.S. Navy contractor in Bath, Maine. As director of risk management, he lowered workers compensation costs by more than \$20 million by implementing a self-insured, self-administered plan. In addition, he saved the company around \$1.3 million in property/casualty and marine premiums while broadening coverage terms and increasing limits.

From there, Mr. Andrews moved to E.D. Bullard Co. in 1991 to take the post of general counsel and director of risk management. He settled in Lexington, Ky., about 35 miles from the small town of Cynthiana where the company is based.

While at Bullard, Mr. Andrews held his first position with RIMS as president of the Bluegrass chapter. He also served as director of the chapter. His introduction to national service at RIMS came when he chaired the task force that in 1995 and 1996 reworked the society's constitution and bylaws.

In 1997, Mr. Andrews decided to move his family back to Provo, an

area he loves for its culture and other amenities. Bullard management agreed to a telecommuting arrangement that has been in place since. He surrendered the title of general counsel when he moved, because it was decided that the job would best be handled by someone at the Cynthiana facility. He still handles some of those duties, though, as the post has yet to be filled.

So it was that Mr. Andrews found himself back in Provo, 25 years after he left, with a wealth of risk management experience under his belt and a large family, which includes Heather, 26; Joel, 25; Jennifer, 22; Emily, 21; Michael, 17; Carrie, 14; and Rachel, 10.

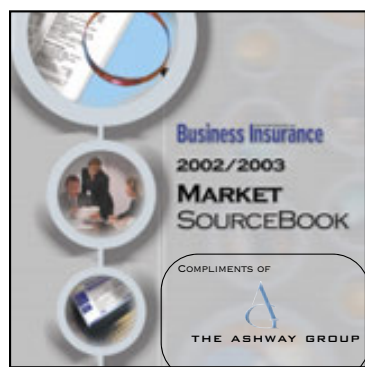
Soon after his return to Provo, Mr. Andrews stepped up his participation in RIMS, agreeing in 1998 to serve as treasurer of the society's executive council. The following year he was named first vp, and, during RIMS' 50th anniversary year in 2000, Mr. Andrews took the gavel as the society's president.

He continues to work for the society, serving on its nominating committee and as a member of the board of directors of the Spencer Educational Foundation.

In September of last year, Mr. Andrews served as risk manager in residence at Eastern Kentucky University in Richmond, Ky. The program is funded by a grant from the Spencer Educational Foundation. Over three days, he lectured to 11 classes on topics such as risk management, risk financing, loss control and safety, litigation management, insurance marketing and product safety development.

With a large family and many professional responsibilities, Mr. Andrews, 56, said he doesn't have a lot of time for hobbies. He enjoys Brigham Young athletics and tries to work in some skiing at nearby Sundance Resort or ski areas in the Salt Lake City area. Church-league volleyball keeps him active, and he's often found at BYU volleyball matches.

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Risk Management Honor Roll

Onsite training enables risk manager to telecommute

By MICHAEL BRADFORD

One of the most unusual features of Roger L. Andrews' job is the location of his office.

From his desk, he can look down the hillside onto Provo, Utah, and Utah Lake in the distance. Lots of risk managers have nice offices, but few have such a great view. Practically none can boast of a shorter commute.

Since late 1997, Mr. Andrews has worked as director of risk management for E.D. Bullard Co. from an office that's around 1,800 miles from the Cynthiana, Ky.-based company. His trip to work takes only a few seconds, though, because his office is situated in the front of his hillside home.

Mr. Andrews explained that his position as a telecommuting risk manager came about after he had lived in Lexington, Ky., while working at the Cynthiana facility for a little more than six years. As a risk manager who also is an attorney,

Mr. Andrews was hired not only to tend to Bullard's insurance and risk management details but also to handle litigation associated with asbestosis and silicosis claims against the company, as well as specific-injury cases.

Because risk management principles are so well established in E.D. Bullard Co.'s 300-employee workforce and each worker is well trained in his or her responsibilities, Mr. Andrews doesn't need to be on site every day.

With a risk management program in place at the Kentucky plant and the number of claims decreasing as Bullard settled or defended them, Mr. Andrews recalls that he

wasn't as challenged or as busy as he liked to be.

"That was a problem for me," he said.

Around the same time, Mr. Andrews and his wife attended a church conference in Salt Lake City. "I was a student at Brigham Young University, and I sort of wanted to live here because I liked the culture" and BYU athletics, he said.

His wife, Joelyn, a San Diego native, had never really warmed up to the idea, he said. "But when she came out, she got the bug and really wanted to live here."

Mr. Andrews' idea was to return to Provo and do some outside consulting work in addition to his job at Bullard, as a way to keep his professional life as challenging as he would like.

When he presented the idea to management, their response, he said, was, "We'll sure give it a shot."

The Risk & Insurance Management Society Inc. threw a monkey wrench into the consulting idea but



PHOTO: MICHAEL MARCOTTE

Roger L. Andrews gets assistance from Beverly Pierce in attending to risk management matters at E.D. Bullard Co.

gave him the challenge he was seeking. Shortly after he arrived in Provo, RIMS asked Mr. Andrews to join the society's Executive Council as vp-treasurer. Under RIMS' rules, consulting would create a conflict of interest.

"RIMS became a full-time job, really," he said. "There was no time for consulting, and it was against the rules anyway."

His service at RIMS eventually led to Mr. Andrews' appointment as first vp of the society in 1999 and his election as RIMS' president in 2000.

With Bullard, Mr. Andrews' telecommuting arrangement is possible partly because much of his time is spent dealing with litigation rather than hands-on risk management issues. The company has been named in hundreds of asbestosis and silicosis claims that charge Bullard's air-supply respirators or other products were partly responsible for the ailments. The company also occasionally faces suits charging that a specific injury resulted from the use of a Bullard product. A suit filed earlier this year, for example, claims a Bullard-made hard hat was partly to blame for a worker's head injuries.

He visits the Cynthiana facility

six or seven times a year and usually spends a week there each time. Because risk management principles are so well established in the 300-employee workforce and each worker is well trained in his or her risk management responsibilities, Mr. Andrews doesn't need to be on site every day.

When in Cynthiana, Mr. Andrews meets with senior management and coordinates some trips with visits from underwriters, brokers and loss control representatives. He also holds training sessions for employees and tends to other matters.

He relies on help from Beverly Pierce, with whom he worked closely while in Cynthiana. Since Mr. Andrews began his telecommute, Ms. Pierce's time now is mostly spent working as an administrative assistant for Bullard's president, Richard C. Miller, and at times for the company's chief financial officer, Eric Pasch.

"Now being away from home traveling is not as bad as it was when I used to go to the office everyday," Mr. Andrews said, because now when he's at work, he's still near his family.

And for a man with seven children, family is never too far away.

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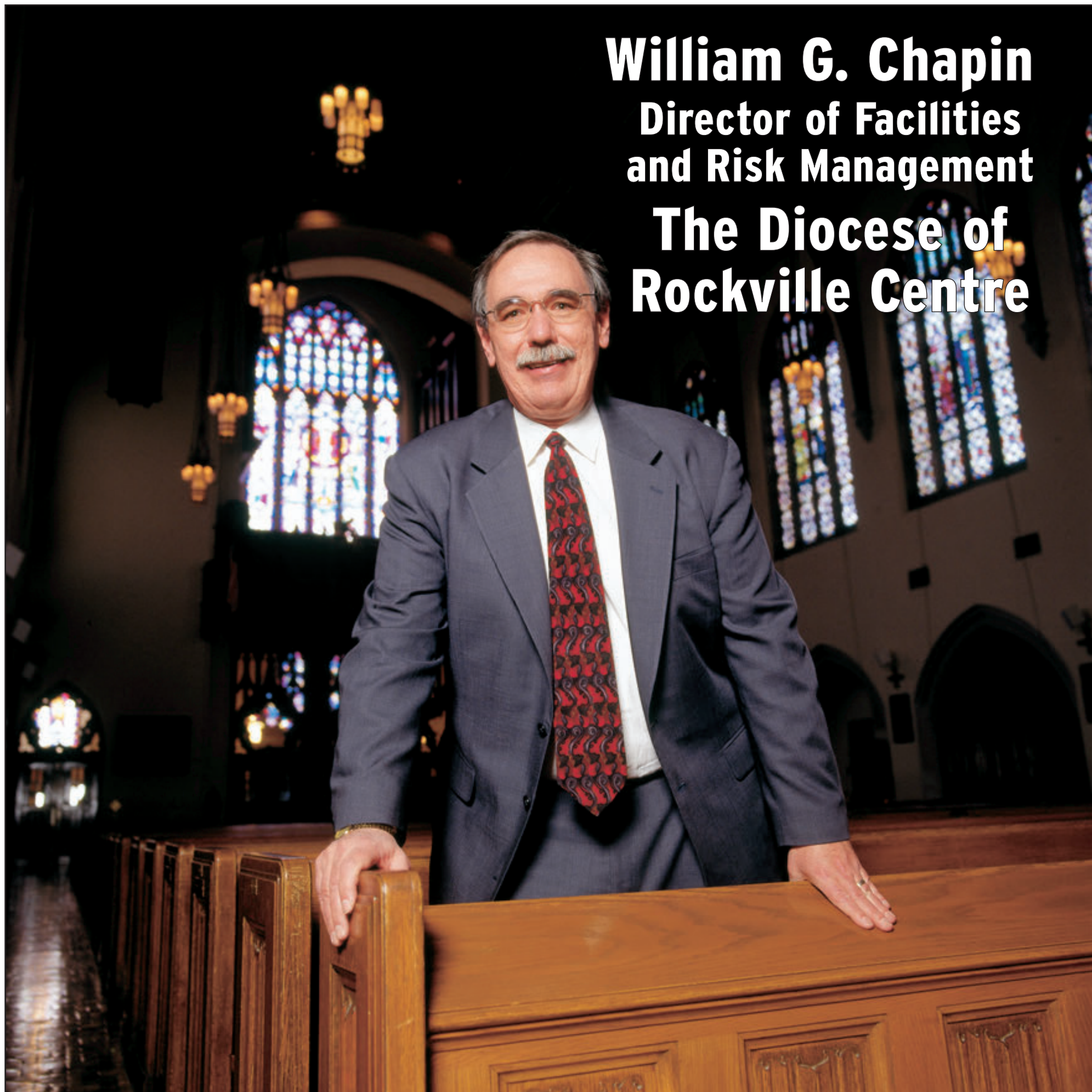


PHOTO: MICHAEL MARCOTTE

William G. Chapin Director of Facilities and Risk Management The Diocese of Rockville Centre

Chapin spreading the risk management word

By **MARK A. HOFMANN**

There's always room for improvement, as far as William G. Chapin is concerned.

Whether it is the managing of risk for the Diocese of Rockville Centre—the sixth-largest Roman Catholic diocese in the nation—or adding to his own store of professional knowledge, the 46-year-old director of facilities and risk management for the Rockville Centre, N.Y.-based diocese keeps looking for ways to do things in a better, more comprehensive manner.

That spirit helped win him a place on the 2003 Risk Management Honor Roll, representing nonprofit institutions.

What makes the achievement even more impressive is that Mr. Chapin is relatively new to the job. He has spent most of his career in the private sector and has been involved in ecclesiastical risk management only since 1998.

"It was absolutely a learning curve from the standpoint of understanding the not-for-profit world, understanding the church," said Mr. Chapin. "The church is different from the

standpoint it is not a for-profit entity. It has its peculiarities. The biggest issue is understanding the size, the scope, the breadth and all the pieces that were associated with the diocese," he said.

"You have to know what pieces fall together and how they make up what you have. It took a while to sort that out," he said, noting that the diocese risk management program encompasses not just churches but also entities as varied as hospitals, schools, charitable agencies and youth organizations.

"The mindset in times past here and a lot

of places was 'Well, we have insurance; don't worry about those things,'" Mr. Chapin explained. That's not a sufficient response, he said, adding, "You absolutely have to accept responsibility for what you do."

"The diocese is dependent on contributions. If there were an unexpected expense or a drop in contributions, we would have a shortfall, as any corporation would. From a risk management standpoint, we have to be mindful both of market swings and the amount we can pass along. The intent of the

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Chapin: Spreading the risk management word

Continued from page 60

diocesan program is to smooth out the highs and lows," he said.

"Over the last five years, I think we've made some inroads, and I think we've done some good things. We have a long ways to go. I think, more than anything, we have to continue some of the things we've started and make them better. You can always make them better," Mr. Chapin said.

The risk manager built on alternative risk financing tools already in place. "The concept of a self-insurance pool and those types of things predated me. We were able not only to continue that, we also were able to put together some professional management," he said.

Another risk management improvement was in increasing awareness of the importance of risk management. "We were able to reach out and start educating people as to risks and accepting responsibility for risks. From that standpoint, we raised the general understanding within the diocese," he said.

Mr. Chapin relies on a six-person department to manage the diocese's

risks. In addition to risk management, he is responsible for the facilities, research and planning and construction and renovation departments.

Mr. Chapin acknowledged that the various responsibilities fit together in some cases but not others.

"From the standpoint of pure risk management, they probably don't. But from the standpoint of bringing the tools you use in risk management to the management oversight of other functions, they do," Mr. Chapin said. For example, research and planning involve a "large risk management statistical aspect," he said.

"He never stops looking for ways to improve coverage or cost or service," said Kevin T. Murphy, the diocesan director of administration, to whom Mr. Chapin reports.

"He's really buying insurance for a group of varied entities, and he's very cognizant of their needs and trying to have a good match for what they provide," Mr. Murphy said.

Mr. Murphy pointed to the success of the designated risk manager

program (see related story)—which will ultimately mean that there is a person overseeing many aspects of risk management in each of the

Mr. Chapin is 'a forceful guy; he doesn't mince words. He's a clear communicator. He added credibility because he was willing to roll up his sleeves and get into all the detail.'

William G. Carroll
Marsh USA Inc.

diocese's 134 parishes—as an example of the risk manager's impact.

Mr. Chapin started the program, getting people to realize "that insurance isn't just some bill you pay" but requires a controlling of exposures as well, Mr. Murphy said.

"My exposure to insurance was really broadened through him. I don't want to denigrate his predecessors, but he's brought it to a

whole new level," he said.

Mr. Chapin would get "very high marks" from the people he works with in the diocese, including the designated risk managers, Mr. Murphy said. "He has the ability to be the tech guy behind the scenes but still be able to sit down with people and explain in plain English what's going on," he said.

"He brought credibility to the department," said William G. Carroll, managing director of Marsh USA Inc. in New York, which has been the diocese's broker since 1996. "He was a professional risk manager prior to joining the diocese."

"He's a forceful guy; he doesn't mince words. He's a clear communicator. He added credibility because he was willing to roll up his sleeves and get into all the detail," said Mr. Carroll.

Mr. Carroll pointed out that one of the differences between the church and a private company is the church's longevity.

"A public company can merge," but the Diocese of Rockville Centre isn't "looking to merge, they're looking to be around forever," he said.

Because of the nature of the church, Mr. Chapin has to use volunteers and assets that are "readily available" to pursue a successful risk management program, said Mr. Carroll.

That involves "team building, forming a consensus and getting people to buy in," he said. In addition, "each of the individual parishes has to be fiscally responsible," which makes the designated risk manager program that much more important," said Mr. Carroll.

Diocese of Rockville Centre covers wide area, diverse risks

The Diocese of Rockville Centre may not be one of the oldest Roman Catholic dioceses in the United States, but it's certainly one of the largest.

In fact, the Rockville Centre, N.Y.-based diocese ranks sixth in the country, serving approximately 1.5 million Catholics in Nassau and Suffolk counties in New York. The diocese covers 1,222 square miles, stretching from the edge of New York City to the eastern tip of Long Island.

The diocese was carved out of the Diocese of Brooklyn in 1957,

with the late Most Rev. Walter P. Kellenberg appointed as its first bishop. The Most Rev. William F. Murphy serves as the diocese's fourth and current bishop.

St. Agnes Cathedral in Rockville Centre is a focal point of the diocese. The Gothic-style structure was completed in 1935 and underwent major renovations in the early 1980s. A blacksmith's anvil outside the cathedral commemorates the celebration of the first Mass in Rockville Centre, which took place in Walter Johnson's blacksmith shop in 1887.

The diocese currently consists

of 134 parishes in 119 Long Island towns and cities.

But churches form only part of the diocesan entities. The diocese also has 62 parish and regional schools, with a student body of more than 40,000.

In addition, it has five hospitals and a number of other health care institutions, including nursing homes. Its other entities range from seminaries to cemeteries to cable network Telecare, which appears as Channel 31 on cable systems throughout Long Island.

—By Mark A. Hofmann

Volunteer program helping build faith in risk management

Designated risk managers aid in loss control efforts

By MARK A. HOFMANN

When William G. Chapin assumed risk management responsibilities for the Diocese of Rockville Centre in 1998, one of his first goals was to raise awareness of the importance of loss control.

