

**Berkshire Hathaway pays \$825 million for GE med mal unit / 3**

**Health savings accounts see rapid growth in past six months / 3**

**May 9, 2005 \$5**

# Business Insurance

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## Probes trigger restatements

### Inside:

■ **AIG restates four years of earnings, and blames former top executives for the problems**  
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■ **Maurice R. Greenberg issues stinging rebuke to AIG board's comments about "former senior management."**  
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### *AIG, others reassessing finite deals*

By **JUDY GREENWALD**

The financial restatements announced last week by American International Group Inc. and CNA Financial Corp., which stemmed at least in part from greater scrutiny of financial reinsurance transactions, will be far from the last such moves, observers predict.

Indeed, more insurers are likely to put their books under scrutiny, observers note, and the result will be more restatements, some of them motivated by a desire to pre-empt regulatory action.

Because of this and other factors, Fitch Ratings' expectation was that 2005 "would be the year of restatements," said Julie Burke, Chicago-based managing director at the rating agency.

Meanwhile, subpoenas continue to be issued

as investigators widen their probe of nontraditional insurance. Both XL Capital Ltd. and New York-based insurer Assurant Inc. announced last week they had each received an SEC subpoena as part of an inquiry into "certain loss mitigation insurance products." Similar requests were also reported by GE Insurance Solutions and Hannover Reinsurance Co.

While AIG and CNA both reported restatements last week, AIG's, which had been signaled earlier this year, was of a much greater magnitude (see story, page 26).

The embattled New York-based insurer said it would restate more than four years of financial reports, cutting \$2.7 billion from its shareholder

See **RESTATEMENT**/page 26

### Late News

#### **FBI eyeing industry accounting practices**

Prompted by state and federal investigations of American International Group Inc., the FBI has undertaken a preliminary inquiry into whether a pattern of questionable accounting practices exists in the insurance industry, FBI officials say. The effort represents a "proactive look at the industry" rather than a formal investigation, according to an FBI spokesman, who noted that the FBI is not investigating AIG. FBI agents met last week with representatives of the New York Insurance Department and the National Assn. of Insurance Commissioners.

#### **Hub expands With THB buy**

Chicago-based insurance broker Hub International Ltd. is entering the reinsurance brokerage market through its acquisition of THB Intermediaries Inc. THB, which is independent, formerly was owned by Near North National Group Inc., whose brokerage operations Hub previously tried to acquire. Terms were not disclosed. THB, which specializes in facultative and program reinsurance, has annual revenues of nearly \$6 million, according to Hub. Richard DiClemente will continue as president and CEO of THB.

#### **Florida OKs criteria for asbestos claims**

Florida's Legislature has approved a bill that would require claimants alleging asbestos- or silica-related injury to meet specific medical criteria before pursuing their claims. The Asbestos and Silica Compensation Fairness Act of 2005-H1019—also requires that claimants be Florida residents or be able to prove that their exposure to asbestos or silica occurred in Florida before filing a  
See **LATE NEWS**/page 27

## WellPoint buys Lumenos in drive for CDHP market

By **RUPAL PAREKH**

**INDIANAPOLIS**—The nation's largest health insurer, WellPoint Inc., moved last week to further strengthen its foothold in the consumer driven health care market through its purchase of CDHP pioneer Lumenos Inc.

The \$185 million acquisition is the first WellPoint has announced since its completion of a multi-billion dollar merger with Indianapolis-based Anthem Inc. in November. It also comes on the heels of competitor UnitedHealth Group's purchase late last year of Minneapolis-based Definity Health Corp. in a \$300 million cash deal (BI, Dec. 6, 2004).

The WellPoint-Lumenos marriage is a mutually advantageous one, industry sources say, allowing Indianapolis-based WellPoint to buy into the consumerist niche through a known provider, while giving Alexandria, Va.-based Lumenos a capital boost and a massive platform for its prod-

See **WELLPOINT**/page 25

## Ex-Marsh execs raise cash to start large-client broker

By **SALLY ROBERTS**

**NEW YORK**—Renowned insurance company builder Robert Clements' latest venture—New York-based insurance brokerage Integro Ltd.—is getting off the ground after securing more than \$300 million in a private securities placement late last week.

The brokerage, which will be run by Mr. Clements and former Marsh Inc. executives Roger E. Egan and Peter F. Garvey, is targeting large accounts with complex risks and specialized insurance needs on a global basis.

That market segment, Integro's executives say, is being served only by the world's three largest insurance brokerages currently—all of which have been burdened by numerous investigations into their business practices, class action lawsuits and hefty settlements with state attorneys general.



**Robert Clements**  
Integro Ltd.

*"We wouldn't be doing this if we hadn't been encouraged...by large users of insurance who would like more choice."*

Since late January, Marsh & McLennan Cos. Inc., Aon Corp. and Willis Group Holdings Ltd. have agreed to pay more than \$1 billion back to policyholders in combined restitution and to change their business practices to settle allega-

tions that they steered business to favored insurers to maximize their contingent commissions.

