

**2002 Risk Management Honor Roll :
Lauren M. Gregory – Metropolitan Transportation Authority**

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April 15, 2002

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\$4



Risk Manager of the Year

Daniel H. Kugler
Director of Corporate
Risk Management
Snap-on Incorporated

House approves 401(k) reform measure / 2

Liberty Mutual examines cost of injuries / 3

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April 15, 2002

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\$4

Business welcomes OSHA's new plan for ergo

By MARK A. HOFMANN

WASHINGTON—The Bush administration's plan to use voluntary safety guidelines and targeted enforcement efforts to reduce ergonomics-related injuries is drawing generally positive reactions from employers and insurers.

The administration's plan, which Labor Secretary Elaine Chao announced April 5, will not be complete for six months or more. As outlined, the plan would rely on voluntary guidelines rather than the mandated ergonomic standards adopted by the Occupational Safety and Health Administration during the Clinton administration.

The proposed plan calls for OSHA to focus its enforcement efforts on employers and industries that have been prosecuted for ergonomics problems in the past, as well as employers whose ergonomics practices violate OSHA's "general duty clause"—which requires an employer to maintain a safe workplace. The proposal also would include assistance to employers to comply with whatever guidelines OSHA devises, an outreach program for immigrant workers and further ergonomics research.

Secretary Chao is likely to be pressed for more details when she appears before the Senate Health, Education, Labor and Pensions Committee later this week. The committee's chairman, Sen. Edward M. Kennedy, D-Mass., has sharply criticized the proposal as inadequate to guarantee worker safety.

Even in its current incomplete form, the plan reflects a radically different approach to ergonomic safety than did the Clinton admin-

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Bush renews push for terror cover aid

By MARK A. HOFMANN

WASHINGTON—President Bush is drawing high marks from risk managers and insurers for his renewed effort to push terrorism insurance legislation through the Senate.

An address by the president last week on the need for terrorism insurance marked a shift in the White House's approach to the issue. Although President Bush and his administration—notably Treasury Secretary Paul O'Neill—have supported the idea since last fall, the president's April 8 speech was his most

high-profile action to date to push the issue.

"It's a home run," said David Mair, the president of the Risk & Insurance Management Society Inc., after he emerged from the address

and subsequent briefing by administration officials. The president's public commitment to enacting terrorism insurance legislation, after having pushed for it in a low-key manner since the fall, was "spectacular," said Mr. Mair, who is also risk manager for the U.S. Olympic Committee in Colorado Springs, Colo.

Meanwhile, a key lawmaker predicted late last week that the Senate would pass terrorism insurance legislation by the end of the month.

"This is not about the insurance industry; this is about insurance

See BUSH/page 78

Turmoil in market for property cover page 3

Risk management in Japan

Risk management gathering speed in Japan

By MICHAEL BRADFORD

TOKYO—Risk management is slowly gaining momentum in Japan.

In a land where risk managers are few and far between, the philosophy of promoting loss control and safety is taking hold in new ways throughout the country. Still, because of certain cultural and business hurdles, risk management has quite a ways to go before it reaches the level at which it is practiced in the West.

Risk management experts in Japan point to several reasons why the discipline lags behind that of Western nations. In part, they say, top management at Japanese companies is used to reacting to losses, rather than preventing them. And the idea of naming a single manager to head up a risk management department remains a foreign concept to most organizations.

"We need that kind of person," said Atsuo Ueda, a management professor at Monotsukuri University

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MORE JAPANESE RIMS COVERAGE BEGINS ON PAGE 68

Late News

Insurers must advance Enron defense costs

A federal bankruptcy judge will allow Enron Corp. to demand advances of defense costs from Bermuda-based Associated

Electric & Gas Insurance Services Ltd., its lead directors and officers and fiduciary liability insurer. The judge turned aside arguments from Enron shareholders that the defense payments would wrongly reduce money available to pay damages to Enron stockholders who saw the value of their shares evaporate in Enron's December collapse. Enron earlier this year asked the bankruptcy court's approval for \$20 million in defense-cost advances under its \$350 million D&O program and \$10 million under its fiduciary liability program.

Captive growth picks up pace: Best

Captive insurance company incorporations grew last year at a pace not seen in a decade, according to A.M. Best Co. Regulators and other sources in captive domiciles reported 316 new captives licensed in 2001, with 202 liquidated, for a net gain of 114, according to Best. The incorporations represent the largest one-year growth in the 10 years Best has been tracking new licenses as a separate statistic. The directory lists Bermuda as the busiest domicile in 2001, with 91 new captives. Cayman licensed 49, and Vermont drew 38.

MRM president steps down

John Kessock has resigned as president of the troubled insurance group Mutual Risk Management Ltd. Mr. Kessock, who has worked for the company for 23 years, is leaving to "pursue personal interests," according to a statement from the Hamilton, Bermuda-based insurer and captive manager. In addition to serving as president of MRM, Mr. Kessock had, until March, been president of the group's U.S.-based insurance companies, Legion Insurance Co. and Villanova Insurance Co. Those operations were placed in rehabilitation late

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PROFILE OF 2002 RISK MANAGER OF THE YEAR

Begins on page 10

PROFILE OF 2002 RISK MANAGEMENT HONOR ROLL HONOREE

Begins on page 42



PHOTO: PAUL VAN RIE/BLACK STAR

Inside

Local customs lose out in trial

A court in America Samoa upholds an insurer's denial of a claim for computer chips destroyed in a fire, finding the chips were contraband and, therefore, ineligible for coverage. **Page 4**

Black mold's celebrity plaintiff

Black mold claimants may have found a new spokesman in their battle with the insurance industry for coverage of property claims, says Editor Paul D. Winston in this week's Commentary. **Page 6**

Award winners raise status of profession

The honorees of the Risk Manager of the Year and Risk Management Honor Roll competition, through their programs, raise the stature of the risk management profession, this week's editorial says. **Page 8**

Lloyd's hoping for turnaround

After reporting a record loss of £3.11 billion (\$4.53 billion) for 2001, resulting mainly from massive Sept. 11 claims, Lloyd's of London is hoping that reforms will reverse the market's declining fortunes.

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REPORTING WEEKLY ON
CORPORATE RISK,
EMPLOYEE BENEFITS AND
MANAGED HEALTH CARE NEWS

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CONTINUED FROM PAGE ONE last month, following difficulties related to reinsurance recoverables.

Bill targets tax benefits of moving offshore

Sens. Max Baucus, D-Mont., and Charles Grassley, R-Iowa—the Senate



Sen. Max Baucus, D-Mont., has introduced a bill that would roll back tax benefits to companies that reincorporate in Bermuda.

Finance Committee's chairman and ranking minority member, respectively—last week introduced the Reversing the Expatriation of Profits Offshore Act, a bill designed to roll back the tax benefits gained by companies that reincorporate in Bermuda or other offshore domiciles. The REPO Act would treat an offshore holding company as a U.S. corporation for tax purposes if the emigrating U.S. company's shareholders end up with 80% or more of the new offshore parent's stock and the parent company has no "substantial business activities" in its domicile.

FM Global posts \$132 million loss

Factory Mutual Insurance Co. recorded a net loss of \$132 million in 2001, compared with a profit of \$354 million in 2000. The insurer, which does business as FM Global,

Late News

attributed the loss in part to the Sept. 11 attack on the World Trade Center. Four FM Global employees were among those killed in the attack, which resulted in the company taking a \$252 million net charge. The 2001 loss also reflects the company's plan to return \$237 million to policyholders as a membership credit for savings that resulted from the 1999 merger of three property insurers that created FM Global. Gross premium in force increased to \$2.0 billion in 2001 from \$1.4 billion in 2000.

ACE offers \$100 million in terrorism limits

ACE USA is offering up to \$100 million in coverage for property losses stemming from acts of terrorism. The unit of ACE Ltd. will offer the coverage to U.S. and Canadian utilities, telecommunications companies, manufacturers, entertainment risks, financial institutions and real estate businesses. Coverage for terrorism-

related business interruption losses is available to unspecified limits.

Allianz, Illinois resolve 'misunderstanding'

Illinois Director of Insurance Nat Shapo came close earlier this month to ordering a hearing into whether Allianz A.G. had failed to meet its commitments to fund an international commission settling unpaid Holocaust-era insurance claims. In negotiations last week, though, Allianz clarified its position to Mr. Shapo's satisfaction, and the commissioner said he now considers the situation "a misunderstanding." At issue was whether Allianz reneged on its promise to give Lawrence Eagleburger, chairman of the International Commission on Holocaust Era Insurance Claims, "unfettered authority" to conclude negotiations with the German Foundation and "to abide by the negotiated terms." The German Foundation, which was established in 2000, requires many German industries and the country's government to provide reparations to a variety of Holocaust-era victims, including slave laborers.

Briefly noted

Munich Reinsurance Co. will be granted a license to operate in China, the reinsurer says. Chinese officials informed Munich Re of the decision last week, according to a Munich Re statement....An Australian smoker suffering from lung cancer was awarded \$700,000 Australian (\$371,000) Thursday in a case brought against **British & American Tobacco Australia Services**. A spokesman for the company's London-based parent, British & American Tobacco P.L.C., said the cigarette manufacturer is appealing the decision, but if the verdict is upheld, it will pay the award out of company funds....Leicestershire, England-based Triumph Motorcycles will make a £100 million (\$143.4 million) **property and business insurance claim** over a fire at one of its production and distribution centers in Hinckley, England, last month, the company said. No one was hurt in the fire, which started in the plant's assembly area. No coverage details for Triumph were available....**ACE USA Professional Risk** announced it is planning to enter the medical professional liability market. The ACE USA unit is forming a new division, ACE Medical Risk, to write medical malpractice coverage to undetermined limits....Lloyd's of London managing agency **Atrium Underwriting P.L.C.** has announced a loss of 5.6% on its two syndicates' capacity of £79.9 million (\$116.3 million) for the 1999 year of account, the most recent to close under Lloyd's three-year accounting system. In addition, Atrium forecast a loss of 3.1% of its £77.8 million (\$116.2 million) of capacity for 2000. Atrium also updated its Sept. 11 loss estimate by £1.1 million (\$1.60 million) to £9.1 million (\$13.2 million).

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All the material in the Late News column, as well as other content in this week's issue, is generated from Daily News postings that appeared on the Web site in the previous week.

Fate of 401(k) reform bill now in Senate's hands

By JERRY GEISEL

WASHINGTON—Sweeping reform legislation designed to better protect 401(k) and other defined contribution plan participants from future Enron-type disasters is moving to the Senate.

The House of Representatives, on a 255-163 vote, last week approved legislation developed in response to the collapse of Enron Corp. Enron's unraveling and the plunge in its share price last year caused the company's 401(k) plan participants collectively to lose more than \$1 billion.

Enron-inspired provisions in the bill include allowing 401(k) plan participants to sell compa-

ny stock their employers contributed as a match after three years, giving employees advance notice of blackouts when they can't conduct transactions and barring top executives from selling shares they hold outside the plan during a blackout.

Other provisions would require employers to improve investment education, allow plan participants to use pretax dollars to purchase investment advice and make it easier for employers to provide access to investment advice.

The bill also includes provisions—unrelated to the Enron debacle and welcomed by business—

See **401(K)**/page 76

PENSION SECURITY ACT

The major provisions of House bill

Investment diversity — Employer choice: 401(k) participants could sell company stock after three years of service or three years after receiving the stock.

Blackout periods — 30-day notice prior to blackout or lockdown periods. Top executives could not sell stock during those periods.

Benefit statements — Quarterly communications on the importance of investment diversification.

Pension funding — Allows employers to use more liberal interest rate assumptions to value defined benefit plan liabilities for 2001.

Pension Benefit Guaranty Corp. — Extends PBGC's missing participants program to defined contribution plans and lowers PBGC premiums for new plans set up by small employers.

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U.S. expands electronic benefit communications

E-mailing benefit info OK'd

By JERRY GEISEL

WASHINGTON—Final Labor Department rules will significantly expand both the number of people to whom employers can transmit benefit plan information electronically and the type of information eligible for electronic transmission, such as e-mail.

Under earlier proposed regulations, electronic transmission of benefit plan information, such as summary plan descriptions, was permitted only for employees located at worksites where they have access to their employer's electronic information systems as part of their duties.

The final regulations, though, allow employers to transmit the information electroni-

cally to those employed outside of traditional worksites. Those regulations, which were published in the April 9 issue of the Federal Register, would permit electronic transmission of benefit plan information to employees such as telecommuters or traveling sales staff who, as part of their jobs, have access to electronic information.

In addition, for those who don't have access to their employers' electronic information systems—individuals such as assembly line operators or retirees—benefit plan information could be transmitted electronically, but only with the individual's prior consent.

The final rules also broaden information that can be transmitted electronically to in-

See **PLAN INFO**/page 6



Employer priorities don't match most costly worker injuries

By SALLY ROBERTS

The leading cause of disabling injuries in the workplace is not getting the most attention from employers, according to Liberty Mutual Insurance Co. research.

Workplace injuries associated with overexertion—those associated with excessive lifting, pushing, pulling, holding, carrying or throwing of an object—cost employers more than any other cause of injury, the Boston-based insurer reports in its 2002 Workplace Safety Index, which it is releasing today.

Overexertion injuries nationwide cost \$10.3 billion in wage and medical payments in 1999, or 25.5% of the estimated \$40.1 billion in total direct costs from all workers compensation injuries that year, the latest for which data is available, according to Liberty Mutual.

But while overexertion is by far the costliest workplace injury from a wage and medical expense standpoint, most employers are focusing their attention and resources on other, less costly injuries, the insurer reports.

According to Liberty Mutual's 2001 Executive Survey of Workplace Safety, which was released last fall, employers ranked repetitive motion injuries as the most important source of workplace accidents and said they would focus most of their safety resources on these injuries (*BI*, Sept. 3, 2001).

But repetitive motion injuries ranked sixth among the leading causes of disabling injuries in 1999, the Workplace Safety Index found. The direct costs associated with repetitive motion injuries represented \$2.7 billion, or 6.7% of the total direct costs

See **INJURIES**/page 77

PERCEPTION VS. REALITY

Cost may not be the most important factor in setting loss prevention priorities, two recent surveys show

Causes of injury ranked by employer priority

1. Repetitive motion
2. Overexertion
3. Highway accidents
4. Bodily reaction*
5. Falls to lower level
6. Being caught in or compressed by equipment
7. Falls on the same level
8. Being struck by object
9. Exposure to temperature extremes
10. Being struck against object

* Injuries resulting from a single incident (bending, climbing, slipping without falling)
Source: Liberty Mutual Insurance Co.

Causes of injury ranked by their 1999 direct cost

1. Overexertion
2. Falls on the same level
3. Bodily reaction
4. Falls to lower level
5. Being struck by object
6. Repetitive motion
7. Highway accidents
8. Being struck against object
9. Being caught in or compressed by equipment
10. Exposure to temperature extremes

Prospects mixed for hard market relief
Casualty market to become 'more manageable' than property: Marsh

By RODD ZOLKOS

CHICAGO—Property insurance market conditions will remain tough for buyers this year, while casualty markets will prove much more manageable, predicts Marsh USA Inc.

The roots of the current state of the insurance market reach beyond the Sept. 11 attacks and the Enron Corp. collapse, Arlene Corsetti, managing director and head of the Chicago office of Marsh USA, said in an April 9 presentation of Marsh's 2002 Insurance Market Review & Forecast.

Years of rising industry losses, the growing dollar value of risks, the concentration and inadequate spread of risk, and a downturn in insurers' investment income all have contributed to the current market environment, Ms. Corsetti said. Insurers have responded by tightening underwriting, raising rates and reducing capacity.

Sept. 11 and Enron exacerbated the prob-

lems, Ms. Corsetti said, with Enron presenting a new set of concerns.

"Enron is something different," she said. "The biggest issue right now that Enron presents for the industry is a questioning of all the information underwriters get. It makes them question the whole basis underlying how they assess risk."

On the property front, Marsh forecasts that insurance buyers looking to renew coverages this year can expect to see a continuing trend of significantly higher premiums and reduced capacity.

Manuel Ribot, a senior vp and Midwest property manager for Marsh in Chicago, said that "in today's environment, you probably aren't going to get limits in excess of \$500 million (for) all-risk property coverage." Meanwhile, rate increases of 100% to 300% "are not unusual," he said.

And, as the market grapples with terrorism coverage issues, "there will be and there prob-

ably are gaps in your coverage with respect to terrorism, and you've got to be aware of that," Mr. Ribot said.

While there is capacity coming into the property market, "the market is still volatile," the Marsh broker said. "Underwriters are still trying to figure out what they can do and can't do."

In the casualty market, "the good news is, I think the market is much more manageable than the property market," said Kevin Brogan, a senior vp and casualty manager with Marsh in Chicago.

"Workers compensation, in my opinion, is a pretty manageable line of coverage," he said.

Although workers comp rate increases this year are in the 20% to 50% range, "hopefully 90% of that book is down at 20%," he said, adding, "that number should be going down through '02 into '03."

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Terror risk restricting property market

By RODD ZOLKOS

Policyholders and insurers are being forced to search for alternatives as they face a property insurance market roiled by high prices, coverage limitations and confusion over terrorism exclusions.

In one case, a group of large New York property owners is considering forming a captive to write working-layer property and liability coverage.

And insurers are responding in various ways to writing property policies in the small number of states where commercial terrorism exclusions have not been approved, and the far larger number of states where regulations that require coverage for fire following an event appear to provide coverage for fires resulting from terrorist acts (*BI*, Feb. 11).

From the perspective of a buyer, "Regardless of the exclusions, the fact remains that (currently available property coverage is) a defective product," said Karen Penafiel, assistant vp at the Building Owners & Managers Assn. International in Washington.

"Whether it's the high deductible or the caps on coverage or the 30-day cancellation clauses or just the astronomical price tag, it's a defective product," she said.

"It's a very bad situation, and as every policy comes up for renewal it gets worse," said Deborah Beck, executive vp at the Real Estate Board of New York.

A group of the Real Estate Board's largest members is considering forming a captive in response to rising insurance prices. "These are people with very extensive holdings," not just in New York but elsewhere in the country, Ms. Beck said.

The group captive would not cover terrorism. "This is really addressing the first band of property and general liability coverage, which is the most costly to buy," Ms. Beck said. "But this does not have anything to do with terrorism coverage."

Aon Risk Consulting Inc., which is working with the real estate owners on the captive study, would manage the captive, which would be domiciled offshore.

"I would think within two months we

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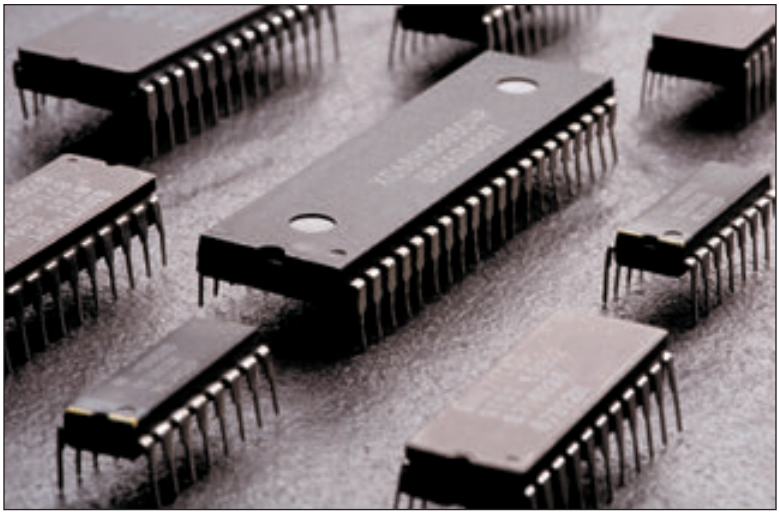


PHOTO: AFP

Court upholds coverage denial on claim for computer chips

By JOANNE WOJCIK

PAGO PAGO, American Samoa—Just because local custom allows businesses to flout rules and regulations does not mean insurers must also overlook licentious practices that give rise to a claim, a trial court in American Samoa ruled.

In a March 27 decision, the court upheld a property insurer's refusal to pay a \$5.9 million claim filed by a small-businessowner in American Samoa for computer chips de-

stroyed in a fire. The insurer alleged that the chips were smuggled into the country, making them "contraband subject to seizure" and therefore ineligible for coverage.

It would have been against public policy to cover the claim, because the chips were brought into the country as undeclared personal possessions in checked baggage to avoid paying customs duties, explained Dean Hansell, a partner at LeBoeuf, Lamb, Greene & MacRae L.L.P. in Los Angeles. Mr. Hansell,

along with local counsel William H. Reardon & Associates, successfully defended Progressive Insurance Co. (Pago Pago) in the coverage suit.

But Paul Miller, the attorney representing YHT Inc. and its principal officer, South Korean businessman Yu Chun Yung, vehemently denied this assertion, saying this is the way business is conducted in American Samoa. U.S. Customs laws are unenforceable in this unincorporated U.S. territory in the South Pacific because the country has "no valid excise tax statute," he said.

A court in American Samoa has upheld a coverage denial for the loss of computer chips, which the insurer alleged had been smuggled.

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The insurer alleged that the chips were 'contraband subject to seizure' and therefore ineligible for coverage.

Therefore, "they can't be 'smuggled,'" even though the chips admittedly were brought into the country in duffel bags checked on a commercial airliner and not declared to customs officers, Mr. Miller said.

Furthermore, no excise tax would have been due on the chips even if there were such a statute, he said, because they were imported for subsequent export. The South Korean-made chips were to be installed in computer motherboards, older-generation cellular telephones and in microwave ovens, Mr. Miller said.

Despite these and other arguments, Associate Justice Lyle L. Richmond of the American Samoa High Court's trial division granted partial summary judgment to the insurer. "Mere possession of property is in and of itself insufficient to constitute an insurable interest," the court wrote, citing a 1983 Georgia appellate court decision in *Splish Splash Waterslides vs. Cherokee Insurance Co.*, which stated that the "insured must have a lawful interest in property before he can insure the interest."

"As the allegedly insured goods were, by YHT's own admitted facts, illegally smuggled goods, YHT had no insurable interest in the goods," the court found.

Now the policyholder is litigating a secondary claim for \$60,000 in other business contents lost in the February 2000 fire. If YHT loses that round, it will appeal its case, Mr. Miller said.

But Mr. Hansell doesn't think the appeal stands any better chance than the initial coverage suit because two judges from the 9th U.S. Circuit Court of Appeals in San Francisco sit on the American Samoan appellate court, and they will likely adhere to U.S. law, not to local customs.

YHT Inc., an American Samoa corporation, vs. Progressive Insurance Co. (Pago Pago) et al., Civil Action No. 92-00, the High Court of American Samoa, Trial Division, March 27, 2002.

Plan info: Restrictions relaxed

Continued from page 3

clude all documents that must be disclosed under Title I of the Employee Retirement Income Security Act. That would include COBRA notification, individual benefit statements, qualified domestic relations orders and pension plan loan information. The proposed rules limited electronic disclosure to SPDs and summary annual reports.

The dual expansion of plan participants eligible to receive benefit plan information electronically and documents that can be transmitted electronically "refresh the paper-based disclosure requirements un-

der ERISA for a digital age," said Andy Anderson, a consultant with Hewitt Associates L.L.C. in Lincolnshire, Ill.

"These are very positive rules," said Valerie Wise, a consultant with Watson Wyatt Worldwide in New York.

The rules could also bring considerable savings for employers. The Labor Department estimates the first-year cost savings at \$139 million.

But the impact will vary considerably for employers, based on their demographics. Electronic disclosure of benefit plan information would be of little relevance for some man-

ufacturers, most of whose assembly line employees probably don't use electronic information systems as part of their job duties.

"For some employers, this is good news. But for others, it may be a non-event," said Marilyn Scalia, a vp at Mellon HR Solutions in Fort Lee, N.J.

Not all parts of the rules are positive for employers. Under the final rules, for example, electronic kiosks would not be appropriate means of delivering information.

The final rules go into effect for plan years beginning on or after Oct. 9, 2002.

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3 column x 10"

Commentary

'You may already be a litigant...'

Insurers—when Ed McMahon comes knocking on your door, think twice before you open it.

Although the reason he's on your doorstep does have something to do with millions of dollars, it's not what you think. Instead of ringing your doorbell to deliver a giant sweepstakes check, he's got a giant bill in his hand. With his lawyer in tow, he's suing for bad faith in responding to a claim.

As Carnac the Magnificent, envelope pressed to his turbaned forehead, might say—black mold coverage litigation just got a poster child. OK, maybe "child" is a stretch, but let's open the envelope—Ed McMahon is suing his insurer for negligently failing to remediate an outbreak of toxic black mold.

According to newspaper accounts of the lawsuit—which names insurer American Equity Insurance Co., claims adjusters and environmental cleanup contractors—Mr. McMahon claims the defendants failed to properly clean up after a water pipe burst in his Beverly Hills home, which allowed black mold to grow and proliferate, damaging the home and most of its contents; ruining the health of Mr. McMahon, his wife and household servants; and threatening his livelihood.

According to the suit, the cleanup crew attempted to deal with the spotty stuff on the walls by painting over it, but by then it had migrated to the heating and air conditioning system, which spread the toxic spores throughout the 8,000-square-foot home. When the nature and extent of the problem confronting the insurer was discovered, the suit contends, the insurer refused to cover the claim. To add insult to injury, all of the McMahons' belongings have been removed to an undisclosed location and their dog died after contracting respiratory problems allegedly linked to the mold outbreak.

Mr. McMahon is seeking \$20 million.

Black mold has become a controversial issue for the insurance industry. There has been a surge of litigation over black mold claims denied by insurers, which argue that such a problem was never contemplated in property insurance contracts. In 2001, a Texas family won a \$32 million verdict against Farmers Insurance Group for its alleged mishandling of their mold claim.

Imagine the stakes now that Ed McMahon has a disputed claim. Such a publicity-savvy claimant is bound to draw attention to the problem like no one else.

I can just imagine the Black Mold Telethon turning up on cable television soon, with plaintiffs attorneys tying up the phone lines to contribute millions to the cause.

I'm not saying that Mr. McMahon has a case for coverage; that will be for the court to decide. But if Mr. McMahon's decades-long efforts to parlay his dubious fame as Johnny Carson's sidekick into a full-blown and lasting career as an entertainer are any indication, this is a man who does not give up easily.

In addition, Mr. McMahon's claim will differ from the run-of-the-mill black mold claim in many respects.

First, there is the celebrity issue. California juries, as the record shows, tend to side with famous

plaintiffs. It will be tough for insurers to show that even stars file spurious insurance claims.

And famous people tend to hire high-profile attorneys. While Mr. McMahon's current attorney is probably perfectly capable of representing him, I'm sure any legal strategist worth his cuff links would

recommend that Mr. McMahon try to also get Johnny Cochran at his table. What judge and jury could resist the spectacle, after court is called into session, of hearing Mr. McMahon introduce his legal team with a rousing, "Heeeeeeeeeere's Johnny!"

This black mold claim also is notable for the fact that Mr. McMahon lives not in a damp, humid region, but in sunny Beverly Hills. If he is successful at winning millions of dollars in damages, imagine how many other marginal stars living in multimillion-dollar homes will come out of the woodwork with a hacking cough and a claim alleging contamination by *stachybotrys chartarum*.

The longer this claim drags on, the bigger the price tag could become for the insurer—and the insurance industry in general.

Will this become an opportunity for insurers to make a stand and take advantage of the publicity to make their case as to why property policies should not cover black mold? Or will the insurer cut its losses now and turn up on Mr. McMahon's doorstep, ring the doorbell and present him with a big check?

Carnac the Magnificent says...



Paul D. Winston

Editor Paul D. Winston's commentary appears fortnightly and at www.businessinsurance.com. He can be reached by e-mail, at pwinston@crain.com.

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Editorial

The best of the profession

COMPANIES that recognize the value of risk management are more successful and better able to overcome challenges than those that do not.

Risk managers who lead their organizations to this realization are more successful at gaining respect not only for their own abilities but also for their profession at large.

Nowhere is this more evident than among the annual honorees of the Risk Manager of the Year competition and the Risk Management Honor Roll.

The risk managers selected to receive these awards by a panel of independent industry executives and risk management professionals stand out not only because of how they apply the diverse tools of their profession but also in how they have managed to instill a risk management philosophy throughout their organizations. As a consequence, their success comes in making their organizations successful.

This year's honorees exemplify that winning approach.

Risk Manager of the Year Daniel H. Kugler has consistently volunteered risk management to solve myriad problems that have confronted Pleasant Prairie, Wis.-based Snap-on Inc., several of which were not traditionally under his department's purview.

Among other achievements, Mr. Kugler is recognized for: developing a comprehensive package of commercial and personal lines insurance and employee benefits products that Snap-on offers its dealers; bringing liability claims management in-house, where the company's approach helps to ensure that claimants are treated fairly and promptly—and remain satisfied customers; and introducing a new security system to better safeguard the company.

In expanding the reach of risk

management at Snap-on, Mr. Kugler has protected his company's assets and employees and has dramatically lowered its cost of risk. But he also has helped it to enhance service to its franchise dealers and to make them more-effective sales agents for Snap-on, while also boosting customer service and loyalty.

Without Snap-on's risk management team, the company would not be as successful as it is today. That's a fact that is backed up by hard numbers that track how Mr. Kugler's programs have lowered risk financing costs and reduced losses.

The recipient of the Risk Management Honor Roll

award also has shown her organization how a centralized risk management program can better achieve its goals than a fragmented, loosely coordinated approach.

Lauren M. Gregory, director of risk and insurance management for New York's Metropolitan Transportation Authority, has created an effective and responsive risk management program to take the place of the previous system, in which each MTA agency handled its own risk management separate from the others. In so doing, she has raised the quality of risk management and risk financing programs for the authority, achieved substantial savings and

eliminated redundant or ineffective practices.

Ms. Gregory also crafted owner-controlled insurance programs to not only centralize risk financing for contractors involved in MTA projects but also to raise the caliber of safety at those projects.

And she was instrumental in the development of New York's captive insurance law, which benefited the MTA—which has the state's first licensed captive—and potentially other risk managers in the state.

Through their actions, both Mr. Kugler and Ms. Gregory have raised the bar for the performance of their organizations. And, in so doing, they bring credit to their profession.

Schillerstrom



Bush hits home run for insurance

RISK & INSURANCE MANAGEMENT SOCIETY President David Mair had it just right when he described President Bush's call for swift Senate action on terrorism legislation a "home run."

After all, President Bush used to be part owner of the Texas Rangers and makes no secret of his love of the game of baseball. But the home run Mr. Bush hit last week was a political one, when—as we report on page 1—he made clear that he believes enactment of legislation that would create a federal role in guaranteeing insurance coverage

for future terrorism-related losses is essential to the nation's economic health.

That the president favors such legislation has never been in doubt, but passage of a bill hasn't gotten as much attention as a number of other issues related to the events of last Sept. 11. By casting the issue as one that directly affects the jobs of countless American workers, rather than as a matter of interest only to the insurance industry, Mr. Bush is bringing much-needed focus to the real nature of what is at stake here.

Put simply, a lack of terrorism

insurance can mean no financing for major construction projects. No financing means no jobs. Every lost job means one step back from economic recovery. But without a federal backstop, insurers will continue to be wary of writing terrorism coverage.

The president's call upon the Senate to follow the lead of the House and to pass terrorism legislation recognizes that the recovery is no sure thing. That the issue has stalled so long in the Senate hasn't improved the odds of the recovery continuing. If his call stirs the Senate to finally act on this

critical legislative matter and get a reasonable bill to the White House for Mr. Bush's signature, Mr. Bush will deserve credit for a political grand slam.

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PHOTO: MICHAEL MARCOTTE

Daniel H. Kugler

Director of Corporate Risk Management

Snap-on Incorporated

Risk manager has right tools for the job

By **DAVE LENCKUS**

Reproductions of classic automobiles, proudly arranged in a tight but orderly diagonal display, dominate the bookshelf tops in Daniel H. Kugler's office at Snap-on Inc.

Sparkling finishes accentuate the signature body designs captured by these meticulous reproductions, forged as part of various product promotions by Pleasant Prairie, Wis.-based Snap-on, a manufacturer and distributor of professional auto tools and equipment. The only design deviation from the original full-scale vehicles that is evident in these reproductions are the Snap-on license plates.

For the robust and affable Mr. Kugler, the director of corporate risk management at Snap-on, the collection reflects more than his veneration for a bygone era in automobile design and a genuine affection for anything Snap-on.

It also is a reminder of the company's customers—professional automobile technicians—and the company's stated commitment to “delight” them with products and services.

But technicians—Snap-on's preferred term for mechanics, because they use sophisticated software and diagnostic equipment to service vehicles powered as much by computer chips as by mechanical devices—comprise only one customer group for Mr. Kugler.

His customers also include the nearly 4,700 franchised Snap-on dealers in 150 countries who drive their tool-laden Snap-on vans to each of their auto technician customers every week. These independent dealers generate about half of Snap-on's more than \$2 billion of annual revenue.

There also are Snap-on's 14,000 employees—designers, engineers, factory workers, marketing and sales staff and corporate officers and staff.

And there are the various Snap-on units and facilities worldwide. Snap-on's 120 legal entities have physical locations in a total of 29 countries.

Continued on next page

Risk Manager of the Year

Continued from previous page

But, unlike the classic automobile designs reproduced in his collection, Mr. Kugler takes a forward-looking approach to risk management at Snap-on.

With the support of supervisor Denis J. Loverine, Snap-on's treasurer, Mr. Kugler said he likes to "go to the edge" in servicing the risk management department's customers. Referring to Mr. Loverine, Mr. Kugler noted: "I tell him you can see a lot better from the edge."

Mr. Kugler shared that philosophy in accepting the 2002 Risk Manager of the Year Award recently. Ten independent judges selected Mr. Kugler for the 25th annual award because of the multipronged risk management program he has fashioned to not only protect Snap-on, its employees and its franchisees but also transform the company's risk management department from a cost center to a profit center.

By forming an in-house insurance agency to place numerous coverages for dealers and using Snap-on's Bermuda-based captive to fully reinsure a dealer inventory program, by funding the company's general liability and workers compensation self-insured retentions through the captive, and by implementing a workplace safety and workers comp initiative, Mr. Kugler has accounted for around \$21 million of savings and other contributions to Snap-on's bottom line since 1993.

Overall, between 1993 and 2000, Snap-on's total cost of risk, as defined by the Risk & Insurance Management Society Inc., shrunk 39.6% per \$1,000 of revenue, to \$7 from \$11.58, according to Snap-on risk management. By comparison, the cost of risk for other companies with \$1 billion to \$2.5 billion of revenue dropped 27.3%, to \$7.12 from \$9.80, during the same

Daniel H. Kugler

Birthplace: Milwaukee, Wis.