Implementing that goal led to the diocesan program of "designated risk managers," volunteers in the parishes who provide risk management expertise on the local level.

Through the designated risk manager program, "we've raised the level of understanding so they just don't view insurance as the end-all," said Mr. Chapin. "Ultimately, you pay for it yourself over the long haul. Insurance is just a transfer mechanism, that's all. There's no free ride," he pointed out.

"Even before me, there were suggestions of having volunteers within the parishes perform some of these tasks," said Mr. Chapin.

"Clearly, we were not going to hire full-time staff. We do have a very large, motivated and knowledgeable base of people who would help us," he said. Mr. Chapin explained that these individuals range from members of a parish staff, such as the business manager, sexton or maintenance person, to volunteers from a broad array of backgrounds, including firefighters, police officers and lawyers.

The position is open to "just about anybody who is a member of the parish and wants to donate time and talents to help the parish out," he said. "We see a real mix of people."

"More important than the individual is the form and the under-

standing," he said. "We've been able to raise the understanding around here and that, I think, is very important."

"They are motivated. In a very diverse organization like ours, the more education and information you can put out there, the more likely you are to get a positive response from the people," added Mr. Chapin. "We let them know they are not alone, and, if they need help, we have professional help."

The program started in mid-1999, with the basics of risk man-

'We've raised the level of understanding so (parishes) just don't view insurance as the end-all. Ultimately, you pay for it yourself over the long haul.'

William G. Chapin
Diocese of Rockville Centre

agement, said Mr. Chapin.

"You have a very different mix of people in the sessions. One of the biggest things we had to deal with is being able to speak to all of the people at all the levels. We start with a very basic approach, and we build on that. That was the fundamental approach behind the designated risk manager. If we could begin the training process and start the education process, we could then build from the basics and get into some harder discussions," he recalled.

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Risk Management Honor Roll

Volunteers: Program building faith in risk management

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"We gave them templates of property inspections, templates of some procedures. We ran training programs on basic inspection practices, on claims procedures, on accident investigation procedure, on what do you do by way of managing your facility to deal with the facilities-type exposure. We asked them to be the responsible point, so that each parish was asked to form a committee that would meet periodically," he said.

The designated risk manager and the committee would provide "advice to the pastor so he wasn't left out there by himself dealing with all these issues," said Mr. Chapin.

Once the basics are covered, the designated risk managers can move on to more complex issues, such as employment practices liability, he said.

The program is aimed at parishes rather than schools because schools "already have a more structured approach to dealing with risk than the parishes," said Mr. Chapin.

"The parishes were really more free-form. That's not to say that the schools haven't attended, because a lot have attended and, in some parish-based schools, they would fall under the parish anyway. It's a mix."

The designated risk manager program encompasses between 70% and 75% of the diocese's parishes, with the ultimate aim of bringing all 134 parishes into it, although there is no firm timetable for doing so, said Mr. Chapin.

Mr. Chapin has used a variety of communication tools to extend the program beyond its initial target audience to provide a broader understanding of risk to the diocesan community.

"Two and half years ago, at one of the groups of designated risk

managers sessions, we brought in four specialists and videotaped them and sent the tapes to every parish and school," he said. The specialists included a loss control specialist from the property insurer to talk about fire exposures and an attorney to talk about employment practices as well as another attorney to talk about litigation, claims control and investigation procedures. A finance expert addressed questions about fraud and internal control, he pointed out.

'The parishes, the schools—they're our clients....I would rather put forth some money to help them make themselves better than to pay for the claims after the fact.'

*William G. Chapin
Diocese of Rockville Centre*

The fact that the diocesan television station, Telecare, videotaped the presentations created a consistency of material available to the designated risk managers. "That worked pretty well in getting the information out," he said.

But the videotaping had an added benefit of giving parishes the opportunity to spread the word of risk management to their staffs. "We got beyond the traditional group that we were talking to. If we can raise the level of understanding of the employees on some of these issues, we're better off for it. That's worked pretty well," said Mr. Chapin.

Mr. Chapin said that the risk management department intends to make greater use of its Web site in the future. "We're still paper and

pencil in many aspects," he said.

"As we move forward, we're going to be working with our (information technology) people to try to get our forms, procedures and things on our Web site to try to put it out in an electronic basis better than we have been able to do so far," he said.

But paper and pencil has its uses, too, he points out.

For example, about two years ago, churches and synagogues from one end of Long Island to the other suffered a rash of break-ins. The risk management department held a seminar featuring police and the diocese's internal audit manager to talk about fraud and cash-handling practices. The diocesan newspaper, *The Long Island Catholic*, covered the event.

To support the parishes, the insurance program also provided grant money for schools and parishes to upgrade their physical security.

"The parishes, the schools—they're our clients. They're the people we're supposed to be running this program for. We're trying to support them, but from the standpoint of giving the information they need to make good decisions and manage themselves financially, I would rather put forth some money to help them make themselves better than to pay for the claims after the fact," he said.

Mr. Chapin noted that the losses associated with break-ins don't involve simply making up for the money that was stolen or replacing the property that was taken. Instead, "you're paying for all the damage people do breaking into the offices—breaking the doors, breaking the glass—that turns into a lot of money," he said. He pointed out that when a thief takes a crowbar to a file cabinet and destroys the lock-



PHOTO: MICHAEL MARCOTTE

William G. Chapin, center, works closely with Kevin Murphy, left, and Monsignor Robert Brennan on administrative affairs for the Diocese of Rockville Centre.

ing mechanism, the whole cabinet must be replaced.

"So in a matter of a minute and a half with a crowbar, there's \$700 and the door's broken, you can have \$1,000, \$2,000, real quick," he said. Police eventually caught the thief, who chose religious institutions as his prey because, Mr. Chapin said, he thought they would be a "soft target" with easily accessible cash.

"The moral is that cash shouldn't be left out and around—don't just leave it in a drawer" but instead secure it, he said.

"The ultimate goal needs to be that we accept that we need to manage our risk. How we're going to do that is going to be different in different places, but we need to continue to push to have either a

designated risk manager, staff member, pastor or another individual in the entity to be the ultimate responsible person for that entity," said Mr. Chapin.

"In an organization that has different management structures, you just keep pushing the issue from the standpoint of you need to understand what the risks are, we need to accept them, we need to manage them," he said.

"My approach is to build teams and relationships. I think it works particularly well within the diocese because people are very giving. They want to help and they want to feel that their help is making a difference. The designated risk manager program is just taking a need and trying to match it to a potential source of help," he said.

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Business Insurance

Risk Management Honor Roll

Diocesan exposures make Chapin a man with a mission

By MARK A. HOFMANN

A religious entity such as the Diocese of Rockville Centre presents a mix of exposures that resemble those faced by a for-profit corporation. But to resemble does not mean to mirror, and the diocese ap-

proach to risk reflects that.

For example, to deal with the exposure to possible sexual abuse from priests and others in authority, the diocese recently began using a loss-control program called "Protecting God's Children," a program created by the National Catholic

Risk Retention Group's VIRTUS program (see related story). And, notes William G. Chapin, the diocese's director of facilities and risk management, the diocese is mission-driven, which means that its risk management department cannot simply dismiss out of hand certain activi-

ties that present risks that might be rejected in the private sector.

"We have to understand that it's mission-driven, so some of the things I'm doing are related to supporting the mission and the pastoral activities the church is in," he said. "From a risk standpoint, it's easy to say, 'No, we don't want to do a lot of things (such as youth athletic programs).' But from an operational standpoint, to support the pastoral activities, we try to look at things and decide how to best deal with them," he said.

Other risks are more mundane, such as workers compensation and property. Yet property, in particular, presents its own challenges, given the number of the exposures the diocese must address.

At the heart of the diocesan insurance program is its Protected Self-Insurance Program, which has existed for more than a quarter-century.

"In 1976, the diocese went from a fully insured, traditional program to a London-based program in which the diocese took substantial self-insured retentions and bought excess cover," said Mr. Chapin. When Marsh USA Inc. became the diocesan broker in 1996, the program underwent restructuring. The London program was replaced, and the self-insured retentions were re-evaluated.

The diocesan program currently is "a hybrid of insurance and self-insurance, and we retain layers of risk," Mr. Chapin said. "It can change in the market. We're in a very difficult insurance market right now, so we're constantly looking at it. We're evaluating it, and we'll be re-evaluating it again next year when we're in the market for renewals."

The PSIP acts as an umbrella for workers comp, general liability, auto liability, all-risk property, directors and officers liability and the student accident program, explained Mr. Chapin. The diocese is a qualified self-insurer for workers comp under New York law.

In other minor lines of coverage as well, "we take a significant self-insured retention and buy a policy excess of that," he explained.

Kevin Murphy, the diocese's director of administration—and the person to whom Mr. Chapin reports—said that the diocese's policy is not to identify insurers that participate in the diocese program or to reveal limits or retentions for any lines of coverage.

Marsh USA Inc. is the diocese's sole broker. The diocese does not use the services of any outside risk management consultants, Mr. Chapin said.

In addition to Mr. Chapin, the

Continued on next page

PHOTO: MICHAEL MARCOTTE



The staff of the Diocese of Rockville Centre's risk management department includes, from left: Debbie Coyne, administrative assistant; Darwin T. Laws, assistant risk manager; Carol Ann Rossi, technical assistant; William G. Chapin, director of facilities and risk management; and Neal D'Elia, risk manager.

A delicate issue dealt with in a straightforward way

Using an educational program, the diocese addresses sexual misconduct

By MARK A. HOFMANN

The Diocese of Rockville Centre, like virtually every Roman Catholic diocese in the country, is a target of allegations of sexual misconduct on the part of priests.

Many of the allegations stem from incidents that allegedly occurred decades ago, and earlier this year, a Suffolk County, N.Y., grand jury issued a report sharply critical of the diocese's handling of the issue over the past 45 years.

The diocese criticized the grand jury for giving its report directly to local media outlets without having diocesan officials review it. In a Feb. 10 statement, the diocese said that the grand jury's charge that the diocese had "conceived and agreed to a plan using deception and intimidation to prevent victims from seeking legal solutions to their problems was simply not true."

The diocese addressed the cost of clergy sexual misconduct in a special report on diocesan finances in the Feb. 24 edition of the diocesan newspaper, *The Long Island Catholic*. In a question-and-answer section, the diocese reported that expenditures broke down into three categories: pastoral assistance to victims; lawsuits, including legal fees; and

evaluation and treatment of clergy. "To the extent there is insurance coverage, that would be used first," the document said.

Pastoral assistance to victims, lawsuits and related legal costs are paid from a fund for uninsured perils, which was established in 1985, "when insurance carriers began to restrict coverage for certain insurable risks including, but not limited to, sexual misconduct."

According to the document, "since its inception, over a 17-year period, \$3.4 million was earned in investment income. Expenses paid for clergy misconduct from the Uninsured Perils Fund totaled \$2.3 million from the inception of the fund in 1985 through Aug. 31, 2002. Additional expenditures of \$1.1 million not related to clergy misconduct were also expended from the fund since its inception. The fund balance at year end is \$10.9 million."

The continuing controversy is not likely to abate soon, which creates challenges for risk management.

"The whole issue of sexual abuse has to be dealt with straight on," said William G. Chapin, the diocese's director of facilities and risk management. "We have to be out there."

"As we move forward, risk management absolutely should be in-

involved. As we move forward, we have a few initiatives that we're in the middle of right now. We've begun the process, an education program diocesanwide, known as Protecting God's Children," he said.

The program was put together by VIRTUS, the name under which the Lisle, Ill.-based National Catholic Risk Retention Group markets its programs aimed at preventing wrongdoing. The Diocese of Rockville Centre does not belong to the risk retention group but buys the service.

According to a description posted at the VIRTUS Web site, the Protecting God's Children program "implements safety mechanisms that send a message to all abusers and potential abusers." This message includes that child abuse will not be tolerated, that children are "vigilantly protected," that victims are "listened to, heard and shielded from further abuse" and that offenders will be identified and punished.

The program is based on "proven best practice standards" designed to prevent child abuse by anyone within the church environment. Among other things, the program involves instructor-led training, videos and regular continuing education via the Internet.

The diocese began using the program early this year, said Mr. Chapin. He called the use of the program "a positive thing."

"Risk management is involved in the organization and implementation of the training program. It's a program similar to the ones we ran for the designated risk manager program," he said.

"We're trying to raise every-

one's understanding—it's a starting point to educate not only the priests and the employees but all the people in the diocese as to what the issues are, what the problems are, what the signs are, what you have to be aware of," Mr. Chapin said.

"We're very much involved," he said. "It has to be a major issue; it really does."



William G. Chapin stands in front of St. Agnes Cathedral, the seat of the Diocese of Rockville Centre.

PHOTO: MICHAEL MARCOTTE

Continued from previous page

diocese's risk management department consists of Risk Manager Neal D'Elia; Assistant Risk Manager Darwin Laws, who handles claims and loss control work; a part-time inspector and two administrative aides.

Comp a key challenge

Workers comp presents one of the biggest risk management challenges, noted Mr. Chapin.

"Workers compensation is a very large exposure. If you take all of the entities, there are thousands of employees in the schools and hospitals," he said. All told, there are 16,000 to 18,000 people involved, although "they are not all employees of the diocese; they're employees of the various entities within the diocese. From a dollar standpoint and a risk standpoint, that is a very large exposure," he said.

"It's a very varied workforce. The loss control activities are really specific to the agencies or organizations. That isn't to say that we don't drill down and try to deal specifically with back injuries in the cemeteries or hospitals or deal with ergonomics exposures."

"We do periodic claims reviews, particularly in regard to the hospitals, which is where the majority of the workers compensation exposure is. We'll look at where they're coming from, and we'll try to work with the hospitals to try and give them an idea of what they need to do to move forward."

The approach has paid off handsomely. In 1997, about 1,250 claims in 21 accident years remained open and active. Working closely with the diocese's third-party administrator of 26 years—Gallagher Bassett Services—and regular claims reviews, Mr. Chapin was able to close a significant portion of the cases, so that in 2002, fewer than 1,000 open claims from 25 accident years remained open.

Varied risks

Mr. Chapin pointed out that because the diocese is mission-driven, the risk management department must find ways to say "yes" when for-profit entities might say "no." For example, the diocese is involved in athletics and youth organizations.

"From a pure standpoint of risk, athletics—whether it's basketball or softball or soccer—means that somebody can get hurt," said Mr. Chapin. "It's easy to say, 'Well, we're really not into that,' but we really are into that; we really do run a lot of programs for children. From the standpoint of risk, we have to deal with defining it, looking to see how we can deal with it."

For example, the diocese not only has a standard accident program but it also has instituted a program that covers all youth sporting activities, he said. "So if someone does get hurt, we have insurance that will help pay the bills."

And, as might be expected in an entity whose operations stretch al-

most the entire length of Long Island, the diocese has a wide variety of property exposures. "We probably have 500 buildings," Mr. Chapin said.

"We have some unique exposures from the standpoint of fine art, and high-quality workmanship in the several locations—mosaics, tile work and things like that," including art in St. Agnes Cathedral in Rockville Centre. Mr. Chapin notes, though, that the diocese's relative youth means that there is "much less of a historic-type exposure than many dioceses, because the growth of this diocese has been in the last 50 years. The diocese will be 50 years old in 2007. It was spun out of Brooklyn. So, if you look at

our neighboring dioceses in New York and Brooklyn, they're going to have some much older churches," he said.

"We have everything from religious paintings to religious artifacts, to crucifixes to candlesticks—just a little bit of everything. In every church there would be some component of that type of thing, liturgical things that are used. Some are valuable, some are not. Our approach is to devise a blanket cover," he said.

The total insured property value is "probably over \$2 billion if you include all the hospitals," he noted. The Catholic hospitals are not owned by the diocese, though the bishop exercises certain authority

over them.

"They're related entities—that's how we insure them. But it's not a parent/subsidiary relationship—so it is a lot different from the for-profit world," Mr. Chapin said.

"Underwriters want to know how it fits together. It's like anything else: What are we insuring, what are we taking a risk for?" he said. "That cuts to one of the things I like to do—have a good understanding with the underwriter, talk to the underwriter, have them understand what you are and give them a good understanding of what they're accepting in the way of risk. The better you can do that on the front side, the less likely you're going to have a problem on the backside."



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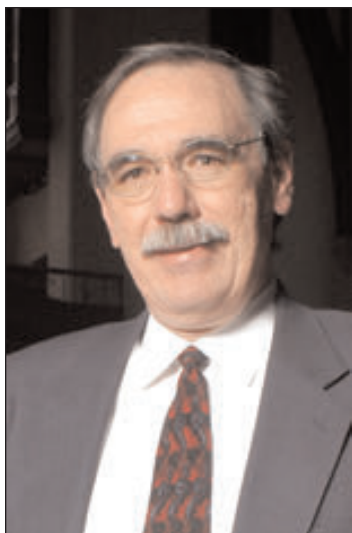
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Risk Management Honor Roll

Chapin credits education in helping career

Sharing knowledge also important to risk manager

PHOTO: MICHAEL MARCOTTE



William G. Chapin brought experience to his current job.

By **MARK A. HOFMANN**

William G. Chapin is characteristically straightforward when asked how he got into risk management.

"There were no jobs" in 1979 in government or environmental science for the newly minted holder of a master of science degree in biology from Rutgers University. That degree followed a bachelor's degree in forestry from a joint program of Syracuse University and

the State University of New York.

Fate intervened in the form of a family friend who advised Mr. Chapin to interview with insurers that might find a science background attractive. Mr. Chapin took that advice and ended up as a loss prevention consultant with Liberty Mutual Insurance Co.

That was the launch of career in insurance and risk management that has taken him to the position of director of facilities and risk man-

agement for the Diocese of Rockville Centre in Rockville Centre, N.Y., and a spot on the 2003 Risk Management Honor Roll.

"Safety—what did I know about safety? Very little. But Liberty had a good training program and there was a hard science component to it, which I was well educated in. From there it just developed," said Mr. Chapin.

After working for Liberty Mutual in offices on Long Island as well as

the insurer's office in Manhattan for four years, Mr. Chapin joined Southern Container Corp. in Hauppauge, N.Y., as the cardboard box manufacturer's safety director.

As safety director, he eased into the larger issues of risk management and became corporate risk manager in 1987, a post he held for 11 years. In addition to carrying out the responsibilities of his new position, Mr. Chapin found time for continuing education, starting with earning an Associate in Risk Management designation from the Malvern, Pa.-based Insurance Institute of America in 1989.

He had earlier begun course work on a master of business administration degree but ended that pursuit when he decided that the offering was "not specific enough" for his needs.

Joining the diocese 'was a growth opportunity for me professionally. The opportunity presented itself at a time when I was desirous of expanding professionally.'

*William G. Chapin
Diocese of Rockville Centre*

While pursuing professional education, Mr. Chapin also shared his knowledge by serving as an instructor in risk management at Hofstra University's University College of Continuing Education for six years.

Mr. Chapin has since gone on to earn both the Chartered Property & Casualty Underwriter designation and the Certified Safety Professional designation, which is conferred by the Board of Certified Safety Professionals. Mr. Chapin also encourages members of his staff to pursue opportunities for continuing education.

"The more you get people to educate themselves, the better off you're going to be," he said.

As Mr. Chapin pursued ambitious educational goals, he also learned of a vacancy in the risk management department of the Diocese of Rockville Centre. Much of the risk management function at the diocese was being outsourced, and he decided to apply for the job.

"I think it was a growth opportunity for me professionally. The opportunity presented itself at a time when I was desirous of expanding professionally," he said.

"I'd done an awful lot, had grown an awful lot, I'd learned an awful lot. This program, from the standpoint of managing your own program, is much, much larger," in terms of dollar size, type of risks, handling claims and other aspects of the job.

Continued on next page

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Risk Management Honor Roll

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Mr. Chapin strongly supports the Risk & Insurance Management Society Inc. He said that while he does not have the opportunity to attend all of the local chapter's luncheons, he finds the society's annual conference to be of great value.

“You get high-level representations from industry leaders and get the networking opportunity, which in my mind is very important. I don't think you should reinvent wheels. If you know somebody has done something, my experience is that the risk management community is very helpful. People are more than willing to

‘I don't think you should reinvent wheels. If you know somebody has done something, my experience is that the risk management community is very helpful.’

*William G. Chapin
Diocese of Rockville Centre*

share their material. I've shared my material with lots of people over the years,” he said. “A lot of the stuff you do, you don't necessarily

come up with yourself—you beg, borrow and steal, and you deal with your counterparts.”

In fact, Mr. Chapin was a presenter to the nonprofits industry group session on fraud at the 39th annual RIMS conference and exhibition in Atlanta in 2001.

Mr. Chapin's commitment to risk management doesn't end at the office.

He sits on the Theodore Roosevelt Council of the Boy Scouts of America's risk management committee. “I like that because the Scouts are trying to manage their own risk,” noting that he is also a Scoutmaster.

Mr. Chapin lives in Bellmore,

N.Y., with his wife, Emilie, and children Andrew, 15, and Lauren, 11. Somehow, he finds time to read.

“I read everything from cookbooks to novels,” he said. “I'll read anything, I just chew 'em up—I'm a very fast reader.” What he does not find time to do is watch much television beyond the History Channel or PBS. “I can't stand it—it's such a waste of time.”

One additional responsibility that Mr. Chapin has not shouldered is that of being designated risk manager in his own church—St. Barnabas in Bellmore. That task has fallen to the parish's business manager.



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PHOTO: MICHAEL MARCOTTE

Johanna M. Zschomler Director of Risk Management Division State of North Dakota

Experience aids state's first risk manager

By **RODD ZOLKOS**

When Johanna M. Zschomler came to Bismarck as the State of North Dakota's first risk manager in 1995, she was already on familiar footing.

Not only had she and her husband lived in Bismarck for 12 years while their two children were growing up, she was well acquainted with what was involved in starting a state risk management operation. Before coming to North Dakota, Ms. Zschomler worked in South Dakota's risk management department, watching Judith M. Payne, that state's first risk manager, get the South Dakota department off the ground.

Having seen her career take a similar turn

to Ms. Payne's in being charged with starting a state risk management program, Ms. Zschomler, now the director of North Dakota's Risk Management Division, shares another distinction with her former boss, with her selection to the 2003 Risk Management Honor Roll, representing public entities.

Ms. Zschomler (pronounced shom-ler) admits that establishing the risk management program was a challenge. "But I benefited from my experiences with Judy, because she went through the same thing," she said. "I did have the benefit of having the tools that were used there."

She also credits the efforts, prior to her arrival, of a Minneapolis-based team from Alexander & Alexander Services Inc., which

had been providing risk management services to the state. "I was very fortunate, too, that A&A had done a lot of the groundwork before I got here," Ms. Zschomler said.

North Dakota officials' decision to form a state risk management department was born out of necessity, when the state Supreme Court abolished the state's sovereign immunity in September 1994. In doing so, the court mandated that the Legislature create a system for filing tort claims against the state.

The new system, set forth in the Tort Claims Act of 1995, was put under the state's Office of Management and Budget. And, with North Dakota facing an uncertain claims environment with its new lack of sovereign immunity protection, OMB put out a proposal

for someone to provide risk management services. A&A got the job, handling it with the team in Minneapolis. One of the requirements, though, was that there be a state risk manager on the ground in Bismarck, so the search for one began in the spring of 1995.

Here, fortuitous timing came to the fore in two respects. One bit of good timing began with Ms. Payne's selection to the Risk Management Honor Roll that spring, leading the A&A group to seek her recommendations for risk manager candidates. "It was because of that article that I got the job here," Ms. Zschomler said.

The other bit of good timing was that Ms. Zschomler was working in Ms. Payne's office

Continued on next page

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at the time as a loss control analyst, while her husband had retired from the U.S. Fish and Wildlife Service, freeing them to return to Bismarck.

A complication, though, was that the Legislature, while it abided by the Supreme Court's mandate that it create a tort claims system, disputed the court's authority to eliminate North Dakota's sovereign immunity. As a result, it included a July 1, 1997, sunset provision on the Tort Claims Act it had created and put a sovereign immunity referendum before the voters.

"So there was a very good potential that this program was going to go away as of July 1, 1997," Ms. Zschomler recalled. "They were selling this opportunity as, 'Come to Bismarck, N.D., and you may not have a job in two years.' And for some reason, they just didn't have too many takers." Despite that, Ms. Zschomler took the position in November 1995.

A&A's contract with North Dakota expired in May 1997, "so, as of that time, I transferred over to become a state employee," Ms. Zschomler said. Meanwhile, "the referendum failed markedly," and the tort claim system remained in place.

"I think when the state lost sovereign immunity, they felt the sky was falling. They thought it was catastrophic, and they found out that wasn't true," Ms. Zschomler said. But, certainly, her efforts and those of the department she created had much to do with the state's new claims situation not being the calamity many had feared.

"Since we've had Jo, she's just so on top of things. She knows everything there is to know about what she's doing, so that makes my job easy," said Pam Sharp, director of North Dakota's Office of Management and Budget and Ms. Zschomler's immediate superior. "I just have 100% confidence when she's in the middle of settling a claim."

"She's just been so well received among all the state agencies and in the universities," Ms. Sharp said. "When she says something, they listen to her."

New thinking on risk

The change in North Dakota's tort exposure did require getting state agencies to think differently about risk.

"Because for years we had sovereign immunity, I think some people didn't think about liability in the same way they do now," said Douglas A. Bahr, who works closely with Ms. Zschomler as solicitor general in the state attorney general's office.

But with no authority over other agencies, Ms. Zschomler had to rely on selling others in the state on the idea of risk management. "One of the limitations in our program is, we have no mandatory authority on the risk management side," she said. "Our authority is we have to convince them."

One of the ways she achieves that end is through education, and one of her earliest steps was to schedule the first of what would become annual state risk management seminars.

"When I came in in November, we scheduled our first seminar," Ms. Zschomler said. Within two months, the first risk management seminar for state agencies' risk management coordinators was held, "and we've had one ever since."

Generally, the seminars are held at the end of April or in early May, "so we could update (the agency representatives) on legislative happenings," the risk manager said.

Held in Bismarck, the seminars usually run from 1 p.m. to 5 p.m. the first day, then from 8 a.m. to noon the next, to facilitate agency representatives' travel to and from various areas of the state.

Ms. Zschomler aims for the seminars to be topical, and they've cov-

ered such subjects as records retention, transferring risk through contracts and insurance, and cost of risk, with this year's seminar addressing efforts to develop contingency and business continuity plans for the state.

"The attendance at the first seminar was so good to see," Ms. Zschomler said. "I think that's been a real help to our program over the years. Because of that, we have had awareness and acceptance of our program."

The seminar idea has "been hugely successful, and she's managed to come up with topics that are so timely for every one of those she's done," said Ms. Sharp.

"That is an example of the proac-

tive things they've done," Mr. Bahr said.

Other efforts

Also significant at Ms. Zschomler's first state risk management seminar was the introduction of the risk management division's first risk management manual, a field guide for the agency coordinators on various risk management topics. "It has been expanded since," Ms. Zschomler said, producing the current manual, which fills a 4-inch-thick binder.

Also accessible online, the manual sets out risk management processes; provides details of the state's risk management fund; outlines the

loss reporting process, loss control policies and procedures; and includes guidelines on contracts and agreements and details of other risk financing resources.

The manual also contains the regular risk management bulletins distributed by Ms. Zschomler's office and provides details of the state's risk management workers compensation program. "It's been a useful tool," the risk manager said.

While Ms. Zschomler said she thinks the annual seminars would be well attended anyway, attendance is required if agencies are to earn certain discounts in the contributions they make to the state's Risk Management Fund.

See **ZSCHOMLER**/next page

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Zschomler: Experience aids state's first risk manager

Continued from previous page

Those discounts are part of a financial reward program Ms. Zschomler created to provide agencies with another incentive to embrace good risk management.

The Risk Management Fund is the vehicle through which North Dakota state agencies pool their liability risk. It was created in response to the Tort Claims Act.

The state's independent actuary, working with Ms. Zschomler, sets the rates. But by meeting various criteria—such as using active loss control committees and administrative support for loss control efforts, prompt incident reporting, facility inspections and having procedures in place to address various exposures—state agencies can cut their rates by up to 10%.

The financial reward program has been particularly effective, according to Ms. Sharp, the management and budget director, because it gives agencies a way to see tangible results from their risk management efforts. Especially in tough budgetary times, the opportunity to save on their insurance premiums can be a powerful incentive for state agencies.

"Unfortunately, North Dakota is in the same situation as a lot of states," Ms. Zschomler said. "The governor requires every budget to be pruned somewhat."

At the same time, though, in promoting risk management and loss control to the agencies, the Risk Management Division has to find ways to help them implement programs as practically as possible.

"We have to be reasonable, too. We can't always say 'no,'" Ms. Zschomler said. "We don't look for opportunities to say 'no.' We look for opportunities to make it work."

"When they've identified issues, they've notified all the appropriate people and don't just tell them, 'There is a problem,'" said Mr. Bahr, the state solicitor general. "They try to identify ways to change it."

'One-on-one approach'

Ms. Zschomler also puts an emphasis on communications in promoting North Dakota's risk management program, both in terms of getting information out to the state agencies and in making herself available for their questions and input.

"I've had people that I've worked with that hesitate calling her because she's a director," said Vicki Schneider, loss control/claims analyst in the Risk Management Division. "I say, 'Call her directly.'"

"She has that one-on-one approach that you don't always see from people in like positions," Ms. Schneider said. "She doesn't discourage anyone from calling her."

In terms of providing information, the division developed its own Web site in 1999. The site provides state employees with online access to the risk management manual, quarterly risk management bulletins, reporting documents, information on loss control tools, standard contract language for insurance and indemnity provisions and online employee training.

"She's been very proactive in using the Internet to provide entities and the public as much information as possible," said Mr. Bahr.

In addition, "she's really proactive about getting out and talking to people at other agencies and getting them on board," Ms. Sharp said.

Derek Watkins, manager of the risk management workers compensation program, noted that, in trying to promote risk management to state agencies, "a lot of the first wall that you hit is the 'why?'"

So the Risk Management Division "becomes an educational resource for each group of employees in each department," Mr. Watkins said. Prior to joining the division in 2001, Mr. Watkins was risk manager for the state's Department of Human Services. "I used this office a lot as a resource," he said.

An area where Ms. Zschomler and the Risk Management Division have tried to control access to information is in regard to protecting state records from discovery. Even as the state tried to implement a risk management program and identify unsafe practices and conditions, she recognized the possibility that open access to reports of those practices and conditions could lead to claims or be used against the state in its defense of liability lawsuits.

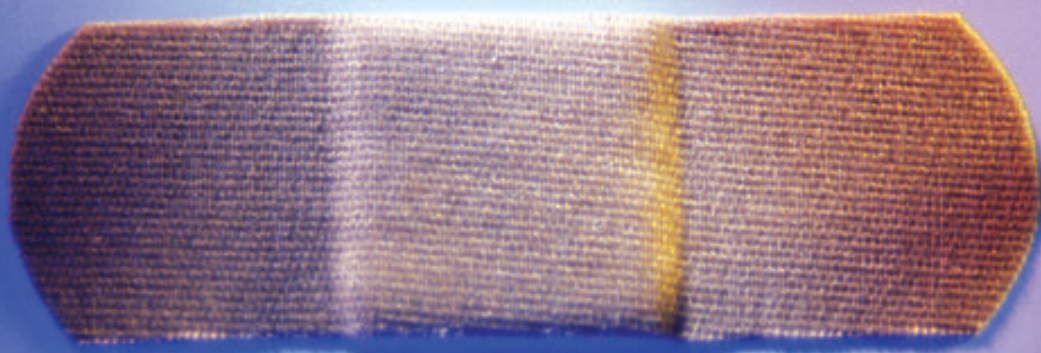
"One issue that is a problem for a number of effective loss control programs, especially when you're dealing with state governments, is the open records," Ms. Zschomler said. "The concern was, if I have a



PHOTO: MICHAEL MARCOTTE

On risk management matters that involve legal issues, Johanna M. Zschomler works closely with Douglas A. Bahr, left, the State of North Dakota's solicitor general, and the state's attorney general, Wayne Stenehjem.

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file full of incident reports, somebody could come and look at them and determine, 'Hey, this person might have a claim.'"

In response, Ms. Zschomler worked with the Legislature as it modified the Tort Claims Act to exempt from North Dakota's open-records law documents related to reserves, incident and investigation reports and likely claims.

When North Dakota does face a claim, another tool Ms. Zschomler helped develop to reduce the state's cost of risk is a preapproved defense panel. Under the system created in 1995, attorneys from the panel are generally called upon in cases, such as medical malpractice claims, in which very specific expertise might be required.

"The most important criterion is expertise," the risk manager said, adding that if the state needs an expert attorney, they can go to that roster and find one who "can be on the case in an hour."

Attorneys called upon from the panel are required to keep the state's solicitor general involved in the process of handling the cases and abide by a pre-established fee schedule.

"It has worked very well," Ms. Zschomler said. "We update that roster every biennium."

The results of the risk management efforts Ms. Zschomler has spearheaded have included cutting loss payouts to about half what an actuary projected in 1995. And,

North Dakota's cost of risk is well below that of its peers.

Averaging \$6 million to \$7 million annually, the state's risk costs are about 0.3% of its \$2.3 billion in annual revenue, well below the 0.823% rate reported for large governmental entities in the Risk & Insurance Management Society Inc.'s 2001 Benchmark Survey.

A less tangible a result, but one no less significant, perhaps, is the response to the Risk Management Division's efforts from both state agencies and those on the other side of potential claims.