Age: 48

Title: Director of corporate risk management for Snap-on Inc. of Pleasant Prairie, Wis.

Previous experience: Corporate manager of risk, pension and 401(k) programs, Snap-on Tools Corp./Snap-on Inc., September 1991-October 1997; risk manager, Snap-on Tools Corp., June 1985-August 1991; insurance administrator, Snap-on Tools Corp., September 1979-June 1985; claims service representative, Sentry Insurance Co. of Stevens Point, Wis., June 1978-August 1979; claims service representative, Heritage Mutual Insurance Co. of Sheboygan, Wis., May 1976-June 1978.

Honors/professional affiliations: Member of Risk & Insurance Management Society Inc.'s RIMS Fellow Advisory Council since 2001; member of RIMS Education Committee since 1999; member of RIMS Wisconsin Chapter; member of Wisconsin Chapter of Society of CPCU; co-chairman of the REBEX Midwest Regional Risk Management Conference, 1997-1999; member of Manufacturers Alliance/MAPI's Risk Management Council since 1990.

Education: Completed program on developing a corporate pension strategy, Kellogg Graduate School of Management at Northwestern University in Evanston, Ill., 1994; earned Certified Employee Benefit Specialist designation, 1987; earned Chartered Property & Casualty Underwriter designation, 1982; earned Associate in Claims Adjusting designation, 1981; earned Associate in Risk Management designation, 1980; earned General Insurance Certificate, 1979; earned bachelor's degree in business administration with a major in finance and minors in accounting and economics, University of Wisconsin-Oshkosh, 1976.

Family: Wife, Margie, and four children: Caitlin, 15; twins Leigh and Lauren, 13; and Jack, 9.

Hobbies: Skiing, golf, coaching youth athletics and following the fortunes of the Green Bay Packers.

period. Among all survey respondents, the cost of risk fell almost 32.5% to \$5.20 from \$7.70.

Those are just a few of the highlights of Mr. Kugler's risk management program. He also:

- Developed a property/casualty insurance, benefits and personal lines insurance program for Snap-on's franchised dealers. More than protecting Snap-on from any vicarious liabilities, the program is designed to help new dealers get their businesses rolling quickly and resolve claims quickly for all dealers.

- Established a team to self-administer corporate general liability claims. The move has enabled Snap-on risk management to minimize losses by working quickly and amicably with claimants, who typically are customers who have improperly used their tools. It also has allowed the risk management department to keep better tabs on losses and nearly eliminate third-party administrator costs.

- Created a fleet management program designed to minimize auto claims as well as better control Snap-on's leasing costs.

- Is in the process of rolling out a new security system that he and his corporate security manager designed to better safeguard Snap-on employees and company assets and quickly respond to unauthorized Snap-on tool sales, which could threaten dealers' livelihoods.

"Today, we feel very confident that our assets are covered and our people are protected" through the security and workers comp initiatives that Mr. Kugler has implemented, Mr. Loverine said.

Award judge Gary R. Griffith, the chairman and chief executive officer of retail brokerage Summit Global Partners Inc. of Dallas, applauded Mr. Kugler for the breadth of his risk management program.

"Dan and everything he has done at Snap-on is just an exemplary example of total risk management solutions," Mr. Griffith said.

"It's size, quality and depth that I think as I look at Dan's accomplishments," he said. "Dan certainly comes across as someone who eats and sleeps risk management."

Friends, peers and business associates, replete with anecdotes, concur that Mr. Kugler is indeed hard-driven.

There are stories of how he calls into the office while on vacation. A risk manager at another organization recalls the time Mr. Kugler phoned her at home one evening to finalize a risk management education program while also preparing a barbecue for his son's Little League baseball team.

Mike McLean, Snap-on's broker for corporate property/casualty insurance, recalled opening e-mails that Mr. Kugler sent him the previous midnight.

"Dan is one of the hardest-working, one of the most devoted risk managers I know. He's a maniac when it comes to



PHOTO: MICHAEL MARCOTTE

Daniel H. Kugler with his co-nominators—Valerie C. Walters, director of global risk management, CIENA Corp. (left); and Debra L. Rodgers, director of risk management for North American operations, Saint-Gobain Corp.

working," said Mr. McLean, a director with Aon Risk Services of Illinois Inc. in Chicago.

"He just eats, sleeps and drinks Snap-on," he said about Mr. Kugler, who typically sports a company logo on his shirt and varsity jacket.

But noting Mr. Kugler's involvement in coaching youth sports for his children and his volunteer work with a local children's organization, Valerie C. Walters, director of global risk management of Linthicum, Md.-based CIENA Corp., said, "His priorities are not skewed by any means." Ms. Walters co-nominated Mr. Kugler for the Risk Manager of the Year award.

Ms. Walters, who has worked with Mr. Kugler on various professional education projects, also noted, "He's very dedicated to that."

Debra L. Rodgers, director of risk management for the North American operations of Saint-Gobain Corp. of Valley Forge, Pa., co-nominated Mr. Kugler for the award in part for the same reason.

"The reason I thought Dan was a particularly good nominee and was chosen is that he gives back to risk management," she said.

Ms. Rodgers, who chairs the RIMS Education Committee, noted that Mr. Kugler is one of the organization's most highly rated instructors. "People want to hear him speak," she said.

"He's one person I can always count on. He never says no," Ms. Rodgers said. "He wants all of us to do well."

The impetus for Mr. Kugler's risk management efforts at Snap-on as well as his dedication to risk management education is simple but powerful, he explained. "I really enjoy what I do. I wouldn't want to do anything else right now."

Innovative tools, direct sales approach forge to form a Fortune 500 operation

By **DAVE LENCKUS**

An innovative concept in socket wrench design developed by a young, new manager with a tool-production company did not generate any interest among company officials 83 years ago, but automobile mechanics bought into the idea immediately.

And they have continued buying.

Today, Snap-on Inc., the direct descendant of the tool manufacturer that Joseph Johnson founded in 1920 to transform his idea into a handy tool for professional mechanics, is a Fortune 500 company with more than \$2 billion in annual sales.

Through 14,000 employees, 120 legal entities, physical locations in 29 countries and nearly 4,700 franchise dealers and their fleet of Snap-on vans worldwide, the company reaches professional tool technicians in 150 countries. Snap-on estimates that its auto technician customers service 40% of the world's vehicles.

Agricultural, construction, electrical, education, government, industrial and transportation industry technicians also use Snap-on products and services.

Snap-on offers all of those technicians a variety of hand and power tools, diagnostic equipment and software, shop equipment, tool storage products and equipment servicing.

Mr. Johnson was 25 years old in 1919 and had just been ap-

pointed manager of a Milwaukee-based manufacturer's socket wrench division when he questioned why auto technicians had to purchase socket wrenches with permanently affixed handles. Technicians had to purchase several socket wrenches of the same size to obtain the different handle configurations they needed for different jobs.

Mr. Johnson reasoned that a more-practical tool would allow technicians to interchange numerous socket heads among a limited number of handles.

His bosses rejected the idea, but the concept fascinated co-worker William Seidemann. The pair fashioned a set of 10 interchangeable sockets that snapped onto five handles of various configurations and tested the Wisconsin-area market with the aid of

two tire salesmen. The salesmen, using the slogan "Five Do the Work of Fifty," generated more than 500 orders.

The success of the test-marketing campaign convinced Messrs. Johnson and Seidemann to form their own socket wrench manufacturing company. They formed Snap-on Wrench Co. in 1920 and moved their operations into a rented building in Milwaukee.

In exploring how to best sell their new type of wrenches, the Snap-on co-founders ran an ad in Chicago newspapers. The ad attracted Stanton Palmer, a factory sales representative, who proposed taking the tools directly to potential cus-

See **HISTORY**/page 14

Risk Manager of the Year



PHOTO: MICHAEL MARCOTTE

Daniel H. Kugler (second from left) with executives of Snap-on Inc., from left: Dale F. Elliott, president and chief executive officer; Denis J. Loverine, treasurer; and Donald S. Huml, chief financial officer.

History: Company started in 1920

Continued from page 11

tomers—demonstrating the tools' advantages and taking orders at auto technicians' shops.

As the sales workload mounted, Mr. Palmer engaged Newton Tarble, a lithography salesman, to join the new venture. Their sales approach of taking the tools directly to the customer was so successful that they formed a distribution company, Motor Tool Specialty Co., which became the sole sales agent for Snap-on. Messrs. Palmer and Tarble also purchased a financial stake in Snap-on, joining the company's co-founders as the sole

shareholders in the company.

Snap-on's sales arrangement with Motor Tool allowed Messrs. Johnson and Seidemann to concentrate solely on tool production to keep up with demand. Production as well as company headquarters was moved to Kenosha, Wis., in 1929. Company headquarters moved to nearby Pleasant Prairie in 1995.

Snap-on acquired Motor Tools in 1931 but continued and broadened its sales strategy.

In 1935, the company began extending credit to customers to keep sales coming in during the Great Depression and to promote good-

will.

In 1940, salesmen began visiting their customers at least monthly, rather than every six to eight weeks. Five years later, all salesmen began carrying stock so they could deliver orders immediately.

By the early 1960s, salesmen were visiting customers biweekly or even weekly.

In 1991, Snap-on switched from an independent contractor system to a franchised dealer system to sell a significant portion its products. Dealers now generate about half of Snap-on's more than \$2 billion of annual revenue.

Snap-on began operating internationally in 1927, when it opened a sales office in Montreal. Four years later, it formed its first international subsidiary, Snap-on Tools of Canada Ltd.

Snap-on expanded into Mexico, the United Kingdom and Australia over the next several decades, but its international as well as domestic operations exploded during the 1990s through a series of acquisitions.

Snap-on went public in 1941, when, after a couple of name changes, it was known as Snap-on Tools Corp. Snap-on first was listed on the New York Stock Exchange in 1978 and achieved the distinction as a Fortune 500 company four years later. Annual sales first topped \$1 billion in 1993.

The company changed its name to Snap-on Inc. a year later.

Along with its operational expansion in the 1990s, Snap-on's collection of 90 U.S. and several non-U.S. patents ballooned tenfold to more than 1,000 patents today. In addition, Snap-on has applied for or has pending approximately 650 more patents.

Snap-on in the 1990s also garnered numerous awards from business magazines, which recognized the company for its financial strength, as a leader among franchise businesses and as one of the top corporate users of information technology.

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Risk Manager of the Year

Insurance program keeps dealers on the road

By **DAVE LENCKUS**

They drive white vans emblazoned with the bold red Snap-on logo on the busiest urban roads and visit auto repair shops where people leave their vehicles—new and old, luxury models and junkers—for servicing. Their vans are stocked with tens of thousands of dollars of new tools and equipment designed for professional auto technicians.

Throughout the United States, more than 3,700 roving Snap-on Inc. representatives cover their assigned territories in a diligent rou-

tine that brings them back to each customer weekly.

But these Snap-on sales representatives are not company employees. They are franchised dealers—independent business men and women—who collectively generate around half of the company's more than \$2 billion of annual revenue.

As franchisees, these dealers are not covered by Snap-on's corporate risk management or employee benefits programs.

A variety of dealer-related exposures, however, still could create vicarious liabilities for Snap-on, and a

lack of benefits could hurt Snap-on's dealer recruitment efforts.

But those risks are minimized through the dealer insurance program that has evolved under the direction of Daniel H. Kugler, director of corporate risk management at Snap-on. The retooled program, once a disjointed effort that offered relatively few coverages, now makes available a wide range of business insurance, benefits and personal lines coverage for dealers.

"You have to expand risk management wherever you can," said Mr. Kugler, noting that the pro-

gram also has created other advantages for Snap-on risk management.

Mr. Kugler describes the dealer insurance program as a wheel and dealers as the hub.

"We put dealers in the middle of the wheel and surround them. When we added personal lines last year, that completed the wheel," Mr. Kugler said.

The dealer insurance program is designed to help dealers get their businesses rolling quickly, but dealers are not obligated to meet their insurance requirement by purchasing coverage through Snap-on.

Dealers who do not purchase coverage through Snap-on, however, "miss out on our claim-handling experience," Mr. Kugler said.

"When they go through the franchising process, this is a one-stop shop to get your business off the ground," Mr. Kugler said. "One phone call gets you done."

By calling a toll-free number, dealers can purchase any combination of numerous coverages through Snap-on.

Corporate risk management places the dealer inventory coverage itself through its own Wiscon-

'When (dealers) go through the franchising process, this is a one-stop shop to get your business off the ground....One phone call gets you done.'

*Daniel H. Kugler
Snap-on Inc.*

sin-licensed agency, Snap-on SecureCorp Inc. The agency, which Mr. Kugler created in 1997 (see story, page 18), also verifies that dealers are complying with the insurance requirements that Mr. Kugler helped develop when Snap-on went to a franchised dealer system in 1991.

Many of the coverages that the agency cannot place for regulatory reasons are handled by Marsh USA Inc., which has a team of brokers who work on an outsourced basis at Snap-on and who are reachable through the same toll-free number.

The Chicago office of New York-based Bertholon/Rowland Corp. places major medical, disability, accidental death and dismemberment, and vision coverages for dealers. Bertholon/Rowland does not outsource any representatives to Snap-on, but dealers still can reach the broker through the Snap-on toll-free number.

"No one will beat us on dealer inventory coverage," a fronted program that Snap-on's Bermuda captive fully reinsures and that 98% of Snap-on's U.S. dealers purchase, Mr. Kugler said.

In addition, the van coverage that Snap-on offers "speaks for itself," he said. "We have 60% of the market" of Snap-on franchisees.

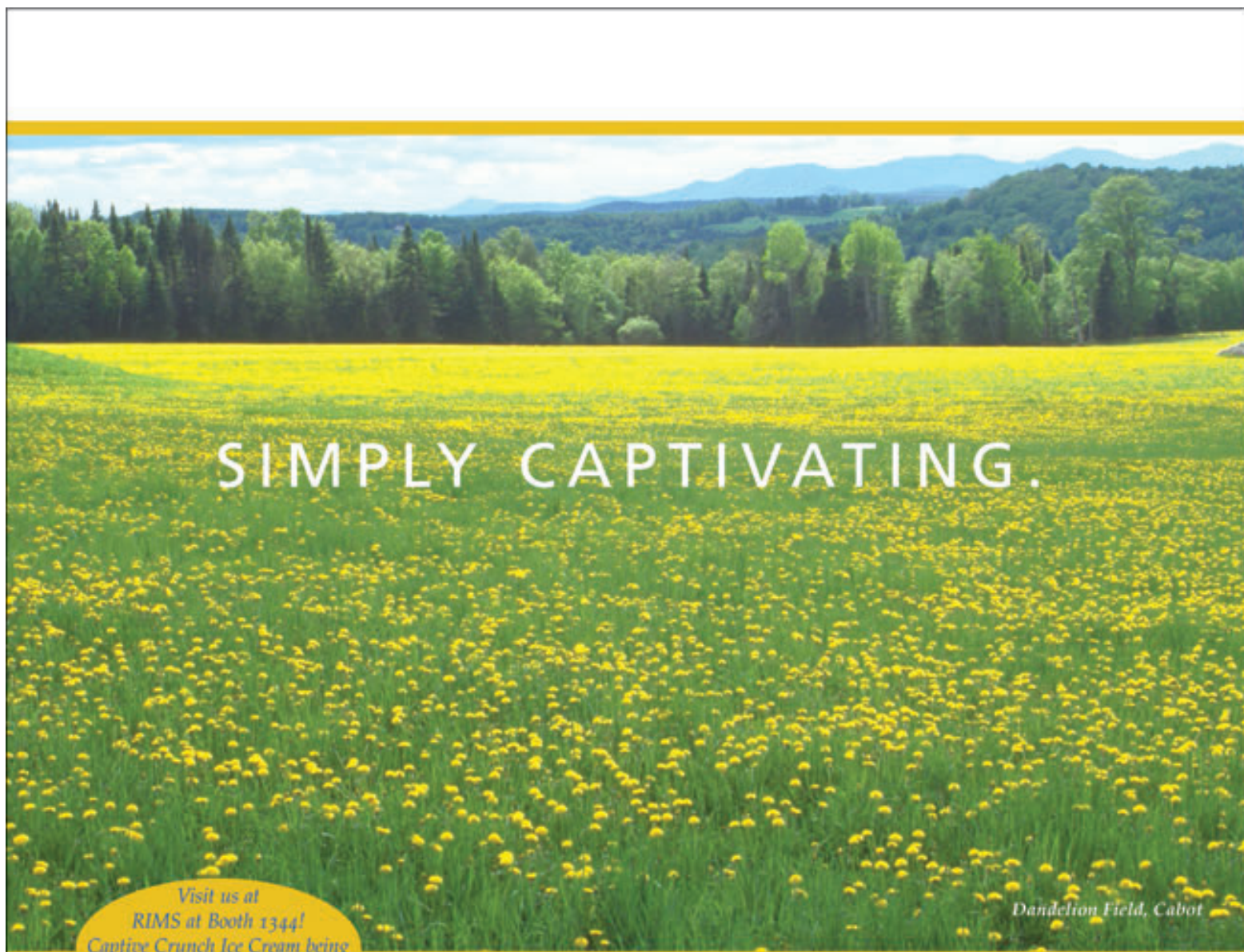
Some Snap-on coverages, such as the van insurance, may be more expensive than competitors' products, Mr. Kugler acknowledged.

"The total package beats competitors', though," he maintained. "We've got the convenience. We've got the coverage that meets their contract requirements," he said.

And, dealers are billed for the coverage on their tool-billing statements, which eliminates some paperwork for dealers.

Mr. Kugler noted that the risk management department's motto is no different from Snap-on's corporate slogan: "We will delight our customers."

The value of the dealer insurance
Continued on next page



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Risk Manager of the Year

Continued from previous page

program, though, extends beyond protecting Snap-on against vicarious liability, serving as a dealer recruitment tool and simplifying insurance buying for dealers.

"Hopefully, it shows our focus on providing services and value to whatever customer we've identified," Mr. Kugler said. "What this helps me do is build credibility with Snap-on operating units for buy-in on traditional risk management products."

In addition, because Snap-on's captive insurer fully reinsures the dealer inventory coverage, the captive has enough third-party business for Snap-on to realize some tax advantages by using the captive to

cover the company's general liability and workers comp self-insured retentions (see story, page 26).

The dealer inventory coverage is "the cornerstone" of the dealer insurance program, because nearly all dealers have opted to purchase that coverage through Snap-on, according to Mr. Kugler. That valuable direct contact with dealers establishes Snap-on risk management's credibility for providing necessary coverage and handling claims. That credibility then helps risk management market the other coverages it offers dealers.

Kemper Insurance Cos. subsidiary Lumbermens Mutual Casualty Co. fronts the coverage on an ocean marine form, which gives the Snap-on agency the regulatory freedom to place the coverage for dealers in most states. Aon Risk Services of Illinois Inc. places the risks where Snap-on SecureCorp does not have a resident agency license.

Snap-on's Bermuda-based for-profit captive, Snap-on SecureCorp Insurance Co. Ltd., reinsures 100% of the risk.

Under the plan, dealers are insured for the loss of tools and any equipment carried on their trucks or trailers or stored at their residence or another approved site. All trucks and the storage sites must be secured.

Covered items include sold goods that dealers are holding for repair and up to \$5,000 of cash, checks and money orders, including up to \$1,000 of a dealer's personal cash. Dealers must show, however, that they had not held onto cash payments, checks and money orders for longer than 48 hours.

Ninety-eight percent of dealers opt for the Snap-on plan over other commercially available coverage, according to Mr. Kugler. With no deductible, coverage for theft of cash and receipts, and flood and earthquake coverage, the Snap-on plan is broader than any other coverage dealers could purchase, he said.

In addition, at 60 cents per \$1,000 of reported monthly inventory, the inventory coverage costs about one-third of what other inventory coverages from commercial insurers cost, according to Mr. Kugler.

Because of the loss controls that risk management imposes and dealers' steady loss experience, "we're comfortable with underwriting the entire risk," Mr. Kugler said.

Snap-on risk management handles all claims and routinely resolves them within 14 days, Mr. Kugler said. At the longest, a claim may be open for 30 days, but those situations often result when dealers delay filing their proof-of-loss statements, he said.

Regardless, dealers—whose livelihoods depend on weekly customer contact in most cases—usually are out of commission only for a day or two after a loss, Mr. Kugler explained. While their claims are being processed, dealers can restock their van from a local Snap-on distribution facility. They also could visit customers with the limited inventory they have left and take orders for tools and equipment they do not have in stock, as well as collect any items that need servicing.

Besides inventory insurance, dealers' franchise agreements also require them to purchase van, general liability and workers compensation insurance. Snap-on's dealer insurance program offers dealers:

- Van insurance, with \$1 million of liability limits and comprehensive and collision coverage.

- General liability insurance, which includes premises liability, product liability, completed operations and personal injury coverage. Dealers have \$1 million of limits per occurrence, with a \$2 million general aggregate.

'Hopefully, (the dealer program) shows our focus on providing services and value to whatever customer we've identified.'

*Daniel H. Kugler
Snap-on Inc.*

The package policy also includes some property endorsements.

The policy covers up to \$10,000 of computer losses—after a \$250 deductible per loss—resulting from viruses, floods, earthquakes and temperature and humidity changes. The policy also covers up to \$5,000 in losses of other equipment, such as cellular phones, fax machines and credit card machines, after a \$100 deductible per loss.

In addition, dealers are covered for \$10,000 of accounts receivable; \$10,000 of valuable papers; \$2,500 for forgeries and alterations; and \$2,000 for counterfeit currency. Dealers also have \$10,000 of on-premises and \$2,000 of off-premises money and securities coverage, which sits excess of the \$5,000 limits they have under the dealer inventory program and drops down to primary if the dealer inventory insurance does not cover the loss.

- Workers compensation coverage up to statutory limits in all states without monopolistic state funds. The coverage also provides employer liability limits of \$100,000 per employee for bodily injuries resulting from accidents and \$100,000 of limits per employee for bodily injuries resulting from disease, with a \$500,000 aggregate per disease.

Dealers must purchase their van coverage through the Snap-on program to be eligible for the program's workers comp coverage.

Units of Travelers Property Casualty Corp. underwrite the van, general liability and workers comp coverages.

Snap-on risk management also recommends that dealers purchase at least \$1 million of umbrella liability coverage over their general liability and van coverage. Travelers also underwrites the umbrella coverage for dealers. To be eligible for the coverage, though, dealers must purchase their general liability and van insurance through the Snap-on program.

The dealers insurance program includes several benefits coverages, too:

- \$10,000 to \$25,000 of no-cost life insurance, with limits depending on a dealer's tenure with Snap-

on. Snap-on also offers dealers up to \$500,000 of optional life coverage, which is priced at group rates and written net of commissions.

New dealers can purchase up to \$250,000 of optional coverage during a 30-day open enrollment period with no medical underwriting. An established dealer can purchase optional coverage in \$50,000 increments—up to three times of earnings or \$250,000, whichever is less—on anniversary dates with no medical underwriting.

Medical underwriting is required when dealers purchase between \$300,000 and the maximum of \$500,000 of coverage and for any amount when dealers are 60 or older.

Prudential Insurance Co. of America writes the life coverage.

- No-cost accidental death and dismemberment coverage for losses that occur while dealers are in their Snap-on vans or traveling to or from or attending Snap-on business meetings. CNA Financial Corp. subsidiary Continental Casualty Co. underwrites the coverage.

- An optional dealer-paid total disability income protection plan. Dealers can choose between \$1,000 and \$5,000 of monthly benefits, though the benefit may not exceed 60% of the average of a dealer's basic monthly pay during the preceding year. Hartford Life Insurance Co. underwrites the coverage.

- A no-cost eyewear savings plan. All dealers receive a card that entitles them to 20% to 60% discounts off the cost of family eyewear at Eye Care Plan of America vision centers.

- Dealer-paid major medical coverage, which is individually underwritten because Snap-on's dealers do not qualify as a group. Still, between 500 and 600 dealers have purchased one of the variety of plans that are available, Mr. Kugler noted. He also said he does not shop around for this coverage, be-

cause changing plans would leave some dealers without coverage for pre-existing conditions. For those dealers who are eligible by law to set up medical savings accounts, the Snap-on program will help them in establishing the accounts.

- A no-cost family assistance program administered 24 hours a day by Family Enterprises Inc. Family Enterprises, which provides assistance for a range of issues, does not outsource any staff with Snap-on, but it can be reached through the dealer program's toll-free number.

- A Simplified Employee Pension Plan Individual Retirement Account with no setup fee. Under the special retirement-savings plan for the self-employed, dealers can make annual tax-deferred contributions of as much as 15% of their income, up to \$25,500. Dealers self-direct their investments. Strong Financial Corp. administers the plan and can be reached through the dealer program's toll-free number.

Risk management also has made available to dealers—as well as Snap-on employees—a variety of personal lines coverages, such as homeowners insurance, auto insurance, personal umbrella liability insurance, valuable-items coverage and personal lines ocean marine insurance.

The Snap-on agency places the group-rated coverage net of commissions. Travelers underwrites the coverage.

Risk management offers many, though not all of the same coverages to dealers outside of the United States. The dealer inventory program, however, is available to Snap-on dealers worldwide.

Outside of the United States, Aon is the servicing broker for those coverages. Mr. Kugler uses Aon because Snap-on risk management already works with the broker on obtaining property/casualty coverage for corporate risks outside of the United States.



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PHOTOS: MICHAEL MARCOTTE

BI Senior Editor Dave Lenckus (top) presents Daniel H. Kugler with the 2002 Risk Manager of the Year award during an award luncheon in Kenosha, Wis.

Risk Manager of the Year



PHOTO: MICHAEL MARCOTTE

Daniel H. Kugler is flanked by two of Snap-on's insurance brokers, Veronica Mone and Jeff Woodcock, both of Marsh USA Inc.

Snap-on's in-house agency places coverage for franchisees

By **DAVE LENCKUS**

Snap-on Inc.'s in-house insurance agency is more than a vehicle through which the tool and equipment manufacturer can sell franchised dealers coverage and earn a commission.

To Daniel H. Kugler, director of corporate risk management for Snap-on, the agency also has been instrumental in establishing risk

management's credibility among dealers, who generate a substantial portion of company revenues.

By calling a toll-free number to the Wisconsin-licensed agency, Snap-on SecureCorp Inc., dealers can purchase any of numerous business insurance, benefits and personal lines coverages that Snap-on risk management has lined up. The agency also verifies that dealers are complying with the company's

franchise insurance requirements, which Mr. Kugler helped develop.

While dealers are required by their Snap-on franchise contracts to purchase some specified coverages, they are not obligated to purchase the coverage that Snap-on risk management has arranged to meet their needs. But, Mr. Kugler said, if they go elsewhere for insurance, franchise dealers miss out on Snap-on's claim-handling expertise.

Snap-on began offering insurance to its non-employee sales reps in 1985 under then-Director of Risk Management and Employee Benefits Dick Edwards. At the time Snap-on introduced the coverages, the sales reps were independent contractors. Snap-on switched to a franchise dealer system in 1991.

Dealers can buy any of numerous business insurance, benefits and personal lines coverages that Snap-on risk management has lined up.

Initially under the program arranged by Snap-on, the independent contractors could buy inventory, van, general liability, health and disability insurance coverage.

When Snap-on switched to the franchise dealer system 1991, Mr. Kugler added accidental death and disability, vision, family assistance and life benefits. Personal lines coverages were added in 2000.

While Snap-on risk management oversaw the dealer insurance program, an outside broker was responsible for administering it. By 1997, though, Mr. Kugler determined that arrangement was hampering the program's success.

At the numerous dealer trade shows that Mr. Kugler attends—in part to promote the insurance program—he was spending more time than he wanted fending off complaints from dealers already in the program. Their major gripe was inadequate customer service.

"I was always looking over my shoulder," he said. "We lacked credibility out there. We needed to get it under one roof to provide first-rate services to dealers."

Meanwhile that year, Mr. Kugler set up an in-house insurance agency with the notion of using it to deliver a credit insurance product to dealers. Mr. Kugler said that he borrowed the agency idea from the risk manager at Roundy's Inc., a Pewaukee, Wis.-based wholesaler grocer. Roundy's has an in-house agency that sells a range of property/casualty and benefits coverages to its independent grocers.

Although Snap-on risk management still is developing the credit risk coverage, Mr. Kugler and his staff realized the agency had other possibilities. Snap-on began using

See **AGENCY**/page 20

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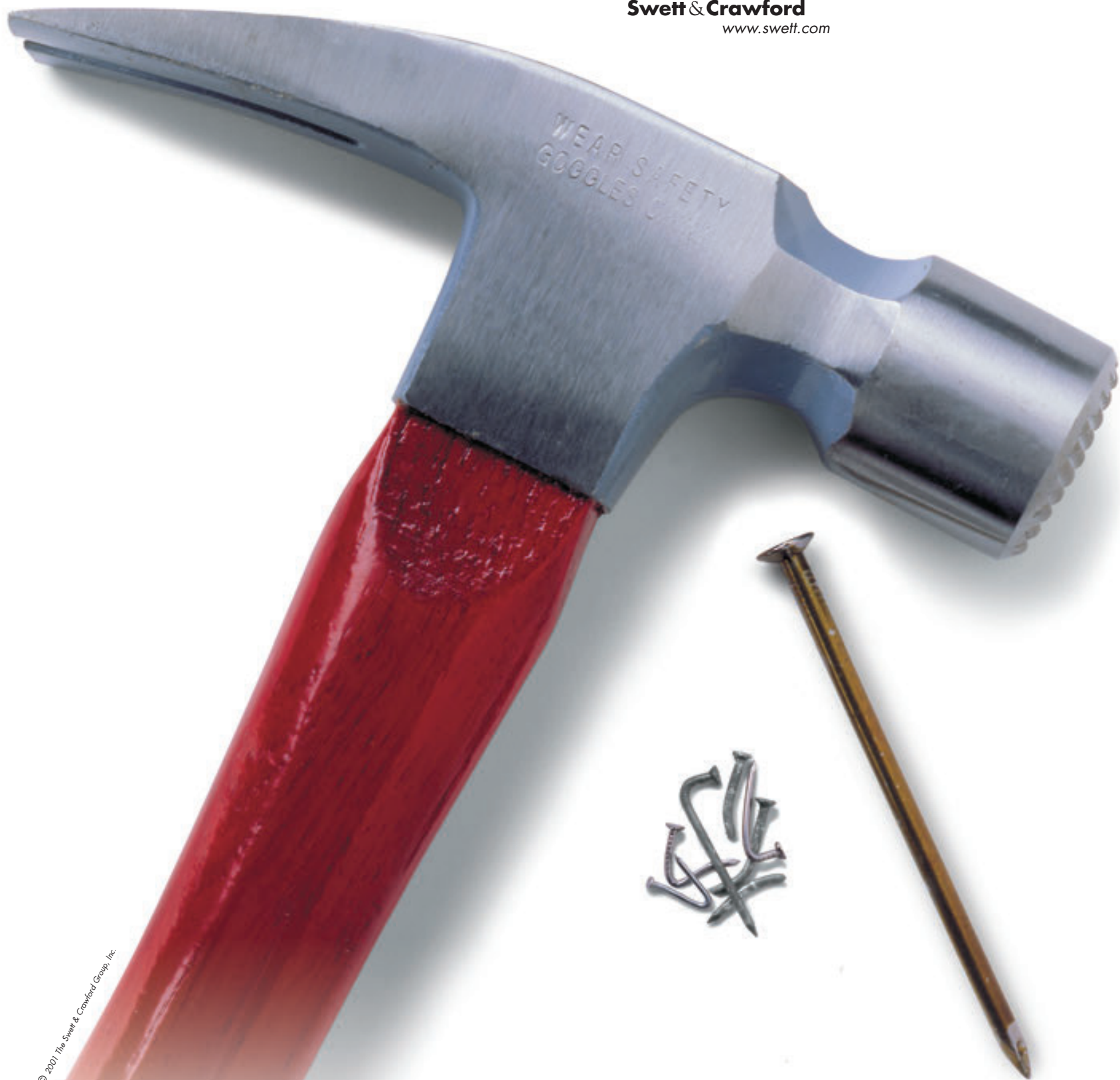
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Risk Manager of the Year

Agency: Placing coverage in-house

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the agency to place the inventory coverage that is available under the dealer program.

The agency, which earns commissions on that coverage, is able to sell it because of the way it is underwritten.

Lumbermen's Mutual Casualty Co., a subsidiary of Kemper Insurance Cos., writes the inventory coverage on an ocean marine form. That form gives the Snap-on agency regulatory freedom in most states to place the coverage itself.

Eight states require that resident agents place the insurance coverage. In those states—Arkansas, Arizona, Indiana, Iowa, Massachusetts, Ohio, Tennessee and Texas—Aon Risk Services Inc. places the risk for dealers.

Snap-on's Bermuda-based, for-profit captive insurer, Snap-on SecureCorp. Insurance Co. Ltd., began fully reinsuring the inventory coverage in 1997.

Shortly afterward, the Snap-on agency also began placing the life insurance that is available through the dealer insurance program.

In 1998, Mr. Kugler brought the entire dealer insurance program in house.

With his own and the entire risk management department's insurance expertise, Mr. Kugler "wanted to bring service to the dealers," he explained.

Although Snap-on's agency places only the inventory coverage and life insurance for dealers, the agency still serves as a single point of contact for dealers. Dealers can purchase any combination of the property/casualty, benefits and personal lines coverages that Snap-on makes available by calling a single toll free number.

Most of the other coverages are handled by a team of Marsh USA Inc. employees who work full time on an outsourced basis at the Snap-on risk management office.

The Chicago office of New York-based broker Bertholon/Rowland Corp. places health insurance under

the dealer program. While Bertholon/Rowland does not outsource any staff to Snap-on's risk management department, dealers still can reach the broker through the same toll-free number they would call to purchase other coverage available under the dealer insurance program.

Snap-on risk management also services dealers by handling their inventory and general liability claims. Mike Schmidtkofer, corporate claims manager, and Sarah Bridleman, risk management coordinator, shoulder that responsibility.

Running an in-house agency

where dealers can turn for all of their insurance needs has greatly aided Snap-on risk management in building a good relationship with dealers, according to Mr. Kugler.

While that was the right move at the right time for Snap-on risk management, it was not an easy undertaking, he said. Referring to the varying state requirements for broker and adjuster licenses, he said: "You've got to stay on top of it."

Mr. Kugler noted that Snap-on's risk management department retains an outside attorney annually to audit the agency's regulatory compliance.



PHOTO: MICHAEL MARCOTTE

James Murphy, left, represents Employers Insurance Co. of Wausau, one of the insurers on which Snap-on's Daniel H. Kugler relies.

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Risk Manager of the Year

Workers comp system producing improved results

By **DAVE LENCKUS**

By any measure, the multifaceted and flexible workers compensation management system that Daniel H. Kugler is building at Snap-on Inc. is slashing costs and losses.