"Because of the credibility of the office, I think her suggestions are much more accepted," Ms. Sharp said. "If people doubt the source, they're not ever going to take it to heart. But we've not seen that."

The respect for the division comes from a consistent focus not only on loss control but also on the original intent of the state's Tort Claims Act. "If somebody suffers a loss, we want to make them whole," Ms. Zschomler said.

"I think the bar, attorneys in the state, do respect risk management because they know we would pay up if we feel there is real liability," said Mr. Bahr. "I think that fact has reduced the number of claims that go to litigation."

"From a government perspective, we're here to do right by people," the solicitor general said. "And I think she does a good job of keeping that perspective."

Risk Management Honor Roll

Streamlined workers comp program yields savings

Law change gives risk manager flexibility

By **RODD ZOLKOS**

Until 2001, 143 North Dakota state agencies dealt separately with the state's monopolistic North Dakota Workers Compensation Bureau for coverage.

Doing so not only affected the state's overall workers compensation premium costs but had a further impact on workers comp costs by making cross-agency return-to-work programs impossible.

To correct that situation, Johanna M. Zschomler, director of the state's Risk Management Division, worked with the North Dakota Legislature to give the division responsibility for administering a single workers compensation account covering all the state's agencies.

The change allowed premium savings by instituting a \$100,000 deductible per claim and a return-to-work program across agency lines. The result was a savings of nearly \$1.5 million in the 2002 fiscal year.

The new workers comp program 'allowed us to have a lot more options to returning an injured worker to the workplace.'

*Derek Watkins
Risk Management
Workers Compensation Program
State of North Dakota*

"We're going to look for ways to share that savings with agencies," Ms. Zschomler said, providing another incentive for good risk management practices.

Under the new Risk Management Workers Compensation Program, agencies pay their workers comp premiums to the Risk Management Division rather than to the state workers comp fund. The Risk Management Division then creates its own fund, out of which it meets deductibles and pays the overall state workers comp premium to the state workers comp fund.

The act creating the Risk Management Workers Compensation Program also charged Ms. Zschomler's office with developing the return-to-work program under which employees could be assigned to agencies other than those that employed them at the time of injury, along with rules to govern the program.

According to Derek Watkins, manager of the Risk Management Workers Compensation Program, the cross-agency return-to-work opportunities are one of the biggest advantages of the workers comp change.

"It allowed us to have a lot more options to returning an injured worker to the workplace," he said. "I think we certainly have realized significant savings through that."

"Before risk management had (workers compensation), that wasn't something workers comp could pursue," said Pam Sharp, di-

rector of North Dakota's Office of Management and Budget. "It's a permanent program now."

Under the Risk Management Workers Compensation Program, the state workers comp fund still determines compensation amounts for injured workers and medical providers.

Claims go to the state workers compensation bureau, with Mr. Watkins examining the validity of claims, subrogation possibilities

and other related issues with the bureau's claims analysts with whom he manages the claims.

Mr. Watkins also works closely with return-to-work case managers at medical facilities around the state. "So I wind up having a working relationship with the bureau, the medical facilities and the doctors," he said.

In addition, each state agency has a workers compensation contact person. "I coordinate with them on

investigations, return to work and things like that," Mr. Watkins said.

The division's workers comp manager also does numerous workplace inspections, ergonomics reviews and indoor air studies.

"We serve, hopefully, in a preventative-type role to avoid the claim down the road," he said. "We put a lot of emphasis on being proactive and taking care of it where we can and responding to employee concerns before they develop to the claim level."

The Risk Management Division also provides state agencies an on-

line workers compensation training system.

"Every state employee can log on to a computer and go through a training program," Mr. Watkins said. "Currently, we have things on there like ergonomics, claims management, medical documentation, defensive driving."

"They go through the training module, take a little quiz at the end and all of the training is tracked through my computer here," he said. "So it allows the agencies to meet their training needs efficiently and cost-effectively."

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Risk Management Honor Roll

Funds help cover North Dakota agencies' varied risks

By **RODD ZOLKOS**

Created as part of the state's response to the liability exposures after losing sovereign immunity, the North Dakota Risk Management Fund is the primary vehicle for paying liability claims against the state.

Essentially, state agencies pool liability exposures in the fund, which retains the first \$250,000 per claim and \$1 million per occurrence. Working with Johanna M. Zschomler, director of the state's Risk Management Division, North Dakota's independent actuary determines rates for each agency for risk retained by the fund, based on the agency's loss history.

Types of liability risk covered through the fund include general liability, automobile liability, medical malpractice for medical services provided by the state and professional liability for other professional services provided by state workers.

Agencies can reduce their required contributions to the fund by up to 10% by documenting that they meet criteria set by the Risk Management Division to promote proactive loss control.

In 1999, the Risk Management Division brought management of liability claims in-house, a move that has reduced North Dakota's liability claims adjusting costs from an average of \$55,000 annually to \$14,000.

North Dakota's Tort Claims Act, which created the Risk Management Fund, also requires the state to purchase additional coverage for exposures that could threaten the Risk Management Fund. Currently, that takes the form of excess coverage of \$1 million per occurrence/\$10 million aggregate above the amount retained in the fund.

Swiss Reinsurance Co. provides the excess liability coverage, with the coverage placed by Vaaler Insurance Inc. in Grand Forks, N.D. Zurich, Switzerland-based Swiss Re has been North Dakota's excess insurer since 1997.

The Risk Management Division also places medical malpractice coverage for the University of North Dakota School of Medicine and Health Sciences. That coverage, also placed by Vaaler, is with Irving, Texas-based TIG Insurance Co., with limits of \$1 million per claim and \$3 million aggregate, with a

\$100,000 per claim self-insured retention.

While the state has experienced higher premiums, it hasn't seen the problems with medical malpractice coverage that many buyers have, Ms. Zschomler said. "Of course, our premiums went up, and we had to assume a self-retention level. Before, it was first dollar," she said,

Good loss experience has protected the state from dramatic premium increases for aviation coverage. 'We have been fortunate.'

*Johanna M. Zschomler
North Dakota
Risk Management Division*

"but it's working out very well."

Property and employee dishonesty exposures are insured through the state's Fire and Tornado Fund, a state pool that covers all state and local government property in North Dakota. The fund was created by law in 1919 and is managed by the

state's insurance commissioner.

Also established in 1919 and managed by the insurance commissioner, the State Bonding Fund provides fidelity coverage for state officials and those of other public entities in North Dakota.

Cleanup costs related to petroleum tank release are provided through another state fund, the Petroleum Tank Release Compensation Fund, created in 1989.

North Dakota also carries boiler and machinery coverage from The Hartford Steam Boiler Inspection and Insurance Co., based in Hartford, Conn., and placed by Community First Insurance Inc. in Fargo, N.D., with a \$26 million equipment breakdown limit.

Workers compensation coverage for state employees is provided by the state's monopolistic workers compensation system, the North Dakota Workers Compensation Bureau, created in 1919.

The state also purchases comprehensive travel coverage for state employees traveling abroad. Philadelphia-based ACE USA writes the coverage, and it is placed by Thompson Insurance Co. in Grand Forks.

Aviation coverage, placed by Northstar Aviation Insurance Inc. in Fargo, includes several policies covering various departments' aircraft. A policy covering three Department of Transportation aircraft is with Short Hills, N.J.-based Associated Aviation Underwriters Inc., with liability limits of \$2 million per occurrence for one of the aircraft and \$10 million per occurrence for the other two.

A state Aeronautics Commission plane has liability limits of \$2 million per occurrence provided by The Insurance Co. of the State of Pennsylvania, while two planes operated by the North Dakota Game and Fish Department carry liability limits of \$1 million per occurrence provided by Chicago-based Old Republic Insurance Co., as does a plane operated by the North Dakota Highway Patrol.

Good experience has kept the state from incurring dramatic premium increases on its aviation coverage, the risk manager said. "Fortunately, we've had very good loss history," she said. "We have been fortunate. We have had some increases on one of our planes, but a number of them are holding well."

Teamwork helps risk manager's staff tackle workload

By **RODD ZOLKOS**

Managing the State of North Dakota's diverse risks with a five-person office, the close-knit nature of Johanna M. Zschomler's staff in the state's Risk Management Division is a definite plus.

The task facing Ms. Zschomler, the division's director, and her staff became a bit more challenging recently when one member of the team was called to active duty with his Army Reserve unit, but, in typical fashion, they're getting the job done.

In addition to Ms. Zschomler, the state's risk management office includes Derek Watkins, manager of the Risk Management Workers Compensation Program; Terry Milas, loss control analyst; Vicki Schneider, loss control/claims analyst; and Renae Heller, administrative assistant.

It was Mr. Milas who has been called to active duty, in Fort Collins, Colo., as of late March, waiting to be deployed to the Persian Gulf. "We just kind of pick up his duties and people do what they can," Ms. Heller said. "We get along

wonderfully."

Dividing Mr. Milas' duties among the remaining staff in the Risk Management Division is made easier by the fact that the environment in Ms. Zschomler's office routinely tends toward doing what's needed to get the job done.

"I focus primarily on the university system," said Ms. Schneider. "But it's been broadening out more and more, too."

"What's unique here too is that we all cross over so much," she said. "Everybody's got their stronger suit, but we all do what we need to do to

get things done. Nobody's territorial. If we need help, we'll ask for it. If it's on our desk and we can't get to it, we'll pass it on to somebody who can."

Open communications in the office, along with Ms. Zschomler's informed delegation of responsibilities to her staff, also makes it easier to pitch in when others in the office need help.

'If we have a big issue going on, everybody knows about it.' That open discussion helps 'keep everybody on the same page. It's really not often than any of us say 'I never heard about that. Everything's a combined effort.'

*Vicki Schneider
North Dakota
Risk Management Division*

"If we have a big issue going on, everybody knows about it," Ms. Schneider said. That open discussion helps "keep everybody on the same page," she said, adding, "It's really not often that any of us say, 'I never heard about that.' Everything's a combined effort."

And Ms. Zschomler is "always there for consultation," Mr. Watkins said. "It's pretty much an open door. Sometimes she'll bring things to us and we'll bring things to her."

"Everybody's always welcome to give their opinion," added Ms. Schneider. "Whether it's taken or not, it's still thrown out there."

At the same time, the director isn't one to micromanage her staff. "She's basically the type of manager who hires people who have expertise in their areas and lets them do the job," said Mr. Watkins.

"The other thing Jo does really well is (that) she really promotes her employees," said Pam Sharp, director of North Dakota's Office of Management and Budget and Ms. Zschomler's boss. "She pushes them to succeed and supports them and makes sure they get the training they need."

Ms. Zschomler does put considerable emphasis on her staff's educational and professional development. The group shares responsibility for involvement with various risk management associations, for example, with different staff members attending the organizations' annual conferences.

And she's quick to note that Mr. Watkins is working on his Certified Risk Manager designation and Ms. Schneider is set to begin work on her Associate in Risk Management.

"She puts an emphasis on education and being up to date in your field," Mr. Watkins said.

"She's always concerned about keeping us challenged," Ms. Schneider said. "She never wants us to get bored with what we're doing."

Ms. Schneider describes the division's staff as "like a small family almost," adding, "There's a lot of teasing, a lot of humor and it makes it a fun environment. Because, let's face it, this can be pretty dry sometime."

"Jo's been a great manager and a really good boss," she said. "I can honestly say I love my job and I love where I work."



Johanna M. Zschomler, seated, is backed by her staff, from left: Renae Heller, administrative assistant; Derek Watkins, Risk Management Workers Compensation Program manager; and Vicki Schneider, loss control/claims analyst. Not pictured is Terry Milas, loss control analyst, who is serving in the Army Reserve.

Risk Management Honor Roll

Facility not exactly a run-of-the-mill insurance risk

State owns, covers flour mill

By **RODD ZOLKOS**

It's not rare for a state government to have some unusual and diverse risks among the exposures it must address, but North Dakota is the only state that owns a flour mill.

"North Dakota has some special exposures. We have a state-owned flour mill, and we have a state-owned bank," said Johanna M. Zschomler, director of North Dakota's Risk Management Division.

"We have a flour mill that is providing product, flour, to Sara Lee, to Campbell's, to big companies internationally," the state risk manager said. "And they provide animal feed. So that is a unique exposure. Just the issues with safety to workers, fire hazards of operating a flour mill, product liability."

The North Dakota Mill & Elevator Assn. was created in 1919 and began operations in 1922 to provide a value-added market for wheat grown in the state.

At the time, the primary markets for North Dakota wheat growers were in Minneapolis, and by the time travel costs were deducted from what farmers received in Minneapolis, the state's farmers were getting a low price for their grain.

"It wasn't cost-effective for farmers to be sending their grain to Minneapolis," Ms. Zschomler said. "So, more or less in competition, they established their own mill just to process North Dakota wheat."

Located in Grand Forks, the North Dakota Mill today includes five milling units, a terminal elevator and a packing warehouse. The mill processes 60,000 bushels of North Dakota wheat per day, with three shifts keeping the plant operating 24 hours a day, six or seven days a week. The terminal elevator, meanwhile, has the capacity to store 4.2 million bushels of wheat. "They bring the truckloads of grain in, and they ship out the rail cars full of flour nationwide," Ms. Zschomler said.

The facilities were paid for with the mill's operating profits, and the North Dakota Mill receives no state funds or financial assistance to subsidize its milling operations. On the other hand, the mill does provide a nice return to the state, contributing more than 50% of its profits to the state's general fund in the past 25 years.

"They contribute to the funding for the state's operations, and so North Dakotans were farsighted when they created those two programs years ago," the risk manager said. "They are able to provide some good dollars to the general fund. That's a very positive thing."

In addition, the North Dakota Mill serves as a showplace for the state's wheat industry and is used to promote the industry to international trade teams. The mill also is working with North Dakota State University to test new varieties of wheat.

From a coverage standpoint, the mill's tort liability exposures are

covered under North Dakota's Risk Management Fund. Property exposures, meanwhile, fall under the state Fire and Tornado Fund, though there are legislative efforts this spring to change that arrangement to facilitate marketing the coverages in combination.

With the property coverage included under the state fund, "we were stuck with the position of how do we try to market the mill and break off their liability from the

property," Ms. Zschomler said. "Usually for that kind of coverage it's a combined coverage."

A bill before the Legislature would exempt the mill and elevator from the Fire and Tornado Fund and, if approved, would make it possible to market the facility's property and liability coverage as a package, the risk manager said.

In late March, the bill had passed the North Dakota House and was before the Senate with a "do pass" recommendation from its committee, so Ms. Zschomler expected it to be enacted.



PHOTO: COURTESY OF NORTH DAKOTA MILL

North Dakota's state-owned flour mill in Grand Forks represents an unusual risk but one that brings substantial benefits to the state.

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Risk Management Honor Roll

Zschomler coordinates plans to ensure continuity

By **RODD ZOLKOS**

Though the North Dakota Risk Management Division has been encouraging state agencies to develop contingency plans for some time, the effort has become more formalized in recent months with the development of a state Continuum of Government plan.

Last July, Gov. John Hoeven directed all state agencies to develop such plans, as well as calling for the creation of a team to develop the statewide COG plan that will be used to support the individual agency plans.

As director of the Risk Management Division, Johanna M. Zschomler is coordinator of the COG Team, which also includes representatives from the office of the governor, emergency management, the North Dakota Highway Patrol, the Department of Health, the state's Information Technology Department and its Facility Management Division.

"As we started looking at this, we decided what we needed was a state plan, and then we needed each agency to do an individual plan," Ms. Zschomler said. "Some of the agency plans will tie into state plans, and some will not."

Under the new mandate, individual agencies filed their initial contingency plans with the risk management department, identifying essential and vital functions so the Continuum of Government team could determine which agencies fit into the state program.

"As this whole concept grew, we

differentiated between the agencies that are COG, part of the continuum of government, and those we're calling COOP—they're not necessary to the vital continuation of government, but they have essential operations that they have to provide, so they are continuation of operations," the state risk manager said.

'As we started looking at (the Continuum of Government plan), we decided what we needed was a state plan, and then we needed each agency to do an individual plan.'

*Johanna M. Zschomler
Risk Management Division*

Ms. Zschomler noted that her division has actually been calling on state agencies to develop contingency plans since 1999; doing so is one of the requirements to get the maximum 10% discount on contributions to the state's Risk Management Fund.

The state's risk management manual stresses the need for contingency and disaster planning, pointing out that business continuity planning is "a proactive management philosophy."

But assembling a plan on a statewide basis is challenging, Ms. Zschomler said.

"Right now, we've got four state agencies in this building," she said.

But, if a disaster should strike the building that houses the Risk Management Division and those other state agencies, "We don't know how many computers we'd need," she said.

Risk management and the Continuum of Government team will use a customizable software program to help answer some of those questions. And the COG program will be the subject of this year's state risk management seminar in late April, bringing the risk management coordinators of the various state agencies up to speed with the effort.