Total savings at Snap-on since 1993—when Mr. Kugler, the director of corporate risk management, first experimented with ways to improve the company's management of its workers comp exposures—have exceeded \$12.3 million through 2001.

At Snap-on facilities that began

adopting elements of Mr. Kugler's system in 1993 and now have fully implemented it, projected total annual losses have shrunk 56% to \$1.65 million in 2001 from \$3.75 million in 1993. Measured in terms of cost per man-hour, ultimate losses for those facilities have been halved to 47 cents.

And claim frequency per 100 full-time employees at those facilities is down 57% to 0.19 from 0.44.

Snap-on's workers compensation management program is underpinned by four pillars:

- Performance measures at each

facility.

- Communication of the rights and responsibilities of all parties in the workers comp system.

- Temporary alternative-duty programs designed to return injured employees to work as soon as possible.

- Behavioral safety programs designed by individual facilities to promote safety.

"I am a believer in this system," which requires day-to-day attention, said Brian Stone, the workers compensation and safety supervisor at Snap-on's Mount Carmel, Ill.,

hand tools manufacturing plant.

The Mount Carmel plant implemented the earliest version of the workers comp system and has continued updating it as corporate risk management has refined the program. The plant's results are even more impressive than the corporate-wide figures: Workers compensation costs per man-hour have been slashed more than sevenfold to 33 cents, and the claim frequency rate per 100 full-time employees has been cut more than fivefold to 0.1.

Just as the system requires daily

attention at Snap-on's facilities, the risk management department is taking a deliberate, incremental approach in implementing the program corporatewide.

Although Mr. Kugler first took steps to improve the company's workers comp management beginning in 1993, the new system was not formally introduced until 1998. Since then, it has been implemented at worksites that employ 70% of Snap-on's U.S. workforce, according to Mr. Kugler.

At the remaining facilities, Snap-on risk management will introduce incremental targeted reforms as needed to address emerging problems, he added.

Addressing the most pressing needs first, serving as a resource to facilities as they design the program's safety component and monitoring facilities that have adopted the program to ensure their continued compliance with requirements called for a gradual system rollout, Mr. Kugler explained.

"We're staying focused and not biting off too much" at one time, which would jeopardize the success of the system, he said.

But that does not mean risk management is ignoring workers comp issues in other segments of Snap-on. In addition to its targeted fixes, it has given all of its facilities a video series that Mr. Kugler considers a key element of the system, because it helps facilities establish and maintain vital communication links with all parties in the company's workers comp system.

The metrics that the system focuses on are cost per hour and claims frequency rate per 100 full-time employees or equivalents, because those measures correlate to the workers comp expenses charged back to each facility.

For each facility, the risk management department analyzes cost and claims frequency history and sets future targets in six-month intervals. Every six months, Snap-on's risk management department produces reports that track each facility's progress and submits the reports to the facilities' managers and workers comp management system supervisors as well as to Snap-on senior management.

The communication element of the system is an award-winning four-part videotape series titled "The Road to Recovery." Each part of the series is designed for a different audience.

The first tape, which all employees must view, provides a broad perspective of the workers comp system. It explains Snap-on's workers comp costs so employees understand the significance of those costs to Snap-on. The tape then outlines the responsibilities as well as the rights of various parties in the workers comp system—the injured worker, the worker's supervisor, Snap-on, the treating physician and the workers comp insurer.

The tape also explains Snap-on's philosophy of encouraging injured employees to return to work as soon as possible, even with medical

Continued on next page



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Risk Manager of the Year

Continued from previous page

restrictions, by providing temporary alternative duty. Temporary duty assignments not only help control Snap-on's workers comp costs but also usually mean that injured workers will take home more pay than if they did not return to work.

But, "we like that word temporary," Mr. Kugler observed. "You're not going to be parked there for life."

The second tape is designed to discourage litigation after an employee suffers a workplace injury by explaining the benefits that injured workers should expect. Snap-on facilities give a copy of the tape to every employee who loses time at

work due to a workplace injury, and some facilities also give a copy to employees who suffer only minor injuries.

The third tape describes in greater detail for Snap-on supervisors their responsibilities and roles in mitigating workers comp losses and helping provide injured workers temporary alternative duty.

Snap-on sends a copy of the fourth tape to every approved independent workers comp medical provider or specialist in every town where the company operates a facility.

"We try to knock down the urban myths about comp," Mr. Kugler said. The tape makes clear that, rather than passing a workers comp

case off to an insurer or third-party administrator, Snap-on will be ac-

'It's one thing to say safety is a priority. It's another to make safety a priority. Unless you show it and demonstrate it on a daily basis, employees are not going to believe it.'

Brian Stone
Snap-on Inc.

tively managing the case and attempting to partner with the physi-

cian to return the injured employee to work—subject to medical restrictions—as soon as possible.

To supplement the physicians' tape, Snap-on offers group plant tours to physicians to demonstrate the company's efforts to provide a safe workplace.

The series, throughout which employees relate their successful return to their jobs after their injuries, earned Snap-on a 1998 best video production award from the Chicago-based Business Marketing Assn. The BMA offers programs designed to help marketing executives develop their professional marketing communications skills.

Mr. Kugler gives much credit for the video series to Johnson Con-

trols Inc. a Milwaukee-based manufacturer of various automotive and building systems. Mr. Kugler learned of Johnson Controls' three-part series at a Manufacturers Alliance/MAPI seminar. After viewing it, the series "stuck in my mind as very unique" and as a way to curb workers comp litigation by establishing better communication among all the parties in the system, he said. For Snap-on's program, Mr. Kugler created the physicians' installment.

The greatest flexibility that individual Snap-on facilities have under the workers compensation management system is in designing their behavioral safety programs. That flexibility is critical, because every worksite's problems and culture and every state's regulatory and insurance environment are unique, he said.

Risk management's only stipulations are that the programs be:

- Proactive in improving a facility's safety culture and not designed merely to meet industrial hygiene standards or federally mandated workplace safety regulations.
- Outlined in writing and routinely updated.
- Communicated to employees under the corporate Building Employee Safety Together, or B.E.S.T., logo.

Corporate risk management's role with the B.E.S.T. component is as a resource—providing facilities with information on safety programs that have succeeded elsewhere and making a safety professional from Aon Corp. available.

For example, some facility managers believe in offering safety incentives, and some do not, Mr. Kugler said.

The measures implemented at Snap-on's Mount Carmel plant were more prescriptive, Mr. Kugler acknowledged. But, "we were finding our way" then, he explained. "We learned to be aggressive and attentive in handling workers comp risks. But we realized that what happened at Mount Carmel might not be applicable to other facilities."

Despite the plant's success in curbing workers comp losses, risk management plans to help it gauge whether it has missed any potential workers comp cost drivers.

By early fall at the plant, Mr. Kugler wants to conduct a "safety blitz" modeled after a continuous improvement technique that Snap-on conducts to uncover ways to improve other operations, such as manufacturing, throughout the company.

If senior management approves what would be Snap-on's first safety blitz, various safety and workers comp representatives from other company units would pore over the Mount Carmel facility for a few days in an effort to find ways that the facility could improve those areas.

If successful, the blitz could become an annual routine at Snap-on units, according to Mr. Kugler.

"It's one thing to say safety is a priority," observed Mr. Stone of Snap-on's Mount Carmel plant. "It's another to make safety a priority. Unless you show it and demonstrate it on a daily basis, employees are not going to believe it."

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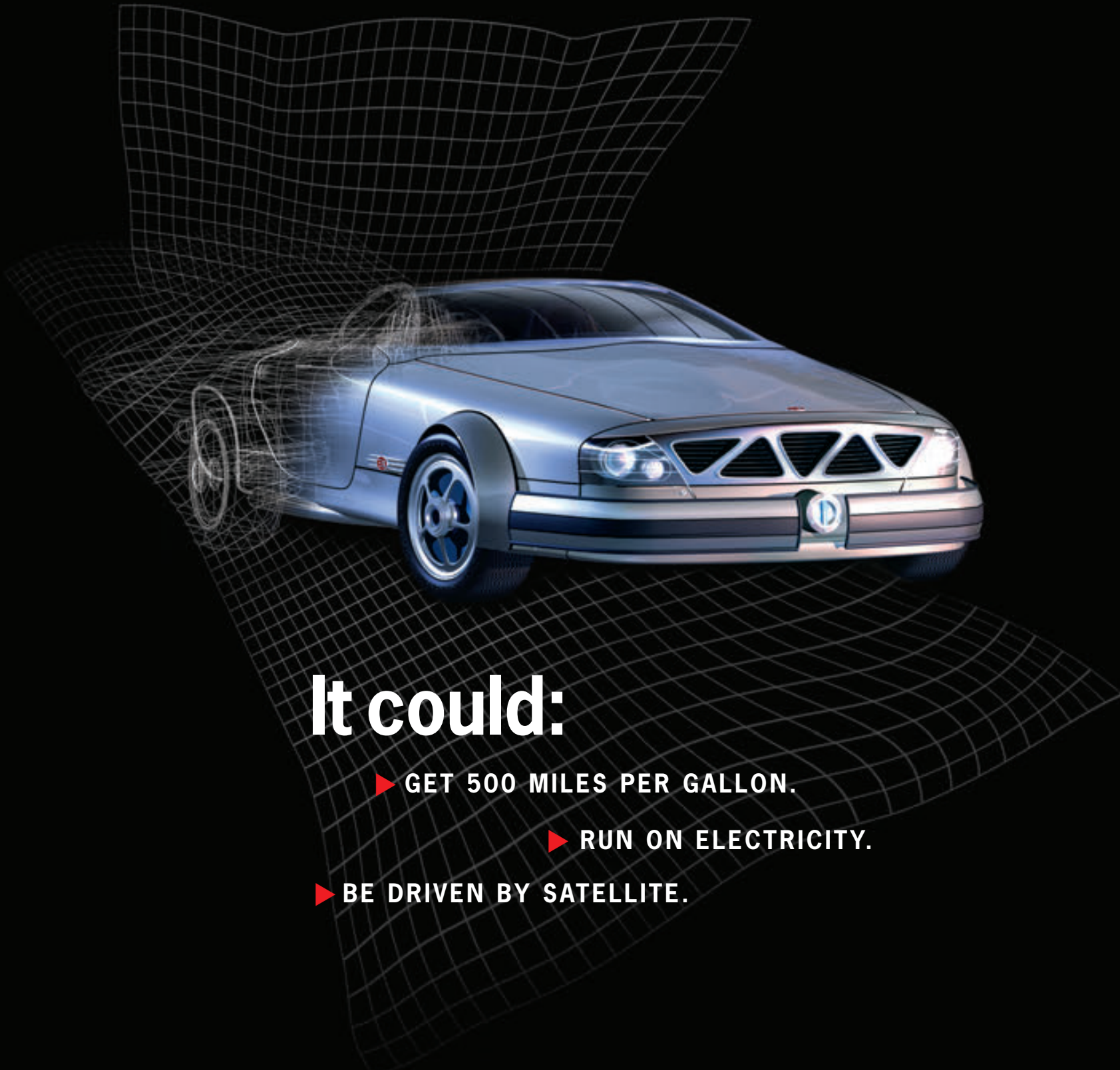
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PHOTO: MICHAEL MARCOTTE

Daniel H. Kugler credits Treasurer Denis J. Loverine, left, and Donald S. Huml, senior vp-finance and CFO, for his success at Snap-on.

Claims-handling experience helps Snap-on control losses

By DAVE LENCKUS

Adjusting general liability claims in-house can present some challenges to a corporate risk management department, but Daniel H. Kugler likes to focus on the advantages when he assesses the claim-handling operation at Snap-on Inc.

Mr. Kugler, director of corporate risk management for the manufacturer and distributor of tools and equipment for professional auto

technicians, does not take lightly the trade-offs that come along with self-administering general liability claims. At Snap-on, those claims largely are product liability-related.

To Mr. Kugler, though, the drawbacks of self-administering claims do not come close to offsetting the advantages, which extend far beyond eliminating third-party administration costs.

Handling claims in-house with staff who have extensive experience

in evaluating Snap-on claims allows the risk management department to keep on top of losses much better than if claims handling were outsourced, he said.

As a result, claims are resolved quickly, which avoids expensive long-tail liabilities; customers are kept happy; and Snap-on engineers receive routine reports that aid them in designing products.

In addition, Snap-on risk management is able to develop a comprehensive list of losses on a regular basis. That gives corporate risk management a better reflection of the company's risks and its appropriate retentions, and that is valuable information for Snap-on during renewals, Mr. Kugler explained.

The broad claims picture that risk management has also would allow it to spot a frequency problem with a particular product, which could indicate a potential product defect that Snap-on then could address immediately.

"Before, we'd be dependent on carriers for that information," but it was not always readily accessible, Mr. Kugler said.

Now, "we get a total view of our product liability risk, claims and exposure" in a timely manner, he said.

With Mr. Kugler and Claims Manager Mike Schmidkofer each having more than two decades of claims experience, though not all at Snap-on, "it's easy for us" to adjust claims, Mr. Kugler said.

"We'd never want to go back to chasing an adjuster to get a report," even though that makes the hardening commercial insurance market a little tougher than it would be otherwise for Snap-on, Mr. Kugler said.

In a hardening market, self-administering claims is "going to narrow the field of people willing to do business with you," he said.

Some insurers have insisted that Snap-on turn over claims-handling responsibilities to them as a condition of underwriting the risk, Mr. Kugler noted.

"We walk away from those deals," he said.

Other insurers that have been willing to underwrite Snap-on have tried enticing risk management to turn over claim handling to them in exchange for lower rates. But self-administering claims is something on which risk management will not compromise, Mr. Kugler said.

Referring to himself and Mr. Schmidkofer, Mr. Kugler said: "We ask carriers, 'Where can you go where the two claims guys have been on the job for at least 23 years each?'"

In 1980, when he was Snap-on's insurance administrator, Mr. Kugler concluded that risk management could self-administer the company's U.S. claims. At that time, Snap-on had a much smaller international exposure than it currently has, and Snap-on's liability insurer continued to handle claims generated

Continued on next page



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Risk Manager of the Year

Continued from previous page

outside of the United States and Canada.

At the time, a third-party claims administrator handled Snap-on's U.S. and Canadian claims. "We were calling them" for claims information, "and I decided, based on my claims background, why am I not talking to the guy who got hurt or who had a fall? I had the background and had the specialty of handling claims," Mr. Kugler explained. Before coming to Snap-on in 1979 as an insurance administrator, Mr. Kugler had been a claims service representative for two Wisconsin-based insurers for more than three years.

After risk management took over claims handling, overall claim costs and the number of claims litigated decreased, Mr. Kugler said.

A key element Mr. Kugler's claims-handling philosophy is to keeping Snap-on customers happy, regardless of how risk management ultimately resolves the customers' claims. The cost of maintaining customer satisfaction even if risk management rejects their claims can be relatively inexpensive, according to Mr. Kugler.

"The nice thing with Snap-on is we've got 3,500 to 4,000 claims adjusters out there," said Mr. Kugler, referring to the Snap-on franchise dealers, who bring the company's product to market by visiting the auto technicians in the dealers' assigned territories weekly.

That regular customer contact means that customers will get some kind of immediate response to their claims within a week of an incident.

"When a dealer goes to a stop, we say, 'If you have a claim, replace the tool immediately,'" and then ship it to risk management, which will take over handling the claim at that point, Mr. Kugler said.

Under this system, Snap-on representatives—first the dealer and then corporate risk management's claims staff—rather than unaffiliated claims handlers are speaking directly with technicians about their claims, Mr. Kugler said. That is a benefit for the company, because the technicians already have a high regard for Snap-on, which is reflected in their decision to purchase Snap-on products, he said.

Meanwhile, the dealers are not penalized in this system. "We tell the dealers, 'Don't worry about getting credit for the tool—we'll give you credit regardless if your guy misused the tools.'"

Risk management's claims-handling team then examines whether the technician had used the compromised tool correctly and whether the tool was the correct one for the job. The team consists of Mr. Schmidtkofer, Sarah Bridleman, a risk management coordinator, and Mr. Kugler, who has to sign off on losses that exceed \$25,000.

Even if a tool broke due to misuse, Snap-on will eat the cost of the replacement tool, according to Mr. Kugler.

In isolated cases, risk management also may cover an injured technician's medical costs if fighting that part of the claim would not be cost effective.

But, Snap-on will not cover lost wages if a technician was hurt while

misusing a tool, Mr. Kugler said.

In other cases, Snap-on risk management has determined that a tool broke or malfunctioned because it was not the right tool for the job. Those incidents often occur because the technician did not own the right tool, Mr. Kugler explained. For example, a technician might break a screwdriver while using it as a pry bar, he said.

In those cases, Snap-on not only will replace the broken tool at no charge but also will instruct the dealer to drop off the right tool to the technician at no cost as a goodwill gesture.

"We're always concerned about maintaining the goodwill of the dealer" with the customer, Mr. Kugler said. In those cases where the wrong tool for the job caused a claim, however, Snap-on will not cover the technician's medical costs or lost wages, he said.

"We get on top of our claims very quickly," Mr. Kugler said. As a result, "we get reasonable settlements."

At the same time, Snap-on risk management will help claimants with other concerns or problems, Mr. Kugler said. Those could include, for example, not seeing a dealer for more than a week or having trouble contacting Snap-on's credit department.

As a result of this claims-handling approach, "we don't have a lot of litigated cases," Mr. Kugler said. Snap-on also does not have a long-tail product liability exposure, he said.

"We get claims coming to us very quickly," Mr. Kugler noted. "We tell dealers, 'Don't blow off customer complaints.'"

That directive could apply even in a case involving a slip-and-fall that was not caused by Snap-on product but in which a tool broke, Mr. Kugler said. Often in such a scenario, the customer is embarrassed and does not want Snap-on's claims adjusters to contact him. The technician only wants a tool replace-

ment.

"We tell the dealer to replace the tool" and send the broken product to the corporate claims-handling office, he said.

Risk management sends the broken tools it receives from dealers to Snap-on engineers to examine. In addition, Snap-on's risk management information system produces a quarterly report for engineers on hand tool and power tool breakage.

Even if a broken tool was not defective, Snap-on engineers examine it and review the circumstances under which it broke to determine whether they could improve the tool design or warning labels on proper tool usage.

"The big thing, too, is we've maintained the credibility of the dealer as being a full-service dealer to the customer," he said.

Mr. Kugler estimated that about 90% of product liability claims can be handled in house and with the risk management department dealing directly with the customer. Technicians filed about 154 claims in 2001, according to Mr. Kugler.

The remainder of the claims involve large tools or pieces of equipment that are too unwieldy for dealers and risk management to handle. For those situations, Mr. Kugler retains St. Louis-based Countrywide Services Corp. or Parsippany, N.J.-based GAB Robins North America Inc., which also handles Snap-on workers compensation claims, to gather information on the claims. Only Snap-on risk management, however, would be authorized to resolve those claims.

In the international arena, where 25 claims were filed in 2001, Snap-on risk management initiated a much more hands-on claims-handling approach a couple of years ago.

Snap-on reaches professional tool technicians in 150 countries. The company estimates that its auto technician customers service 40% of the world's vehicles.

Despite a lower claims frequency

outside of the United States and Canada, the claims still posed a problem for Snap-on risk management.

"We found we wouldn't know about claims until we came up on renewal," Mr. Kugler said. "We didn't have a good handle on what was going on."

Mr. Kugler decided about three years ago to self-administer international product liability claims.

For international claims, Snap-on risk management uses a field adjuster 65% of the time to gather the details of the claim.

Those adjusters also provide expertise in dealing with different cultures and languages. For example, Japanese culture may dictate that an apology letter accompany a claim settlement and that the claimant's honor not be questioned by requiring him to sign a letter releasing the settling company of any further liability, Mr. Kugler said.

Snap-on's broker, Chicago-based Aon Corp., coordinates field adjusting assignments.

For the remaining claims, risk management relies on written reports from local company facilities or Aon offices or on its own direct dealings with claimants.

While Snap-on franchise dealers overseas are asked to contact their local Snap-on sales offices about claims, dealers sometimes still work through their local Aon office. Overseas dealers are taking that circuitous claims-reporting route less often, though, as Snap-on risk management issues its risk management manual, which details the claims-reporting process.

If dealers report claims to Aon, a "fail-safe" claims-reporting system is activated, Mr. Kugler explained. Those claims are funneled to Aon's Chicago office, which then directs them to Snap-on risk management. In addition, the local Aon broker is required to notify Snap-on risk management about the claim.

That fail-safe system, as well as the conventional reporting system,

is important for dealers, because if they want reimbursement for a product replacement, they must "get us in the loop right away," Mr. Kugler said.

Snap-on risk management has capped dealer reimbursements for local product replacements at \$5,000, and dealers jeopardize their recoveries if they do not immediately notify Snap-on about claims and send the product to risk management for evaluation.

One international incident—involving a claim in Japan a few years ago—compelled risk management to introduce this limit. A major, valued customer filed a claim for auto damage caused by a product that Snap-on did not produce. The local Aon office authorized the insurer to release \$80,000 of funds to resolve the claim.

Risk management learned of the problem when the insurer hit Snap-on with a large rate hike at the company's next renewal. Mr. Kugler said that while the insurer would not entirely rescind the rate hike after learning all the details of the claim, it did substantially reduce the increase.

Since imposing the reimbursement limit, no dealer has violated the protocol, Mr. Kugler noted.

While risk managers who are considering bringing claims-handling in house should expect that fewer insurers will want to underwrite their risks, a few measures can somewhat mitigate that problem, according to Mr. Kugler:

- Hire only experienced claims-handling staff.
- Provide insurers quarterly loss runs, but notify them immediately about large claims. Snap-on provides immediate notice on any claim that hits 50% of the company's self-insured retention. "We give them notice so they have confidence in us that we're not doing any funny things with reserves," Mr. Kugler said.
- Obtain claims-adjusting licenses where required.



The Snap-on Inc. risk management department. Front row, from left: Tammy Pepper, workers compensation administrator; Sheri Mikels, plan administrator; Roberta Nieto, dealer life insurance administrator; Joanne Tesch, workers compensation manager; Lani Tobias, administrative assistant-treasurer's division; Sue Buska, risk management administrator; Mike Silver, information technology manager; Sarah Bridleman, claims administrator; Karen Parmentier, promotions coordinator. Back row: Kristina Koszykowski, dealer data coordinator; Tim Hornung, risk analyst; Mike Schmidtkofer, corporate claims manager; Daniel H. Kugler, director of corporate risk management; Carol Mertins, dealer insurance specialist; Erica Nordtredt, plan administrator; Jack Seamans, corporate security manager.

PHOTO: MICHAEL MARCOTTE

Risk Manager of the Year

Captive plays key role in risk financing strategy

Facility gives Snap-on relief at renewals

By **DAVE LENCKUS**

Although Snap-on Inc.'s property/casualty insurance program took a few hard hits during renewals earlier this year, a year-old deductible reimbursement program that utilizes the company's Bermuda-based insurer cushioned the blows.

Snap-on realizes some tax advantages by using its captive to cover the company's general liability and workers compensation self-insured retentions, because the captive also writes substantial third-party business.

For Snap-on, the captive helped ensure the insurance renewal season was not as bad as it could have been, though renewals of some coverages at times were problematical, according to Daniel H. Kugler, director of corporate risk management.

Snap-on risk management and broker Aon Risk Services of Illinois Inc. held the company's overall rate increase to 31% during its recent property/casualty insurance renewals. That translated into a 34% premium hike, according to Snap-on risk management.

Most of Snap-on's coverage renewed in January and February, but three professional liability coverages it purchases renewed last August.

With third-party business flowing through the captive and the property/casualty insurance market beginning to harden last year, the advantages of establishing the deductible reimbursement program could not be overlooked, Mr. Kugler noted.

Several appellate courts have ruled that a parent company can deduct premiums paid to a captive as long as the captive writes a significant amount of unrelated business. The 9th U.S. Circuit Court of Appeals ruled in 1992 that a significant amount of third-party business could be as little as 30% of the captive's premium volume.

Snap-on formed its Bermuda-based captive, Snap-on SecureCorp. Insurance Co. Ltd., in 1996. The next year, the captive, managed by Aon Insurance Managers (Bermuda) Ltd., began covering third-party business by fully reinsuring the inventory coverage that Snap-on offers in its dealer insurance program (see story, page 16). In 2001, the captive began covering Snap-on's general liability and workers compensation self-insured retentions in what risk management has dubbed the deductible reimbursement program. This year, Snap-on retained \$500,000 of its general liability exposure—double from last year—and continued to retain \$250,000 of its workers comp exposure.

Snap-on does not include its \$250,000 automobile liability insurance deductible in the program. Doing so would unbalance the mix of third-party and affiliated business that the captive must maintain for Snap-on to realize any tax benefits, Mr. Kugler explained.

Snap-on does not use a fronting insurer for its deductible reimbursement program.

The workers comp premium that Snap-on pays its captive amounts to Snap-on's actuarially projected expected losses for the year.

Snap-on risk management charges each of the company's seven largest units a premium equal to the average of the unit's actuarially projected annual losses over the past five years. The premiums paid by

other Snap-on units are based on corporatewide loss projections that exclude the loss experience of the seven largest units.

Snap-on takes a different approach in charging back its general liability premium to its various units.

Mr. Kugler explained that at least 90% of Snap-on's general liability risk is a short-tailed product liability exposure. Most claims result from product misuse, so risk manage-

ment typically closes the claims quickly and inexpensively, according to Mr. Kugler (see related story, page 24). Because product misuse is such a common element in claims, risk management does not penalize individual units by charging them a premium based on their loss experience, Mr. Kugler said.

About 60% of the general liability premium is charged to sales arm Snap-on Tools Co. L.L.C. The remaining 40% is split among Snap-on's various units.

And, just the ultimate loss for the current year is projected, because

product liability losses are "pretty smooth," Mr. Kugler explained. "There's no reason to average the losses," unlike with workers comp losses, which can fluctuate fairly significantly from one year to the next.

The deductible reimbursement program has softened the financial shots that Snap-on's insurance program has taken as the property/casualty market has hardened. Snap-on, though, has fared better than many other buyers.

"We were pretty much satisfied

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Risk Manager of the Year

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April 15, 2002

Risk Manager of the Year

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PHOTO: MICHAEL MARCOTTE

Daniel H. Kugler, second from left, with representatives from broker Aon Risk Services of Illinois Inc., from left: Mike McLean, director-risk services; Dave Glantz, managing director-relationships; Lisa Stoffer, consultant; Ed Hartmann, relationship management-global.

Continued from previous page with our renewals" on Jan. 1, Mr. Kugler said. "We did better than what the market was doing."

After the company doubled its general liability retention to \$500,000, Snap-on's rate dropped 15%, according to Mr. Kugler. Aon had warned Mr. Kugler to expect a 28% increase otherwise, which still would have beaten the 45% increases that insurers generally were seeking at year end from risk managers, he said.

CNA Financial Corp. writes Snap-on's general liability coverage.

Snap-on's higher retention was driven by the company's lead umbrella insurer, which Mr. Kugler said was odd. "I found that to be a

kind of new twist in the hard market."

American International Group Inc. writes Snap-on's primary umbrella coverage. Chubb Corp., The St. Paul Cos. Inc. and Kemper Insurance Cos. each write an excess layer.

Even with the higher retention, Snap-on's umbrella liability rate increased 74%. But if the company had not doubled its general liability retention, it would have been hit with either a triple-digit rate hike or a high double-digit increase with major coverage cutbacks, Mr. Kugler said.

The renewed umbrella coverage attaches over Snap-on's general liability, workers comp and employers

liability coverages as well as three professional liability lines.

Snap-on purchases broker errors and omissions insurance to cover risks associated with running the company's insurance agency. The second professional coverage is employed lawyers E&O, which protects Snap-on's corporate lawyers.

AIG writes both E&O coverages, and Snap-on fared well with those programs at August 2001 renewals. The brokers E&O rate dropped 6%, and the employed lawyers rate did not change.

The third professional line is publisher's liability E&O, which covers the risks associated with publishing repair manuals and shop management program software. Snap-on's insurer for that line, Scottsdale Insurance Co. subsidiary National Casualty Co., boosted Snap-on's rate 26% at the August 2001 renewal.

Snap-on's global marine insurance, which covers the loss of product that any company unit ships by land, sea or air across its home country's border, is written by Kemper subsidiary Lumbermens Mutual Casualty Co. With no change in coverage, Snap-on's rate dropped 7% at renewal in January.

Snap-on's employer's liability insurance is included in its directors and officers liability insurance, which is led by Chubb. That original three-year coverage was set to lapse in October 2001. But in the spring of 2000, after Snap-on had another claim-free year, risk management took the opportunity to negotiate a fourth year of coverage early in the policy period.

"It was very good timing, because D&O started getting ugly in mid-year 2000," said Tim Hornung, a risk analyst in Mr. Kugler's department.

Snap-on renewed its workers comp coverage with CNA at a 29% rate increase.

But rates were flat on renewal for the workers comp stop-loss coverage that Snap-on purchases to protect itself where it self-insures workers comp. The policy, written by Safety National Casualty Corp., a subsidiary of Delphi Financial Group Inc., attaches at \$500,000 per loss for Snap-on's self-insured workers comp risks in Illinois, Iowa, and Wisconsin.

Employers Insurance Co. of Wausau, a subsidiary of Liberty Mutual Insurance Co., renewed Snap-on's automobile liability coverage at a 13% rate hike, but Snap-on doubled its limits to \$2 million per occurrence/\$2 million aggregate and maintained its deductible at \$250,000.

The limit increase was another insurance program change driven by Snap-on's umbrella insurer, Mr. Kugler noted. Snap-on paid less to increase its auto liability limit with Wausau than it would have paid to have AIG, its lead umbrella underwriter, attach at \$1 million, he said.

Snap-on self-insures its auto collision and comprehensive risks, but not through its captive. The company has a fleet of about 650 vehicles.

Besides its D&O coverage, other multiyear programs that expire at year end are fiduciary liability, a three-year program written by Chubb, and fidelity coverage, writ-

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FM Global

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Risk Manager of the Year



PHOTO: MICHAEL MARCOTTE

Daniel H. Kugler with representatives from Travelers Property Casualty Corp., which writes coverages for Snap-on dealers, from left: Marsha Sullivan, account executive; Georgeanne Dicenso, underwriting director; Kris Libby, claims executive.

Continued from previous page ten by Fidelity & Deposit Co. of Maryland, a unit of Zurich Financial Service Group. Fidelity is the only coverage that Aon does not place. The risk is placed by Companies Agency Inc., a unit of Wausau.

Snap-on renewed its international casualty program with ACE Ltd. at a 27% rate hike.

Among all of Snap-on's renewals, "the one real surprise was property," which renewed on Feb. 1, Mr. Kugler said.

Snap-on, like other buyers, lost broadness of coverage. "Property was the most difficult line of coverage renewed in 2002," Mr. Kugler said.

Just as significant, Mr. Kugler

said, was that the hardened market forced Snap-on to change property underwriters.

"The market didn't require me in the past to have a global program. Now, they wanted all of it or more of it," but they wanted to provide far less coverage at a much higher cost, Mr. Kugler explained.

"A casualty of the hard market was that we had to break with FM Global, because our facilities in Europe were not up to HPR standards," Mr. Kugler said. Factory Mutual Insurance Co., which does business as FM Global, had covered Snap-on's domestic and Canadian property risks for more than 30 years.

Although Snap-on's U.S. and

Canadian facilities are sprinklered, highly protected risks, 75% of Snap-on's international facilities are not highly protected risks, Mr. Kugler said.

Snap-on obtained most of those international facilities through acquisitions during the 1990s. Snap-on largely was a U.S. company until then. Those acquired facilities do not have sprinklers because of water supply problems and the level of sophistication of loss prevention and fire prevention in those countries, Mr. Kugler explained.

He noted that Snap-on did install sprinklers in the distribution center it built in Kettering, England. Snap-on also installed sprinklers its entire distribution center in Vitoria, Spain, when the company built an addition after obtaining the facility through an acquisition in the early 1990s.

'We were pretty much satisfied with our renewals...We did better than what the market was doing.'

Daniel H. Kugler
Snap-on Inc.

Mr. Kugler also moved its international property coverage out of ACE, which had covered the risk for a few years. He moved all of Snap-on's property coverage to CNA. The move ensured that all of Snap-on's facilities would be covered, and the 29% rate hike—which translated into a 52% premium increase—was a softer hit than Snap-on faced from the rest of the market.

But, like other buyers, Snap-on lost its blanket property limits.

Under its new global property program, Snap-on has replacement cost coverage up to 110% of a property's scheduled value, but CNA will not cover any portion of a loss exceeding that value.

"The market has forced us to be absolutely diligent in getting accurate reported values and having all recommended loss control in to the best of our ability," Mr. Kugler noted.

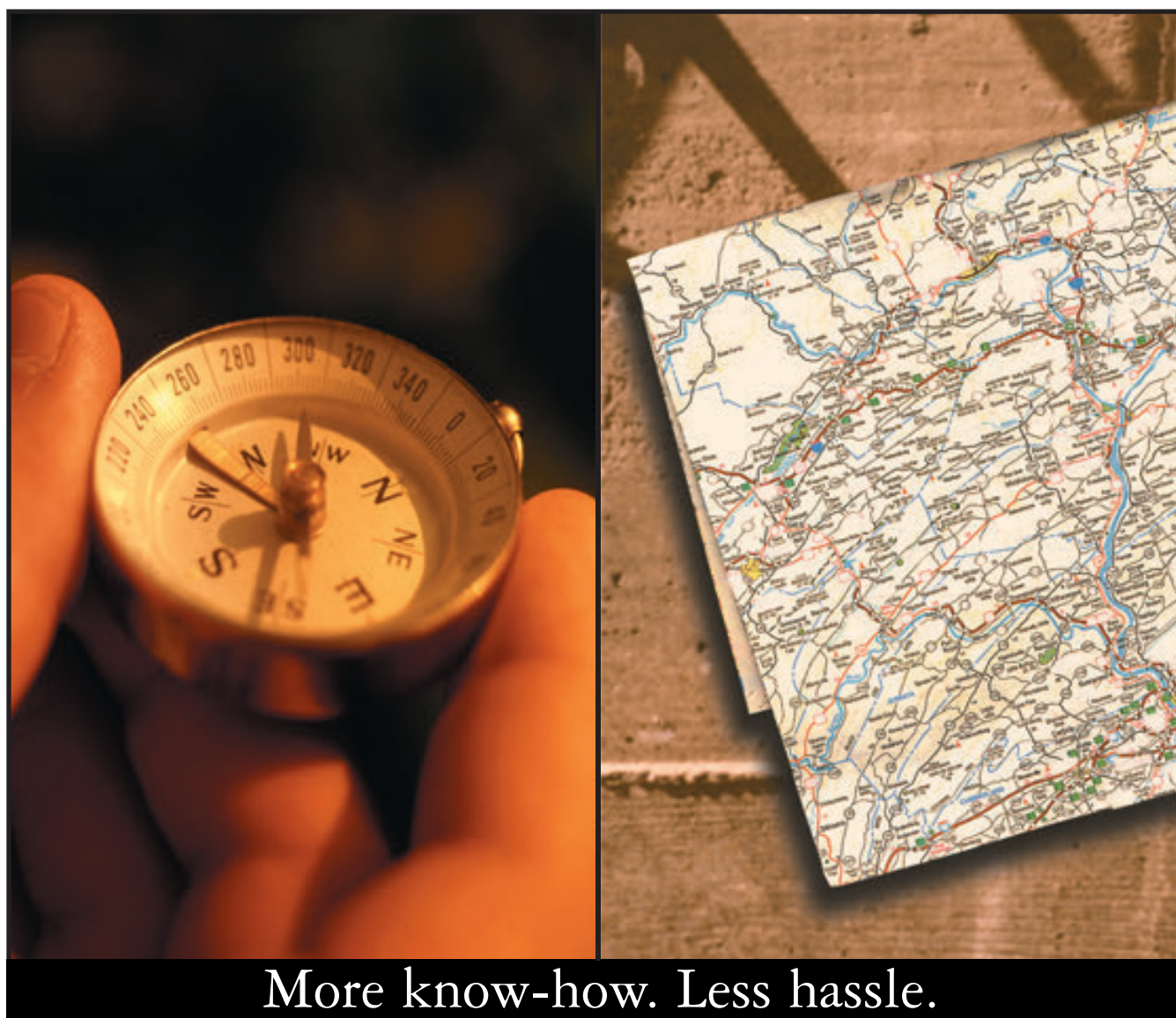
In addition, risk management will be reassessing Snap-on's European facilities, based on their maximum foreseeable loss, to determine whether to upgrade them to highly protected risks, he said.

Snap-on also faces stricter sublimits on earthquake and flood perils.

Before, Snap-on had \$150 million of domestic earthquake limits with a \$10 million additional sublimit in high-hazard zones, plus \$50 million of foreign earthquake limits with a \$15 million additional sublimit for losses in Italy, Japan and Mexico.

It now has \$50 million of global earthquake limits with various additional sublimits, including \$10 million in the New Madrid fault zone, \$10 in the Pacific Northwest, and \$5 million separately in Italy, Japan and Mexico.

Snap-on's flood sublimits dropped from \$150 million domestically and \$50 million overseas to a global \$50 million sublimit. An additional sublimit of \$10 million in the Netherlands was slashed to \$1 million.



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Risk Manager of the Year



PHOTO: MICHAEL MARCOTTE

Kugler steers Snap-on fleet to safer driving, lower costs

By DAVE LENCKUS

The fleet management program that Daniel H. Kugler has implemented at Snap-on Inc. is designed not only to trim auto damage and third-party claim costs but also to slash other fleet-related costs by hundreds of thousands of dollars annually.

The STEER program—or Striving Towards Employee Excellence on the Road—keeps tabs on how safely

corporate employees in the United States are driving and beefs up the company's subrogation efforts in physical damage claims.

In a move designed to further cut auto-related costs in an area that previously had been outside its purview, risk management also has taken charge of vehicle leasing. It has consolidated leasing through a single source and has standardized the vehicle features that Snap-on will pay for when entering into

leases.

The program also keeps a tight rein on the vehicle-related charges that employees may expense and ensures that vehicles undergo routine maintenance.

Mr. Kugler, corporate director of risk management, estimates that Snap-on will save \$280,000 annually in the first three years of the program. In each year, about one-third of Snap-on's fleet of 650 vehicles will be replaced.

"And, we may exceed (those savings) dramatically," because the estimate does not account for additional subrogation recoveries, noted Mr. Kugler, who rolled out the STEER program in October 2001.

Mr. Kugler said he expects eventually to introduce the STEER program to Snap-on's non-U.S. operations.

The need for a program to help Snap-on better control its auto physical damage and third-party liability costs became evident last year as Mr. Kugler prepared his cost-of-risk report for senior management.

Retained losses were too high for Snap-on, which self-insures auto physical damage and retains \$250,000 per third-party liability loss. Several third-party losses exceeded the company's self-insured retention.

Snap-on's auto risks mushroomed during the past decade as the company's fleet size grew. Snap-on's U.S. fleet has increased more than tenfold since 1990.

But it was the company's Equiserv division, which services the equipment that Snap-on sells to auto shops, that "really needed correction," Mr. Kugler said.

Equiserv management had begun developing a safe-driving program and was producing a written policy when Mr. Kugler initiated a more comprehensive fleet management program for the entire company.

Equiserv's early efforts greatly assisted corporate risk management in putting together a companywide program, agreed Mr. Kugler and Mike Schmidlkofer, corporate claim manager.

"We really leveraged the knowledge from Equiserv" on the safe-driving program, Mr. Schmidlkofer said.

Snap-on risk management then decided to take the program further. "We decided we needed a fleet program" that standardized how Snap-on leased and maintained vehicles and subrogated physical damage losses, Mr. Kugler explained.

"Risk management got this because no one was taking it on," he said. "Each corporate entity was doing its own thing."

Under the safe driving portion of the STEER program, risk management annually reviews the driving records of employees who drive vehicles that Snap-on leases. Through the company's in-house insurance agency, Snap-on SecureCorp Inc.,

See **FLEET**/page 32

Daniel H. Kugler's fleet management program has helped Snap-on better control its auto damage and liability costs.

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Risk Manager of the Year

Fleet: Program yields safer driving, lower costs

Continued from page 30

the risk management department obtains employee motor vehicle reports annually on those employees' anniversary dates.

Before the STEER program, the insurance agency already had contacts with MVR vendors, because of the van insurance program that is available to Snap-on franchised dealers through the dealer insurance program that Mr. Kugler has developed.

Employees with clean driving records begin with zero points and would accumulate points based on their traffic citations and other ac-

tivities that violate Snap-on policy.

For example, employees convicted of driving without a seat belt or exceeding posted speeds are penalized three points. Those convicted of driving their personal vehicles under the influence of alcohol or driving any vehicle recklessly are penalized six points.

Conviction on any one of several major offenses would result in a suspension of company vehicle privileges and could lead to termination. Those offenses include driving a Snap-on vehicle under the influence of alcohol or drugs, vehicular manslaughter and vehicle theft.

Snap-on employees also commit a major offense if they allow an unauthorized person to use a company vehicle.

Anyone who accumulates nine to 11 points over a rolling 24-month period is required to complete a driver training school program run by the National Safety Council's Highway Traffic Safety Division.

For drivers who accumulate between six and eight points over a 24-month period, the risk management department issues an official written warning that additional points will lead to disciplinary action.

Drivers who accumulate 11 or more points may be terminated.

Risk management recently introduced another program to reduce losses by identifying unsafe drivers before the annual MVR audits, which would not identify reckless drivers who manage to avoid police citations. The public now can report unsafe Snap-on drivers by calling a toll-free telephone number printed on bumper stickers affixed to company vehicles.

"Our carrier has asked us to do it," said Mr. Kugler, referring to auto liability insurer Employers Insurance Co. of Wausau, a Wausau,

Wis.-based subsidiary of Liberty Mutual Insurance Co.

The program will cost Snap-on \$1 per month per vehicle, or about \$7,800 annually.

Mr. Kugler said Snap-on will monitor the program's effectiveness. "We've got to see a reduction" in third-party liability losses, he said.

To help reduce physical damage loss costs, Snap-on risk management has retained vehicle management company PHH Arval, a Hunt Valley, Md.-based subsidiary of Cendant Corp., to handle the subrogation of all physical damage losses.

Snap-on previously used Wausau to subrogate physical damage claims, but risk management wanted improved subrogation recoveries, Mr. Kugler explained.

PHH also charges a lower fee for the service, Mr. Schmidtkofer noted.

Subrogation recovery will be only one service PHH will provide Snap-on. The company also has retained PHH to assume vehicle leasing responsibilities, which relieves Snap-on subsidiaries of that administrative duty. Snap-on leases automobiles, light-duty trucks and vans.

To reduce leasing costs by obtaining volume discounts, Snap-on has selected Ford Motor Co. as its sole vehicle provider.

Snap-on also has imposed restrictions on the vehicle features for which it will pay.

Previously, because employees have the opportunity to purchase a Snap-on vehicle after the company's lease expires, employees sometimes ordered costly and unnecessary options at the time the company ordered a vehicle, Mr. Kugler explained.

Now, employees must pay for options, such as moon roofs or heated seats, that are not standard items under Snap-on's contract with PHH.

To control vehicle-related expenses, PHH issues a fuel and maintenance card to each Snap-on employee who is assigned a company vehicle. The card allows an employee to pay only for fuel and some vehicle servicing, such as oil changes.

The card benefits both employees and Snap-on, Mr. Kugler explained. Employees no longer have to pay for fuel and routine maintenance first and then file expense reports. And, because the card is designed to accept only vehicle-related charges, no personal items, such as cigarettes, that are purchased at the same time as fuel can be passed onto Snap-on.

PHH will monitor and contact employees about scheduling their vehicles for routine maintenance. For major repairs, PHH authorization is required.

In addition, Snap-on units will receive reports that identify trends that needlessly boost their fleet costs.

The reports would show, for example, if employees are purchasing premium rather than less costly lower-octane fuel, are failing to bring their vehicles in for routine maintenance or are purchasing new tires shortly before the vehicle lease expires.



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Risk Manager of the Year

Broad security plan built from scratch

By DAVE LENCKUS

Just as he did with Snap-on Inc.'s successful workers compensation management system, Daniel H. Kugler created a template—not just step-by-step instructions—for the company's various facilities to follow in implementing security measures designed to protect employees and corporate assets.

When security became a division of risk management in 1999, Mr. Kugler, the company's director of corporate risk management, was unable to find an established corporate security program that he felt comfortable using as a model for Snap-on. So, he built Snap-on's security management program from scratch.

Previously, security at Snap-on had consisted largely of guard service and facility perimeter security, according to Mr. Kugler. Now, the company's new security management system—which Mr. Kugler has implemented in recent weeks—addresses a wide range of concerns, some of which are more traditional than others.

For example, hallmarks of the program include measures designed to control access to company premises, protect employees from violence at their workplaces and guard against theft. In addition, under the program, Snap-on risk management reinforces the company's ethics policy and guards against the unauthorized sales of Snap-on tools, which could threaten the livelihood of its dealers.

The Sept. 11 terrorist attacks and the subsequent anthrax attacks through the U.S. postal system had little influence on Snap-on's new security management system, which had already been in development when those events occurred. But risk management did accelerate the installation of property protection measures that had already been planned, and it adopted, with some minor modifications, the mail-handling policy recommended by the federal government.

Mr. Kugler makes no apologies about modeling Snap-on risk management endeavors on programs that already have worked for other risk managers, as he did with his successful workers comp program (see story, page 21).

Hoping to avoid wasting time by designing from scratch a program that someone else already had fashioned and honed, Mr. Kugler set out in 1999 to find a security model for Snap-on. But he could find no formal, written program that addressed all of the security concerns that were of importance to his company.

Consequently, to develop the company's own program, Mr. Kugler and Jack Seamans—who filled the newly created corporate security manager position in 2000—interviewed the managers of various Snap-on departments and facilities to determine which security measures already had been implemented and what remained to be done. At the same time, the risk manager addressed security issues that needed immediate attention.

Corporate risk management now is rolling out its new secu-

rity "template" at Snap-on's U.S. plants, distribution centers and sales facilities, all of which retain some control over how they will meet many corporate security objectives. But risk management also is imposing some requirements.

Mr. Kugler explained that establishing the program worldwide all at once would be unwieldy for Snap-on's risk management department. And because of the proximity of the U.S. facilities to corporate headquarters, risk management can readily assist those facilities in implementing the program, he said. He is quick to note, though, that Snap-on's overseas facilities already have implemented some basic security improvements that have become part of the security system's mandates.

To ensure that all the facilities and units are on the same page with risk management, the corporatwide security management system has been codified in a manual.

Under the new security system, every Snap-on facility or unit must develop and maintain a security plan that addresses its own security concerns, based on local crime rates and threats; internal risks, such as theft and employee fraud; and employee culture.

As Snap-on facilities and units develop their security plans, risk management encourages them to seek guidance from Snap-on's corporate security department, law enforcement agencies, or both. The security division provides planning assistance and security audits.

And though the risk management department advises facilities and units to consider numerous factors and measures in developing their security policies, it also stresses simplicity. The security manual suggests that, "prior to establishing facility policy, consider what it will take to really accomplish the plan," as well as how to audit that policy's effectiveness.

In their security plans, facility and unit managers must provide details about how they plan to control the access of delivery and sales personnel, business meeting attendees, contract workers, nonworking staff, personal guests and the general public.

Snap-on risk management recommends, where possible, that property be fenced and that vehicle access be controlled through a minimal number of secured gates.

In addition, facility and unit management must develop policies on controlling the entry and monitoring the exit of working staff. All employees should enter and exit through a single doorway, the security handbook notes. That policy must be coordinated with the corporate human resources department to ensure that it conforms to employment procedures.

Corporate security recommends the use of metal detectors as an aid in that screening process. But if a facility opts to use them, employees must be screened not only when they exit the premises but also when they enter.

Mr. Kugler explained that some facilities previously had used metal detectors to screen only exiting employees, to ensure they were not taking out tools. He said such a policy



PHOTO: MICHAEL MARCOTTE

Daniel H. Kugler developed and implemented Snap-on Inc.'s security management program.

sends the wrong message to employees: that the company is more concerned about losing its physical assets than protecting its human assets.

Plans for controlling access also must include facility management's policy on whether employees may leave company grounds during their work shifts.

The security management system is more prescriptive about how facilities and units must deal with workplace violence concerns, which Snap-on already had addressed in a formal company policy.

That policy spells out how managers must promote harassment-free workplaces and attempt to defuse disputes before they develop into dangerous situations. In the case of a serious act of aggression that would necessitate a call to 911, the corporate security and human resources departments also would have to be contacted. Those departments would then assemble a crisis management team, consisting of representatives from corporate security and human resources, the employee assistance program and the legal department.

Facility and unit managers also must inform corporate security immediately about bomb, arson or other serious threats to

Continued on next page

Security program encourages employee involvement

By DAVE LENCKUS

The initial goal of Snap-on Inc.'s security management system is to dash any notions that security is risk management's or facility management's own fiefdom.

"The first priority of SMS is to get more conscious awareness of security and give people a place to go" to report problems, noted Daniel H. Kugler, director of corporate risk management.

Through presentations at Snap-on's major facilities as the risk management department implements the new security system, "we're trying to tell employees that everyone has security responsibility, especially in light of Sept. 11," said Jack Seamans, corporate security manager. Mr. Seamans began working at Snap-on in 2000 on an outsourcing basis and now is an independent contractor.

Snap-on risk management for years has encouraged employees to heighten their awareness of suspicious activity, even by co-workers, and it now has established a central number for employees to call to report their concerns.

"A lot of times, you don't get calls because employees don't think you're doing anything" to investigate thefts and prosecute offenders, Mr. Kugler noted.

Besides the central reporting station, the risk management department attempts to maintain the interest of employees who have reported suspicious activity by updating them on Snap-on's investigation into the reported activity. Generally, those updates contain only limited information so the investigation is not compromised. Still, the updates



the information they provide, Mr. Kugler said.

Employees already have begun buying into that concept because of some early security successes shortly after risk management assumed responsibility for security in 1999, according to Mr. Kugler.

In one of those early cases, a supervisor contacted Snap-on risk management when he suspected that a subordinate industrial salesman was selling products to dealers, including some outside his territory, at deep discounts, was keeping the proceeds and planned to disappear.

demonstrate that Snap-on values employees' vigilance and

With that early warning—a luxury that the risk management department often did not have at that time—Mr. Kugler was able to step in and work with the supervisor on how best to foil the salesman's plan. Snap-on moved in with outside investigators as well as law enforcement authorities, including the FBI, and the salesman was apprehended.

In a dealer sales-conflict case, Snap-on risk management learned of an Army surplus store that was selling Snap-on tools at deep discounts—a practice that could have threatened the livelihood of the Snap-on franchise dealer in that area.

Risk management investigated and found that the store had obtained the tools legitimately from a nearby military base that had closed recently. To protect Snap-on's franchise dealer in that area, the company bought the store's entire inventory of Snap-on tools.

As a result of showing employees from the outset that their contributions to corporate security make a difference, "we're seeing good success in people contracting us" about thefts, unethical behavior and sales conflicts within dealer territories, Mr. Kugler said.

Risk Manager of the Year

Risk management career began in insurance

By DAVE LENCKUS

The man who drew Daniel H. Kugler into risk management was affiliated with a premier university, but he was not a faculty member.

Mr. Kugler's career adviser was a university risk manager and the father of a boyhood chum. His professional and paternal advice to pursue a risk management career seemed sage to Mr. Kugler, who then was an insurance company management trainee in his early 20s.

Shortly after that impromptu career consultation a year or two after his 1976 college graduation, Mr. Kugler set out to make himself marketable for a risk management position by pursuing the first in what would be a series of professional designations.

Mr. Kugler's first risk management opportunity came a couple of years later with Snap-on Tools Corp., now Snap-on Inc., and he has built his entire 22-year risk management career there.

Along the way, the gregarious

Mr. Kugler has crafted a risk management program not only for Snap-on but also for its franchise dealers. The programs so impressed 10 independent judges that they named Mr. Kugler the 2002 Risk Manager of the Year.

As director of corporate risk management for Snap-on, Mr. Kugler is responsible for protecting a company that has physical locations in 29 countries and sells products and services to professional tool technicians in 150 countries.

But the 48-year-old Mr. Kugler

has not lived outside of his beloved Wisconsin and has not set up house farther than about 70 miles from his hometown on the southwestern shore of Lake Michigan.

His parents were stable as well, rearing all four of their children in the same house in Milwaukee.

Mr. Kugler's father held a couple of traffic management positions with different organizations, and his mother was a secretary for a school district superintendent.

All of the Kugler offspring chose
Continued on next page

Continued from previous page
a facility, as well as any threats to business operations or trademarks; employee fraud; and any "hazardous behavior" by employees, such as violations of security rules or unstable behavior.

Corporate security will coordinate undercover investigations as well as provide crisis response support.

There are some measures that corporate security prescribes for Snap-on facilities, including the use of specified devices.

For example, facilities must be locked at all times and equipped with card-access control systems. Company personnel and visitors must wear identification cards at all times.

Parking areas for employees and visitors—preferably, separate areas for each—must be well lit and located within the facility's secured perimeter. In addition, to adequately protect employees, security for parking areas must meet or exceed the security measures provided at facility access points.

Every facility and unit security plan also must address a variety of contingencies, including power outages, fires and explosions, evacuations, severe weather, bomb threats, hazardous-material spills, medical emergencies, suspicious mail, facility shutdowns and labor actions.

Facility and unit managers must develop systems to document, manage and analyze security operating records and occurrence reports.

Risk management highly recommends, but does not require, that facilities and units consider implementing other measures, including:

- Guard service, when it is a cost-effective way to protect either the workplace or company assets. Risk management suggests that security guards or managers regularly patrol the facility perimeters to prevent safety hazards and unauthorized access. The security manual notes that handcuffs should be part of guards' standard equipment.

- Closed-circuit television to monitor the facility's perimeter and parking areas, as well as its interior activity.

- Outside wall lighting fixtures, which the security manual notes would enhance the effectiveness of closed-circuit television.

Corporate security is responsible for procuring security systems and has established standards for security equipment.

The security manual notes that the root of illegal or counterproductive activities by employees is a lack of ethics, and it outlines the various behaviors that Snap-on considers unethical. The manual refers readers to company directives and other sections of the manual that detail how Snap-on would respond to such actions.

Included among the activities cited as unethical are all forms of harassment; hazardous behavior, including violations of security rules, working under the influence of alcohol or drugs and ignoring others' hazardous behavior; employee fraud; benefits fraud; and violations of the company's electronic communications policy.

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Risk Manager of the Year

Continued from previous page

careers with which their parents had some familiarity. Mr. Kugler's older sister and two younger brothers all became teachers. As Snap-on's risk manager, Mr. Kugler is responsible for protecting an organization with thousands of franchise dealers who spend their workdays driving large, tool-laden vans to their professional tool technician customers.

The towering Mr. Kugler played offensive tackle on his high school and college football teams. He was a non-scholarship player at the University of Wisconsin-Oshkosh, where he majored in finance and minored in economics and accounting.

Mike Schmidtkofer, a college teammate whom Mr. Kugler later hired as Snap-on's corporate claim manager, introduced Mr. Kugler to the insurance industry. Mr. Schmidtkofer was a management trainee at Sheboygan, Wis.-based mutual insurer Heritage Mutual Insurance Co., now known as ACUITY, and he informed Mr. Kugler about openings in the program. Mr. Kugler signed up for the one-year program in June 1976, shortly after graduating from college.

Later that year, Heritage shortened the program to six months, and Mr. Kugler became a commercial and personal multilines adjuster at year-end 1976.

But his career soon would change

course.

While visiting an old friend in a year or so later, Mr. Kugler described his position at Heritage.

The friend's father listened intently as well. The father, Ward Glaeser, the risk manager at that time for Marquette University in Milwaukee, suggested that Mr. Kugler consider an alternate career path: risk management.

"Yeah, okay. What is it?" Mr. Kugler recalled responding.

"He said to me, 'You don't sell insurance; you buy it,'" which described the limited role of risk management at many organizations at that time.

"That interested me," Mr. Kugler said. "It's a tougher job to sell insur-

ance than have people knock on your door and you make the purchase decisions," Mr. Kugler reasoned, having no inkling how risk management would evolve over the next quarter century.

To prepare himself for his eventual entry into risk management, Mr. Kugler began pursuing professional designations. From the Insurance Institute of America, he obtained a General Insurance Certificate in 1979, an Associate in Risk Management designation in 1980 and an Associate in Claims Adjusting in 1981.

He earned the Chartered Property & Casualty Underwriter designation in 1982 and the Certified Employee Benefit Specialist designa-

tion in 1987.

All have come into play at some point during his tenure at Snap-on, where Mr. Kugler not only controls and finances corporate risk but also has created a risk management and benefits program for Snap-on franchise dealers.

Before obtaining his first professional designation, Mr. Kugler continued working as a claims adjuster, first for Heritage and then for Sentry Insurance Co. of Stevens Point, Wis. During his last three months at Sentry in mid-1979, Mr. Kugler began focusing on workers compensation claims, an area that would demand much of his attention years later at Snap-on.

Mr. Kugler's risk management opportunity came in September 1979, when an insurance administrator position became available at Snap-on. Mr. Kugler said he figured he would stay on as "a glorified risk analyst" with Snap-on a few years and then move on.

But in June 1985, Snap-on named him risk manager. He took on responsibility for the company's retirement trust, developed and implemented a corporate 401(k) savings plans and implemented a Simplified Employee Pension Plan for Snap-on franchise dealers.

Those efforts prepared him to step into the role of corporate manager-risk, pension and 401(k) programs in September 1991, shortly after Mr. Kugler's immediate supervisor, Dick Edwards, was killed in a traffic accident.

After all benefits were consolidated under the director of employee benefits in late 1997, Mr. Kugler was promoted to his current position.

Since then, as part of his risk management strategy for Snap-on and its franchise dealers, Mr. Kugler has created a Bermuda-based captive insurer and an in-house insurance agency. To ensure he is in compliance with state regulations, Mr. Kugler has obtained a Wisconsin resident insurance broker license and a non-resident broker license in the other 49 states.

Mr. Kugler also oversaw the implementation of a risk management program for a Kenosha County-owned lakefront facility that a non-profit organization, created by business interests, is refurbishing and transforming into a local meeting center.

These days, Mr. Kugler often is on the other side of the instructor's lectern. He is a member of the Risk & Insurance Management Society Inc.'s Education Committee, the RIMS Fellow Advisory Council, a committee member on the REBEX Midwest Risk Managers Conference and a member of the Manufacturers Alliance/MAPI Risk Council Group. He also has taught several RIMS professional development courses.

Mr. Kugler lives in Kenosha with Margie, his wife of 24 years, and their four children: Caitlin, 15; twins Leigh and Lauren, 13; and Jack, 9.

His hobbies are skiing, golf and coaching youth football and baseball. He also is a board member of the Kenosha Boys and Girls Club.

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Risk Manager of the Year

Kugler surpasses goal for risk management program

By DAVE LENCKUS

A list of past winners of the Risk Manager of the Year Award has been a guiding force in the career of Daniel H. Kugler.

Mr. Kugler's longtime goal has been to build a risk management program at Snap-on Inc. that, compared with the programs forged by those honored risk managers, would be worthy of submitting for recognition.

His goal, he said, was not to win the award but to measure up to the standards set by the "big hitters" on

that list.

Mr. Kugler, whose name now sits atop that list of risk management standard bearers, said he felt "wowed" as he accepted the 2002 Risk Manager of the Year Award.

Business Insurance Publisher Martin J. Ross III, Editor Paul D. Winston and Senior Editor Dave Lenckus presented Mr. Kugler with the 25th annual award during a luncheon ceremony in his hometown of Kenosha, Wis., on March 15. Mr. Kugler, director of corporate risk management at Snap-on, was selected for the award by a panel of

10 independent judges.

In his acceptance speech, Mr. Kugler thanked several individuals and companies for the roles they have played in the successes that Snap-on risk management has achieved. Mr. Kugler, who likes to motivate staff and encourage business partners with pearls of wisdom from renowned historical figures, sprinkled a few such gems in his light-hearted remarks.

Among those whom Mr. Kugler singled out for their contributions were the only two immediate supervisors he has had in his nearly 23

years at Snap-on.

His first supervisor, Dick Edwards, director of risk management and employee benefits, gave him "some great opportunities" and great freedom to address workers compensation, employee benefits, 401(k) deferred salary pension plans and safety concerns, Mr. Kugler said. Mr. Edwards was killed in 1991 in a traffic accident.

Mr. Kugler also praised his current supervisor, Snap-on Treasurer Denis J. Loverine.

"He lets me go the edge in servicing our customers," whether they

are Snap-on units, employees or franchised dealers at the center of risk management's safety, workers comp or dealer programs, Mr. Kugler said. "I tell him you can see a lot better from the edge," he said.

"He's a really easy guy to work for," Mr. Kugler said. "You don't think you're even working for him, which makes him a true leader, in my mind."

Another Snap-on executive whom Mr. Kugler applauded is Donald S. Huml, senior vp-finance and chief financial officer, who announced in early April that he had accepted a position with another company. In his typical self-deprecating manner, Mr. Kugler related how one of Mr. Huml's earliest memos after joining Snap-on in 1994 sparked his now-routine cost-of-risk reports to company management. Previously, Mr. Kugler explained, he had gathered the necessary data and made use of it himself, but his plans to develop formal

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PHOTO: MICHAEL MARCOTTE

Daniel H. Kugler and his wife, Margie, at the Risk Manager of the Year award luncheon.

management reports had been sidetracked by other projects.

Between 1993 and 2000, Snap-on's total cost of risk, as defined by the Risk & Insurance Management Society Inc., shrunk 39% to \$7 per \$1,000 of revenue from \$11.58 per \$1,000, according to Snap-on risk management.

"That really is a critical piece of our communication, so I want to thank Don for his support," Mr. Kugler said.

Mr. Kugler also stressed the important roles that others have played as his department's partners.

He cited Snap-on's human resources department, facility managers and franchise dealers. He also thanked his brokers and several current and former insurers.

Quoting Henry Ford, the founder of Ford Motor Co., Mr. Kugler said: "Coming together is the beginning. Staying together is progress. And working together is success."

In saluting his staff, Mr. Kugler, a devout Green Bay Packers fan, quoted legendary Packers head coach Vince Lombardi: "Some of us will do our jobs well. Some of us won't. But we'll be judged only on one thing. That's results."

After having his staff stand for a round of applause, he said: "They're a great group. We work hard. We play hard. We have a lot of fun. They're really doing it. As Vince says, it's all in regards to results."

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Risk Manager of the Year



Debra L. Rodgers, director of risk management for North American operations, Saint-Gobain Corp., co-nominated Mr. Kugler, at right.



Valerie C. Walters, global risk manager for CIENA Corp. of Linthicum, Md., who co-nominated Mr. Kugler for the award.



Risk Manager of the Year Dan Kugler, center, is congratulated by the award's sponsors, from left: Roger Andrews, vp-international of the Risk & Insurance Management Society and director-risk management for E.D. Bullard Co.; *BI* Editor Paul Winston; *BI* Publisher Martin Ross; and *BI* Senior Editor Dave Lenckus.

PHOTOS: MICHAEL MARCOTTE

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Luncheon: Surpasses goal

Continued from page 36

Mr. Kugler wrapped up his acceptance by acknowledging his family, whom he called his anchor.

He credited his late mother for instilling in him his passion for his work. He thanked his father for teaching him to focus on customer service.

Mr. Kugler said his wife, Margie, "has supported all the nutty stuff" he has done. And he singled out his four children for the special meaning each of them has in his life.

Among those who toasted and roasted Mr. Kugler after his award acceptance was Pete Glaeser, a friend since boyhood. In relating how Mr. Kugler sneaks calls to his office while vacationing or on a day off during a round of golf, Mr. Glaeser observed: "His dedication to the job is phenomenal—to the point of being obnoxious."

Debra L. Rodgers, who co-nominated Mr. Kugler for the award, praised him for his approach to his job and his contributions to the risk management profession. Ms. Rodgers, director of risk management for Saint-Gobain Corp. of Valley Forge, Pa., and Mr. Kugler both serve on the RIMS Education Committee and the Risk Management Council of the Manufacturers Alliance/MAPI.

"He's customer-focused. He's vendor-focused. He's volunteer-focused," Ms. Rodgers said. "He just always gives. He doesn't know how to say no."

Among the gifts presented to Mr. Kugler, an avid collector of Packers memorabilia, is one that would be a prized keepsake for any football fan.

Mike Sterr, a retired district vp with former Snap-on property insurer Factory Mutual Insurance Co., gave Mr. Kugler an original program from the 1967 National Football League championship game, which is better known at the "Ice Bowl." The Packers and Dallas played the game in Green Bay in subzero temperatures and a brutal wind chill. The Packers came from behind to win the game in the final seconds.



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Gordon Knight

President
AIG WorldSource

Tuesday, April 16th

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Executive Vice President
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American International Group

Daniel S. Glaser

Executive Vice President
Domestic Brokerage Group
American International Companies

Joseph L. Boren

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Anthony J. Galioto

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John W. Keogh

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National Union Fire Insurance Company
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Geoffrey J. Smith

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Gerald V. Vitkauskas

President
Imperial A.I. Credit Corp.

Tuesday, April 16th

2 P.M. TO 4 P.M.

John J. Carey

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President
AIG Risk Management

David N. Fields

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President
A.I. Marine Agency of New York

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Domestic Accident & Health Division

Paul Obolensky

President
Captive Management Division
AIG Insurance Management Services

Gerald V. Vitkauskas

President
Imperial A.I. Credit Corp.

Wednesday, April 17th

10 A.M. TO NOON

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President
AIG Risk Finance

Steven A. Iler

President
AIG Claim Services

Gordon Knight

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PHOTO: MICHAEL MARCOTTE

Lauren M. Gregory Director of Risk and Insurance Management Metropolitan Transportation Authority

Gregory keeps transit authority on track

By **MARK A. HOFMANN**

In the beginning, there were five—five different risk management departments operating within the largest transportation system in North America.

Each of the risk management departments for the five operating agencies of New York's Metropolitan Transportation Authority had its own way of doing things. And each of the arms—MTA Metro-North Rail Road, MTA Long Island Rail Road, MTA New York City Transit, MTA Long Island Bus and MTA Bridges and Tunnels—had its own strengths and weaknesses.

When the MTA chairman decided to consolidate the five departments in 1997, Lauren M. Gregory—then the risk manager for the Long Island Rail Road, was chosen to oversee the

project as the MTA's director of risk and insurance management.

In addition to merging the MTA's disparate risk management programs successfully into a stronger whole, Ms. Gregory has:

- Played a key role in forming the first captive insurance company licensed under New York law (see story, page 52).
 - Put together a system of owner-controlled insurance programs that work to the benefit of both the MTA and the contractors it employs for its capital improvement projects (see story, page 48).
 - Secured coverage in the aftermath of the Sept. 11 terrorist attacks on the World Trade Center (see story, page 58).
- These and other achievements earned Ms. Gregory the 2002 Risk Management Honor Roll award.

When asked what Ms. Gregory has achieved, Gary G. Caplan, the MTA's director of budgets and financial management, said, "I guess, in a word, everything."

"The risk management function at MTA had been decentralized. She basically set up all the programs we have now, from the captive to the OCIPs to the regular day-to-day kind of insurance. It really wasn't brought together until Lauren came," he said. Ms. Gregory's efforts have saved the MTA "quite a lot" of money along the way, Mr. Caplan said.

"Lauren has turned around a department that was very ineffective and did not properly define risk for the MTA family and wasn't saving us a lot of money at the time," said Kenneth J. Bauer, president of the Long Island Rail Road and Ms. Gregory's former boss. "I've been with the MTA family for 30 years,

See **GREGORY**/page 44

Risk Management Honor Roll

April 15, 2002



PHOTO: MICHAEL MARCOTTE

Gary G. Caplan, the MTA's director of budgets and financial management, stands with Lauren M. Gregory in front of a map of the system.

Gregory: Keeping MTA moving

Continued from page 42

and it was the best turnaround of a department I've seen."

"The other thing that has always greatly impressed me is the drive and energy that she puts in each and every day on the job and, at the same time, the discipline to go to school at night to get her master's degree, finish insurance courses and most recently her law degree," Mr. Bauer said.

Ms. Gregory, "like any good risk manager, can recognize and evaluate risk. But she also can effectively communicate the exposures two ways: to the underwriters, so they

can evaluate the risk and price it appropriately; and also she communicates extremely well to the management of their many diverse operations, so that they can either minimize, mitigate or eliminate the risk," said Richard Loughlin, vice chairman of Willis of New York Inc., the MTA's primary broker.

Ms. Gregory regards the successful consolidation of the five agency risk management programs as one of her most significant accomplishments.

As Mr. Loughlin noted, "Before the consolidation of risk management, each agency had its own risk

manager, with the myriad of brokers and insurance companies operating separately."

"Some of the departments were responsible for claims handling, some weren't," Ms. Gregory said. "Some worked closely with the safety departments with regard to loss control issues, and some didn't. Some of the departments focused more on contractual risk transfer than others, and all hired different brokers just to place insurance coverage."