Following that, "We're going to do 'train the trainer,' so we can have individuals—state employees—who can be used as references, as resources for other state employees who are working on their individual plan," Ms. Zschomler said.

"I expect within six months we're going to have a very good handle," she said. "If an emergency happens and it affects just one structure, how many PCs are we going to need just to get the essential services up and running? What servers are we going to need? Where can we house those people?"

According to Pam Sharp, director of North Dakota's Office of Management and Budget, Ms. Zschomler has been "really instrumental working on the continuum of government," and the project "is moving forward very well."

Ms. Zschomler conceded that while significant, the challenge of developing such a plan is likely a bit more manageable in a state like

North Dakota than in some others. "That's one of the benefits of living in North Dakota, too," she said. "We're a small enough government that we can get our hands around this stuff."

"There are other states where there have to be departments that are as big as our government," the risk manager said. "I can't imagine how they're going to be able to even do that, but we'll be able to."



Director of the Risk Management Division Johanna M. Zschomler, left, coordinates the Continuum of Government plan with North Dakota Gov. John Hoeven and Pam Sharp of the state Office of Management and Budget.

PHOTO: NDDOT/GARRY D. REDMANN

Personal and professional paths led to Bismarck

By **RODD ZOLKOS**

It might not have been the most direct path that brought Johanna M. Zschomler to her current position as North Dakota's director of risk management, but it seems as if it had been mapped by fate.

Ms. Zschomler began her professional career as a legal assistant, working in that capacity from 1962 to 1988.

"At the time that I started, we didn't have the designation of paralegal," she said. "So it was just like legal secretary, but the work that I did was more like a paralegal."

It was a period during which she and her husband, Stan, were moving fairly frequently around the country.

"My husband was with the federal Fish and Wildlife Service," Ms. Zschomler recalled. "We started out in South Dakota, then we moved to the Upper Peninsula of Michigan, moved to Minnesota, and then to California. Then in '75 we came to Bismarck, and we were here until 1988, when we moved to Pierre."

It was in Pierre, S.D., that fate played its hand.

"I was looking for something to fill my time," Ms. Zschomler said.

"There the state is such a big part of the community." Through a local job service she got a position filling in as a legal secretary in the South Dakota Department of Revenue.

There she met an attorney who knew Judith M. Payne, now South Dakota's risk manager, who at the time was just about to get that state's risk management program off the ground.

"That attorney knew Judy, and Judy was just starting the risk management program for the state of South Dakota. And that attorney said, 'I think you need to meet Judy, and Judy needs to meet you,' and that was how I found Judy," Ms. Zschomler said.

Ms. Zschomler worked as a secretary to Ms. Payne from 1988 to 1992. Then, "when the program advanced to the point where we needed a loss control specialist, I advanced into that position," she said. Ms. Zschomler worked as a loss control analyst in the South Dakota Office of Risk Management from 1992 to October 1995.

It was then, with North Dakota seeking a risk manager, that Ms. Payne recommended her loss control analyst, who, with her husband, was eager to return to Bismarck.

"We've always considered Bismarck home," Ms. Zschomler said. "Judy poked her head in my office and said, 'Do you want to move to

Ms. Zschomler is 'extremely knowledgeable. I'm just amazed sometimes by her knowledge of contract law and things I get training from her on.'

*Douglas A. Bahr
Office of State Attorney General*

Bismarck?" and I said, 'Yep.'"

In November 1995, she became North Dakota's risk manager as a contract employee to Alexander & Alexander Services Inc., which was providing risk management services to the state through its Minneapolis office. When that contract expired in 1997, Ms. Zschomler became a state employee as director of the Risk Management Division.

Ms. Zschomler, who received an associate degree in 1962 from the Minnesota School of Business, believes her legal background is a significant benefit as a risk manager.

One attorney she works with regularly, Douglas A. Bahr, solicitor general in the state attorney general's office, sees the benefit as well.

"She's extremely knowledgeable," Mr. Bahr said. "I'm just amazed sometimes by her knowledge of contract law and things I get training from her on."

"It's been great to be able to get sound background from her. And then if I need to go research particular nuances, I'm able to do that," he said.

Both Ms. Zschomler and her husband are South Dakota natives. Her fondness for their adopted home state is apparent, though, as she enthusiastically points out details of the State Capitol or discusses North Dakota history during a quick tour of the North Dakota Heritage Center.

Taking a visitor to Fort Abraham Lincoln, the spot outside of Bismarck from which George Armstrong Custer led his Seventh Cavalry on their ill-fated trip to Little Big Horn, she speculates that the reconstructed Mandan Indian earthlodges in the park might have prompted her daughter Kristen's interest in archaeology.

Kristen, who lives in St. Paul, Minn., is a cultural resources spe-

cialist for the Minnesota Department of Transportation, where she reviews federally funded highway projects to determine their impact on historic properties. Her husband, Daniel Pratt, also is an archaeologist, and the two are parents to Ms. Zschomler's grandson and granddaughter.

The Zschomlers' son, Daniel, lives in Durham, N.C., where he is an applications developer for PPD Medical Communications, developing, administering and maintaining pharmaceutical medical information call-center tracking databases.

Ms. Zschomler and her husband are fond of traveling. "Last year, we went to China," she said. "That was wonderful, probably the best trip ever."

She also knits and does needlework for relaxation and was a partner in a yarn and needlepoint shop for about six years. "My husband is a hunter and fisherman, of course," she added.

Ms. Zschomler is active in numerous professional organizations. Among other things, she is a director and education coordinator of the State Risk & Insurance Management Assn. and will host the organization's 2004 conference in Bismarck.

April 7, 2003

Judges use 10 principal criteria in picking honorees

Ten criteria are used to score the nominations for the annual Risk Manager of the Year award and Risk Management Honor Roll.

The panel of nine independent judges scores each nominated candidate on a scale of one to 10, according to how well he or she:

- Established and implemented an effective risk management program within the organization.

- Tackled and solved one or more major problems for his or her organization.

- Innovatively applies the diverse tools of risk management and insurance.

- Creatively and effectively uses the insurance markets to structure an insurance program that serves the needs of the organization (specifically addressing the types of policies purchased and manuscripted policies, if any).

- Established a workable intelligence system inside and outside the organization, culminating in a flow of information about events and activities that affect the organization's risk management and insurance. How the risk manager secures information from other departments and his or her use of risk management information systems are addressed in this criterion.

- Skillfully performs the functions of management in the overall organization and within the risk management/insurance department. The functions include planning, organizing, directing and controlling.

- Achieves the most effective program at the optimum cost over the long term.

- Developed technical expertise in any or all of the broad categories included within risk management, leading to a better managerial grasp of the operational aspects of the job.

- Exhibits an attitude and performs activities fostering the advancement of the risk management profession (such as professional activities, speaking engagements, teaching and related activities).

- Develops in his or her career (as exhibited by job history, including current job description, education, honors and memberships).

Panel of nine independent judges selected 2003 Risk Manager of the Year, Honor Roll

Nine independent judges from all sectors of the risk management and insurance profession selected the 2003 Risk Manager of the Year and Risk Management Honor Roll.

The 2003 Risk Manager of the Year is the 26th person to receive this honor.

Business Insurance created the Risk Manager of the Year competition in 1977, on its 10th anniversary of publication, to recognize outstanding risk management practices. The first award was presented in 1978.

Beginning with the 2002 awards, the Risk & Insurance Management Society Inc. joined *Business Insurance* in honoring the winners.

Business Insurance created the Risk Management Honor Roll in 1981 to recognize outstanding achievements in risk management in employment categories not represented by the Risk Manager of the Year.

The nine judges selected the 2003 honorees on the basis of their opinions of each nominee's program as

it is detailed in his or her nomination form.

This year's panel comprises the 2002 and 2001 Risk Manager of the Year recipients, the 2002 Risk Management Honor Roll member, two insurer executives, two brokerage executives, a risk management consultant and an insurance educator.

Judges for the 2003 awards are:

- Joseph H. Albert, principal consultant of J.H. Albert International Insurance Advisers Inc. of Need-

ham, Mass., representing risk management consultants.

- William Bartholomay, president of Near North National Group Inc. of Chicago, representing national brokerages.

- Judith A. Blades, senior executive vp-property and casualty for The Hartford Financial Services Group Inc. in Hartford, Conn., representing stock insurers.

- Mark Browne, professor in the School of Business, Actuarial Science

See **JUDGES**/page 78

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Mr. Bartholomay



Ms. Blades



Mr. Browne



Ms. Gregory



Mr. Hartman



Mr. Kugler



Mr. O'Halleran



Mr. Schuh

Judges: Panel of nine chose 2003 honorees

Continued from previous page

ence, Risk Management and Insurance at the University of Wisconsin in Madison, representing educators on the panel.

- Lauren M. Gregory, director of risk and insurance management for the Metropolitan Transportation Authority in New York, and the 2002 Risk Management Honor Roll member.

- Dan Hartman, chief risk officer (retired) for the State of Oregon in Salem, Ore., and the 2001 Risk Manager of the Year.

- Dan H. Kugler, director of corporate risk management for Snap-on Incorporated in Pleasant Prairie, Wis., and the 2002 Risk Manager of the Year.

- Michael O'Halleran, president and chief operating officer of Aon Corp. in Chicago, representing international brokerages.

- Dale Schuh, chairman and chief executive officer of Sentry Insurance, A Mutual Company of Stevens Point, Wis., representing mutual insurers.

The judges on the panel evaluate each Risk Manager of the Year candidate based on 10 criteria (see story, page 77).

The nominee with the highest to-

tal score is named Risk Manager of the Year; the remaining individuals are placed into one of four categories:

- Corporations with sales exceeding \$300 million.

- Corporations with sales of less than \$300 million.

- Government entities, including public entity pools.

- Tax-exempt or nonprofit entities.

The highest-scoring individual in each field not represented by the Risk Manager of the Year will be considered for the Risk Management Honor Roll.

A nominee need not handle risk management responsibilities full time to be considered for the competition. However, he or she must be a full-time employee of the organization whose program he or she directs.

Risk managers anywhere in the world are eligible to enter the competition.

To obtain a nomination form for the 2004 award competition, or for more information on the Risk Manager of the Year and Risk Management Honor Roll honors, contact Paul Winston, editor of *Business Insurance*, at pwinston@crain.com.

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April 7, 2003

Risk Managers of the Year

2002

Daniel H. Kugler
Snap-on Incorporated

2001

Dan Hartman
State of Oregon

2000

Paul F. Buckley
Lucent Technologies Inc.

1999

Merritt W. Fabel
American International
Group Inc.

1998

Philip J. Grewar
Government of British Columbia

1997

Judy Lindenmayer
FMR Corp.

1996

Brian D. Casey
Corning Inc.

1995

Scott K. Lange
Microsoft Corp.

1994

Lucille A. Gallagher
ConAgra Red Meat Cos./
Monfort Inc.

1993

Richard C. Heydinger
Hallmark Cards Inc.

1992

Millicent W. Workman
Belz Enterprises

1991

Arnold L. Davenport
Marriott Corp.

1990

Stephen M. Wilder
The Walt Disney Co.

1989

Jeffrey W. Pettegrew
Contra Costa County Municipal
Risk Management Insurance
Authority

1988

William L. Mather
The Gillette Co.

1987

Edith F. Lichota
Irving Trust Co.

1986

Donald Nelson
ARA Services Inc.

1985

Harold C. Lang
Leaseway Transportation Corp.

1984

Richard M. Inserra
American Can Co.

1983

John A. O'Connell
Holy Cross Shared
Services Inc.

1982

Eckart Russell
Alcan Aluminium Ltd.

1981

Duane E. Allen
Hanna Mining Co.

1980

Thomas V. Hallett
General Motors Corp.

1979

Edward L. Erickson
American Broadcasting Cos. Inc.

1978

Howard T. Weber
Minnesota Mining
& Manufacturing Co.

Risk Management Honor Roll members

2002

Lauren M. Gregory
Metropolitan Transportation
Authority

2001

Gary Baxter
Weyerhaeuser Co.

Peggy Nakamura
Adventist Health System/West

2000

Theodore G. Jeske
Historic Tours of America Inc.

1999

David A. Holcombe
International Speedway Corp.
& NASCAR

1998

Lewis Leigh
Washington Cities
Insurance Authority

Sheryl A. Pixler
Storage Technology Corp.

1998

James E. Green
Justin Industries

See HONOR ROLL/next page

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Honor Roll: Previous honor roll members

Continued from previous page

Mark L. Hubbard
Loma Linda University
Adventist Health Science Center
Edward Molloy
Aetna Inc.

1997
John J. Carney
National Freight Industries Inc.

Betsy Kutska
Park District Risk
Management Agency

William R. Powell
Salt River Project

Russell Opferkuch
Bankers Trust Co.

Jeannie Sedwick
AHA-Insurance Resource Inc.

1996
Craig S. Macdonald
Bi-State Development Agency
Michael Tawney
Loomis Armored Inc.

1995
Lee D. Holland
Tennessee Municipal League
Risk Management Pool

K.C. Kidder
Norwest Corp.

Judith Payne
South Dakota

Bruce Zaccanti
Jupiter Mechanical Industries Inc.

1994
Sal M. Bianchi
Intergovernmental Risk
Management Agency

Judith Moses McDonald
Comerica Inc.

Ronald J. Guilfoile
City of St. Paul, Minn.

Thomas J. Hickey
Malcolm Pirnie Inc.

1993
David G. Adler
The Portman Cos.

Thomas E. Bell Sr.
Middle Cities Risk
Management Trust

June Dickinson
SunTrust Banks Inc.

C. David White
State of Oregon

1992
Marc Darby
Bombardier Inc.

Jerry Newsom
State of Georgia

Judith Tornese
Transamerica Corp.

1991
Donald D. Batchelor
Union Planters Corp.
Mary L. DeCampli-Stewart
Metropolitan Washington
Airports Authority

Rod Umscheid
University of California

1990
Josephine Goode Johnson
University of Maryland
Medical Service System

Roger D. Oaks
Tennessee Farmers Cooperative

M. Michael Zuckerman
Thomas Jefferson University

1989
John A. Lindquist
Browning-Ferris Industries Inc.

J. Douglas Higley
State of Louisiana

1988
Gregory L. Daniels
American National Red Cross

Timothy G. Galarnyk
Lunda Construction Co./
Phoenix Steel Inc.

Stephen A. Finley
City of Lakewood, Colo.

Edward G. Weiss
First of America Bank Corp.

1987
Susan M. Werner
Hardee's Food Systems Inc.

Mark F. Wilson
First Mississippi Corp.

1986
Delmer Ison
Washington Metropolitan Area

Transit Authority
William E. Rogers
Conemaugh Valley Memorial
Hospital

1985
Susan N. Weiner
Dade County Public Schools

Eva F. Goodrich
Cincinnati Electronics Corp.

1984
Sidney D. Blatt
Holloway Cos.

Gene Snyder
State of Oregon

1983
Jerri Nelson MacMillian
Aetna Life & Casualty Co.'s
Real Estate Investment Dept.

Robert Sinclair
Metropolitan Government
of Nashville and Davidson
County

1982
Spencer J. Traver
BF Goodrich Co.

Paul B. Harvey
Ponderosa Homes

Gene M. Marsh
General Conference of
Seventh-Day Adventists

George N. Pierce
Orange County, Fla.

1981
Robert Bieber
Westchester County, N.Y.
William Ryan
University of Michigan

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For more information or to obtain a nomination form by e-mail, send a request to Paul Winston, editor of *Business Insurance*, at pwinston@crain.com.

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April 7, 2003

International

81

Cuba hosts industry seminar

Interest in risk mitigation increases amid foreign investment, tourism growth

By ROBERTO CENICEROS

HAVANA—While Cuba isn't known for rushing to adopt capitalist principles, insurance and risk management practices are spreading through the communist nation.

This week, for example, a Havana-based holding company for several state-owned insurers will host the fourth International Insurance and Reinsurance Seminar. The seminar comes 10 years after the third such event was held in Cuba.

The occasion marks the 40th anniversary of the founding of ESICUBA, a state-owned marine, aviation and commercial property insurer, said Daniel Hung, vp for Grupo Caudal, the insurer's holding company, which comprises four state-run insurers in Cuba.

It also comes as foreign investment and growth in certain national industries, such as tourism, are driving the expansion of insurance

services and the adoption of risk management practices, say several Cuban insurance professionals and other Latin American observers.

While there is "a low culture of insurance" in Cuba, Mr. Hung said, he and Grupo Caudal are hoping the seminar will help change that.

According to conference materials, the seminar aims to educate Cuban business professionals on topics such as the international reinsurance market's impact on Cuba, risk management and loss adjustment. The event is scheduled for April 7-11 at the Hotel Nacional de Cuba in Havana.

Change in practices

A new business practice by the Cuban government is driving a greater need for such education, Mr. Hung explained.