Ms. Gregory brought the people with various specialties together to form a best-practice type of consolidated department, in which the most successful approaches from each were implemented. The staff was trimmed to 16 from 22, though it has since grown to 20, she said.

In addition, she relies on "extensions of our staff, as we call them." These include Willis and Deloitte & Touche L.L.P., the MTA's risk man-

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'She communicates extremely well to the management of (the MTA's) many diverse operations.'

*Richard Loughlin
Willis of New York Inc.*

agement and actuarial consultant.

Ms. Gregory has been able to put together several insurance programs and procedures that encompass all of the MTA's agencies.

"We developed procedures and guidelines for the OCIPs, we standardized contractual risk transfer policies and procedures, and we are in the process of implementing two authoritywide database systems," she said. One system will integrate all safety, claims and risk management data into a centralized database. The other will allow MTA's risk management department to monitor the insurance compliance of all contractors, licenses and vendors occupying the MTA's property, by tracking certificates of insurance in a single, universally accessible database, she said.

Getting the databases up and running is among the MTA's largest current projects, Ms. Gregory said. In addition, she's working on recovering losses stemming from the terrorist attacks, trying to recover hazard mitigation money available from the Federal Emergency Management Agency and putting together asbestos and lead abatement programs.

"I consider the greatest challenge of the MTA risk management department to be to provide the best service possible to the MTA and all of its agencies," she said.

"As a service-providing department, we answer to all agencies and all departments. Even though our current mission is 'to manage the MTA's overall cost of risk through the development and implementation of effective risk strategies in conjunction with the MTA's Agency Safety and Legal Departments' we truly believe it's much more than that," she said.



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PHOTO: FRANCES M. ROBERTS

The Metropolitan Transportation Authority operates various transit systems, including New York City's busy subway.

Interest in retaining risks drives MTA insurance strategy

By MARK A. HOFMANN

The Metropolitan Transportation Authority believes in retaining risk.

In fact, the MTA and its agencies are mostly self-insured for claims arising out of its operations, points out Lauren M. Gregory, the MTA's director of risk and insurance management. This strategy also includes using the MTA's captive—New York-domiciled First Mutual Transportation Assurance Co.—to the

MTA's advantage.

Ms. Gregory estimates that the MTA retains about 97% of its exposure, through self-insured retentions and the captive. The authority does, however, reinsure substantial portions of its property risks, she noted.

The MTA relies on another strategy as well to hold down costs and promote safety. That approach involves the use of owner-controlled insurance programs—OCIPs—to

cover contractors engaged in major construction projects for the continent's largest transportation network (see story, page 48). OCIPs currently cover about \$8 billion of projects, Ms. Gregory said.

An in-house liability self-insurance fund sits on top of a self-insured retention of \$7 million per agency for the Long Island Rail Road, Metro-North Railroad and New York City Transit, with smaller retentions for the other operations. The self-insurance fund provides \$50 million in excess/catastrophic liability coverage for all of the agencies. If earnings on the fund are lower than expected, each agency is assessed on an actuarially determined basis, she said.

Ms. Gregory says that the majority of the agencies also self-insure their exposure to employee injuries. The MTA's two commuter railroads fall under the Federal Employers Liability Act, and the other agencies are subject to state workers compensation laws.

The Metropolitan Transportation Authority retains about 97% of its exposure, through self-insured retentions and its New York-domiciled captive.

In addition, the MTA currently buys 10 various multiagency or all-agency insurance programs—primarily for liability exposures—and about 25 other agency-specific liability programs.

Ms. Gregory said that three of the all-agency programs are placed through the captive.

They are: direct property coverage for all agencies; direct all-agency protective liability coverage, which protects the MTA and member agencies from potential liability related to independent contractors; and reinsurance of station liability and force account insurance coverage for the LIRR and Metro-North.

Force account coverages are used by railroads to insure against third-party liability and employee injuries arising from projects conducted on behalf of other railroads (see story, page 52).

But not every exposure is covered through the captive.

The MTA also buys a variety of coverages in the traditional insurance marketplace.

These include crime coverage through American International Group Inc.'s National Union Fire Insurance Co. of Pittsburgh, Pa.; commercial automobile coverage for some of the operating agencies through Liberty Mutual Insurance Co.; pension and benefit plan fiduciary liability coverage through The Hartford Financial Services Group Inc.; and a lead abatement policy through AIG's Commerce & Industry Insurance Co.



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Risk Management Honor Roll

Program puts MTA in driver's seat on projects

By MARK A. HOFMANN

What do you call an insurance program that reduces costs, enhances safety and allows a public-sector risk management department to manage risks that involve outside contractors?

For Lauren M. Gregory, director-risk and insurance management for New York's Metropolitan Transportation Authority, the answer is an owner-controlled insurance program, or OCIP.

Under an OCIP, the MTA buys workers compensation, general lia-

bility, excess liability and builder's risk insurance for all of the companies involved in a capital project. Contractors must exclude such insurance costs from their bids. "We would require from the contractor only their auto coverage, and then, depending on if there's any environmental hazards or if they're doing any kind of professional work, we would ask for those coverages from them," said Ms. Gregory.

In addition, bidding contractors must agree to cooperate with MTA's onsite insurance administrator, participate fully in the MTA's safety

program, prepare written safety plans and develop safety training programs for their employees. The contractors also must address any safety problems and report any accidents at the job site. "We always have somebody on the job site. We have a lot of people on the job site," she said.

OCIPs are "very, very advantageous to the MTA," she said. "The first reason is it saves money down the line over the term of the project. With all the safety we put in place with these projects, they're very, very safe. They usually come

in early and under budget because of the fact that all of the contractors, subcontractors, everybody working on the project, is covered by the same insurer. You don't have the cross-litigation you would have on a regular project. Nobody's pointing fingers as to whose fault it is—the one insurer is going to cover it."

The key to the success of the OCIPs is the increased safety management on the projects, which includes inserting strict safety specifications, which exceed OSHA standards, in contracts, said Ms. Grego-

ry.

Teams of safety consultants enforce the standards for each program, she said. "These consultants not only evaluate contractor compliance with the specifications but also assist contractors and project management in the safety process we have developed. This balanced approach of education and enforcement has caused contractors to greatly improve their safety records on the job. Our projects routinely achieve loss ratios of less than 40%," she said.

Ms. Gregory says that the programs have run into "limited resistance" from both MTA internal departments and some contractors. The internal friction stems mostly from the change in process and an initial lack of appreciation of potential cost savings. She said the risk management department has worked to alleviate those concerns, as it has the concerns of contractors.

'We have estimated that, by placing insurance in this fashion, we will save the MTA in excess of \$55 million. A recent MTA internal audit confirms this anticipated savings.'

Lauren M. Gregory
MTA

"Their main complaint is that we have reduced their ability to procure favorable insurance rates because we have reduced their exposure base. We have addressed this concern through initiating contractor incentive programs that allow them to share in our savings," she said.

And savings have been considerable, she pointed out. The MTA has more than \$8 billion of capital construction projects insured under OCIPs. "We have estimated that, by placing insurance in this fashion, we will save the MTA in excess of \$55 million. A recent MTA internal audit confirms this anticipated savings," Ms. Gregory said.

Brokers play a key role in the success of the concept as well.

MTA's brokers are classified into Category A and Category B, with a Category A broker responsible for brokerage services, procurement and maintenance of MTA's major risk financing and insurance programs and some specialty coverages. Category B brokers handle miscellaneous policies as the need arises. MTA chooses a master broker from among the Category A brokers. The current master broker is Willis of New York Inc.

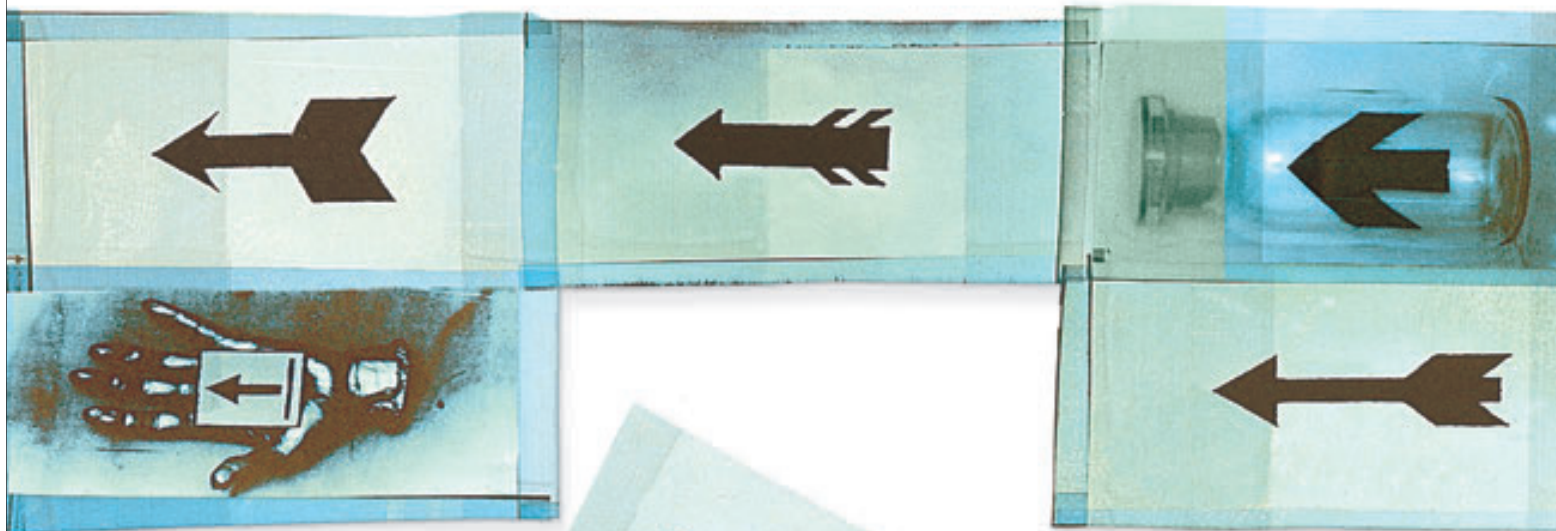
"We competitively bid only the broker's services," she said. "Once we hire a broker, then we let the broker go out to the marketplace to different insurers."

The broker's handling of safety aspects is critical, too.

"We make the competitive part of the broker procurement very

See OCIPs/page 50

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INSURER TOPICS

A MONTHLY EDITORIAL SECTION SENT EXCLUSIVELY TO INSURERS AND REINSURERS

Employee Recruiting & Training



Online education getting high marks

E-learning seen as cost-effective alternative to the classroom

By **RODD ZOLKOS**

Offering the potential for the combined benefits of decreased costs and increased revenue, online education is gaining in popularity with both insurance companies and the agents and brokers who distribute their products.

By using Internet or company intranet-based training systems—instead of the traditional approach of gathering individuals in a single classroom site—insurance companies

can quickly and efficiently educate far-flung agency forces about new products.

Companies can also use the technique to improve employees' skills and increase their productivity, and to meet and track employees' continuing education requirements.

And because those receiving training can get access to information through their computers at times that are convenient for them, education can be delivered on a "just-in-time" basis, with those being trained receiving new information as they need it.

Among insurance companies, e-learning is "definitely very

hot," said Barbara Reardon, president and chief executive officer of Educating Underwriters Consulting Inc. in Batavia, Ill. "There are very few companies who don't see this as the answer."

"People can get online when they need to get online and they have the time to do it," said Gerry Pulvermacher, a partner in the financial services division of Deloitte Consulting in New York. "It's just a much more efficient way, and it's a better way for many types of skills."

Clients with educational needs are "looking for new ways

See **E-LEARNING**/next page

CPCU program changes with the times / 48D

Kemper moves to paperless office / 48E

INSURER TOPICS

E-learning: Popularity of online approach growing

Continued from previous page

to do what they used to do in the classroom," said Howard Marks, chief executive officer of New York-based eMind L.L.C., a training firm that specializes in the financial services industry.

"Our vision of the world in financial services is that the knowledge these companies can deliver to their workers is critical," Mr. Marks said.

"There are several different ways that companies are using it," Deloitte's Mr. Pulvermacher said of e-learning.

"They're recognizing that, from a cost perspective, there's a significant savings to be had by utilizing these learning-management systems," he said. Such systems can provide information to management "on how training is being deployed," so they can keep track of what employees are learning—and how well they're learning it.

"Learning-management systems were kind of the first entry for a lot of these companies," Mr. Pulvermacher said. In the next step, they started examining their education systems and realized there were costs associated with inadequate training.

"In some areas, it's clear that that traditional kind of learning is not reaping the benefits and it's a very costly process," the consultant said.

"Learning is a vehicle for enhancing performance," and there are several ways e-learning than help achieve that end, Mr.

Pulvermacher said.

With computed-based education, "it's something people can go back to in a performance-support function," he said. With an Internet-based or intranet-based training program, an employee can go back and focus specifically on areas in which he or she might be having trouble.

Electronic educational systems can also be used to improve meetings with clients, Mr. Pulvermacher said. When a producer goes to call on a customer, the company can turn to an electronic profile to identify other dealings with that customer and what the producer might need to know. "So when that individual goes off, they're much better prepared for the meeting than just what could be gained through the manual," he said.

The consultant noted that many insurance companies have invested heavily in computerized customer relationship management systems, and data from those systems can be used to structure an e-learning approach based on a recognition of what customers' needs might be.

In such cases, the training programs become "an ongoing approach to performance, rather than just a training program," Mr. Pulvermacher said.

And, he said, in dealing with education for agents and brokers, insurance companies should be aware that the training often must be provided for others in addition to the person selling the policy.

"Oftentimes, it's not only the salesperson who needs the training, but there are back-office people who also touch the customer as well," Mr. Pulvermacher said. E-learning can provide a way to offer more-effective education to those individuals as well, rather than the traditional approach of "sending them brochures," he said.

'Ideally, what you want is your computer-based training on the Internet, so that all your field-based operations can get the information on demand.'

*Barbara Reardon
Educating Underwriters
Consulting Inc.*

And better training can result in increased sales, the consultant said, because "people will typically tend to stick to what they know and sell what they know."

"Ideally, what you want is your computer-based training on the Internet, so that all your field-based operations can get the information on demand," Educating Underwriters' Ms. Reardon said.

E-learning can not only increase the speed with which information can be delivered to employees, but it also allows companies to quickly update training information related to issues that are developing or changing rapidly, such as mold

liability, Ms. Reardon said.

Bart Shachnow, CEO of the New York-based insurance education company Insure'Ed, said the need for appropriate training is particularly compelling for producers in the current market environment.

Faced with higher premiums, buyers are relying more on agents and brokers for advice, he said. And to provide that advice, those selling the products must be trained.

Mr. Pulvermacher said that although not every type of training lends itself to e-learning, "there is definitely a role for enhancing the learning and managing the learning experience."

"And there's some material you can use in a classroom and use e-learning to support that education," he said.

Mr. Shachnow's company, in fact, is a provider of classroom-based education and training, though it recently entered into a strategic partnership with eMind to offer combined classroom and e-learning training programs.

Some continuing education requires classroom work, he said, while other kinds of education and training on new products can be done entirely online, available 24 hours a day, seven days a week.

"This is a needs-based solution that we bring to the table, as opposed to a products-based solution," Mr. Shachnow said. "There has been a tremendous receptivity to the concept. We are making our clients aware of

education needs that they weren't aware that they had."

According to Ms. Reardon, a "state of the art" approach to employee education involves blending classroom-type teaching with e-learning. "The idea is that e-learning introduces the information so that everyone comes to the next level equal," she said.

She, too, has seen a strong positive response recently to her company's education programs.

"In five weeks, I've been to 47 companies across the insurance industry, and I have not had one single company that has not said that they need what we do," she said.

In looking at online employee education, insurers should recognize the potential not only for savings on training costs but for increased earnings as well, Mr. Pulvermacher said. "You want to recognize that there are benefits to the top line as well," he said.

With that in mind, companies should look at education and training from a strategic perspective, the consultant said.

"I think one needs to build a business case," he said. "Organizations like insurance companies tend to be risk-averse by their very nature. So having a business case gives them some sort of platform to work from."

"Everyone sees online learning as a great tool," Ms. Reardon said. "But at some point, online learning has to affect the bottom line."



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INSURER TOPICS

CPCU program responds to industry, student needs

Commercial/personal lines concentrations, financial services focus are new

By **RODD ZOLKOS**

Major changes in the American Institute for CPCU's Chartered Property Casualty Underwriter program are geared to make the program a better fit with the current shape of the insurance industry and the professional needs of CPCU students.

Among other changes, the revised program will require students to concentrate in either commercial or personal insurance. It also will have more of a financial services focus, with the introduction of new financial services institutions and personal financial planning courses.

The new program also will consist of only eight courses rather than the current 10.

The new curriculum will consist of a required five-course foundation series and three concentration courses focused either on commercial or personal lines.

According to Terrie E. Troxel, the president and chief executive officer of the American Institute for CPCU and the Insurance Institute of America in Malvern, Pa., the changes are meant to make the CPCU program more flexible, bring it more in line with where the industry is heading and better address the needs of the CPCU students that are the institutes' customers.

"The original CPCU curriculum was designed by the academic and industry people that came together in 1942 and created the institutes," Mr. Troxel said. "In terms of the structure, it really didn't change very much from the late 1970s, when it became a 10-part program."

Over the years, criticism of the program has focused on the fact that it hasn't differentiated between personal and commercial lines, he said.

In response, "we've introduced concentrations in the curriculum," said James J. Markham, senior vp and general counsel at the institutes, as well as the director of curriculum. But while students will be required to choose a personal or commercial focus, "if they're in an environment where they might cross over, they can do that too," Mr. Markham said.

The new curriculum will consist of a five-course foundation series required of all CPCU candidates and three concentration courses focused either on commercial or personal lines. In addition to

passing national examinations for the eight courses, candidates for the CPCU designation also must meet the American Institute's ethics and industry experience requirements, as under the old program.

The revised commercial program is very similar to the existing CPCU program, Mr. Markham said. "But I think it was very important to introduce a personal concentration," he said.

"Personal premium volume is actually greater now than commercial," he said. "We thought it was important to get personal financial planning into the curriculum. But we didn't want to force it on everyone, because some folks might be strictly commercial."

"I think the other big change is trying to place property/casualty insurance in the context of the financial services sector of the economy," Mr. Troxel said.

"Increasingly, the people who are our customers are working for a financial services company rather than a traditional property/casualty company."

To that end, the new program includes a financial services institutions course among the foundation courses and a personal financial planning course as part of the personal lines concentration.

In designing the new program, the institutes opted to drop

economics and management courses, which were "good, worthwhile subjects, but they are widely available in colleges and universities," Mr. Markham said.

"I've heard from some old guard that going from 10 down to eight courses, you're lowering standards. ... But the decision for going down to eight was that you're getting rid of generic economics and generic management," Mr. Markham said.

Continued on next page

ISO STANDARDIZED AND LOSS COSTS CAN GET



INSURER TOPICS

Continued from previous page

"Course for course, the program will be as demanding and as rigorous as it ever has been."

The newly designed program also introduces a system under which a CPCU candidate with a master's degree in business administration or the equivalent or a law degree can waive certain course requirements. "For years, we were challenged to respond to requests for waivers from people who had certain graduate degrees or law degrees," Mr. Troxel said.

Textbooks and course guides for the new courses will be available for purchase in September. This will be a transition year for the CPCU program; students who

complete CPCU testing during this year's May-June testing window will have to meet requirements under the existing CPCU curriculum and will be eligible to attend the conferment ceremony in Orlando in October.

Subsequently, students will earn the CPCU designation under the new curriculum. Testing on new courses will begin during the February 2003 testing period.

While Mr. Troxel acknowledged that details of the new program were announced only fairly recently, he noted that "to the extent that we've gotten feedback, so far, I would say the overwhelming response has been very favorable."

Kemper's paperless push increases security, efficiency

By **RODD ZOLKOS**

Lessons learned following the Sept. 11 terrorist attacks have led Kemper Casualty Co. to move toward electronic imaging and a paperless office.

In the process, according to the company's chief information officer, Kemper Casualty will benefit not just from the greater

security of underwriting information but from improvements in its business process as well.

"We learned a few lessons with Sept. 11, and one of the lessons that we learned was that information we had stored electronically we were able to recover fairly quickly," said Ron Roecker, Kemper Casualty's CIO in Princeton, N.J.

"Where we ran into a problem

was business that was in process, which is typically very paper-oriented," Mr. Roecker said. "We started saying, 'Geez. How are we going to recreate this paper?'"

From there, "the project absolutely mushroomed almost overnight," the CIO said. With the company storing such documents as letters of audit and collateralization information at Kemper's Long Grove, Ill., offices, "we just said quickly, 'Why not put this up as an image document?'" he said.

Among the benefits of creating electronic images of the documents is that they can now be viewed online from a variety of company sites and by staff members working from more than one site simultaneously.

Consequently, the company has been able to implement collaborative processing for its large-risk business accounts "almost overnight," Mr. Roecker said.

"It's really going to streamline and improve our decision-making capabilities," he said.

In February, the first Kemper Casualty underwriters began working on account renewals in a paperless environment, with the electronic approach gradually spreading through the company's various sites.

Meanwhile, new business accounts are now routinely being handled electronically, he said.

The next move is to bring the company's Kemper Risk Management Services Inc. operation into a paperless setting. Ultimately, that shift will involve storing all policy documents electronically.

While the process started with an effort to safeguard information, the company quickly saw the potential advantages that electronic imaging could bring to the way it does business, Mr. Roecker said.

"It all comes down to trying to deliver the best possible product you can for a reasonable cost," he said. "We do believe we can come up with a better decision in a more-timely fashion for our customers."

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INSURER TOPICS

Coordinating work comp cases through AI

By JOHN D'ALUSIO
and SHAWN MALONEY

Artificial intelligence—coming soon to a workers compensation system near you. It's not just at the movies—artificial intelligence and other new technology applications are poised to make a dramatic change in how workers compensation cases can be managed to get injured workers back on the job safely and quickly.

Employers, managed care companies and insurers all realize the critical importance of coordinating workers compensation cases to facilitate an early and safe return to work for injured employees. The benefits include lower overall claims costs, reduced losses from decreased productivity and the hiring of temporary staff, less likelihood of litigation and happier employees.

The communication lag among the parties involved in workers compensation cases and the complexities of a heavily regulated, bureaucratic system work against the kind of coordination and management that is needed to achieve early return-to-work outcomes. However, new technologies, including forms of artificial intelligence and Internet tools, are giving all players a major assist in reaching this goal.

The employer's role

Management of the workers compensation claim begins with the first report of injury. The more quickly an injury is reported to a claims facility, the better the outcome will be. A claim reported on the same day on which an accident occurred will be, on average, less expensive than one reported a week later.

This is confirmed by a study conducted by Kemper Insurance Cos., which found that, as the time needed to report a workers compensation claim increases, so does the average cost. The cost of an injury reported 30 days after an occurrence was, on average, 55% higher than that of an injury reported within 10 days.

Another study, this one by The Hartford Financial Services Group Inc., found that a claim filed five or more days after an injury cost, on average, 15% more for medical and income-replacement benefits than a similar claim that had been filed promptly.

IT perspective

Clearly, enhancements that enable employers to report claims more quickly will reduce the overall cost of claims and speed the return-to-work process.

More-efficient FROI systems

First reports of injury have traditionally been done through telephone calls to toll-free numbers or reporting services, a process that usually takes an average of 20 to 40 minutes per claim. In addition, oral communication often results in incomplete or inaccurate data. This information must also be entered a second time for state forms, wasting valuable time and resources.

Now, employers can have Web-enabled applications in their offices—accessible from multiple locations—that allow FROI to be done electronically, either through electronic data interchange or over the Internet. The process is faster, filing costs are reduced and overall claims costs are lowered. Instead of waiting two to seven days for acknowledgment and assignment of claim numbers, employers and administrators can get feedback immediately or within the same day.

All data is housed in a central database and can be accessed across locations as needed. Additionally, injury information is stored for printing of Occupational Safety and Health Administration and state-specific forms, eliminating the need for multiple reporting systems and redundant data entry. Having a Web-enabled application not only offers the convenience of one-stop filing but also eliminates the need to purchase, install and upgrade software.

Using such tools, the per claim filing cost can be decreased from \$22 to as low as \$1.50, and the filing time shortened from an average of 30 minutes to five minutes. In addition, the incidence of errors and incomplete data entry can be reduced from 10% of claims to 1% or less.

The insurer's role

Once the injury report is filed, the management of the case can begin. On the

insurer's side, the electronic system that accepts the FROI can be incorporated as the "front end" of a new type of intelligent claims processing system.

This new generation of software will incorporate not only rules-based systems to automatically assign claims to the appropriate areas but will also use artificial-intelligence technology to make accurate decisions about each step of a claim's progress toward early resolution. Equally important, an insurer must use a system that shares information among all parties involved, allowing them to collaborate and move the case forward.

The adjuster's role

One of the biggest barriers to effective claims management in workers compensation is that the system is still primarily paper-based. Adjusters handle an average of 150 claims at any given time.

Processing a claim takes, on average, 155 minutes, including 90 minutes of adjusting time and 65 minutes of "other" time. These routine tasks take up to 30% to 50% of the total time to process a bill.

This is far too much information and administrative work for any human being to effectively manage. As adjusters concentrate on one claim, other, more-important claims may be demanding attention. With the current manual system, there is no way to effectively track this activity—to flag and focus on those claims that are reaching a "danger" zone and require special handling.

Assisting the adjuster

Intelligent systems can automatically determine what claims need to be worked on at what time. If a new claim is urgent and potentially dangerous, the system will prioritize it ahead of others by having it appear in the adjuster's diary as a top priority.

The system can be programmed to "learn" which cases are more serious than others. Often, these instructions can be programmed into the system using plain English. This makes it unnecessary to rely on the company's information technology department and expensive or lengthy programming efforts to customize the parameters by which claims are routed.

In addition, an intelligent system could be programmed to contain the collective experience of the claims managers and adjusters throughout the entire company and bring this knowledge immediately to bear on each claim.

By institutionalizing experience throughout the department, this knowledge is applied every second, on every single claim. Quality will not suffer if an experienced adjuster is replaced. With many routine tasks automated, adjusters can concentrate on those human-to-human interactions for which their expertise is essential.

Misaligned incentives

In the past, disjointed communication among the parties involved in workers compensation often resulted in misaligned incentives. Resources were wasted and the desired result was not achieved.

For instance, if no one is actively managing a claim and no one officially speaks to the injured employee, the claimant may obtain counsel from a relative or friend who wrongly advises him or her on how to "milk" the claim for paid time off.

The physician knows nothing about the ultimate objectives of the case, so when the injured worker comes in for an examination and embellishes the injury, the doctor is not in tune to ferreting out exaggerated claims or to making an accurate assessment. In addition, workers compensation claims are often bureaucratic and paper-intensive, adding to the physician's costs.

As a result, the physician may write a prescription and say, "Come back in five weeks." Thus, the employee is given an incentive to take time off, the doctor has an incentive to provide less treatment, and the case drags on. A pattern of such activity can result in significant losses for employers, insurers and health care programs.

Expectations for the worker's return

To realize significant cost savings, return-to-work outcomes must be managed from the start.

Of course, the best outcome is for the worker to return to the same job at the same

See **PERSPECTIVE**/page 48H

IT briefs

ERC relocating Chicago offices

CHICAGO—The Chicago offices of GE Employers Reinsurance Corp. and its subsidiaries have moved from their various Chicago locations to 525 W. Van Buren St., Chicago, Ill. 60607.

ERC and its subsidiaries in Chicago include GE Westport Insurance Corp., GE Coregis Insurance Co., GE Global Asset Protection Services (GE GAP Services), GE Industrial Risk Insurers (GE IRI) and GE Medical Protective (GE MedPro).

While ERC's toll-free numbers remain the same, its main switchboard and fax numbers have changed:

- GE ERC, phone: 312-821-3800, 800-621-0823; fax: 312-821-3899.

- GE Coregis, phone: 312-821-4000, 800-879-4428; fax: 312-821-4099.

- GE GAP Services, phone: 312-821-4300, 866-201-0044; fax: 312-821-4349.

- GE IRI, phone: 312-821-3900, 800-334-7401; fax: 312-821-3999.

- GE MedPro, phone: 312-821-4350, 800-344-1899; fax: 312-821-4375.

- GE Westport, phone: 312-821-4000, 800-221-2236; fax: 312-821-4099.

Endurance names hospital liability head

HAMILTON, Bermuda—Endurance Specialty Insurance Ltd. has appointed Judy Hart its executive vp, hospital liability operations.

Ms. Hart joins Hamilton, Bermuda-based Endurance from Employers Reinsurance Corp., where she was vp, marketing leader healthcare segment. She was a member of that company's healthcare leadership executive committee and was responsible

for strategic planning and the execution of healthcare strategies.

Before ERC, Ms. Hart spent 28 years at Alexander & Alexander, where she was managing director. At A&A, she had a leadership role in the development of the national healthcare practice and establishment of healthcare strategies.

Swiss Re names CRO of financial services group

NEW YORK—Swiss Reinsurance Co. has named David Godfrey chief risk officer of the company's Financial Services Business Group. Based in London, Mr. Godfrey will serve as a member of the business group's executive team.

Mr. Godfrey joins Swiss Re from J.P. Morgan Chase & Co., where he most recently served as group credit executive, capital markets Europe and Asia. Before joining J.P. Morgan in 1994, he was head of merchant and corporate banking at Swiss

Bank Corp. and, from 1977 to 1992, he held management assignments with Bankers Trust Co. in London, New York and Los Angeles.

eAutoclaims secures capital for development, growth

OLDSMAR, Fla.—eAutoclaims Inc. has signed a letter of intent with financial services firm vFinance, Inc. to secure additional capital. eAutoclaims anticipates raising up to \$2.5 million, with a minimum of \$1.5 million to be raised.

eAutoclaims, a business services company that provides the insurance industry with claims management services through both application service provider and integrated outsourcing functions, recently completed a move to its expanded facilities in Oldsmar, Fla. The company has earmarked additional capital for technology development and the support of anticipated growth.

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INSURER TOPICS

Perspective : Coordinating work comp cases through AI

Continued from page 48F

employer. The second-best result is for the employee to return to the same employer but in a different job. The third option is a return to a different employer in the same job, and the fourth would be a different employer and a different job.

As the claim progresses up this outcome chain, the injury preventing the employee's return requires more rehabilitation and vocational training. Early evaluation of the claim can help determine which return-to-work outcome will result and what the ultimate goal will be in terms of treatment, therapy and rehabilitation.

With this up-front analysis rapidly and automatically completed, the claims adjuster can set the expectation immediately with all parties—doctors, employers, agent, workers—to get the worker back to work as soon as possible, consistent with proper medical evaluation.

Everyone's incentives can be aligned, and a major barrier to early return to work—the fractured understanding between parties—can be resolved.

With current business practices and technology, achieving this objective would be a considerable

challenge.

But powerful, intelligent new software for claims decision management that is under development promise to make a more collaborative and productive environment a reality for improving return-to-work outcomes.

Aligning return-to-work objectives

An intelligent claims management system would help set a common set of objectives, and an adjuster would be prompted to coordinate the return to work from the beginning.

All parties would be kept focused on the goal of returning the injured worker back to gainful employment in accordance with medical evidence and established objectives.

To facilitate an early return-to-work outcome, a sophisticated system should:

- Prompt the adjuster to communicate with the worker early on.
- Identify what questions to ask in each stage of the investigation.
- Advise adjusters on how to proceed based on the results of each evaluative step.
- Prompt the adjuster to

communicate with the doctor.

- If the case needs medical management, automatically assign the claim to a nurse case manager.

- Alert management, supervisors and the home office when a file is on the verge of reaching a danger point and should be examined for special handling.

- If litigation is a factor in a case, refer the case to the litigation manager for assignment to an available attorney.

- Prompt communication with the employer and claimant, advising the adjuster when and how many times he or she should contact the employer or claimant.

- Coordinate communication between all parties in a pre-return-to-work meeting.

The system can be programmed to take into consideration more-subtle events. For example, if the injured worker doesn't speak English or doesn't have a phone, the system will recognize immediately that this case will be complex and flag it for attention through a rating mechanism of one to five—the higher the score, the higher the danger.

The system could also suggest that the case be reassigned to a more-experienced adjuster and request supervisory review.

Flagging special cases

The system can also identify cases that will be problematic, based on the combination of the injury and the worker's job duties.

For example, if a case occurs that results in a fractured femur, it should be managed differently depending on the job the injured worker performed. A desk worker who breaks a femur can be out two weeks; a blue-collar worker doing physically strenuous tasks will be out much longer. The blue-collar worker's case should be assigned right away to a nurse to best manage return to work.

An intelligent system could, without the necessity of human intervention, assign experts to a case at certain stages based on file data.

Throughout the duration of the claim, the system would also re-evaluate changing claims data to identify patterns that may indicate not only the need for case manager involvement but also patterns that may indicate fraud.

Some claims may have subrogation opportunities that can further reduce costs. In addition, reserving costs for complex claims can automatically be estimated. This analysis, performed by an intelligent claims management


software system, would not only expedite the case but also reduce the overall costs associated with it.

By furthering the management of a case and making sure all communication occurs when necessary and that appropriate expertise is brought in when needed, all parties involved in the workers compensation process are constantly focused on the end goal: an early and safe return to work.

The end result of deploying these technologies for electronic connectivity and claims processing is not only faster return to work but many attendant savings, including a reduction in overall claims costs of more than 15%, a reduction in paper flow of more than 50%, and a reduction in the use of claims administrative resources of 30%.

As employers deploy improved FROI systems at one end and insurers implement intelligent automated tools to assist adjusters in the coordination and management of claims at the other, the workers compensation industry can move closer to realizing these much-needed benefits and cost savings.

John D'Alusio and Shawn Maloney are vps at HNC Software in San Diego, Calif.



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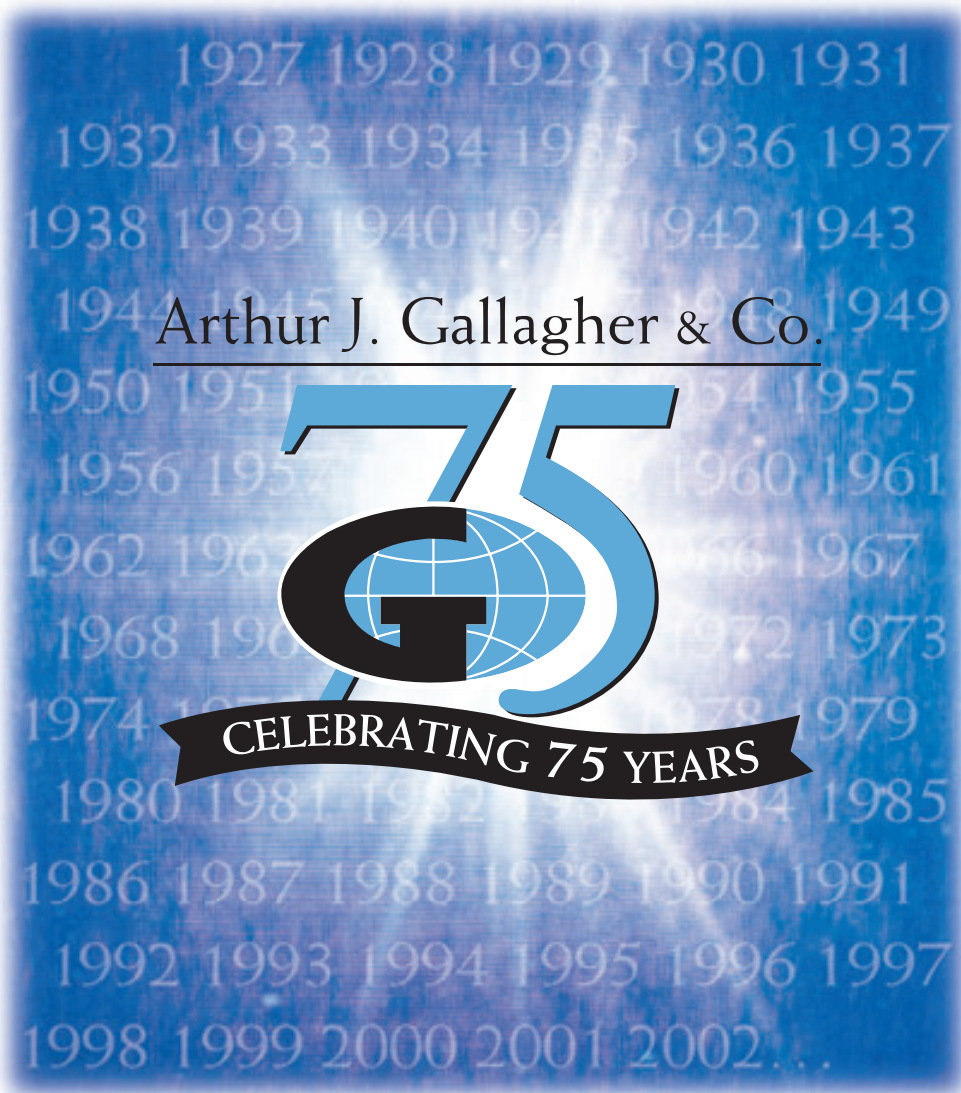
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Risk Management Honor Roll

April 15, 2002

PHOTO: MICHAEL MARGOTTE



From left to right: Marcia Cugini, senior standard enforcement and claim analyst LIRR; Troy Terranova, analyst OCIP; Elizabeth Cabrera, analyst statistics and reporting; Nadia Lanoix, executive secretary; Jaquima Norris, standard enforcement and claim analyst; Ora Moore-Cole, insurance examiner; Robert Lynch, manager, database management; Lauren M. Gregory, director of risk and insurance management; Nicholas Farco, assistant insurance analyst; Phyllis Rachmuth, assistant director claims management standards and procedures; Loucille Hollis, senior analyst/special coverage; Andra Baley, senior analyst contract/tort claim; Laudwin Pemberton, senior analyst OCIP; Omayra Valentin, executive secretary; Christopher D'Antonio, assistant director risk OCIP; Carol Childers, assistant director risk assessment; Richard Webster, standard enforcement and claim analyst MNR. (Not present: Ronald Cummings, senior analyst OCIP; Maxine Gill, standard enforcement and claim analyst NYCT.

OCIPS: In driver's seat

Continued from page 48

heavily weighted to the services that we get provided by the broker. Not only all the administrative stuff that they have to do on an OCIP, which is a lot, but also how many safety people they're going to have on-site, what kind of reporting they're going to do, the loss runs, the claims handling. That's pretty much how we pick the broker."

Each OCIP presents different needs, and they are accordingly insured differently—sometimes in the traditional market and sometimes through a combination of the MTA's captive and the marketplace.

For example, the MTA entered into an OCIP for Long Island Rail Road's East Side access project, with an expected completion date of 2012. The project, which has a construction value of about \$2.8 billion, will give the LIRR access to Grand Central Station from the East Side of Manhattan. The OCIP will cover professional liability and environmental exposures, as well as the project's construction phase.

Liberty Mutual Insurance Co. wrote the coverages, which Willis brokered, on a loss-sensitive basis, with MTA's captive entering a trust agreement with the insurer to provide required collateral.

Other OCIPs include the New York City Transit Stations, Escalators and Elevators program; the New York City Transit Line Structures, Shops, Yards and Depots program; and the Long Island Rail Road/Metro-North Railroad program.

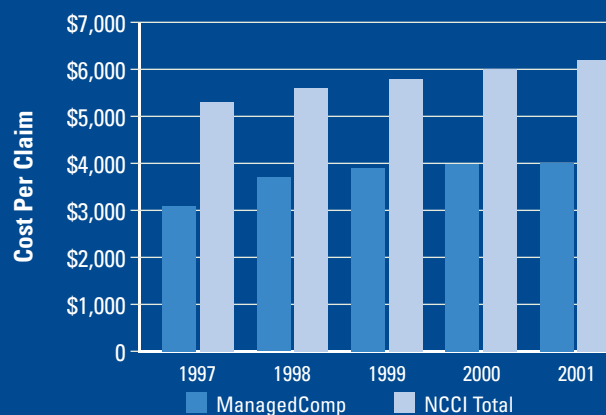
"We have some projects that last 10 or 12 years," said Ms. Gregory. "On all of the OCIPs we have so far, we have pretty good rates."

The duration of the projects may pay an unexpected dividend after the rate increases that followed the Sept. 11 terrorist attacks.

"After 9-11, if you went to buy it, the rates would be astronomical. All of those projects that we have are 'term of the project' OCIPs, so we have, in some cases, 1998, 1999, 2000 rates" that will remain in effect until 2008, 2009 or 2010, said Ms. Gregory.

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Risk Management Honor Roll

New York-based captive sets pace for cost savings

By MARK A. HOFMANN

For New York's Metropolitan Transportation Authority, "do it yourself" made a lot of sense when it came to covering certain exposures.

As a result, the MTA earned a place in the New York history books as the operator of the first captive insurance company licensed under the Empire State's captive law.

Lauren M. Gregory, director of risk and insurance management, said the process of forming a captive began shortly after the MTA consolidated its five operating units

into one risk management program in 1997. As the risk management team put together its risk management plan, Ms. Gregory and others noticed that while all of the agencies' loss experiences were improving, "the insurance premiums were not coming down as quickly as the losses were" for station liability and force account coverages. As a result, she said, "it really just made sense to create a captive."

The MTA had never used a captive before, though the Long Island Rail Road had considered doing so many years ago, Mr. Gregory said.

"We were in the process of (setting up a captive) and we were going to go out of state. We had to, since New York didn't have a captive law" at the time, she noted.

But, Ms. Gregory's boss at the time, Ken Bauer—who is now president of the Long Island Rail Road—received a call from Gov. George Pataki's office. The governor's office knew the MTA was considering forming a captive and told Mr. Bauer that the state was "in the process of drafting legislation and trying to get it approved to create captives here." Gov. Pataki wondered

whether the MTA wanted to work with the administration on the issue.

Ms. Gregory and Mr. Bauer worked with the New York Insurance Department and met with members of the New York Assembly to outline the MTA's plans for a captive and explain why the captive would be beneficial.

"Actually, it wasn't a hard sell. They asked some pretty good questions. They'd done their homework. One of their major concerns was that we were going to open it up and have other states' trans-

portation organizations covered (under the captive) and we told them we did not plan on doing that," she said.

New York's captive bill became law in 1997, and the First Mutual Transportation Assurance Co. was formally created that same year.

FMTAC, which is a pure captive that is managed by Willis of New York Inc., currently provides:

- Direct property insurance coverage for all five MTA agencies.
- Direct all-agency protective liability insurance coverage, which protects the MTA and member agencies from potential liability related to independent contractors.

'The insurance premiums were not coming down as quickly as the losses were' on certain coverages. 'It really just made sense to create a captive.'

Lauren M. Gregory
MTA

Under this program, FMTAC provides two layers of coverage: a blanket \$2 million per occurrence liability policy and excess liability coverage of \$4 million per occurrence, with an \$8 million annual aggregate. The captive buys reinsurance to cover its \$2 million per occurrence primary payout once payment exceeds \$2.5 million, as well as reinsurance to cover 100% of its excess liability exposure.

- Direct builder's risk insurance for three owner-controlled insurance programs—OCIPs—placed to cover work performed under the 2000-2004 capital program.

The captive is also used to hold loss funds and/or collateral required in connection with six OCIPs (see story, page 48).

- Reinsurance for station liability and force account insurance coverage provided for Metro-North Railroad and the Long Island Rail Road.

Force account coverages are used by railroads to insure against third-party liability and employee injuries arising from projects conducted on behalf of other railroads. FMTAC reinsures 100% of these risks.

While station liability insurance is pretty straightforward, force account is a "pretty unique type of coverage," said Ms. Gregory. "We purchase this coverage to protect the commuter railroads from third-party liability and employee injuries arising out of work performed on a reimbursed project—in other words, it's designed to make the railroads whole when they are working for someone else's benefit."

Most railroads buy this kind of coverage, which is included in the cost of a project as a rate per \$100 of payroll. "In our case, a good example would be Long Island Rail Road employees doing work for Amtrak or Amtrak employees doing work for the Long Island Rail Road. Am-

See CAPTIVES/page 54

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PHOTO: GABE PALACIO/IMAGEDIRECT

Captive: MTA finds savings, profits

Continued from page 52

trak buys the same type of insurance. Therefore, if any claims arise out of the work, the force account insurance will cover it and we do not have to make claims against each other," she said.

For example, Amtrak owns four East River tunnels as well as Penn Station, but employees from both railroads work in the facilities, Ms. Gregory said.

Before the captive went into operation, the two commuter railroads bought their station liability and force account insurance from the commercial marketplace, she

said. But because the historical loss ratios for the programs had been no higher than 55% annually, the insurers captured significant underwriting profits, she said.

"As these premiums were paid annually, and losses in any one policy year can take, on average, from three to eight years to settle and/or pay a claim, these premiums earned significant investment income as well. With the creation of FMTAC, it allows the MTA to retain the underwriting profits and investment income while providing insurance coverage to its agencies at competitive pricing," Ms. Gregory noted.

The profits and investment income are used to: stabilize and/or reduce future station liability and force account insurance premiums; capitalize and increase FMTAC's surplus; provide safety services related to the coverages to further reduce covered losses; and support the MTA's future risk financing needs.

"Since placing this coverage in FMTAC, we have saved Long Island Rail Road and Metro-North Railroad approximately 20% on force account rates and 10% on station liability rates over the past five policy years," she says. "This is also considering the exposure base has continued to rise during the period," she pointed out.

Use of the captive in the property insurance program has proved extremely advantageous as well, she said. Before FMTAC was formed, the MTA agencies bought all-risk property insurance through commercial insurers. The result was an all-agency coverage with a limit of \$400 million and a \$25 million self-insured retention per occurrence.

The benefits of placing the direct coverage within the captive and then reinsuring the risk, Ms. Gregory said, include:

- Access to reinsurance markets.
- Maximizing cost savings.
- Creation of additional capacity.
- Fostering long-term relationships with reinsurers.

Favorable loss development is captured immediately in the form of underwriting profits, she said. "In addition, investment earnings are retained over the life of each policy year's claim cycle, typically three to eight years for the type of liability risk placed within the captive. This is opposed to the traditional commercial insurance market capturing the profits," she said.

"Over time, the traditional insurance market may lower premium rates to reflect loss history, but the reward for positive loss experience is usually slow in coming and not as complete," said Ms. Gregory.

The MTA's captive has generated net profits—underwriting and investment income—about \$20 million since its inception, though annual earnings have varied from year to year, she said. Annual losses are projected "in the neighborhood of \$12 million," she said.

"Lauren is coming up with new ideas for the captive every day," said Mr. Bauer. "We wouldn't have started the captive if we didn't have good safety programs. In the first year of operation, the MTA saved in excess of \$10 million, and the savings have continued since."

First Mutual Transportation Assurance Co. exists solely for the MTA, Ms. Gregory noted. Last year, the Insurance Department asked the MTA if it would be willing to expand the captive to include other, similar authorities in the state.

"We said certainly, as long as we had control over the underwriting and everything, we'd be more than happy to do that," said Ms. Gregory. Expanding the captive would require amendments to its charter, and so far no other authority has approached the MTA, she said.

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PHOTO:ZUMA PRESS

Half a million people pass through the Metropolitan Transportation Authority's Grand Central Station every day.

Gregory's pursuit of knowledge keeps MTA career moving forward

By MARK A. HOFMANN

Lauren M. Gregory's interest in risk management was piqued earlier than was the case with most of her colleagues in the profession.

"I started when I was 16 working at an insurance company. I was going to high school and got a part-time job," working at a local office of Allstate Insurance Co., she said. Ms. Gregory said she found reading through certificates of insurance,

insurance policies and other documents rather interesting.

That was the beginning of a career path that would eventually take the 42-year-old Ms. Gregory to the position of director of risk and insurance management for New York's Metropolitan Transportation Authority and a spot on the 2002 Risk Management Honor Roll, representing government entities.

After high school, Ms. Gregory—who grew up in Northport, N.Y.—

began working for an insurance broker, which brought her into frequent contact with William R. Koop, the former risk manager of the Long Island Rail Road.

"One day he said to me, 'I need an assistant risk manager—do you want to come in for an interview?' That was over 19 years ago, and I'm still here," she said.

One of the conditions of her employment was that she get a bachelor's degree as soon as possible, and Ms. Gregory graduated cum laude with a bachelors degree in business administration from the New York Institute of Technology in 1986, after attending classes at night and on weekends. Her commitment to education continued as she earned a master's degree in business administration from the College of Insurance in New York in 1994 and her law degree from the Touro Law School in Huntington, N.Y., in

'The way I do things, if I like something and I want to learn more, I go to school.'

Lauren M. Gregory
MTA

2000. "I got my insurance broker's license in there somewhere, too," she noted.

Ms. Gregory said she does not intend to stop there; she also wants to pursue a graduate degree in finance.

Ms. Gregory's job responsibilities continued to grow along with her educational credentials. In 1990, she became assistant risk manager of the MTA risk management department, which oversaw risk management for the authority's headquarters but not its operating units. Four years later, she went back to the Long Island Rail Road as risk manager and, in 1997, she was named director of risk and insurance management for the MTA's newly consolidated risk management department, which had responsibility for the entire MTA (see story, page 42). Ms. Gregory is working toward a Chartered Property & Casualty Underwriter designation, having earned the Associate in Risk Management designation.

"With the captive, we hired an investment manager, and I'm responsible for looking over what they're doing. I have a pretty good knowledge of what they're doing, but I prefer to have more knowledge and experience. The way I do things, if I like something and I want to learn more, I go to school," she said.

Ms. Gregory said she "absolutely" encourages members of her staff to pursue educational opportunities. "How can I say no to somebody when they want to go to school when I enjoy it so much?" she said.

Ms. Gregory is active in the Risk & Insurance Management Society Inc. and the Railroad Insurance Management Assn. She and her husband, Bob, live in Northport.

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Risk Management Honor Roll

Transit evacuation prevented loss of life on Sept. 11

By MARK A. HOFMANN

For Lauren Gregory, the director of risk and insurance management for New York's Metropolitan Transportation Authority, Sept. 11, 2001, was supposed to start with a meeting with an outside actuary.

The meeting at the MTA's Midtown headquarters was scheduled to examine the best way to put together a workers compensation loss portfolio transfer for MTA Bridges and Tunnels, one of the authority's five operating agencies.

A few minutes before 9 a.m., Ms. Gregory recalled, "he called me and said, 'Lauren, the meeting has been canceled.' And I said, 'Why, what's going on?' He said a plane just hit the World Trade Center." She turned on the office television in time to see the second plane crash into the structure.

Below the twin towers ran a subway spur track, and what happened next left Ms. Gregory "awed" as both a risk manager and a commuter.

"The most amazing thing—and I would love to be able to take credit for this but it had nothing to do with me—the emergency evacuation procedures that New York City Transit had and put into place was amazing. They got everybody out of that tunnel. Most trains that time of the morning go every three minutes and—other than two minor little things from people who were out of the subway, the two third-party claims that we got—nobody was injured."

That safety record applied not only to the

public but also to MTA employees.

The only significant MTA employee claim was filed by a bus driver who tripped and broke his ankle when fleeing his empty bus in Lower Manhattan, Ms. Gregory said.

But while the MTA avoided loss of life and numerous injuries, property and business interruption claims from Sept. 11 were another story—and they came less than two months before the authority's property insurance program was scheduled to renew.

"Obviously, we have a substantial property business interruption extra expense loss because our 1/9 line ran right under the World Trade Center," she said. "When the buildings came down, the tunnel was crushed. It was amazing to see that some of the steel beams—you could see on the beams, it said '110th floor'—pierced the tunnel, like a spear," she said.

"We have what we currently estimate at a little over a billion dollars of loss," she said of the MTA's property losses, including business interruption, caused by the destruction of the World Trade Center.

"Our property program renewed Oct. 31—it didn't help us any. From what I'm told, we were the largest insured to renew after Sept. 11, so when we went over to London to talk to our underwriters, I think they were still a little in shock. Some of them just didn't know what to say," Ms. Gregory recalled.

"Originally, when we went over to London, we thought our loss was a lot more substantial than it was because nobody could really get in the tunnel right away. We thought we

had a loss somewhere in the neighborhood of \$1.7 billion. Now, luckily, it's substantially less than that," she said.

While the smaller size of its claim is good news, the authority still faced challenges in renewing its property program.

"We lost a substantial amount of capacity. We used to buy \$1.5 billion in property limits; that's down to \$750 million," she said, noting that even that lower level became available only after Jan. 1, "because of the additional capacity after the first of the year."

"Our premium tripled, just for property," she added. In addition to the sharply higher premium, the authority's self-insured retention increased to \$30 million per occurrence, with no annual aggregate, from \$15 million per occurrence, with a \$30 million annual aggregate, and it lost terrorism coverage. "So, it was quite a shock," Ms. Gregory said.

"We were able to buy terrorism coverage separate from our property through a Berkshire Hathaway company. We bought \$70 million excess of a \$30 million self-insured retention. There are other companies that are out there offering it, but it's not cost-effective, in my opinion—the cost is through the roof," she said.



Debris from the collapse of the World Trade Center's twin towers crashed through the ceiling of New York City Transit's Cortlandt Street subway station, located beneath the center.

PHOTO: AFP

While the MTA is still in the process of calculating its overall loss of revenue, the Metro-North, LIRR and virtually all of the subway system were up and running within hours of the attacks, she said.

The tunnel under the WTC was a spur, with four stops now cut off, rather than a major subway line serving the rest of Manhattan. "So we're lucky it wasn't a little further and hit the 2/3 as well, because it would have been a major loss of revenue and service shut-down," Ms. Gregory pointed out.



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Risk Management Honor Roll

Transit authority is one of the world's largest property risks

By MARK A. HOFMANN

Like New York City itself with its five boroughs, the Metropolitan Transportation Authority consists of five parts, but those parts extend far beyond the boundaries of the nation's largest city.

In fact, one component—MTA Metro-North Rail Road, crosses the state line into Connecticut, while another, MTA Long Island Rail Road extends to the far eastern reaches of Long Island. The MTA also encompasses MTA New York City Transit, including the Staten Island Railway; MTA Long Island Bus; and MTA Bridges and Tunnels.

Lauren M. Gregory, director-risk and insurance management for the MTA, points out that the system is the largest transportation network in North America. And, underwriters have told Ms. Gregory that the MTA—with \$215 billion in insured property value—is the largest property risk in the world. It has an operating budget of \$7.5 billion, with

revenues making up only about 60% of that.

The New York Legislature chartered the MTA in 1965. Most of the MTA's individual operations, however, long predate the creation of the agency. For example, the Long Island Rail Road happens to be the country's oldest railroad operating under its original name as well as the nation's largest commuter railroad. The railroad began operations during the presidency of Andrew Jackson in 1834. The famous New York subway system that forms the best-known part of MTA New York City Transit opened for business in 1904.

The MTA had an operating budget of \$7.3 billion last year. It moves an average of nearly 8 million passengers every weekday. The system runs 333 rail, subway and bus routes with 7,849 rail and subway cars and 4,871 buses. The system runs on 2,054 track miles and maintains 733 rail and subway stations. It currently employs about 63,000 people.



A map of the MTA network in lower Manhattan illustrates the complexity of the system, even though in terms of scale it is only a fraction of what is the largest transportation system in North America.

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Judges and Criteria

Judges for the 2002 Risk Manager of the Year award

The 2002 Risk Manager of the Year is the 25th individual to receive the honor, an annual tradition that was created in 1977 and was first presented in 1978 to commemorate the 10th anniversary of *Business Insurance*.

The award recognizes outstanding performance in the field of risk management. The Risk Management Honor Roll, which was added in 1981, recognizes the achievements of risk managers in various segments of the field.

The 2002 awards mark the start of a partnership between *Business*

Insurance and the Risk & Insurance Management Society Inc. to co-sponsor the awards. In addition to being featured in profiles within this issue, honorees will be recognized by RIMS during the society's annual conference.

Ten independent professionals judged this year's entries. Honorees were selected based on the judges' opinions of each nominee's program as it is detailed in the entry. This year's judging panel comprised the 2001 and 2000 Risk Manager of the Year recipients, two Risk Management Honor Roll members, two

insurer executives, two brokerage executives, a risk management consultant and an insurance educator.

Judges for the 2002 awards were:



Mr. Baxter

• Gary Baxter, assistant treasurer/director of insurance for Weyerhaeuser Co. in Federal Way, Wash., and a member

of the 2001 Risk Management Honor Roll.

• Terry Broderick, president and chief executive officer of Royal & SunAlliance USA in Charlotte, N.C. Mr. Broderick is representing stock companies on the panel.



Mr. Broderick

• Paul F. Buckley, treasury director-risk management at Lucent Technologies Inc. in Murray Hill, N.J. Mr. Buckley is the 2000 Risk Manager of the Year.



Mr. Buckley

• Jim Carson, Midyette Eminent Scholar of Risk and Insurance at Florida State University in Tallahassee. Mr. Carson is representing educators on the panel.



Mr. Carson

• Gary R. Griffith, chief executive officer of Summit Global Partners Inc. in Dallas. He is representing regional brokers on the panel.

• Dan Hartman, chief risk officer for the State of Oregon in Salem, and the 2001 Risk Manager of the Year.

• Robert Hughes, president, CEO and consultant for Robert Hughes Associates Inc. in Richardson, Texas. Mr. Hughes is representing risk management consultants.



Mr. Griffith

• Peggy Nakamura, executive director of risk management and associate general counsel for Adventist Health System/West in Roseville, Calif., and a member of the 2001 Risk Management Honor Roll.

• Michael D. O'Halloran, president and chief operating officer of Aon Corp. in Chicago, representing international brokerages.



Mr. Hartman

• William D. Smith, president and chief operating officer of Kemper Insurance Cos. in Long Grove, Ill. Mr. Smith is representing mutual insurers.



Mr. Hughes

Judges evaluate each entry based on 10 criteria (see story, next page). The nominee with the highest total score is

Continued on next page

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Judges and Criteria

Criteria for Risk Manager of the Year award

Continued from previous page

named Risk Manager of the Year; the remaining individuals will be placed into one of four categories:

- Corporations with sales exceeding \$300 million.
- Corporations with sales of less than \$300 million.
- Government entities.
- Tax-exempt or nonprofit entities.



Ms. Nakamura

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.

Nominees need not handle risk



Mr. O'Halleran

management responsibilities full time, but they must be full-time employees of the organizations whose programs they direct. Risk managers anywhere in the world are eligible to enter the competition.

Anyone acquainted with a candidate's work may submit a nomination. All nominations are confidential; only honored candidates will be announced.

Each nomination package must include: a completed nomination form, a letter from the sponsor and an endorsement from an executive at the nominee's organization.

The executive must hold a higher position than the nominee and verify all information presented.



Mr. Smith

To obtain a nomination form, or for information, contact Karen Tucker, *Business Insurance*, 360 N. Michigan Ave., Chicago, Ill. 60601-3806; 312-649-5319. Forms also can be printed at www.businessinsurance.com, and at www.rims.org, which also features an online interactive nomination form.

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 10 independent judges will score each nominated candidate on a scale of one to 10, according to how well the candidate:

- 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 di-

verse 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 the 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 cate-

gories 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).

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Past Honorees

Risk Managers of the Year

2001 Dan Hartman State of Oregon	1993 Richard C. Heydinger Hallmark Cards Inc.	1985 Harold C. Lang Leaseway Transportation Corp.
2000 Paul F. Buckley Lucent Technologies Inc.	1992 Millicent W. Workman Belz Enterprises	1984 Richard M. Inserra American Can Co.
1999 Merritt W. Fabel American International Group Inc.	1991 Arnold L. Davenport Marriott Corp.	1983 John A. O'Connell Holy Cross Shared Services Inc.
1998 Phillip J. Grewar Government of British Columbia	1990 Stephen M. Wilder The Walt Disney Co.	1982 Eckart Russell Alcan Aluminium Ltd.
1997 Judy Lindenmayer FMR Corp.	1989 Jeffrey W. Pettegrew Contra Costa County Municipal Risk Management Insurance Authority	1981 Duane E. Allen Hanna Mining Co.
1996 Brian D. Casey Corning Inc.	1988 William L. Mather The Gillette Co.	1980 Thomas V. Hallett General Motors Corp.
1995 Scott K. Lange Microsoft Corp.	1987 Edith F. Lichota Irving Trust Co.	1979 Edward L. Erickson American Broadcasting Cos. Inc.
1994 Lucille A. Gallagher ConAgra Red Meat Cos. Monfort Inc.	1986 Donald Nelson ARA Services Inc.	1978 Howard T. Weber Minnesota Mining & Manufacturing Co.

Risk Management Honor Roll members

2001 Gary Baxter Weyerhaeuser Co.	Edward Molloy Aetna Inc.
1999 Peggy Nakamura Adventist Health System/West	1997 John J. Carney National Freight Industries Inc.
2000 Theodore G. Jeske Historic Tours of America Inc.	Betsy Kutska Park District Risk Management Agency
1999 David A. Holcombe International Speedway Corp. & NASCAR	William R. Powell Salt River Project
Lewis Leigh Washington Cities Insurance Authority	Russell Opferkuch Bankers Trust Co.
Sheryl A. Pixler Storage Technology Corp.	Jeannie Sedwick AHA-Insurance Resource Inc.
1998 James E. Green Justin Industries	1996 Craig S. Macdonald Bi-State Development Agency
Mark L. Hubbard Loma Linda University Adventist Health Science Center	Michael Tawney Loomis Armored Inc.
	1995 Lee D. Holland Tennessee Municipal League Risk Management Pool

See **HONOR ROLL**/page 66

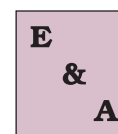
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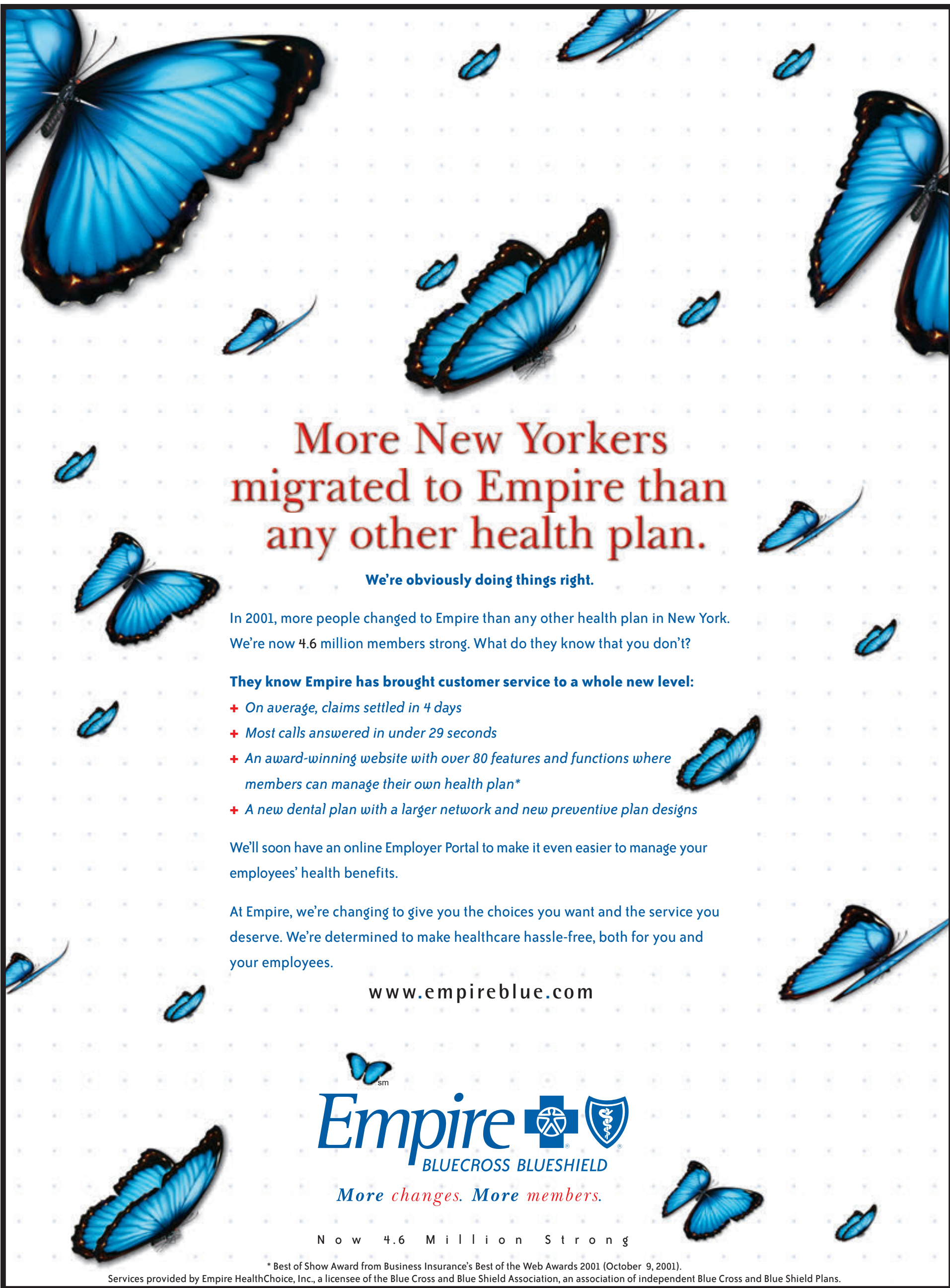
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Honor Roll: Past honorees

Continued from page 64

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. DeCampi-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 Department

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



PHOTO: MICHAEL BRADFORD

Japanese society, with its mix of practices both ancient and modern, is beginning to embrace risk management techniques.

Japan: Management of risks growing

Continued from page 1

in Gyoda, but Japanese businesses are not accustomed to creating such positions. "We have only just begun to have chief executive officers," he said, much less creating such specialized positions as those for risk professionals.

Others agree that creating a risk management position is a better approach than the current custom of having a company's general affairs department take care of insurance buying and what passes for risk management duties at many businesses.

"I think the name might be different from 'risk manager,' but there should be one person who can identify risk, create a strategy and implement it," said Tatsuhiko Ishibashi, a management consultant with Japan Merger & Acquisition Management Research Institute in Hujieda.

Experts also suggest reasons for the increasing interest among Japanese organizations in practicing risk management.

Among them are the new liabilities that are arising in a society that has become slightly more litigious in recent years. In addition, Japan's sour economy has made controlling losses more valuable than ever, and there is a growing awareness that it is necessary to spend money on safety and loss control as a way to save in the long run. Globalization also is contributing to the growth of risk management, as Japanese companies deal more frequently with other countries and assume liabilities in doing so.

"Japanese companies have to be aware of risk," said Mr. Ishibashi. "In the old days, companies tended to avoid risk. However, the economy is changing, and now is the time to deal with risks."

"Risk management is totally new to many Japanese," said Reiko Murazuchi, a representative of Act Consulting in Nagoya, which provides consulting services to small and medium-size companies. "We are now at the starting line and will find our way through trial and error."

The growing interest in risk management can be seen in the success of the year-old Japan Chapter of the Risk & Insurance Management Society Inc.

At the chapter's first one-day conference in Tokyo, held shortly after its formation in 2001, around 80 attendees showed up to hear several presentations on risk management topics. A year later, attendance had nearly doubled, to 150 people. The chapter has signed up approximately 50 members and is planning to open offices in other cities.

Yutaka Maekawa, who is chairman of the Assn. of Risk Management-Japan, a 6-year-old organization that operates in conjunction with the RIMS chapter, said one of the greatest challenges in educating companies about risk management is convincing them to learn the basics of risk financing.

Many companies, he noted, are "very weak regarding risk financing." Most organizations simply buy insurance without even considering alternatives, such as captives, Mr. Maekawa said. To help educate business leaders regarding ways to fund risks, the RIMS chapter is planning a course on techniques of risk financing.

Japanese companies have a lot of catching up to do in their perception of risk and how to handle it, said Hidehiko Miyoshi, president and chief executive officer of Risk

See JAPAN/next page

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April 15, 2002

Continued from previous page

One, a Tokyo-based risk management consulting firm. Companies would do well to learn from risk managers in the United States and Europe, who focus on preventing losses rather than waiting for them to occur and then mopping up, he said. "That's something that is missing in Japan."

Upper management at Japanese companies has become more aware of some of the risks they are facing because of scandals and lawsuits that have tainted the reputations of some operations.

For example, Snow Brand Milk Products Co. Ltd. was caught up in a scandal involving contaminated milk and relabeled meat products the company produced. Bridgestone Corp. faced problems when its Bridgestone/Firestone Inc. subsidiary was hit with claims that it produced defective tires, and a Mitsubishi Corp. subsidiary, Mitsubishi Motors Corp., was found to have covered up customer complaints regarding recalled products.

"Companies are starting to realize that there are some risks that they are facing," Mr. Miyoshi said.

In particular, there is a growing interest in protecting company directors and officers, according to Mr. Miyoshi. Some of that stems from an incident at Daiwai Bank, in which executives paid a settlement of around \$2 million to shareholders. The executives were accused of allowing a rogue trader to operate for several years and run up heavy losses. "After that, some companies began asking about insurance," he noted.

In addition, Mr. Miyoshi pointed to the changing economy as a catalyst for the emerging interest in risk management. Japanese companies traditionally have not changed their management practices as long as the company was success-

ful, he explained. But as profits have fallen in Japan's weakened economy, "that's not the case anymore."