Much like risk management—
See CUBA/next page



PHOTO: GETTY

The Hotel Nacional de Cuba in Havana, Cuba, is the site of the fourth International Insurance and Reinsurance Seminar, being held this week in the Caribbean nation.

ASX releases governance guidelines

SYDNEY, Australia—The Australian Stock Exchange published wide-ranging corporate governance guidelines last week in an effort to increase investor confidence in publicly held companies.

The ASX's effort to improve governance standards of listed companies came "in the wake of, but not as a direct result of" the failure of Australian insurer HIH Insurance Ltd., according to an ASX spokesman.

The guidelines, which are voluntary, urge public companies to:

- Separate the office of chairman and chief executive officer. In addition, the ASX said that, ideally, the company's chairman—and the majority of its board—should be independent. If the chairman is not independent, a lead independent director should be appointed.

- Have the chief executive officer and the chief financial officer certify the accuracy of financial reports.

- Create an audit committee comprising a majority of independent directors by 2005.

- Publish the details of senior executives' employment contracts.

The guidelines, which take effect for the 2003-2004 financial year, were drawn up in consultation with groups including the Australian Shareholders Assn., the Institute of Company Directors and the Australian Business Council.

—By Neil Hodge

Lloyd's, reinsurers arbitrating disputed Central Fund claims

By SARAH VEYSEY

LONDON—Lloyd's of London is involved in a legal dispute with the six reinsurers of the market's Central Fund, which are withholding payment of certain claims made by Lloyd's.

Nick Prettejohn, Lloyd's chief executive, said that the six reinsurers had for some time ceased to pay claims on the policy.

The Lloyd's Central Fund, which is funded by levies on syndicates, is intended to meet syndicates' liabilities when they are unable to do so. A reinsurance policy, purchased in 1999, is triggered when calls on the fund exceed £100 million (\$157.5 million) in a year, Lloyd's said.

Swiss Reinsurance Co., whose SR International Business Insurance Co. Ltd. leads the policy, confirmed that it and the other five companies are in a dispute with Lloyd's over the coverage and said that certain claims made against the policy do not fall under the contract terms.

"The reinsurers entered into the contract to pay policyholders' claims in the event that a Lloyd's syndicate became insolvent and the central guarantee fund was unable to do so," Swiss Re said in a statement.

"Lloyd's has submitted claims for discretionary payments from central guarantee funds used to protect members' solvency and to fund liquidity requirements, particularly in the United States," referring to funds that Lloyd's syndicates writing U.S. business must hold in trust. "This is not the purpose for which the insurance cover was intended and, as such, the reinsurers strongly dispute these claims."

Swiss Re, however, said it is un-



Lloyd's of London purchased a reinsurance policy on its Central Fund in 1999.

aware of "any action taken by Lloyd's, through arbitration or otherwise, to enforce its claims."

Mr. Prettejohn declined to elaborate on the dispute but said that the policy wording is "crystal clear."

The five-year reinsurance policy, purchased in 1999, is subject to an annual limit of £350 million (\$551.1 million), and the aggregate maximum payout over the policy period is £500 million (\$787.4 million), Lloyd's noted.

SR International leads the policy with a 32.5% share. Employers Reinsurance Corp. and St. Paul International Insurance Co. Ltd. write 20% each. Other reinsurers are: Hannover Reinsurance Group subsidiary International Insurance Co. of Hannover Ltd., 15%; XL Mid Ocean Reinsurance Ltd., 10%; and Federal Insurance Co., a subsidiary of Chubb Corp., 2.5%.

Since its inception, the policy has paid out £134 million (\$211.0 million) in claims, said Andrew Moss,

Lloyd's finance director. If Lloyd's is unsuccessful in its action against the reinsurers, the maximum exposure to the Central Fund would be £290 million (\$456.7 million), he noted.

The fund currently has assets of £476 million (\$749.6 million), according to Mr. Moss.

Lloyd's Chairman Peter Levene, Lord Levene of Portsoken, said that the market is confident it will prevail in arbitration.

Ratings agencies in London said arbitration proceedings would not immediately affect their ratings. A.M. Best Co. affirmed its A- (excellent) rating on the market, while Standard & Poor's Ratings Services in London said the dispute would have no immediate impact on its A rating of Lloyd's.

"As with many arbitration proceedings, Standard & Poor's expects a commercial settlement to be the most likely outcome, and this is unlikely to have a material impact on the rating," said Stephen Searby, credit analyst at S&P in London.

"The worst-case scenario for Lloyd's would be for the arbitration to result in a full contract rescission," Mr. Searby noted.

"While Lloyd's is confident of success in the arbitration proceedings, under a worst-case scenario, Fitch believes that nonpayment could have a substantial impact on the Central Fund," Fitch Ratings Ltd. in London said in a statement.

Meanwhile, Mr. Prettejohn said that Lloyd's is exploring whether to buy further protection for the Central Fund when the current reinsurance policy expires at the end of this year. He said the market was in discussion with several interested parties.

World Updates

HDI, Gerling Group scrap takeover talks

Takeover talks between German industrial insurer HDI Haftpflichtverband der Deutschen Industrie V.a.G. and the troubled Gerling Group were called off last week. Gerling said in a statement that, after several months of talks, it and Hannover-based HDI "were unable to reconcile divergent views they have of the Gerling Group's future."

Reserve boosts inflate SCOR loss

SCOR S.A. recorded a loss of 455 million euros (\$496.0 million) for 2002, compared with a loss of 278 million euros (\$251.0 million) in 2001. The Paris-based reinsurer attributed much of the loss to reserve strengthening and to poor investment returns. In the first nine months of 2002, SCOR boosted its reserves by 340 million euros (\$370.6 million). The reserve increases applied largely to expected losses for business written between 1998 and 2001 and to program business, which SCOR exited at the end of last year. Then, in the fourth quarter, SCOR added 51 million euros (\$55.6 million) to the reserves of its Bermuda-based alternative market subsidiary, Commercial Risk Partners, which it plans to sell.

RSA launches IPO of Promina

Royal & SunAlliance Insurance Group P.L.C. has filed details of an initial public offering of shares in Promina Group Ltd., its multiline insurance operations serving Australia and New Zealand. The IPO is part of RSA's restructuring program designed, in part, to reduce the group's net written premium and exit unprofitable lines of business. Promina shares will be listed on the Australian Stock Exchange and priced at between \$1.50 Australian (90 cents) and \$2.00 Australian (\$1.20), valuing the company at between \$1.59 billion Australian (\$955.4 million) and \$2.12 billion Australian (\$1.27 billion).

Six sign up for Blue Mountain

Two brokers and four insurers have signed letters of intent to use Blue Mountain, the Lloyd's of London-backed electronic insurance information exchange. The companies that have signed up are Marsh Ltd.; Willis Group Holdings Ltd.; ACE European Group; and Lloyd's companies Amlin P.L.C., Beazley P.L.C. and Wellington Underwriting P.L.C. When the system is fully rolled out later this year, its name will change to Kinnect, said Ashok Gupta, CEO of Blue Mountain.

Commentary

Got risk? If so, consult a risk pro

When it recently recommended that citizens protect themselves against potential chemical attacks by fashioning protective cocoons of plastic sheeting and duct tape in interior rooms of their homes, the federal government addressed just a portion of the audience it needed to reach.

One hopes that an additional set of guidelines—this one for employers—is in the works. Its release would come none too soon, as the Department of Homeland Security raised the terrorism alert status to orange—or high—at the start of Operation Iraqi Freedom.

With professional risk managers on staff, businesses are way ahead of the common citizen in understanding how to protect their interests. But there is always a chance, no matter how remote, that some risk or peril has been overlooked. Checklists from a variety of sources can help avoid such an error.

While I would imagine some businesses have grown impatient waiting for their guidelines, the upside is that the time lag has given stores enough time to restock their emptied shelves with duct tape.

In the meantime, here are the kinds of recommendations we can expect to see for various risks, if government experts apply the same risk management principles and insight in their new guidelines for business as they did in their plans for private citizens:

- Commercial and industrial concerns with property exposures: Erect "No Trespassing" signs 50, maybe 100 feet outside of your facilities in each direction. The signs would be cheaper and much less unsightly than concrete barriers or fences with limited, guarded access points.

- Airline risks: Airlines could all but eliminate threats posed by passengers by securing them in the seats with leg irons—or duct tape, which would be cheaper in the short run for cash-strapped carriers.

Airlines would have to decide for themselves whether to fly only short routes or arrange for armed flight attendants to escort passengers to lavatories.

- Organizations susceptible to computer hackers: These organizations should bar all external and internal access to their systems unless the user has been personally escorted into the system by the company computer guy. Hackers cunning enough to evade this gatekeeper would trigger a virus that would devour

their hard drive capacity with Viagra and mortgage refinancing spam.

- Mailroom risks: Mailroom employees should always carry hand-held battery operated fans aimed away from themselves. Hands-free tip: Affix the fans to your forehead with duct tape.
- Employers with workers compensation risks: Employers must be on guard against subtle, but nonetheless insidious, terrorist ploys, such as orchestrating spikes in back-related claims to gradually sabotage the workplace. It is recommended that any employee who must lift a heavy object instead ask a buddy to do it.
- Shopping malls that face civil unrest: Mall management should construct guard towers from which mall security can observe and fire warning shots at approaching shoppers with obviously divergent political views from management's, thereby ensuring tranquility and peace of mind for management.

If that suggestion is not feasible because of local noise abatement ordinances, a paintball round to the gut would send the same message. Don't want to risk staining the parking lot you just blacktopped? Management could turn to strategically placed signs worded to ward off the riffraff. The signs should be affixed to mall entrances with duct tape. Mall management, though, would be on their own in trying to recover business interruption losses from their insurers.

The new guidelines most likely would address the chemical attack risk as well. But rooms sealed with plastic sheeting are not viable for large groups. The larger the room, the greater the chance that the seal could be compromised. Also, such a measure very likely could not be completed in time to protect a building's occupants.

Instead, expect a recommendation that employers issue every employee a personal plastic sheeting ration—which would look remarkably like a plastic freezer bag—and train employees how to seal the bags over their heads with duct tape bow ties.

Or maybe it's time for the government to hire or consult with a risk manager.

Senior Editor Dave Lenckus' column appears periodically in *Business Insurance* and at www.businessinsurance.com. He can be reached at dlenckus@crain.com.



Dave Lenckus

Cuba: Acting as seminar host

Continued from previous page
savvy U.S. corporations that hold their individual business units responsible for their own losses, the Cuban government now wants its business enterprises to pay for the losses they incur.

The government owns all major businesses in the nation. In the past, it simply provided all the insurance protection necessary for its business enterprises without holding each responsible for its individual losses, Mr. Hung said.

As a result of the new practice, Cuban companies now need to learn more about financial management, including risk transfer measures, Mr. Hung said.

Cuban insurance professionals are eager to gain risk management and insurance knowledge, said Stavros Costarangos, the president of Qstion Managers, a Panama-based insurance and risk management services company.

Mr. Costarangos operates a Spanish-language Web site widely used

by insurance professionals throughout Latin America. The site's users participate in daily discussions on the workings of risk management and insurance practices.

Mr. Costarangos noted that when anyone on the site offers to make additional written materials available, the Cubans monitoring the discussions generally request the material immediately.

Mr. Costarangos also is vp of the Asociacion Latinoamericana de Ad-

See CUBA/next page

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CUBA: Interest in industry education grows

Continued from previous page
minstracion de Riesgos y Seguros, an organization representing risk management groups in several Latin American countries.

In recent years, Cuban risk and insurance professionals have attended ALARYS' conferences and expressed interest in joining ALARYS. But Cuba does not have a risk management organization, which is a prerequisite for joining the association, he explained.

Foreign investment impact

While risk management practices are not widespread in the country, foreign investors entering into joint ventures with Cuban industries have been introducing them to the nation, several sources say.

About 90% of foreign investments are insured by Cuban companies, Mr. Hung said. While foreign companies can purchase coverage from international insurers, they often find that Cuban insurers provide similar terms and have a better understanding of local risks, he added.

While foreign investors are helping introduce risk management concepts, most Cuban companies currently just purchase insurance coverage instead of employing sophisticated risk management techniques, said Juan Miguel Rodriguez Nava, risk administrator for Corporacion Copextel S.A., a Havana-based electronics company.

About 90% of foreign investments are insured by Cuban companies. Cuban insurers often provide terms that are similar to those of international insurers and they have a better understanding of local risks.

A former engineer, Mr. Rodriguez said he mitigates company risks through a variety of practices, including property inspections. Whenever possible, he also ensures that the business contracts Copextel enters into with other companies transfer risks to those other parties.

But Mr. Rodriguez said he still has a need for more information that could help him with his risk management responsibilities. For example, he said, he could use information that would help him determine the level of risk that is appropriate for his company to retain. Mr. Rodriguez will attend the Havana

seminar this week. But he said he expects it will be more focused on insurance purchasing issues than risk management techniques.

According to the seminar brochure, topics will include a claims perspective on English reinsurance law, Caribbean-area natural hazards and ESICUBA's experiences in the Cuban insurance market.

In addition to ESICUBA, Grupo Caudal's holdings include Reaseguradora de LA HABANA S.A., a reinsurance company that transfers Cuban risks to the international reinsurance market, Mr. Hung said. Other Grupo Caudal holdings in-

clude LA ISLA, an insurer developed specifically to address tourism-related risks. It provides property/casualty and business interruption coverage for the nation's hotels, Mr. Hung explained.

In 1996, La Caudal formed a joint venture with the nation's tourism ministry to create LA ISLA, Mr. Hung explained. They created an insurer just for that sector because of its immense importance to the nation's economy, he said.

Reorganizing and developing many new services and business units such as LA ISLA is the reason Cuba has waited 10 years since

hosting the last insurance and reinsurance seminar, Mr. Hung explained. Those efforts have not left time to sponsor another seminar until now, he said.

"It's an organizational issue," Mr. Hung said.

And even though it has been 10 years since the country hosted the last such seminar, Cuban insurance professionals have kept abreast of many modern insurance practices and the international reinsurance market, observers say.

Because of the natural catastrophe risks faced by small Caribbean nations, placing business originat-

ing there can be tough, said Callum Stewart, managing director of Health Lambert Reinsurance in London. Heath Lambert places Cuba's catastrophe reinsurance coverage.

Yet plenty of the world's reinsurers provide Cuba with coverage because the nation's professionals deliver the sophisticated data reinsurers increasingly require, Mr. Stewart said.

International reinsurers "would not write the business if they didn't have confidence Cuban insurers know their business," Mr. Stewart said.

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Supreme: State law not pre-empted

Continued from page 4
problems in the decision.

"The court seems to be sending a very strong signal that the days of expansive ERISA pre-emption are long over. The question is, how far does this go?" said Mark Hamelburg, an attorney and principal in the Washington Resource Group of Mercer Human Resource Consulting. "It seems that this court is really ratcheting back on ERISA pre-emption," given that the decision is one of several in recent years that have eroded that aspect of the federal law, he said.

"Obviously, this case is important, but when you're talking about Supreme Court decisions, the important thing is what other facts will it be applied to in future cases, Mr. Hamelburg said. "That, we don't know."

"The Supreme Court said that in Kentucky you no longer as participants can choose a plan with lower premiums and restricted choices," said Lynn Dudley, vp and senior counsel of the employer-based American Benefits Council in Washington.

"The reason that employers like to be able to join plans that use net-

works is that it keeps costs lower and helps to assure quality. They have an outside body saying, 'You meet the criteria, you don't.' It puts an onus on that organization to be picky—it puts pressure on the plan to keep quality up," she said.

"For us, that's a significant issue if other states follow suit. It's also inconsistent—some states will have any willing provider statutes and some won't," Ms. Dudley said.

"This is horrible decision—yet another nail in the coffin of ERISA," said Neil Trautwein, director-employment policy for the National Assn. of Manufacturers in Washington.

"This will greatly undercut the ability to maintain networks of physicians for quality and cost-containment purposes. We'll have to determine all the repercussions, whether there may be a way for self-insured plans to independently maintain networks under Kentucky law. For now, we are greatly chagrined by the court's decision."

Kentucky Assn. of Health Plans vs. Miller. U.S. Supreme Court. No. 00-1471. Decided April 2, 2003.

Products & Services



Booklet addresses employee dishonesty

BALTIMORE—Zurich North America Financial Enterprises is offering financial institutions a booklet with information to help prevent acts of employee dishonesty.

The free 25-page booklet covers internal procedures that can be used to combat several kinds of employee theft, including account fraud, computer manipulation and plastic card fraud. Financial institutions can use the suggestions to develop and implement a fraud policy. There also is an internal controls checklist.

The booklet notes the Federal Bureau of Investigation "estimates that financial institutions may lose three times as much money from embezzlement and fraud as from

robbery. Losses attributed to embezzlement are more significant than losses attributed to all other types of business crimes combined." To protect against such acts, financial institutions need checks and balances "that will minimize the opportunities to a potentially dishonest employee," the booklet advises.