When the economy was stronger, companies that needed money to cover any uninsured costs would simply turn to their banks for loans. Consequently, management didn't worry much about risk, Mr. Miyoshi noted. But today, banks, many of which are struggling with bad loans and other problems, are not as free with their funds. As a result, Japanese companies are becoming more interested in preventing losses.

Japanese executives have long had trouble understanding that controlling risks can protect profits, Mr. Miyoshi said. "In order to pro-

mote risk management, we have to show the profit side" and teach management to regard risk as more

'In order to promote risk management, we have to show the profit side.... Japanese companies are not interested unless there is a profit.'

*Hidehiko Miyoshi
Risk One*

than just a negative, he remarked. "Japanese companies are not interested unless there is a profit."

Rather than encouraging atten-

tion to risk, the weakened Japanese economy could, in fact, have the opposite effect on some companies, pointed out Chikara Okamoto, general manager for overseas security management at Matsushita Electrical Industrial Co. Ltd. in Osaka. He explained that when the economy turns south, many company leaders are reluctant to take on new costs, including those associated with controlling risks.

Part of the challenge of promoting risk management lies in overcoming a cultural reluctance to share information, Mr. Miyoshi suggested.

"In the Japanese culture, we don't share information, especially if it is negative; we try to hide it." That means those who are in charge

of loss control at different companies have trouble talking with each other about what risk management techniques work. Sharing such information at gatherings such as the RIMS chapter meeting "will be difficult, but we have to work on it," he said.

Mr. Maekawa said during a speech at the chapter's conference that the cultural tendency to withhold risk-related information "is not a good attitude. This is a good opportunity for people interested in this field to share knowledge," he said of the meeting.

Those working in risk management "have to congregate with each other and share their experiences and knowledge," Mr. Maekawa said.

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Risk management in Japan

Two who are trying to make safety second nature

By MICHAEL BRADFORD

OSAKA, Japan—From the top-floor restaurant at the towering Matsushita headquarters, Chikara Okamoto watched through a wall of windows as a commercial airliner swooped by, eerily close, throwing a long shadow over the densely packed neighborhoods of Osaka as it headed for the airport at the city's

edge.

"You see what I mean?" Mr. Okamoto asked, recalling a conversation about how the jetliners are frequent reminders of the terror that had struck New York just six months before. Then he pointed to an adjacent tower, also with a restaurant at the top, and said, "Osaka has its twin towers, too."

Mr. Okamoto was doing what

risk management professionals do, assessing risk, almost reflexively. In a country where interest in the concept is growing, Mr. Okamoto and others are among those who are making risk management second nature, aggressively pursuing safety and loss control.

While Mr. Okamoto's responsibility is to make sure Osaka-based Matsushita Electric Industrial Co.

Ltd.'s overseas employees of its Panasonic operations are safe, his counterpart with Central Japan Railway Co. 300 miles up the track in Tokyo is making sure the Shinkansen, or bullet train, maintains its stellar safety record. Sakio Masunaga, the executive director of the Shinkansen division of the railway company, handles that task and promotes a workplace philosophy of "safety is everything."

Both these professionals are part of a trend among many Japanese companies to look more closely at risk management amid the country's economic downturn. Businesses are realizing the significance of controlling losses at a time when profits have slumped.

At Matsushita, Mr. Okamoto had to streamline and update procedures to protect the company's 140,000 overseas workers in 44 countries when he took the job as general manager of overseas security management three years ago. The position had existed for about 20 years, created after a Matsushita worker was killed by a gang of criminals in Costa Rica. There had been few upgrades, though, to the procedures that were designed to ensure worker safety.

"The manual was the same," he pointed out, referring to a 25-page book that contained a good deal of dated safety information and cost \$2 to produce. It was sold to overseas workers.

Mr. Okamoto edited the manual down to newsletter size and distributed it free to employees. In addition, he began using the Internet to transmit security information to workers. Employees can access not only personal safety guidelines, such as how to limit the risk of kidnapping, but also such information as how to protect property by making sure it is properly insured, taking care of investments while overseas, preventing crime at their homes, keeping certain personal records updated and much more.

As part of his efforts to revamp the security procedures, Mr. Okamoto on Aug. 1 of last year completed work on a preparedness and crisis-response plan. In part, the plan created the Panasonic Overseas Management Committee, made up of Mr. Okamoto and Matsushita's top management. The plan got its first test all too soon.

Mr. Okamoto was indulging in his late-night television habit on Sept. 11 when the news about the terrorist attacks in New York was broadcast. At 11:30 p.m., he was making calls to Matsushita's top management—as the response plan dictated—to coordinate the company's response. His job was then to begin confirming the safety of Panasonic workers in the United States.

Working from home, "I called the American companies," he explained, and by 3:45 p.m. the next day he had confirmed the security of all of the company's U.S. employees. Of 614 U.S. staffers, none was hurt.

Using the telephone and Inter-

net, Mr. Okamoto began telling workers who were on the road in the United States to "stay where they are." Later, he began contacting workers in the Middle East and advising them on how to remain safe.

Mr. Okamoto acknowledges that his efforts to ensure the safety of workers were successful in part because of his company's willingness to spend money on such matters. "Sometimes, top management does not want to adopt risk management because it is costly," he said of other Japanese companies.

Like Matsushita, Central Japan Railway puts a priority on safety.

Since it began carrying passengers in 1964, the Shinkansen bullet train has never had a passenger or worker fatality. In fact, a passenger has never been injured in an accident involving the bullet train.

Mr. Masunaga said the goal of operating a safe railway is ingrained into the Shinkansen's operation, and employees who take that philosophy seriously are responsible for the train's impressive safety record. Since it began carrying passengers in 1964, the Shinkansen has never had a passenger or worker fatality. In fact, a passenger has never been injured in an accident involving the bullet train. The company could not provide figures on worker injuries.

"Safety," Mr. Masunaga said, "is part of our daily operation." Employees at the railway are constantly reminded of the importance of safety and are trained so that running a safe operation becomes their main priority, he explained. "Safety is everything; I just follow that philosophy and the bullet train system is maintained."

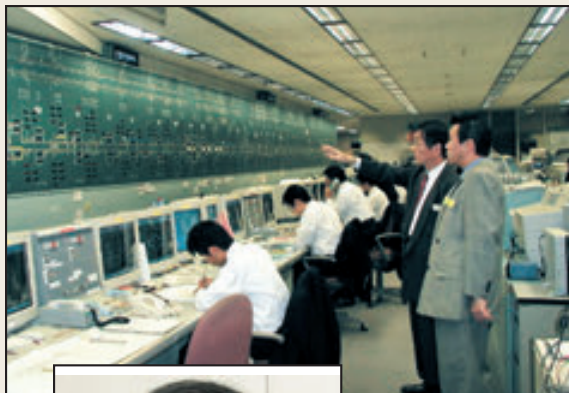
The Shinkansen's safety record won it the Best Risk Manager of the Year Award from the Japan Chapter of the Risk & Insurance Management Society Inc. The award was presented at the chapter's annual meeting in Tokyo in March.

"Controllers are the key to our high safety standards," said Kazuto Tsujimura, general manager at the Shinkansen's general control center in Tokyo. Those employees constantly monitor the system, both from control rooms and onsite.

In the Tokyo control center, several controllers sit at computer stations in front of an electronic board that spans the length of one long wall. Their duties are to monitor driving conditions and traffic, and to respond by telephone or radio to any unusual conditions or any requests from drivers. "In the event of an accident, they supervise the recovery process," Mr. Tsujimura explained.

The controllers are responsible for monitoring 280 bullet trains

See SAFETY/next page



Central Japan Railway Co.'s 280 Shinkansen bullet trains are monitored onsite and in control rooms such as this one in Tokyo (upper left). Chikara Okamoto (lower left) is general manager of overseas security management at Osaka-based Matsushita Electric Industrial Co. Ltd. (below).



PHOTOS: MICHAEL BRADFORD

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Risk management in Japan**Earthquake is biggest risk but is mostly uninsured**By **MICHAEL BRADFORD**

TOKYO—Situating as they are on a not-so-stable piece of earth, Japanese companies get frequent reminders of what they say is the biggest risk they face.

The tremors ripple so frequently along the country's mainland that many Japanese give them little more than a passing thought. But ask a businessperson what threat to property and profits keeps him or her awake at night, and there will be little hesitation before the reply.

"We are an earthquake-rich country," said Minoru Inaoka, managing director, administration and external relations division at It-Yokado Co. Ltd., a Tokyo-based chain of supermarkets and convenience stores. "We have a number of risks, and each is important," he said, "but earthquake is the biggest."

Japanese businesses are especially wary of the risk after the quake that struck Kobe in 1995 left more than 6,000 dead and caused \$2.5 billion in insured losses.

Sakio Masunaga, executive director of the Shinkansen, or bullet train, division of Central Japan Railway Co. in Tokyo, agreed that in a country where nature can be particularly harsh in dealing out windstorms and earth movement, quakes are the biggest worry.

The railway, he explained, has dealt with the threat through loss control measures that include the construction of earthquake-proof facilities and the use of sensors that can detect movement offshore before the rumblings reach land. Most

of its lines escaped significant damage in the Kobe quake, though cracks in one portion of track kept a section closed for three months.

Using insurance to cover the earthquake risk is not an option for most Japanese companies. Only the largest can afford it, assuming it is available. In a country where the majority of businesses are small to medium-size, most are forced to go without the coverage.

Like the railway, It-Yokado is a company that has reason to be concerned about the threat of earth-

quakes. It operates 190 supermarkets and 10,000 convenience stores in Japan. The company is not insured for quake damage.

Earthquake risk is impossible to avoid, Mr. Inaoka points out, so "we have to prepare ourselves. We have to anticipate the risk and minimize the damage when that happens."

Mr. Inaoka said It-Yokado has a "clear-cut contingency plan" that it relies on as part of its self-insurance approach, to make sure its opera-

See RISKS/next page

**Safety:
Looking
closely
at risk**

Continued from previous page
that pass along the tracks at speeds of up to around 160 mph.

There are onsite track and maintenance controllers that routinely inspect the tracks and a specially outfitted train that travels the entire route every 10 days to perform diagnostics and to look for trouble spots.

A system of gauges, installed 10 years ago, gives the railway an early warning on any earthquake activity.

The gauges are placed at 14 points along the rail line and send reports to the control center when there is even the slightest tremor, usually offshore.

"Most of the time, earthquakes originate offshore," said Mr. Tsujimura. "The sensor catches it before it reaches land" and, depending on the size of the tremor and its distance from the track, may automatically turn lights red to signal drivers to stop or shut down power to an endangered section of track, he explained.

The sensors are sending reports "very frequently," said Mr. Tsujimura, pointing to a graphic that showed dozens of minor tremors detected offshore that morning. None was significant enough to alert drivers.

Other gauges along the line gather information on rainfall and wind speed.

Mr. Masunaga said he is pushing for national debate on a particular problem that exists with regard to the Shinkansen. The bullet train, he pointed out, is the only rail transportation between Tokyo and Osaka. If a quake or other disaster were to knock out service, the ripple effects for the region and the country could be severe.

"This is a huge issue and too big for our company to deal with by ourselves," Mr. Masunaga said. "Discussion on this should be at the national level."

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Risks: Earthquakes top list

Continued from previous page
tions can be restored if interrupted by a quake.

Many Japanese companies, though, have no such contingency plan for earthquakes, according to Tatsuhiko Ishibashi, management consultant with Japan Merger & Acquisition Management Research Institute in Hujieda.

"There is a big gap between those who are well-prepared and those who are not," he said. If a destructive quake does hit, companies that have put together disaster-response plans will fare much better, Mr. Ishibashi noted.

He said companies have to be encouraged to think about earthquake risk before they can prepare for it.

"I live 30 kilometers (18.6 miles) west of Tokyo," Mr. Ishibashi said, in an area that was the subject of a study by a university professor who wanted to know how a large earthquake would affect the region. When the results were published, residents became alarmed, he said.

That concern "was a good opportunity to recognize the risk of earth-



PHOTO: AFP

Although earthquakes are common in Japan—though few are as devastating as the 1995 Kobe quake shown above—many companies have no contingency plans for the disasters.

quakes," Mr. Ishibashi explained, and the residents have put together several response plans. "It is the same with risk management: You have to identify the risk" and then begin a dialogue on how to mitigate the damage. And that, he said, is where many Japanese companies fall short.

Apart from the risk of earthquakes, Japanese businesses are learning there are some new dangers lurking.

Most companies are woefully unprepared for acts of "cyber terror," according to Gen Suzuki, president of Diamond e-Learning Corp. in Tokyo. He referred to a study by the Japanese government that showed only 1% of Japanese companies have a contingency plan to respond to damage caused by hackers.

"Teaching and educating people on how to use the Internet" and keeping network systems safe are very important in combating this new risk to Japanese businesses, Mr. Suzuki said.

And as Japan becomes a more litigious society, new liabilities are emerging, according to Hidehiko Miyoshi, president and chief executive officer of Risk One, a Tokyo-based risk management consulting firm. "The number is still low, but I feel that there will be a lot more lawsuits in coming years."

He referred to a recent case in which a Japanese company had to call off an initial public offering because a claim concerning its accounting system was filed against the business. "A lot of money was lost, and they were not doing any-

thing illegal," Mr. Miyoshi said. "This is a very high risk that Japanese companies face" and most have no insurance to protect them, he added.

Directors and officers are more worried about the risks they face, Mr. Miyoshi remarked. When the economy was strong and profits were dependable, there was little for a company's directors to do, Mr. Miyoshi pointed out. But in today's slow economy, they are more aware that they have responsibilities in guiding the company and are more likely to be held accountable for its performance.

On the employee benefits side, Japanese businesses may be able to shed some risk because of new retirement savings rules. As rules come into effect this spring that allow companies to begin offering 401(k)-style investments, workers will be able to take some of the investment risk off their employers' hands.

But, growth of the new plans may be slow because of restrictions on the amount that employees can invest, said Yoshiaki Ohashi, president of Meiji Seimei Fininsurance Institute Inc. in Tokyo. "We don't know yet how many will participate."

He suggested that it could take four or five years for the programs to catch on, depending on how fast employees learn the mechanics of investing and whether the government raises current investment caps. "If employees raise their voices, the government will raise the cap," Mr. Ohashi said.



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Risk management in Japan

RIMS raising profile of risk management in Japan

By MICHAEL BRADFORD

TOKYO—Like the profession it serves, the Risk & Insurance Management Society Inc. is spreading throughout Japan.

Japan's year-old RIMS chapter has seen encouraging growth, signing up 50 members and drawing a healthy crowd to its conference last month in Tokyo, where the chapter is based. In response to the growing interest in risk management in Japan, the chapter is opening offices in several cities to be closer to its members and attract new ones.

An Osaka office opened this month, and another is planned for Fukuoka in October. There are discussions about opening RIMS offices in Sendai and Sapporo, as well.

In all, not a bad start for the society's first chapter outside North America and one that only recently unfurled its RIMS banner.

The new offices won't operate as

individual chapters, explained Yutaka Maekawa, president of the RIMS chapter and chairman of the Assn. of Risk Management-Japan, which operates in conjunction with the chapter.

"Since most of our activities are centralized in Tokyo, they will be branches of our chapter," he said. "As we communicate with RIMS, it will be less confusing if the Japan chapter represents all of Japan."

The 50 members of the chapter also are members of the 6-year-old Assn. of Risk Management-Japan, which has 60 total corporate members and around 4,000 individual members.

The chapter's fast start was reflected in the attendance it attracted to two one-day conferences held in Tokyo. At the first, held just after the chapter was formed a year ago, around 80 attendees participated. The chapter's 2002 meeting on March 9 drew around 150.

Mr. Maekawa, who is a professor emeritus at Keio University in Tokyo, said the attendance was so impressive that next year's program may be extended to two days.

'To deal with risks, we have to communicate with each other and share our experiences.'

Yutaka Maekawa
Assn. of Risk Management-Japan

The chapter's founders hope that having RIMS in Japan will help break down some of the cultural resistance to risk management. Risk management professionals in the country have been reluctant to share information about their experiences—particularly the bad ones—making it difficult for them to learn from one another.

"To deal with risks," Mr.

Maekawa said during a speech at the conference, "we have to communicate with each other and share our experiences and knowledge." Chapter meetings, he emphasized, are "a good opportunity for people interested in this field to share their knowledge. The chapter was developed so that they would have this opportunity."

"The representatives coming to the chapter meetings share a common purpose," said Yoshizumi Saitoh, senior executive director of the chapter and president and chief executive officer of Tokyo-based Diamond Financial Planners Inc., one of the promoters and developers of the chapter. Even though attendees cannot release sensitive company information, the RIMS chapter provides a forum at which general risk management issues can be discussed, he noted.

Reiko Murazuchi, a representative of Act Consulting in Nagoya, said

small and mid-size companies have a lot to gain by participating in RIMS. While some large companies take risk management seriously, smaller companies generally don't give it much thought, he said.

Such organizations need to begin addressing risks that they face, he said, and "one way is to participate in the annual conference. We have to enlighten people", he said of those companies that have ignored risk management. By joining RIMS and participating in the meetings, those organizations can become better prepared to manage their risks, he emphasized.

"I want to believe this conference will open up new and important areas of risk management," said Tetsushi Okumura, associate professor in the economics department at Shiga University in Hikone. "I just joined a couple of months ago, and I'm impressed. The activity is quite vivid. I think it will go successfully."

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2001 brings market's largest-ever loss, new reporting basis

Lloyd's hoping for turnaround

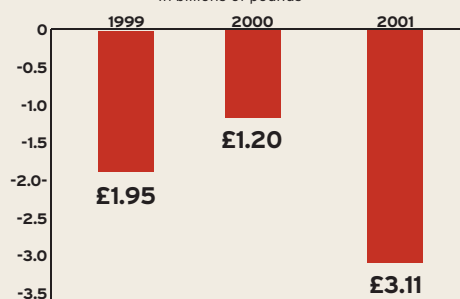
LLOYD'S LOSSES

Insured events that contributed to 2001 loss



PHOTOS: AFP

2001 and 2000 year results reported on an annual basis. In billions of pounds



By SARAH VEYSEY

LONDON—Lloyd's of London executives hope that the market's worst loss ever will also be its last for a while, betting that rate increases and proposed market reforms will turn around its fortunes.

Lloyd's last week reported a record £3.11 billion (\$4.53 billion) loss for 2001, largely as a result of £1.98 billion (\$2.88 billion) of claims from the Sept. 11 terrorist attacks.

The loss is the largest in the market's 314-year history—dwarfing the previous record deficit of £2.40 billion (\$3.64 billion) in 1990—and marks the fifth successive year of losses for the market.

Lloyd's 2001 result also is notable because it is the first to be reported on an annual basis. A switch to annual accounting from the market's traditional three-year system is part of ongoing efforts to make Lloyd's results more comparable to those of other insurers, said Nick Prettejohn, the market's chief executive.

On an annual-reporting basis, the 2000 result was a £1.20 billion (\$1.79 billion) loss, according to Andrew Moss, director of finance for Lloyd's.

Under Lloyd's traditional three-year accounting system, the most recent account to close is 1999, which generated a marketwide loss of £1.95 billion (\$2.84 billion). When the 2000 ac-

count closes at year end under the three-year accounting, Lloyd's projects it will report a marketwide loss of £1.72 billion (\$2.57 billion). Lloyd's estimates a £1.60 billion (\$2.33 billion) loss for 2001 under this method.

Under the three-year accounting cycle, a syndicate's results for a given underwriting account are calculated at the end of the third year, which gives both profits and losses more time to fully develop. Any remaining liabilities are reinsured and the account is closed.

Mr. Prettejohn described 2001 as "an exceptional year by any measure," pointing out that Sept. 11 claims represent the largest loss ever, both for the Lloyd's market and the global insurance industry. He said that the Sept. 11 losses are spread across the entire Lloyd's marketplace "with almost all classes of business written at Lloyd's being exposed."

Mr. Prettejohn added that while the number of catastrophic losses in 2001 was "comparatively low," some of these events were extremely costly. He cited the Petrobras Oil Rig loss, the Sri Lanka airport attack, a factory explosion in Toulouse, France, and Tropical Storm Allison among the 2001 losses that fell heavily upon Lloyd's.

These four losses accounted for £371 million

See LLOYD'S/page 75

Australia examines price hikes

Rates fair: Report

By DAMIEN TOMLINSON

CANBERRA, Australia—Australian insurers have pushed significant rate hikes on policyholders over the past year, but those increases have not been excessive, according to a recent government report.

The report, authored by the Australian Competition & Consumer Commission, a Canberra, Australia-based federal government agency, said recent price increases have occurred as insurers' have changed strategies and are now seeking to increase profits rather than market share, following years of poor results.

The ACCC prepared its report, "Insurance Industry & Market Pricing Review," after a request from the federal financial services and regulation minister last June, following a wave of rate increases that followed the collapse of Sydney-based HIH Insurance Ltd. in March 2001. The commission did not find evidence that insurance price increases are excessive, the report said.

The report was presented to the federal government in late March, shortly before a government-sponsored summit was held to discuss issues and solutions following a capacity shortage in liability insurance now affecting

See RATES/page 75

U.K. accounting standard triggers pension plan shift

Employers move to defined contribution model

By SARAH VEYSEY

LONDON—When electronics retailer Dixons Group P.L.C. this month announced that it was going to close its defined benefit pension plan to new participants, it became only the most recent among several leading U.K. companies to cease offering such plans.

Retailing giant Marks & Spencer and telecommunications company British Telecom P.L.C. are two such companies to have closed their defined benefit plans—often known as "final salary schemes" in the United Kingdom—to new participants in recent months.

A survey of 185 employers conducted by Towers Perrin in London found that 30% had made the switch from a defined benefit to a defined contribution plan last year. And the Trades Union Congress, the London-based labor federation, published research in March that showed the number of participants in final salary plans in the United Kingdom had dropped to 3.8 million in 2001 from 5.6 million in 1991.

Many of these companies have blamed a new accounting standard, Financial Reporting Standard 17, announced by the U.K. government in late 2000, for their decision to close their defined benefit plans.

FRS17, which will be phased in in stages for full implementation by all companies in 2003, requires, among other things, that a company indicate on its balance sheet the surplus or deficit of its pension fund.

Sir Stanley Kalms, the outgoing chairman of Hemel Hempstead, Hertfordshire-based Dixons, described FRS17 as "a stab in the heart" for defined benefit pension plans.

The London-based National Assn. of Pension Funds said that the new accounting standard put defined benefit pensions "in peril." A survey of 501 companies conducted in 2001 by the NAPF



PHOTO: AP/WIDE WORLD

Retailer Marks & Spencer in London is one of several U.K. employers that have closed defined benefit plans to new participants.

found that 77% of the respondents said FRS 17 would make it less attractive for them to offer defined benefit plans to employees.

"We have been warning for some time that FRS17 would drive many employers from providing defined benefit plans, and that is precisely what is now happening," said NAPF Chairman Peter Thompson. Mr. Thompson said that though the NAPF supports government moves to ensure greater disclosure of pension information, "bringing snapshot accounting into the accounts of the sponsoring company will not only invite confusion among investors but will inevitably lead firms to question whether it is worth their

See PENSIONS/page 75

World Updates

Swiss Re sees first loss since 1868

Swiss Reinsurance Co., the world's second-largest reinsurer, posted a loss of 165 million Swiss francs (\$99.0 million) for 2001, the company's first loss since 1868. An aftertax loss from the Sept. 11 terrorist attacks of 2.95 billion Swiss francs (\$1.77 billion) and a reduction in capital gains of 1.61 billion Swiss francs (\$966.2 million) led to the huge loss. In 2000, the Zurich, Switzerland-based reinsurer had profits of 2.97 billion Swiss francs (\$1.78 billion). Net premiums increased by 14.2%, though, to 25.2 billion Swiss francs (\$15.12 billion) in 2001, and net investment income increased 20.1%, to 5.8 billion Swiss francs (\$3.48 billion). Property/casualty premiums increased by 20%, to 13.8 billion Swiss francs (\$8.28 billion), reflecting increased reinsurance and insurance rates charged during 2001.

Lloyd's syndicates report profits

Lloyd's of London managing agency Liberty Syndicate Management has announced profits for its two managed syndicates for the 1999 year of account, the latest to close under Lloyd's three-year accounting system. Marine syndicate 282 made a 23% return on its £35 million (\$58.9 million) of stamp capacity for the 1999 year. Nonmarine syndicate 190 produced a 2.3% return on its £70 million (\$117.8 million) of capacity for 1999, the managing agency said.

Hermes opens Tokyo office

Hamburg, Germany-based credit insurance specialist Hermes Kreditversicherungs A.G., has obtained a license to conduct credit insurance business in Japan, the company announced. Hermes, which is part of the Paris-based Euler & Hermes group, has opened a branch office in Tokyo. While all export credit insurance is still exclusively the preserve of the government-run Nippon Export & Investment Insurance, Hermes will offer insurance to Japanese companies against bad-debt losses in their own country.

Briefly noted

John Baker has been appointed deputy chairman of London-based multiline insurer Royal & SunAlliance Insurance Group P.L.C. Mr. Baker, a director of RSA since 1994, replaces Anthony Forbes, who is retiring. Separately, Royal & SunAlliance reported that it has established a new extranet to enable brokers and buyers to

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Lloyd's: Market hoping to reverse string of losses

Continued from page 73

of the market's net losses in 2001, he said.

Moody's Investors Service Ltd. in London predicts that losses for the 2000 and 2001 accounts, when calculated under a three-year accounting system, could be worse than Lloyd's own forecasts. Moody's predicted that the 2000 year of account would result in a £2.20 billion (\$3.28 billion) loss, while the 2001 year could show a £2.6 billion (\$3.79 billion) deficit.

"There is no getting away from the fact that the losses incurred by Lloyd's over 1998-2001 are substantial, are not yet fully reflected in syndicates' forecasts, and reflect extremely poor market conditions and the major impact of WTC," said Mark Hewlett, managing director of Moody's European Insurance division.

He added, however, that improving market conditions meant Lloyd's could be optimistic about the possibility of returning a profit for the 2002 year. "As ever, we expect there to be wide variance between the results of the best and

worst performing syndicates," he said. "A number that have survived into 2002 are likely to become further victims of legacies of the past," but a number of them will produce profits significantly above the market average, he said.

Although they stressed the need for reform of the market, Lloyd's executives said they are confident of a return to profitability for 2002.

"Capacity is at an all-time high, and we are seeing significant improvements in trading conditions across all lines of business," said Mr. Prettejohn. "The last six months have seen an estimated increase in premium income of nearly two thirds, compared with the same period a year ago. These increases give us confidence that 2002, in the absence of any extraordinary catastrophes, should see the return to profitability for the Lloyd's market."

Mr. Moss said that Lloyd's major lines of business had all seen large rate increases at year-end renewals. Rates for aviation increased by 60%-90% compared with the previous year, general liability rates by 20%-50%, marine rates by 25%-250%,

property by 10%-50% and property reinsurance by 35%-60%, he said.

Mr. Prettejohn said that Lloyd's loss record since the 1996 reconstruction and renewal program is "not acceptable" and that further reform of the market is overdue. "We do believe we need to change that and a program is in place to achieve those aims," he said.

The market's chairman, Sax Riley, said that reform of the market is necessary to rid Lloyd's of poorly performing syndicates. "Our market contains some world-class business, but others are dragging the market down with dreadful losses," he said.

Lloyd's is considering several proposals put forward by the Chairman's Strategy Group that are designed to modernize how the market operates (*BI*, Jan. 28).

The reform proposals are being reviewed by Lloyd's market participants, and a dialogue on the proposals with the full market is expected to take place in July. An extraordinary general meeting to vote on the proposals is slated for September, said Mr. Riley.

The release of an annually ac-

counted loss figure was "one small step" towards the strategy group's aims of "transparency, modernity and profitability," said Mr. Prettejohn. "The move to annual accounting is a fundamental step in our strategy of reform. It makes us more accessible and transparent,

and enables us to report results that can be compared easily to those of other insurers," he said.

Other strategy group proposals include the abolition of unlimited liability underwriting and the annual venture system of raising capital.

World Updates

Continued from page 73

access the company's products and services online. The extranet, www.royalsunconnect.co.uk, was launched last week....**Zurich Financial Services Group** has completed its acquisition from Deutsche Bank of 75.9% of Versicherungsholding der Deutschen Bank A.G. the investment bank's life insurance and wealth management arm. ZFS agreed in December 2001 to buy a majority stake in the insurer for about 1 billion euros (\$879 million)....Privately owned Lloyd's of London brokerage **Harman**

Wicks & Swayne has become the first company to sign up for London-based BIS Ltd.'s voice-over Internet protocol telephone product. Richard Lay, director of Harman Wicks & Swayne, said the new technology had improved communications between the company and business partners in the United States....**Henri Moulard** has resigned as chairman and chief executive officer of Generali France, the Paris-based subsidiary of Trieste, Italy-based Assicurazioni Generali S.p.A. Mr. Moulard will be replaced by Claude Tendil, formerly of AXA S.A.

Pensions: Employers shifting plan types

Continued from page 73

while continuing to offer a good-quality final salary pension scheme."

Nigel Bateman, a principal at Towers Perrin in London and leader of its international consulting team, said that though FRS17 does not introduce any liabilities that do not already exist, it does make such liabilities and costs more visible.

"It also tends to have the effect of making those costs volatile—which is a volatility because of the way that they are required to be measured. The reality is that volatility is there because [companies] are investing in volatile equity markets or stock markets in order to meet long-term liabilities," Mr. Bateman said. "It has always been there. It is just that it hasn't always been quite so visible for companies."

The Trades Union Congress said, though, that some employers are using the new accounting standard to rationalize their decisions to stop

offering defined benefit plans. "The more you look at it, the clearer it is that employers are using FRS17 and tax changes as an excuse to end quality pensions," said TUC General Secretary John Monks in a statement. "While we support a review of FRS17, it would be wrong to think that changes would halt the flight from decent pension," Mr. Monks said.

"Scrapping final salary schemes will make no immediate difference to company balance sheets, as it will not change the liabilities that FRS17 requires to be disclosed," the TUC said in its statement.

And benefit consultant Watson Wyatt Worldwide in London said that the perceived volatility in pension plans that FRS17 highlights must be looked at in a larger context. "There are wider issues for scheme sponsors to take into account in order to make rational and logical changes to the method of pension provision," said Robert

Hallis, a partner at Watson Wyatt. "While the trend towards defined contribution schemes is well documented, not all companies have decided that this is the best option."

'The cost to employers of (defined benefit plans) is both increasing and becoming less predictable.'

John Clare
Dixons Group P.L.C.

Furthermore, Towers Perrin's Mr. Bateman said, many companies are opting to close their defined benefit plans because they believe defined contribution plans are less costly for employers. Companies say they are making the switch to have greater cost certainty, he said.

Mr. Bateman noted, though, that moving from a defined benefit to a

defined contribution plan often stabilizes pension costs only for new hires; those who were hired earlier generally continue to have defined benefit plans.

"Because people are tending to live longer and interest rates have fallen considerably in recent years, the cost to employers of (defined benefit plans) is both increasing and becoming less predictable," said John Clare, the chief executive of Dixons, in a statement.

A survey conducted by Aon Consulting in London showed that cost savings and cost stability were the main reasons provided for the changeover by 85% of the companies that switched to defined contribution plans, according to Aon principal and actuary Paul McGlone.

But Mr. McGlone noted that the switch might not always result in cost savings. He suggested that in some circumstances, as when there is an influx of younger staff into the

business, a new defined contribution plan might actually cost more than the old defined benefit plan. Because existing employees would remain in a defined benefit plan and the company has to take on the costs of setting up a defined contribution plan and communicating information about the plan to employees, costs may actually increase in the short to medium term, Mr. McGlone said.

Still, employers often perceive defined contribution plans as offering more flexibility to employees, "in terms of making choices about the money that is being out aside for their retirement," Mr. Bateman said. These choices include how the money is invested and how it is deployed once employees reach retirement age, he said.

Andy Cox of consultant Bacon & Woodrow, which advised British Telecom on its move to a defined contribution plan, said that BT, with its "large and increasingly mobile and diverse workforce," is now "well placed to benefit from the greater flexibility for employees and greater stability of pension costs."

Rates: Report finds price increases not excessive

Continued from page 73

the Australian market.

Although insurers can justify the rate hikes, policyholders have complained about a lack of service by insurers and unexplained, substantial increases across most policy classes, said Allan Fels, chairman of the ACCC.

He called for insurers to attach explanatory notes to renewals, explaining changes to coverage and rates.

Mr. Fels said that, "until recently, some insurers have been chasing market share rather than man-

aging risk in a sensible fashion."

He said, "insurers should review and improve their inquiry and complaints handling systems to help consumers who want to query increases. We are suggesting a review of the language used in insurance contracts to demystify the process for consumers, small business and community organizations."

The report said rates had increased for several reasons, but mostly due to poor underwriting results over the past nine years. The poor results stemmed from

"the alignment of several underlying drivers," including:

- Inadequate rates, particularly for the fire, industrial risks, professional indemnity, product liability and public liability.
- Catastrophes, such as the April 1999 Sydney hail storm (*BI*, Apr. 4, 1999).
- Increased loss reserves for past losses.
- Low investment returns.
- Increased reinsurance rates.
- The liquidation of the HIH group, which led to a reduction in overall insurance capacity, particu-

larly for professional indemnity coverage.

Assistant Treasurer Helen Coonan, who is the federal minister responsible for insurance, welcomed the report, saying that it provided "important input" to the summit meeting.

The Australian government has asked the ACCC to update the report by June 30 and to provide more information on the public liability and professional indemnity insurance markets.

The Sydney-based Insurance Council of Australia welcomed the

report's finding that there had been no excessive rate increases.

Bruce Ferguson, president of the Sydney-based Association of Risk & Insurance Managers of Australasia and risk and insurance manager for Sydney Water Corp., said the report had "simply identified the insurance market forces at work." The collapse of HIH reduced capacity and was "bound to drive rates up."

"It's supply and demand. Supply suddenly decreased, but demand didn't. Prices had to rise," Mr. Ferguson said.

401(k): Bill moves to Senate

Continued from page 2

that would temporarily allow employers to use higher interest rate assumptions in valuing pension liabilities, ease pension nondiscrimination testing rules and cut Pension Benefit Guaranty Corp. premiums for small employers starting new pension plans.

Passage of the House bill, which is largely based on a Bush administration proposal, came after a lengthy three-hour debate and after a Democratic alternative, proposed by Rep. George Miller, D-Calif., was rejected by a 232-187 margin. Forty-six Democrats voted for the bill that was approved.

"This legislation is good for American workers. It is good for 401(k)s," said Rep. Rob Portman, R-Ohio. "It's about more information and it's about more security," he added.

With the House completing its action, the focus now shifts to the Senate, which is on a slower track. In March, the Health, Education, Labor and Pensions Committee approved a 401(k) reform bill, which business had strongly opposed, on a party-line 11-10 vote. Vermont independent James Jeffords sided with the Democrats.

But the Finance Committee, which traditionally has tried to act in a bipartisan way, has yet to act. It is not expected to produce and act on a bill for several more weeks.

Some members say differences can be resolved. Rep. John Boehner, R-Ohio, chairman of the House Education and the Workforce Committee, while acknowledging the

differences in the House bill and the HELP committee measure, said he looked forward to trying to resolve those differences in a House-Senate conference committee.

Whether the partisan differences can be set aside and a compromise reached remains to be seen. "The question is, do politicians want to resolve this or not? There is no answer yet," said Kyle Brown, an attorney with Watson Wyatt Worldwide in Washington.

'This is a very complicated area of the law. It is only natural that Congress takes time to address it.'

*James Delaplaine
American Benefits Council*

"We have a long way to go," said Angela Arnett, senior counsel for the American Council of Life Insurers in Washington.

Indeed, even if Congress doesn't reach an agreement this session on a compromise bill, observers believe the issue will be back next year.

"This is a very complicated area of the law. It is only natural that Congress takes time to address it," said James Delaplaine, vp-retirement policy with the American Benefits Council in Washington.

The bill approved Thursday by the House would force most employers to redesign their 401(k) plans. The most significant change would give employers the choice of either allowing employees to sell

company stock contributed as a match after three years of service or three years after the employees acquired the shares. This right to sell company shares after three years would be phased in over five years on shares participants now hold.

That provision is a direct response to the design of Enron's 401(k) plan, which barred participants from selling company stock contributed as a match until they were age 50. As a result of that restriction, not uncommon in the corporate world, many Enron employees could only watch helplessly as the value of their Enron shares fell to virtually nothing last year.

That three-year limit, while a big change for many employers, does not go far enough, said Rep. Ben Cardin, D-Md., who was an original sponsor of the bill, but voted against it last week in the House.

Rep. Cardin objected to giving employers the option of using a three-year rolling period in which the three-year holding period would apply to each new block of company stock an employer contributed, no matter how long the employee had worked for a company.

"Employees who have spent years at a company...can be denied the basic right to decide how their retirement savings are invested," he said.

The measure, also in response to the Enron situation, would require employers to give plan participants 30 days' advance notice of any lockdown or blackout periods, which are common when employers change plan administrators and records are transferred. During that period, top executives could not sell company shares they held outside the plan.

Key Enron senior executives sold and made millions of dollars of profits on shares they sold during a lockdown period that Enron implemented last year when it changed plan administrators.

Other provisions in the bill would:

- Allow employees to use pretax dollars to purchase investment advice.
- Allow plan service providers such as insurers, to provide investment advice—even on products they sell—as long as they disclosed certain information. For example, an insurer that offered mutual funds could provide advice if it disclosed the load charges on the funds.
- Require employers to provide quarterly statements to participants on the importance of investment diversification and the risk of holding substantial portions of a portfolio in securities of any one entity.

Unrelated to Enron, the bill would allow employers to value pension plan liabilities for the 2001 plan year using an interested rate assumption of 90% to 120% of the yield on the four-year weighted average on 30-year Treasury bonds. Under current law, the top end of the ceiling for 2001 is 105%. Congress earlier approved raising the ceiling to 120%, but only for the 2002 and 2003 plan years.

Property: Buyers seek cover options

Continued from page 3

should know whether this is alive or dead," Ms. Beck said.

If the facility is formed, other major property owners around the country could apply to participate in the captive, Ms. Beck said.

In addition to high property insurance prices, terrorism exclusions and the cost and limited availability of stand-alone terrorism coverage are growing problems for property owners.

"The few companies that are now writing stand-alone terrorism coverage for high-value properties...are sort of in the catbird seat," Ms. Beck said.

"I think in the best case you might be able to get to \$500 million (in stand-alone terrorism coverage), but the best case would be a very expensive way to do it," said Suzanne Douglass, managing director and national property practice leader at Willis North America Inc. in New York. "If you have a \$600 million building and you buy \$100 million, is that sufficient? Who knows?"

Ms. Douglass said she has seen some easing of pricing on stand-alone coverage since Jan. 1. "I think they found there was more supply than there was demand," she said. Still, there's "not a bottomless supply of capacity out there."

Another problem many property owners face is loan covenants requiring that they insure buildings against terrorism.

"We have had one or two clients whose lenders made an issue of it, but I think in the end they were able to buy something that mollified the lenders, though it was at less than full value," Ms. Douglass said.

"The lenders are apoplectic," the New York real estate group's Ms. Beck said. "One of the things that's happening is transactions are being held up and refinancings are being held up."

Michael D. Phillipus, vp-external affairs for the Risk & Insurance Management Society Inc., noted that the loan issue was one President Bush mentioned last week in pushing for Senate action on a federal terrorism insurance backstop measure (see story, page 1).

"That exact issue was mentioned by the president in his remarks," said Mr. Phillipus, who is manager-risk management at Pennzoil-Quaker State Co. in Houston. "So, obviously, it is something that is being highlighted in our executive branch. And I know that in discussions our society has had with Treasury officials they have indicated that is something they are very concerned about."

Although a handful of states, including New York and California, have not allowed insurers to insert terrorism exclusions in standard property insurance policies, insurers are still finding ways to avoid covering terrorism risks for large policyholders in those states.

For example, in some cases they are writing the coverage on a non-

admitted basis and, in New York, they are using the state's free trade zone laws to write manuscript policies that contain terrorism exclusions.

Meanwhile, admitted insurers in many states are taking various approaches to covering terrorism and "fire-following" losses, or property losses resulting from fires caused by terrorist acts. Many states mandate minimum coverage standards for fire-related losses, which observers note lessens the impact of terrorism exclusions.

'We've seen some insurers submit the cover' in response to fire-following mandates.

*Robert Howe
Marsh Inc.*

According to Willis' Ms. Douglass, after implementing terrorism exclusions on property policies, many insurers "awoke to the fact that 29 states have this fire-following provision, and that by putting these exclusions on we've violated statute."

In response, "we've seen some insurers submit the cover," said Robert Howe, managing director in charge of property placement at Marsh Inc. in New York. "Some insurers have adopted a policy of requiring buyers to sign a letter prior to binding the policy recognizing the sublimit."

In addition, "There are some who also have adopted the letter approach...relative to their exclusions," Mr. Howe said.

"We have seen areas where insurers are unwilling to write properties," he continued. "Certainly I myself have seen this here in New York where they refuse to write properties because of the fire-following issues."

"We've taken the position that the fire-following provision would be upheld by the court," said Richard Thomas, senior vp and chief underwriting officer in the domestic brokerage group of American International Group Inc. in New York. "So when we look at this cover, even if you're excluding (terrorism), you could be providing coverage for fire following the event."

In nonindustrialized states, Mr. Thomas said, many insurers are willing to provide property coverage up to their net capacity without exclusions. But many reinsurers are unwilling to provide coverage to those insurers without terrorism exclusions.

Some insurers "understand that they need to continue to write business," Ms. Douglass said. "And they cannot reject all their middle-market account business by putting terrorism exclusions on."

And some insurers will provide terrorism cover as part of all-risk coverage, she said, though policyholders with large risks, "with a few exceptions, are not able to get it."

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Injuries: Index lists most costly

Continued from page 3

of all workers comp accidents, in 1999.

Karl Jacobson, a Liberty Mutual senior vp and one of the authors of the Safety Index, said that he wasn't surprised that repetitive motion injuries were a top priority for risk managers in 2001, given the heightened publicity surrounding the debate at the time over a federal ergonomic standard.

He noted, however, that employers may need to realign some of their workplace safety priorities if they are directing their resources at preventing causes of loss other than ones that produce more expensive injuries.

"This is all-industry data," Mr. Jacobson said of the Workplace Safety Index, which does not break out data by industry. "Each business should understand its own loss drivers," he said.

To produce its Workplace Safety Index, Liberty Mutual identified the top 10 leading causes of disabling workplace injuries and their associated direct costs using its own claims and data from the Bureau of Labor Statistics and the National Academy of Social Insurance, a Washington-based nonprofit and nonpartisan research.

After overexertion, "falls on the same level" was the second-most costly workplace injury in 1999,

with estimated direct costs of \$4.6 billion nationwide, or 11.5% of the total direct costs of workplace injuries nationwide.

In Liberty Mutual's 2001 Executive Survey, however, risk managers ranked falls on the same level as their seventh-biggest safety concern.

The next eight leading causes of disabling workplace injuries in 1999 and their direct costs, in descending order, were:

- "Bodily reaction," such as bending or slipping without falling, \$3.8 billion.
- "Falls to lower level," such as from a ladder or scaffold, \$3.7 billion.
- Being struck by an object, \$3.4 billion.
- Repetitive motion, \$2.7 billion.
- Highway accidents, \$2.4 billion.
- "Being struck against an object," such as a worker walking into a door frame, \$1.7 billion.
- Becoming caught in or compressed by equipment, \$1.6 billion.
- Exposure to temperature extremes, \$400 million.

The causes of injury that comprise the Top 10 list remain unchanged from Liberty Mutual's first Workplace Safety Index, which tracked 1998 data and was released last year (*BI*, Feb. 26, 2001).

The 10 leading causes of disabling workplace injuries identified in this year's index together accounted for \$34.6 billion, or 86.3% of the estimated \$40.1 billion in total wage and medical payments paid in 1999. The 1999 total is 3.6% higher than the \$38.7 billion in total wage and medical payments for workplace injuries in 1998. Mr. Jacobson attributed the increase to medical inflation.

When indirect costs, such as those associated with lost productivity and overtime, are added to direct costs, the Workplace Safety Index estimates the total financial impact of all workplace injuries to be as much as \$240 billion for 1999.

Liberty Mutual will be releasing the full findings of its 2002 Workplace Safety Index at the Risk & Insurance Management Society Inc.'s annual convention in New Orleans, April 15-18. It also will be available on Liberty Mutual's Web site, www.libertymutual.com.

Congratulations to Jorge Luzzi on receiving the Dorothy and Harry Goodell Award

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WTC victim's family seeks \$50 million from airline, guards

By DOUGLAS McLEOD

NEW YORK—American Airlines Inc. and an airport security firm have been hit with a \$50 million lawsuit by the family of an investment manager killed during the Sept. 11 terrorist attack on the North Tower of the World Trade Center.

Thomas J. Smithwick filed the suit Monday on behalf of his wife, Bonnie Shihadeh Smithwick, a portfolio manager with Fred Alger Management Co. who was working on the tower's 93rd floor when it was struck by American Flight 11. Ms. Smithwick survived the initial impact and called her husband on a cell phone but was killed when the building collapsed, according to the suit.

In addition to American, the complaint, filed in U.S. District Court in New York, names Globe Aviation Services Corp., which handled airport security for American at Logan International Airport in Boston, where the flight originated. The suit seeks \$50 million in compensatory damages and unspecified punitive damages for negligence, wrongful death and pain and suffering.

Ms. Smithwick's estate would not

be eligible to receive benefits from the federally created Sept. 11 Victim Compensation Fund because she had large life insurance policies that would offset any amounts recoverable from the fund, according to John Q. Kelly, a partner with Kelly & Balber in New York, which is representing the estate.

Many other survivors of World Trade Center victims are holding off decisions on whether to sue or participate in the fund.

James P. Kreindler, a lawyer with Kreindler & Kreindler in New York, which represents 175 victims' families, said many of his clients have life insurance and other sources of compensation that could drastically reduce their recoveries from the fund. Nevertheless, Mr. Kreindler said, his clients are waiting to see whether actual fund payments exceed "presumptive" amounts outlined by the fund's managers before deciding whether to sue.

One problem with suing the airlines, Mr. Kreindler noted, is that the \$1.5 billion to \$2 billion in insurance coverage each airline carried would not be enough to cover a deluge of such claims. Global Aerospace Underwriting Managers Ltd. in London led the American program.

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Bush: Renewed push for terror coverage aid

Continued from page 1

consumers," Sen. Christopher Dodd, D-Conn., told the Independent Insurance Agents of America Inc.'s national legislative conference in Washington last Friday.

Sen. Dodd has been one of the chief proponents of having the federal government act as a backstop for the insurance industry to help

guarantee payment for future terrorism claims. He stressed that the issue of terrorism insurance is not a bailout for insurers—which he said would survive without it—but, rather, a case of being prepared for losses from future attacks. Although the House passed a terrorism insurance bill in November, the Senate has been bogged down over the

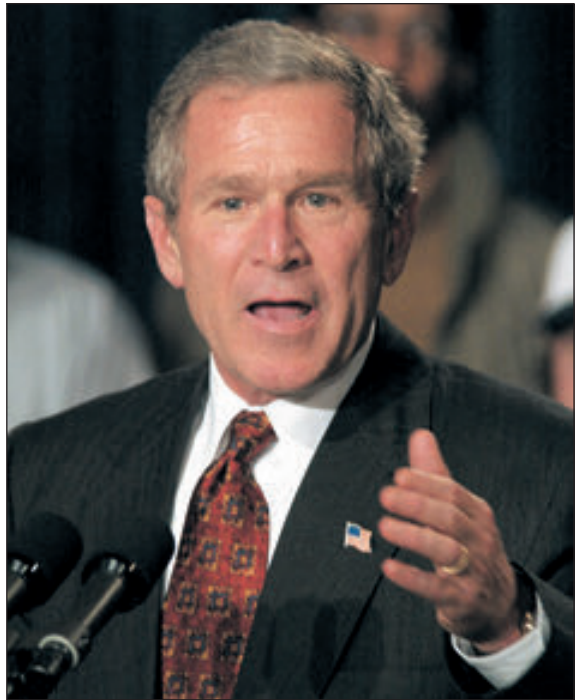


PHOTO: ALEX WONG/GETTY IMAGES

President Bush last week urged the Senate to act on legislation to help insurance companies pay future terrorism claims.

question of whether any terrorism insurance measure should also be a vehicle for tort reform measures.

Sen. Dodd, who has supported targeted tort reform in the past, said that he didn't believe terrorism insurance legislation should be such a vehicle if doing so would endanger its chances of passage. If the measure can be divorced from tort reform, "I believe we can do it in the next two weeks," he said.

That opti-

mistic timetable followed President Bush's call for action.

"We need to do something on terrorism insurance," said the president in an address last week in the Eisenhower Executive Office Building, next to the White House. "This is an issue that I don't think a lot of Americans understand very well, and we're going to use this opportunity to explain it," he said.

Flanked by members of the building's trades unions, President Bush said that the issue of terrorism insurance must be dealt with "in a hurry" because banks and investors will not finance projects that don't have terrorism coverage.

The president then noted that nonresidential construction has dropped this year, and he cited examples of projects that have been held up due to lack of coverage.

In particular, the president referred to a planned Hyatt Corp. office building project in Chicago that he said had been put on hold because the company could not get financing due to a lack of terrorism coverage. Mr. Bush also mentioned an unnamed \$2 billion resort project in Nevada that has been delayed because terrorism coverage is not available.

President Bush also cited the impact of the terrorism insurance crisis on the transportation industry, charities and pension funds. After pointing out that the House of Representatives has already passed leg-

islation that would allow the federal government to lend money to insurers to help cover terrorism-related losses, the president called on the Senate to follow suit in passing a terrorism insurance bill.

"This is a bill that helps workers and helps strengthen our economy. This is an important piece of legislation. I've heard some talk on Capitol Hill that the facts don't justify this type of legislation, the facts don't justify the federal government stepping in as a stopgap. They're not looking at the right set of facts, as far as I'm concerned," President Bush said.

Insurance industry representatives applauded the president's approach to the issue.

Kenneth Padgett, a managing director of Marsh USA Inc. in New York, praised Mr. Bush for linking the shortage of terrorism insurance with jobs.

"I think they got down to the central issues," said Bernard L. Hengesbaugh, chairman and chief executive officer of Chicago-based CNA Financial Corp. and president of the American Insurance Assn.

Vince Donnelly, the president and chief operating officer of PMA Insurance Group of Blue Bell, Pa., said the president's speech left him "cautiously optimistic" that the Senate would act.

"We're very appreciative of the administration for attempting to move the process forward," said

David Farmer, senior vp in the Washington office of the Alliance of American Insurers. "We look forward to the beginning of a serious discussion of the merits of the program and are hopeful that the end of this process will produce a backstop for insurers that is needed to restore stability to insurance markets."

Meanwhile, the Consumer Federation of America and Consumers Union called upon the president to end his support for terrorism insurance legislation and encourage the use of private alternatives, such as expanded risk retention groups, to provide coverage.

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OSHA: Voluntary guidelines outlined

Continued from page 1

istration plan. Among other things, the Clinton plan would have required employers to comply with a so-called "worker restriction protection" provision. Under that provision, an employer would have had to pay a worker who could not work due to a musculoskeletal disorder 90% of his or her wages and 100% of benefits for up to 90 days from the time the employee was removed from the job.

Employers blasted that and other provisions of the rule as too costly, too rigid, ill-grounded in science and constituting possibly illegal federal intrusions into state-regulated workers compensation systems.

Insurers and employer groups filed several lawsuits to block implementation of the ergonomics rule, and, in March 2001, Congress took the unprecedented step of invoking the Congressional Review Act to rescind the rule. The congressional action also prohibited OSHA from issuing any substantially similar rule in the future.

The new proposal drew stinging criticism from the AFL-CIO, which had vigorously supported the Clinton administration's approach.

"After over a year of delay, the administration has today announced a meaningless measure that yet again delays action and provides workers with no protection against ergonomic hazards—the nation's biggest job safety problem," said AFL-CIO President John J. Sweeney in a statement released after Ms. Chao's announcement.

Mr. Sweeney promised that the labor federation would continue to fight for tougher regulations and "will seek action from the Congress to keep its commitment to protect workers and pass legislation to require a new ergonomics standard."

But employer and insurer reaction was much more positive.

The Risk & Insurance Management Society

Inc. is "cautiously optimistic that the guidelines being developed to reduce and prevent ergonomic injuries will meet the needs of both employers and employees," said Michael D. Phillipus, RIMS vp-external affairs.

"The announced OSHA approach includes many of the principles championed by RIMS and other groups at the hearings last summer, including preventing injuries, using sound science, avoiding a one-size-fits-all approach and promoting cooperation between employers and OSHA," said Mr. Phillipus, who is also manager-risk management for Houston-based Pennzoil-Quaker State Co.

"We think that the plan outlined by the Secretary of Labor has great promise, because it will rely on voluntary guidelines and targeted enforcement and it is clearly superior to unworkable standards, excessive intrusion in state workers compensation statutes and endless record-keeping," said David Farmer, senior vp in the Washington office of the Alliance of American Insurers.

"AIA is happy with the Department of Labor's approach on ergonomics," said John Savercool, vp-federal affairs for the AIA. "The guideline won't be out for another six to eight months, so we don't know what will be in the guidelines, but we do like the general approach of voluntary guidelines." Mr. Savercool said the insurer group also likes the proposal "for seeking a more-aggressive outreach to the affected business community on reducing ergonomics injuries."

Mr. Savercool added that the action may also give impetus to Senate legislation, crafted by Sen. John Breaux, D-La., after last year's rescinding of the first rule, to promulgate a new ergonomics rule. "Obviously, a rule is a higher standard than a set of voluntary guidelines, and AIA will be active during the consideration of this bill," he said.

The U.S. Chamber of Commerce, however, counseled caution on the new proposal.

"With researchers on all sides scratching their heads about the causes of these types of injuries, we must take the time to craft rules without sacrificing science," said Randel Johnson, the Chamber's vp-labor policy, in a statement after the April 5 announcement. "It remains to be seen how new and increased enforcement under these guidelines will play out, but, overall, the Department of Labor has proposed a balanced approach."



PHOTO: PICTURE DESK PHOTOS/JAY MALLIN

John L. Henshaw, head of the Occupational Safety and Health Administration, will spearhead Bush administration plans to develop voluntary safety guidelines and targeted enforcement efforts.

Products & Services



Online public record information service

DAYTON, Ohio—LexisNexis has introduced a subscription-based information service that risk managers and others can use to access public records.

LexisNexis Insurance Solutions is a Web-based system that allows users to: verify information about people and businesses; identify assets, aliases and affiliations; and uncover judgments and liens. The system is designed for use by risk management professionals, insurers, special investigative units, fraud units and others who need access to public records.

The system's SmartLinx feature can gather information from more than 1.6 billion public records and generate a single comprehensive report. The tool quickly compiles the information, replacing a process that can take hours or days, according to Dayton, Ohio-based LexisNexis.

The system also provides access to industry-specific and general news content from local and regional business journals, state wire services and other news outlets.

More information is available from LexisNexis at 800-543-6862 or at www.lexisnexis.com/insurance/solutions.

Risk assessment software for boiler and machinery

RICHMOND, Va.—A new software program aims to help risk managers control boiler and machinery losses.

Accident Inspection Specialists Inc. of Richmond, Va., is offering The Equalizer, a risk assessment program that measures the likelihood of worker injuries and potential losses from boiler and machinery equipment. The free software allows risk managers and other safety professionals to prioritize safety recommendations, compare loss control methods, benchmark approaches and perform other functions.

"When considering boilers and pressure vessels, we know there are several levels of risk, the most important being the worker," said a statement issued by AIS President

Roland O'Brien-Bills.

The Windows-based CD-ROM software can be ordered by calling Accident Inspection Specialists at 800-249-0959. There is no charge for the software; shipping is \$9.95.

New IFEBP book on benefit issues

BROOKFIELD, Wis.—Health care concerns such as the rising cost of care, fraud and drugs are among the key topics in "Employee Benefit Issues—The Multiemployer Perspective, Volume 43."

The book, recently published by the International Foundation of Employee Benefit Plans, also includes information on legislation that affects retirement plans.

Getting the best return on health care dollars is one focus of the book, which also addresses investment issues for participant-directed plans, technology concerns and Internet resources, and topics related to public plans.

Copies of the book are available for \$38 to members of the foundation or \$45 for others, plus shipping. The book can be ordered by calling the IFEBP at 888-334-3327 and selecting option four, or by calling 262-786-6710, ext. 8240. More information is available at www.ifebp.org.



Wausau Benefits online system

WAUSAU, Wis.—Wausau Benefits' new online service provides employers, benefit plan members and health care providers quick access to information regarding medical and dental benefits and claims.

By clicking on www.wausaubenefits.com, users have access to several online services that provide

information on areas including claims, enrollment, eligibility and benefits. Wausau Benefits Online Services also allows employers and members to order replacement identification cards.

Members "enjoy having instant answers to their questions right at their fingertips," said a statement provided by Candice Davis, human resources administrator for Dolan Media Co., which uses the service.

The service allows employers to access monthly reports containing health plan performance measures. Employers also can offer a feature that allows employees to access information regarding their flexible spending accounts.

More information is available at the site.

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Grocery chain hit with \$30 million award

A San Diego jury has awarded \$30 million in punitive damages to six current and former female employees of an Escondido, Calif., Ralph's Grocery Co. store in a sexual harassment case. In 1998, a jury had originally found Ralph's liable for gender harassment and failure to prevent gender harassment, and it awarded the six women \$550,000 in compensatory damages and \$3.3 million in punitive damages. A judge, ordered a new trial to determine punitive damages, though, on the grounds of juror misconduct.

Judge delays ruling on Andersen assets

A federal judge in Houston has delayed until April 17 a decision on a motion to bar Chicago-based Arthur Andersen L.L.P. from selling assets to raise cash without prior disclosure to the court. The motion, filed earlier this month by American National Insurance Co. and several other insurers in connection with a civil lawsuit over Enron Corp.'s collapse, also seeks to bar Andersen from releasing partners and employees who quit the firm from noncompete agreements.



PHOTO: KRT

Gerling Global Re cutting 70 jobs in U.S.

Gerling Global Reinsurance Corp. of America is cutting its workforce by 70 positions as part of a restructuring of its casualty operations. The U.S. unit of Cologne, Germany-based Gerling Global Re said it is consolidating some head office functions and reducing staff in

its casualty reinsurance department. The reorganization follows poor 2001 results.

P/C insurers' combined ratio worsens in 2001

The Sept. 11 terrorist attacks, the failure of Enron Corp. and increasing toxic mold claims all contributed to a deterioration in U.S. property/casualty insurers' combined ratio last year, according to A.M. Best Co. The rating agency found that the companies' aggregate combined ratio for 2001 worsened to 115.8% from 110.4% in 2000. As a group, the 25 largest property/casualty insurers posted a 118.2% combined ratio, compared with 110.4% for 2000.

Louisiana oil spill self-insured

An oil pipeline that ruptured in a Louisiana lake has spilled around 90,000 gallons of crude oil into the water. The pipeline, operated by BP Pipelines N.A., a Lisle, Ill., unit of British Petroleum P.L.C., was patched on April 6 after the rupture was discovered earlier that day in Little Lake, near Lafitte, La. A spokesman for BP Pipelines said that the oil company estimates that it so far has incurred about \$500,000 in expenses from cleanup efforts and the cost of the lost oil. He said the costs would likely be covered under British Petroleum's self-insured program.

Moody's warns of more downgrades

Past losses are likely to outweigh recent rate increases in determining the ratings of commercial insurers, according to a report by Moody's Investors Service. Asbestos liabilities, increasing losses from the Sept. 11 terrorist attacks and other claims from previous years could continue to damage the financial strength of insurers, the rating agency said. Moody's likely will issue more downgrades than upgrades of

commercial insurers in 2002, the report said.

P/C rates up 31% in March: Survey

Annual property/casualty insurance rates increased by an average of 31% in March, according to a survey of renewals by Internet-based distribution company MarketScout Inc. However, some lines of coverage, such as nursing homes liability, product liability and coastal property, are seeing 60% to 70% increases, the company said. MarketScout's findings are based on information from 13,000 agents who use the online service.

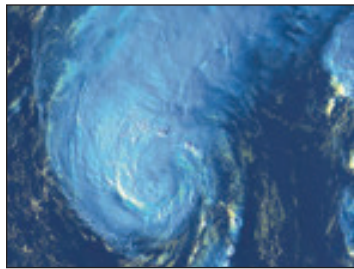


PHOTO: NOAA

Above-average hurricane season predicted

The Atlantic Coast and Gulf states will likely see above-average hurricane activity in the 2002 season, according to an updated analysis released by Colorado State University's hurricane forecast team. The update predicts that 12 named storms will form during this year's hurricane season. Seven of the storms will become hurricanes, and three of the hurricanes will develop into major hurricanes. In contrast, average annual hurricane activity during the period from 1950 to 2000 has been 9.6 named storms and 5.9 hurricanes, 2.3 of which have become major hurricanes.

Consumer-driven health plan to launch

Health Net Life Insurance Co. and Vivius Inc. have teamed up to offer a consumer-driven health plan that will debut this month. The plan, initially to be offered in Spokane, Wash., is called USelect and allows plan members to select their own doctors from a network, along with the co-payment levels for physician and hospital visits. About 70% of the medical providers in Spokane have

agreed to participate in the plan, according to a Vivius statement.

Brown & Brown sees double-digit gains

Acquisitions, rate increases and new business all contributed to double-digit revenue and profit growth at Brown & Brown Inc. in the first quarter of 2002. The Daytona Beach, Fla.-based broker reported a 24.2% increase in revenues to \$111.0 million for the first quarter. First-quarter profits soared to \$20.2 million, a 56.6% rise.

Briefly noted

The **Oath for Louisiana Inc.**, a New Orleans-based health maintenance organization with 82,577 members, has been placed in rehabilitation. The Louisiana Insurance Department issued a statement saying the HMO is insolvent and regulators are working to determine the plan's assets and liabilities. Of the HMO's members, 70,773 belonged to employer-based group plans....The Australian government has extended its **aviation war risk coverage** until the end of April. Australia, like many other countries, stepped in to

provide government-backed coverage for airlines and airports after the commercial market severely contracted following the Sept. 11 terrorist attacks....**Leucadia National Corp.** announced it will ask its shareholders to approve a reorganization of the company that will take it to Bermuda from New York. The company also is seeking shareholder approval to amend its charter to lower the number of votes it needs to approve the move. Leucadia is a New York-based holding company involved in numerous business, including property/casualty insurance and reinsurance....Legislation has been enacted in Iowa and Indiana and Maine to amend laws in those two states to conform to provisions of the Economic Growth Tax Relief and Reconciliation Act that allow employees 50 and older to make **catch-up contributions to their 401(k) plans**. Such bills also have been passed by legislators this year in Idaho and West Virginia, and several other states are considering similar measures....**ECS Underwriting Inc.** has been renamed **XL Environmental Inc.** XL Capital Ltd. bought the Exton, Pa.-based underwriting manager in 1999.

Online Poll [4/8 - 4/12]

Should the federal Risk Retention Act be amended to allow buyers to cover their property exposures through risk retention groups?

Yes

68.85%

No

31.15%

Take part in our weekly poll at www.businessinsurance.com.

BI Stock Index [4/8 - 4/12]

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
2374.64

Dow Jones
10,190.82

S&P 500
1111.01

Largest gains

Odyssey Re Holdings 13.51%
Argonaut Group 12.78%
Navigators Group 9.32%
Selective Insurance Group 7.67%
Brown & Brown 6.90%

Largest losses

Gainsco Inc. -45.71%
Vesta Insurance Co. -9.59%
Seibels Bruce Group -4.19%
Acceptance Insurance -3.40%
Citigroup -3.23%

Weekly change by market segment

Brokers 2.72%
Insurers/Reinsurers 1.28%
Managed Care Organizations 2.19%

Source: CNET Investor (investor.cnet.com)

Market: Conditions still tough

Continued from page 3

For large national accounts, 2003 renewals "should be pretty flat," Mr. Brogan said.

Marsh is seeing general liability rates increasing 15% to 30% this year, up from increases of 7% to 12% last year, Mr. Brogan said, while commercial auto prices are increasing 20% to 40% this year, up from increases of 10% to 15% last year.

The excess casualty market is "firm to hard," Mr. Brogan said, with increases of 65% to 85% this year and a wide variation of rate hikes based on the class of business. In the directors and officers liabil-

ity insurance market, rate increases of 30% are the norm for "plain vanilla" exposures, said David S. Nikolai, a senior vp at Marsh and financial and professional insurance product practice leader in Chicago. But, "If you're talking about high-tech, the premiums are going up anywhere from 50% to 300%," he said.

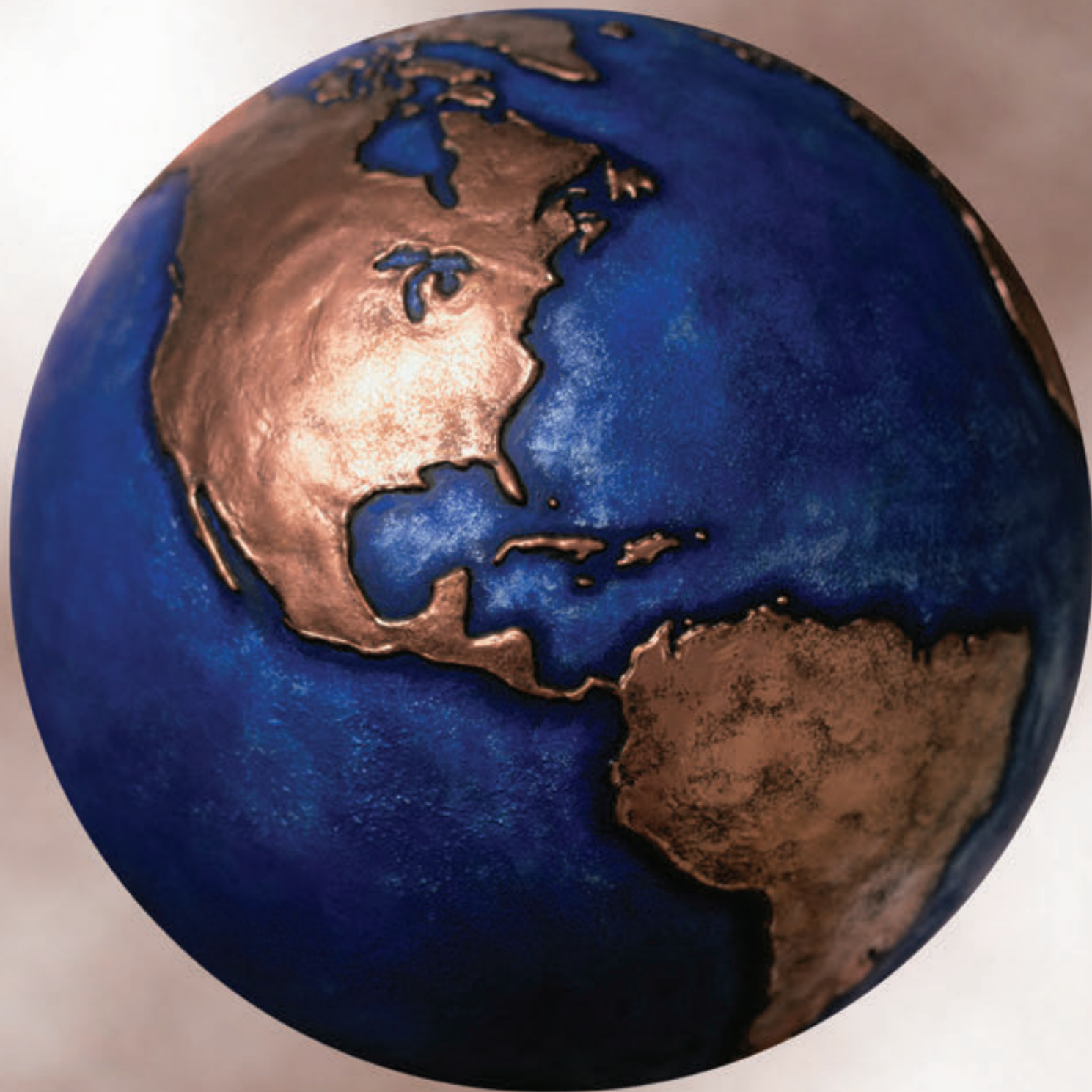
Employment practices liability rates were up 20% to 40% at Jan. 1 renewals, Mr. Nikolai said, largely as a result of the severity of court awards.

In surety lines, the Enron debacle "has removed quite a bit of capacity from the marketplace," Mr. Nikolai

said. Buyers might now have to go to five or six markets to assemble capacity they could previously obtain from one, he said, and they should expect underwriters to demand collateral.

In the environmental liability market, although Sept. 11 did not have a direct impact on the market, the resultant tightening of the reinsurance market is having an indirect impact on that market, with rates rising 5% to 10%, according to Michael McGinn, a senior vp and Marsh Midwest environmental practice leader. Still, "the market's healthy," he said, with numerous players.

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