The Baltimore-based unit of Zurich North American Insurance Co. published the booklet with assistance from Ernst & Young L.L.P. and Linda Conrad of Zurich Risk Engineering Services.

The booklet is available by calling 800-821-4635.

Acordia establishes new risk finance group

CHICAGO—Acordia Inc. has established a group that will offer services to protect against the financial risks associated with corporate governance, errors and omissions, employment practices liability and environmental liability.

Establishing the new risk finance group allows Acordia to provide its clients with "an even wider range of insurance products and services"

than those aimed at financial risks already provided by the Chicago-based brokerage, according to a statement by Scott Isaacson, vp and chief marketing officer at Acordia.

The new group also will provide policy analysis, legal reviews and claims advocacy to help clients identify risk exposures and determine retentions.

More information is available from Acordia at 312-423-2531.

Sun Life introduces medical stop-loss policy

NEW YORK—A new medical stop-loss policy from Sun Life Insurance & Annuity Co. of New York aims to help self-funded employers in New York limit rising health care costs.

Among the policy's features is coverage for state-mandated hospital surcharges, managed care vendor fees, off-label drug use and alternative care.

The coverage is available to employers with 150 or more employees and can be tailored to any self-funded benefit plan, according to New York-based Sun Life.

The coverage is written to various limits, depending on the size of the insured group.

For information about the policy, call Mary Beth Kent at 800-432-1102, ext. 1437.

Letters to the Editor

Continued from page 8

health coverage, medical care savings accounts and a variety of market-based health care financing solutions that are tailored to their and their families' needs and which provide them more options, choice and control, not less.

And while I do not agree with my friend, I understand her concerns. That is why I asked Kentucky Commissioner Janie Miller to lead the B Committee this year, and Kansas Commissioner Sandy Praeger to help her. We will see this year how much credibility state regulators have on the health insurance issue. I am concerned we have not done all we can or should on this issue in recent years. I have thought the B Committee meeting in Atlanta was one of the best, most honest conversations we have had since I have been an NAIC member.

Rather than rely on "solutions" that are a decade or so old, this year I believe we will make some real progress, provide some real leadership. This is the real story to come out of the NAIC AHP conversation in Atlanta. This is a necessary, premeditated, healthy debate. I am hopeful you will help us keep the spotlight on health insurance this year. Rather than a "rocky start," I see this as a necessary, constructive start to addressing our No. 1 consumer complaint: "My health insurance costs too much and I can't afford it."

Mike Pickens

Arkansas Insurance Commissioner
President
National Assn. of Insurance Commissioners
Little Rock, Ark.

Results: Lloyd's profits return in 2002

Continued from page 1

Although Lloyd's also announced with its results that it is in dispute with reinsurers of its Central Fund (see story, page 81), the market's executives are upbeat about Lloyd's financial strength and future earnings prospects.

The market's new chairman, Peter Levene, Lord Levene of Portsofen, said that the improved 2002 results were "not a flash in the pan."

And Mr. Prettejohn noted that 2002 had seen a "buoyant" rating environment for many of the lines of business that Lloyd's underwrites. He also said that premium volume across the market had risen, on average, between 10% and 20% in the first quarter of 2003.

While Mr. Prettejohn said it would be "brave to predict" how long the hard market will last, he noted that Lloyd's believes it will "be longer rather than shorter."

Mr. Prettejohn said that rates continue to increase in many—but not all—lines. He noted, for example, that for aviation business rates are beginning to stabilize, if not soften.

Lloyd's has record capacity of £14.4 billion (\$22.68 billion) for 2003, and market members forecast that all of that capacity will be used, Mr. Prettejohn added.

He noted, also, that the implementation of Lloyd's new franchise proposals—which, among other measures, require each syndicate's business plan to be approved by the market's newly created franchise board—would help improve efficiency and performance in the mar-

ket.

Andrew Moss, the market's finance director, said that Lloyd's increased its reserves by £625 million

While it would be 'brave to predict' how long the hard market will last, Lloyd's believes it will be 'longer rather than shorter.'

*Nick Prettejohn
Lloyd's of London*

(\$1.01 billion) in 2002, primarily for U.S. casualty business.

Lloyd's also reported that under its three-year accounting system, the expected 2001 result has deteriorated to an estimated £1.65 billion

(\$2.40 billion) loss, down from a loss of £1.60 billion (\$2.33 billion) predicted last year.

For the 2000 year of account, which closed at year-end 2002 under the three-year system, the market posted a loss of £2.40 billion (\$3.58 billion), down from its previous prediction of £2.20 billion (\$3.28 billion), Mr. Moss said. The increased loss figure was largely the result of prior-year reserve strengthening, he noted.

Lloyd's Sept. 11-related losses, which are estimated at about £1.98 billion (\$3.12 billion), fall on both the 2001 and 2000 years, because claims typically fall on the year in which a policy was written.

Standard & Poor's Ratings Services in London said that Lloyd's projected results for the open years 2001 and 2002 were broadly in line

with its own expectations.

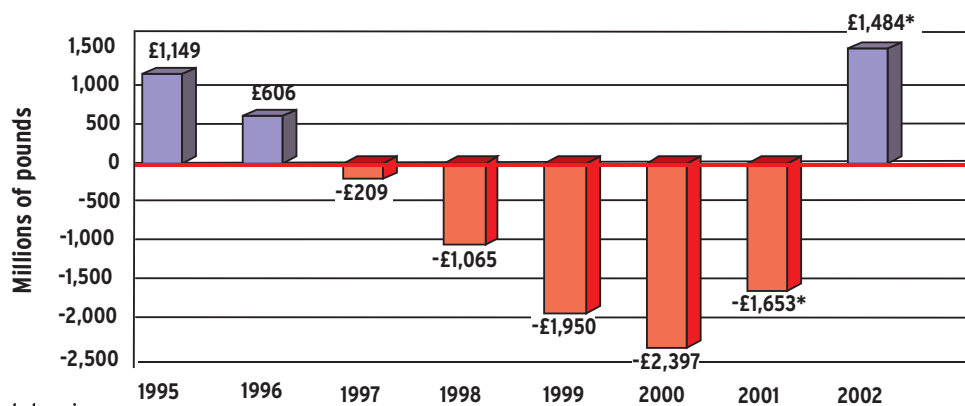
"Consistent with past loss-making years, Standard & Poor's would expect 2001 to deteriorate slightly, and would expect the 2002 result to improve," said Stephen Searby, credit analyst at S&P.

Moody's Investors Service in London said that while Lloyd's forecasts were broadly in line with its own, a significant difference existed between Lloyd's prediction of a loss of £1.65 billion for 2001 and Moody's prediction of a marketwide loss of £2.2 billion (\$3.20 billion) for that year.

The 2001 result is "subject to several uncertainties including ultimate provisioning for the significant reinsurance recoverables outstanding," said Mark Hewlett, managing director of Moody's European insurance division.

A REVERSAL OF FORTUNE

Lloyd's of London's projected 2001 and 2002 results under its three-year accounting system, which is being phased out by the marketplace.



* Projected earnings
Source: Lloyds of London

Asbestos: Reserve adequacy queried

Continued from page 3

blindsided insurers in recent years, S&P says. The liabilities stem from huge jumps in the number of claims from unimpaired asbestos plaintiffs; in the number of asbestos defendants, as plaintiffs' lawyers target peripheral defendants in the wake of asbestos producer bankruptcies; and in the average dollar amount of jury verdicts for asbestos-related injuries.

Citing a 2002 study by the Rand Institute for Civil Justice, S&P noted that the number of asbestos claimants has widened to about 600,000 last year from 21,000 in 1982, while the number of defendants increased to 8,400 from 300 two decades ago. The number of asbestos-related bankruptcies, meanwhile, grew to 64 last year from three in 1982, as many traditional asbestos-producer defendants sought Chapter 11 protection.

'If you add the (asbestos liability) amounts up, the primary sector's expectations don't correspond with what the reinsurers are recognizing.'

Robert Partridge
Standard & Poor's Corp.

Claims from U.S. asbestos plaintiffs will ultimately hit \$200 billion, with insurers worldwide responsible for about \$122 billion and U.S. insurers and reinsurers taking a roughly \$60 billion share, according to a 2001 study by Tillinghast-Towers Perrin cited by S&P.

As of year-end 2001, U.S. insurers had paid \$23.5 billion in asbestos claims and reserved for another \$13 billion, according to the study. The Tillinghast figures thus suggest a reserve shortfall of more than \$23 billion at the end of 2001, S&P notes.

The industry as a whole continues to fall behind growing estimates of asbestos liabilities despite large reserve additions by several insurers in 2002, S&P said. Travelers Property Casualty Corp. boosted gross asbestos reserves by \$3.22 billion last year, while ACE Ltd. increased gross reserves by \$1.91 billion. These moves followed smaller increases by Chubb Corp., Fireman's Fund Insurance Co. and Hartford Financial Services Corp.

S&P noted the wide gap, in some cases, between the gross reserve increases and the net figures after anticipated reinsurance recoveries.

ACE, for example, reported a net pretax reserve charge of only \$516 million, reflecting "an overweening dependence on reinsurance for an exposure representing about 30% of its capital base," the S&P report asserts.

ACE Vice Chairman Donald Kramer disputed this, though, pointing out that \$533 million of ACE's reinsurance is recoverable under a Berkshire Hathaway Inc. retroactive contract covering for-

mer CIGNA Corp. business. ACE expects no trouble collecting from Berkshire, has seen no slowdown in recoveries from other reinsurers on paid losses and is, in many cases, protected by letters of credit or offsetting balances with its reinsurers, Mr. Kramer said.

Travelers reported a smaller gap between its gross and net reserve increases, taking credit for \$668 million of reinsurance for a net reserve boost of \$2.55 billion.

A Travelers spokeswoman said "our reinsurers have been paying," but otherwise declined to comment on the issues outlined by S&P.

While insurers are taking large reinsurance credits to reduce the net impact of asbestos reserve increases, reinsurers are so far not making correspondingly large additions to their own reserves, S&P notes.

Munich Reinsurance Co., for example, added \$2 billion to American Re-Insurance Co.'s reserves, but only \$286 million was to cover asbestos losses.

"If you add the amounts up, the primary sector's expectations don't correspond with what the reinsurers are recognizing," S&P's Mr. Partridge said in the report. "The fallout could affect reinsurers' credit quality."

John Iten, an S&P director, observed in the report that these liabilities "are disappearing into thin air" between insurers' and reinsurers' financial statements.

"It's basically free capital at this point," Mr. Iten said in an interview. "It's not showing up in anybody's leverage ratios or capital ratios."

Other observers caution, though, that the divergence doesn't necessarily reflect reinsurers' failure to recognize the liabilities or indicate future claim disputes.

A number of factors could account for reinsurers' delay in increasing reserves, these observers say. In addition to the long-tail nature of asbestos payouts, many reinsurance programs are written on an excess-of-loss basis, meaning that a given reinsurer's exposure will take longer to emerge than in quota-share programs where reinsurers simply assume a percentage of ceding insurers' losses.

There may not be "perfect symmetry" between insurer and reinsurer reserving levels, but it's hard to know whether that is a problem without knowing the details of individual companies' exposures, ACE's Mr. Kramer said.

"There are so many moving parts, it's hard to point a finger and say, 'They're underreserving' and 'They're overreserving,'" observed Jamie Inglis, a managing director with insurance investment advisor Philo Smith & Co. in Stamford, Conn.

Free copies of the S&P report, "Asbestos Driving a Wedge Between Insurers and Reinsurers," may be obtained by e-mail from marc_eiger@standardandpoors.com.

ERISA: Plan exclusion upheld

Continued from page 4

crimination, the decision noted. Instead, he argues that the plan violates ERISA's minimum participation requirements by restricting its definition of an employee to salaried workers. "By not crediting his years of hourly employment, the plan, Bauer argues, imposed an additional requirement not sanctioned by any statute or regulation," the decision stated. "Bauer claims that any employee, however compensated, who works 1,000 hours a year or more is entitled to pension benefits for that year," the panel noted. One thousand hours is considered the equivalent of a year of service under ERISA.

However, the appeals panel wrote, Summit argues that an employer can deny an employee's participation in an ERISA plan "as long as that exclusion is made on a basis other than age or length of service."

The 3rd Circuit concurred. "Summit had no duty to create the plan in this case," says the decision. "It also had no duty to provide benefits to every employee." So long as any limitation was not based upon age or length of service, the court held it "could limit plan participation to certain groups or classifications of employees."

The decision stated that several federal appellate court decisions that deny coverage to leased employees are analogous to this case.

Mr. Bauer's attorney, Robert A. Vort of Hackensack, N.J.-based Pearce, Vort & Fleisig, said he dis-

agreed with the court's finding.

Judge James C. Hill, who wrote the unanimous opinion, acknowledges that "nobody's raised this issue before," said Mr. Vort. "He says nobody raised it because there's no merit to it, and I say they just went speeding down the highway and they skipped first gear."

Employer attorneys say, though, that the decision merely reaffirms established law.

Lou Mazawey, an attorney with Groom & Nordberg in Washington, said, "I view the case as reaffirming what I thought were pretty well established ERISA principles and not really breaking any new ground."

"Really, ultimately, what they're saying is ERISA gives employers broad discretion" to determine who is covered under their benefit plans, Mr. Mazawey said. "As long as the plan meets the ERISA code nondiscrimination rules, and as long as the hourly classification is not being used to exclude otherwise eligible employees who have at least 1,000 hours of service," they can be excluded for other reasons, he said.

Frank Cummings, an attorney with LeBoeuf, Lamb, Greene & MacRae in Washington, said: "It would have been revolutionary to find the other way around" and undermine a basic ERISA premise, which is that "the employer has the right to define whom he's going to cover, whom he's not going to cover. And the only exceptions have to do with discrimination, and that's on account of age and on account

of being highly compensated, neither of which was involved in this case."

Jeffrey Bergman, an attorney with Sachnoff & Weaver in Chicago, said, "This was almost a too-cute attempt" to create a requirement "that all employees, whether salaried or hourly compensated, be included in the plan, and there's really no support for that."

Ronald Dean, a Pacific Palisades, Calif.-based attorney who represents plan participants, said: "No one suggests that you couldn't cover only a specific category of people in a pension plan. You may have issues with the nondiscrimination requirements under the code, but that's a completely different thing."

John Bauer, appellant, vs. Summit Bancorp, 3rd U.S. Circuit Court of Appeals, No. 01-3624.

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Costs: Loss control spending grows

Continued from page 3

age 21% more for loss control services during 2002. Spending increased the most among manufacturers, followed by financial services companies. Companies reporting the smallest increases in loss control spending were in information technology, agriculture and mining.

The biggest jump in loss control spending was in the area of security, where companies spent 58% more, on average. Next was disaster preparedness, where spending increased 52%; corporate governance loss control, where spending increased 52%; and workers compensation, where spending increased 50%.

"The greatest increase in loss control spending reflected the effects of the recent corporate scandals and the threat of terrorism on the business marketplace," observed Mr. Deaderick, who noted that the role of risk managers changes as corporate risks change.

"Now the market is hard, and the global economy is very weak. There's also political instability and war, increasing product liability and D&O suits," he said.

Furthermore, before the attacks

on the World Trade Center and Pentagon on Sept. 11, 2001, risk managers weren't familiar with terrorism loss control, forcing them to spend more to get up to speed, he added.

The top three reasons cited by risk managers for the increased spending were to get better terms and conditions on their insurance programs, followed by increased loss activity and the threat of terrorism.

Loss control costs are also being affected by increased charges for the services, said Mr. Deaderick. During the soft market, many loss control services were given away by insurers as a "value-added service" to keep and attract business. But now that there are fewer insurers and a tight market, insurers are more likely to charge for loss control services, he said.

Copies of the report are available by mail from Sharon Herner at Chubb Group of Insurance Cos., 15 Mountain View Road, Warren, N.J. 07059; or by e-mail at sherner@chubb.com. The survey also can be found on the Internet at www.chubb.com/rims/2003survey.pdf.

April 7, 2003

Late News

Continued from page 1

out specific criteria for doing so. In addition, the measure would prohibit the awarding of punitive damages in asbestos-related civil suits.



Rep. Cannon

California comp courts need reform: RAND

State courts responsible for resolving workers compensation disputes in California often fail to settle cases within the time mandated by law, the RAND Institute for Civil Justice has found. The courts suffer from funding and staffing shortages, as well as outmoded procedural rules and an antiquated computer system, according to a RAND report. Consequently, the court system needs to be reformed, RAND says.



Employees taking on more health care costs

As health care costs continue to grow, employees are shouldering a larger share of the increased costs than are employers, a study shows. Employees saw their costs for health care coverage rise by 16% on average this year compared with 2002. Employers' costs for the coverage, meanwhile, rose by 12.8% on average, according to the report by Fidelity Employer Services Co., a unit of Boston-based Fidelity Investments Corp.

Cunningham Lindsey buys RSKCo from CNA

Cunningham Lindsey U.S. Inc., a subsidiary of Lindsey Morden Group Inc., has agreed to purchase the unbundled risk management claims business of RSKCo Services Inc. from Chicago-based CNA Financial Corp.'s Continental Casualty Co. unit. The purchase price will equal 35% of revenue billed to RSKCo customers that remain active customers one year after closing. CNA said the current annual revenue from customers of the business being sold is about \$40 million.

TRENWICK GROUP LTD

Trenwick unit defaults on notes, gets extension

A Trenwick Group Ltd. unit has defaulted on \$75 million in senior notes but has reached an agreement in principle with creditors to delay the repayment until Aug. 1. Under the agreement, Trenwick America Corp. will pay noteholders \$2.5 million in interest accrued through the notes' April 1 maturity date and receive a waiver of the default and a four-month extension to repay the principal, Trenwick announced. The deal is still subject to negotiation of final terms with the noteholders and approval of a group of banks.

DOL offers help with labor laws

Labor Secretary Elaine Chao has unveiled two initiatives designed to help employers comply with federal labor laws. Ms. Chao called the initiatives "a new way for business to do business with the Department of Labor." One, the FirstStep Employment Law Advisor, is an Internet-based service designed to help employers determine which laws administered by the department apply to their business. The other initiative is a 102-page "Employment Law Guide" that explains the department's major laws and regulations.



Ms. Chao



PHOTO:KRT

PBGC takes over US Airways pilots plan

The Pension Benefit Guaranty Corp.'s termination of US Airways Inc.'s pension plan for its pilots will cost the agency about \$600 million, making it the sixth-largest loss in the PBGC's 28-year history. The PBGC officially took over the plan last week, after concluding that a defined contribution plan program US Airways is setting up for pilots was not an abuse of the agency's termination insurance program.

U.K. rates to level off in 2004: Marsh

Rates for many commercial lines in the U.K. market are showing signs of leveling off in 2004 after more than two years of steady increases, according to Marsh Ltd. At the broker's annual review of the market in London last week, Marsh executives said that although rates will remain volatile in some lines— notably employers liability and directors and officers liability—next year should see a general easing of prices.

Vote on class-action reform bill delayed

The Senate Judiciary Committee has again delayed a vote on the Class Action Fairness Act for a week. The panel had initially planned to take up S. 274 March 27, but committee Democrats asked for a delay. The committee then planned to take it up on April 3, but the mark-up was delayed again after an amendment was filed. Democrats sought a second delay of the mark-up to allow the committee



Sen. Feinstein

to look over a last-minute amendment offered by Sen. Dianne Feinstein, D-Calif.

RSA sells health operation in U.K.

Royal & SunAlliance Insurance Group P.L.C. has sold its U.K. health care business to Oxfordway Ltd. for £147 million (\$231.5 million). The sale is part of a restructuring plan announced by RSA in November 2002. RSA said that, in 2002, its health care business recorded profits of £45 million (\$72.4 million) and net written premiums of about £273 million (\$439.4 million). Oxfordway is a new company formed by an investor group led by former RSA health care division managers.

Briefly noted

William J. Kelly, a former president of the Risk & Insurance Management Society Inc., has joined PricewaterhouseCoopers L.L.P. in New York as director of its Insurance Risk Management Solutions practice. Mr. Kelly, a longtime risk manager at JP Morgan, most recently was an executive vp with Willis....The Assn. of Professional Insurance Women Inc. has selected **Fiona E. Luck**, executive vp-group operations and assistant secretary of XL Capital Ltd., as the 2003 APIW Insurance Woman of the Year. A cocktail reception and award ceremony honoring Ms. Luck will be held June 10 in New York....San Francisco-based bank UnionBanCal Corp. has acquired Pleasanton, Calif.-based **Tanner Insurance Brokers Inc.** for an undisclosed amount. Based on 2001 U.S. brokerage revenues of \$17 million, Tanner ranked No. 95 on *Business Insurance's* list of the 100 largest brokers of U.S. business (*BI*, July 22, 2002)....**Arch Insurance (Bermuda)**, a division of Arch Reinsurance Ltd., is doubling its property capacity to \$50 million. Arch Insurance can increase the capacity to \$100 million on selected accounts.

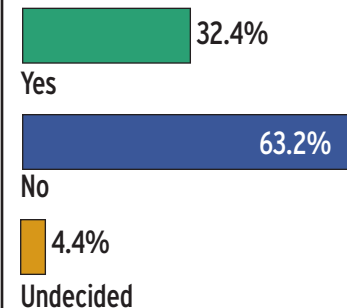
Check out BusinessInsurance.com

Items in the Late News column originally appeared in *BI's* Daily News feature on www.businessinsurance.com. Visit the *BI* Web site to sign up to receive *BI's* Daily News by e-mail.

Online Poll

[3/31 - 4/4]

In light of current events, do you intend to go to this year's Risk & Insurance Management Society conference in Chicago?



BI Stock Index

[3/31 - 4/4]

Up-to-the-minute data for all 87 companies that comprise the *BI* Stock Index can be found at www.businessinsurance.com

Percentage change of *BI* Stock Index vs. key indicators

BI Stock Index	1782.67	↑ 5.00
Dow Jones	8277.15	↑ 1.61
S&P 500	878.85	↑ 1.78

Largest gains

Unico American Corp.	28.00%
SCPIE Holdings Inc.	26.28%
SCOR	8.87%
ACE Ltd.	8.12%
Fairfax Financial Holdings	7.69%

Largest losses

NYMag Inc.	-7.50%
EMC Insurance Group	-6.25%
Vesta Insurance Co.	-5.68%
Aetna Inc.	-2.60%
Clark Barden Holdings	-2.46%

Weekly change by market segment

Brokers	2.15%
Insurers/Reinsurers	3.50%
Managed Care Organizations	0.44%

Source: CNET Investor (investor.cnet.com)

RRG: Tennessee agrees to drop RRG fee

Continued from page 4

The controversy involving fees that states have tried to impose on RRGs has been going on for years, with states often reversing themselves after protests from RRGs and, in some cases, because of court rulings.

Last year, for example, the Oklahoma Insurance Department, responding to the complaints of RRGs, dropped a \$600 antifraud fee. The fees are imposed on insurance entities licensed by the state, but the RRGs said they were exempt be-

cause they are licensed not by Oklahoma but by other states.

Also last year, a federal judge ruled that the Risk Retention Act pre-empted Michigan from imposing a 0.5% fee on premiums paid by policyholders in Michigan for coverage written by RRGs that are licensed in other states.

In prior years, Maryland dropped a \$1,000 antifraud fee it attempted to impose on RRGs, while the Hawaii Insurance Division rescinded, after protests from RRGs, a \$406 fee it initially imposed on the groups. The funds were to have

been used to help defray the division's administrative costs.

While the fees individually are small, collectively they can add up for groups that operate nationwide, RRG backers say. They argue that Congress, when it passed the Risk Retention Act, deliberately and explicitly pre-empted nondomiciliary states from imposing fees and any other requirement except those set out by federal law, such as the payment of applicable premium taxes, on the groups.

Congress wanted to give buyers a fast, low-cost way of creating their

own insurance entities, they contend. In structuring the law, Congress said RRGs, which can write all commercial casualty lines of coverage except workers compensation for member-policyholders, could do business nationwide after meeting the licensing requirements of one state.

Just over 100 RRGs now are operating. That number is up substantially compared with the previous year, as buyers, in the face of soaring premiums in the traditional commercial insurance market, are organizing RRGs at a rapid pace.

Fire: Lobbying may limit standard fire policy form

Continued from page 1

direct losses or damage by fire and lightning, as well as removal from premises. Such losses resulting from terrorism-related explosions are generally still considered insured under this traditional coverage, observers say.

Insurer proponents argue that they need to reduce their liability for direct fire losses under traditional standard fire policies to protect insurers' solvency and ensure stable markets.

It is a critical issue because of the potential devastation that could result from terrorism-related losses, said John Lobert, senior vp of state government affairs for the Alliance of American Insurers in Downers Grove, Ill. The alliance is a coalition member.

Insurer proponents say that policyholders will benefit by having greater certainty that their claims will be paid and that coverage will be available, because more insurers will be willing to underwrite risks without the broad fire exposure.

Corporate risk managers, though, are more concerned about the loss of coverage that many have counted on for nearly 60 years and need to re-assess whether they must purchase additional coverage.

"I am rather dismayed—to say the least," said Chris Mandel, president of the New York-based Risk & Insurance Management Society Inc.

The insurers' lobbying effort "is significant because fire-following provisions in most commercial property policies are the only re-

maining protection from a terrorist act that was fully covered in those same policies prior to Sept. 11. To the extent that policyholders relied on fire-following coverage, the legislative elimination of it increases fire risk for those companies," Mr. Mandel said.

Consequently, "if the industry succeeds in gutting the standard fire policy form, then it is reasonable to assume that more risk managers will buy Terrorism Risk Insurance Act coverage," he added. Estimates of the number of risk managers now buying such coverage vary widely, from 25% to 70%, he said.

Mr. Mandel said last week that he feels strongly enough about this issue to ask RIMS' External Affairs Team to discuss it during the society's annual conference in Chicago this week. In his opinion, "this is an important enough state issue for RIMS to lobby against it."

Several risk managers were unaware of the insurers' initiative, although the Insurance Services Office Inc. indicated more than a year ago that it was planning to encourage insurer trade groups to lobby states to eliminate the coverage (*BI*, Feb. 11, 2002).

Virginia was the first state to amend its standard fire policy laws for commercial policyholders when the Legislature passed a bill late last month. H.B. 2606, which goes into effect July 1, provides that a standard policy of fire insurance "shall not cover loss or damage caused by certified acts of terrorism as defined by the Terrorism

Risk Insurance Act...if the insured has refused coverage offered pursuant to" that act.

Mike Hulsey, risk manager for Richmond, Va., and president of RIMS' Virginia chapter, said his city is not affected by the change because he purchased terrorism insurance to protect it.

Joy Hall, claims manager for Newport News, Va.-based Ferguson Enterprises Inc., however, said her plumbing wholesaler-distributor company will now have to determine if it needs more coverage. She is vp of the Virginia chapter.

Commenting on the legislative process, Mr. Hulsey said the bill "didn't receive a lot of publicity in the commonwealth...so commercial policyholders' voices have not been heard on the issue."

The legislative approach taken in Virginia "is one of the most conservative" ones, said Eric M. Goldberg, assistant general counsel with the American Insurance Assn., which is a coalition member. The Virginia legislation is specifically geared to TRIA, which requires insurers to offer coverage only through 2004, he said.

The approach used in Nebraska has more sweeping implications. The insurer trade associations also supported that bill—L.B. 216—though it originated from state insurance regulators' efforts to reassert the insurance director's authority to approve forms in light of recent court decisions, said Eric Dunning, counsel to the Nebraska Department of Insurance.

Once the Nebraska law takes effect—90 days after the close of the legislative session, or about Sept. 1—the insurance director may approve commercial property forms that deviate from standard fire policy wording, Mr. Dunning said. No TRIA-related limitations apply.

Proponents say their ultimate plan is to seek similar changes in the 28 states plus the U.S. Virgin Islands that have adopted standard fire policies for commercial risks. Most jurisdictions require legislative approval, while five states—Georgia, Illinois, Missouri, Washington state and Wisconsin—allow their insurance commissioners to act, ac-

ording to the Alliance's Mr. Lobert.

Seeking such a change in New York "will be the biggest challenge," he said.

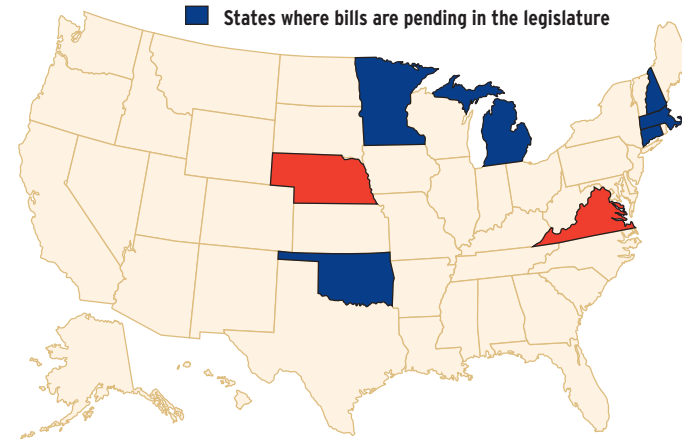
New York Insurance Superintendent Gregory Serio declined to comment for this article but said a year ago that he did not think the state's Insurance Department would support such a change.

"I think state legislatures are trying to do what they think is best, but it warrants more discussion about the impact on policyholders," said Candace Frick, director of legislative affairs for the Albany, N.Y.-based National Conference of Insurance Legislators.

INSURER LOBBYIST TARGETS

States that have taken or are considering action this year

- States where bills have been signed by the governor
- States where bills are pending in the legislature



Source: Alliance of American Insurers and the American Insurance Assn.

FLSA: No slowdown in overtime suits for a while

Continued from page 1

between who is exempt and who is not exempt from overtime pay that is the subject of rising litigation and, in many cases, multimillion-dollar settlement agreements.

While the proposed FLSA regulations may clarify some of the uncertainty behind the federal exemption tests, which should eventually reduce the number of lawsuits, it will have no effect on the amount of litigation being brought under state law, most notably in California, attorneys say.

"That seems to be the very hot area, where plaintiffs lawyers have gone industry by industry and filed suits under the California state statutes," said Gerald L. Maatman Jr., a labor attorney with Seyfarth Shaw in Chicago. He said the proposed regulations will not curb much of the litigation "primarily because a lot of that litigation is state law driven."

"The jury's out as to whether or not (the regulations) will simplify, clarify, and streamline these sorts of issues under federal law," said Mr. Maatman. "Since this is going to take a while to have an impact, to the extent it would have an impact on the litigation, it probably wouldn't be for two years."

Jeremy J. Glenn, a labor attorney with Meckler Bulger & Tilson in Chicago, noted that the "lack of

clarity in the current regulations makes it easier for plaintiffs attorneys to argue that workers have been misclassified. The new regulations are designed to speak more in the language of the 21st century, so in that sense, it will resolve some of the uncertainty simply because the language is easier to understand."

At the same time, however, "anytime you have a new set of regulations to apply, you'll have test cases until the courts are comfortable interpreting the language of the new regulations," Mr. Glenn noted. "I don't see an immediate scale back in federal litigation, because there is new language to argue about."

Albert J. Solecki, a labor and employment attorney with Goodwin, Procter L.L.P. in New York, said that with the proposed changes to the regulations, an estimated 12 million workers will be eligible for overtime pay.

"So you've just added another 12 million legitimate plaintiffs to the mix," he said.

"The Department of Labor thinks, ultimately, that by clarifying the regulations and the exemption tests, it is going to decrease the number of lawsuits, and that's an admirable objective to have," Mr. Solecki said.

But the amount of litigation is going to rise, at least initially, Mr.

Solecki predicts. "As a realistic matter, you're not going to have immediate compliance by employers," he said. "You're going to have employers that are frankly going to be in violation of the law, either consciously or unconsciously."

"Longer term, though, the clarity that will be provided by the changes in the exemption tests...will decrease litigation because...there won't be the level of ambiguity that currently exists by using...antiquated tests. But it's going to take a period of time before those objectives are realistically achieved," he said.

Meanwhile, the list of employers being hit with overtime lawsuits continues to grow.

Most recently, Purchase, N.Y.-based Pepsi Cola Co. agreed to pay \$28 million in back pay and other fees to employees who deliver its products and stock store shelves to settle charges that it violated New Jersey's wage and hour law.

This follows several other large awards and settlements, including the July 2001 \$90 million verdict by a California jury against Farmers Insurance Exchange and RadioShack Corp.'s \$29.9 million agreement in July 2002 to settle an overtime lawsuit brought by store managers under California state law.

Most employers are not able to find insurance coverage for the

awards. Generally, insurers are rejecting any overtime claims filed under employment practices liability policies on the grounds that the claims stem from misclassification rather than discrimination (*BI*, March 4, 2002).

While time will tell what the full impact of the new FLSA regulations will be, labor attorneys in the meantime are advising employer clients to make sure that they are in compliance with existing wage and hour statutes and exercising proper risk management in their employment practices.

Risk managers "can't wave the magic wand and anoint someone as being exempt from these types of laws," Mr. Maatman warned. Job titles are not as important as what exactly the employee does. "You have to look at people job by job, function by function," he said.

"I think a lot of employers are investing a lot of risk management time and effort to make sure they properly classify folks, and, if they're not, to clean up any issues to get off the radar screen of the plaintiffs bar who are bringing these cases," he said.



Proposed changes to the Fair Labor Standards Act would make it easier for employers to determine overtime exemptions.