See **INTEGRO**/page 22

### Spotlight

## Enterprise Risk Management



Begins on page 9

## Ranking: Risk Management Consultants

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## Inside

### Warren Buffett defends finite risk coverage

Berkshire Hathaway Inc.'s chief defended the company's use of finite risk to his shareholders.

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### Workers comp insurers see improved results

According to NCCI data, workers compensation insurers are reporting lower combined ratios.

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### Ask a casualty actuary

What types of claims have the greatest need for an actuarial reserve?

Page 6

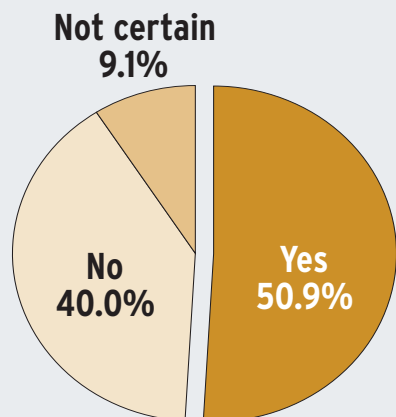
### HSAs are a viable option

HSAs should be seriously considered by employers, an editorial argues.

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### Online poll - [ 5/2 - 5/6 ]

Do you think legislation creating a national no-fault trust fund to compensate victims of asbestos-related disease will win congressional approval this year?



Participate in BI's online polls at [www.businessinsurance.com](http://www.businessinsurance.com).

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### REPORTING ON CORPORATE RISK AND EMPLOYEE BENEFIT MANAGEMENT NEWS

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# GE cutting insurance stakes with sale of unit to Berkshire

By RUPAL PAREKH

**KANSAS CITY, Mo.**—General Electric Co.'s decision last week to sell its Medical Protective Corp. to Berkshire Hathaway Inc. unit National Indemnity Co. is part of GE's strategy to reduce its insurance holdings.

In a statement announcing the sale, valued at \$825 million, GE Chairman and Chief Executive Officer Jeff Immelt said, "GE is taking another step in our plan to reduce our exposure to insurance while maximizing value for investors."

Under terms of the deal, expected to close June 30, Omaha, Neb.-based National Indemnity will acquire the Fort Wayne, Ind.-based medical liability insurer, which wrote gross premiums of \$737 million in 2004, Berkshire Hathaway and GE Insurance Solutions said in a joint statement. Medical Protective's primary operations will stay based in Fort Wayne, and its management and staff of 330 will remain intact, the companies said.

The announcement came days after Berkshire Hathaway Chairman Warren Buffett signaled an acquisition was in the works during Berkshire's annual meeting (see story, page 4).

Analysts were not surprised by the deal. While medical malpractice is a new line of business for Berkshire Hathaway, "I don't think it's an unusual acquisition," said Don Thorpe, senior director, insurance at Fitch Ratings in Chicago.

Berkshire Hathaway likes insurance and "float," he said, referring to premiums that insurers can invest before using the funds to pay claims. Berkshire Hathaway's other insurance holdings include General Re Corp. and GEICO Corp.

Following the announcement, Standard & Poor's Corp. put its A rating of Medical Protective under review for possible upgrade. Damien Magarelli, an S&P director in New York, said Medical Protective is already a leader in the medical liability segment, due to "ef-

fective distribution, disciplined underwriting and strong earnings." But, "we expect that Berkshire Hathaway Inc. will support Medical Protective's capital position and capital base."

"Warren Buffett always looks for transactions that are economically favorable," said Yvonne Bernard, managing senior financial analyst at Oldwick, N.J.-based A.M. Best Co.

Although Mr. Immelt noted GE wants to reduce its insurance holdings, it remains unclear whether that means a desire to exit the business.

A spokesman for GE Insurance Solutions would say only: "GE has been clear that it is on a path to reduce its exposure to insurance. The sale of Medical Protective is another step on that path."

The spokesman declined to comment on whether deals are in the works to sell GE's other insurance units, which include Employers Reinsurance Corp., GE Frankona Re and Westport Insurance Co.

## HSA enrollment rockets in past six months

*Large employers lead growth rate as businesses seek to cut costs*

By JERRY GEISEL

Led by a more than twelfold increase in enrollment by employees working for larger businesses, the number of people with health savings accounts linked to high-deductible insurance plans has more than doubled in six months, according to a survey.

The survey, based on responses from 99 members of the Washington-based trade association America's Health Insurance Plans, found that as of March 2005, about 1.03 million people were enrolled in HSA high-deductible plans, up from 438,000 in September 2004.

While enrollment leaped in all

parts of the market, HSA growth, measured by percentage increase, was greatest among employers with more than 50 employees. As of March, 162,000 people were enrolled in HSA products offered by employers with more than 50 employees, up from just 13,000 in September 2004.

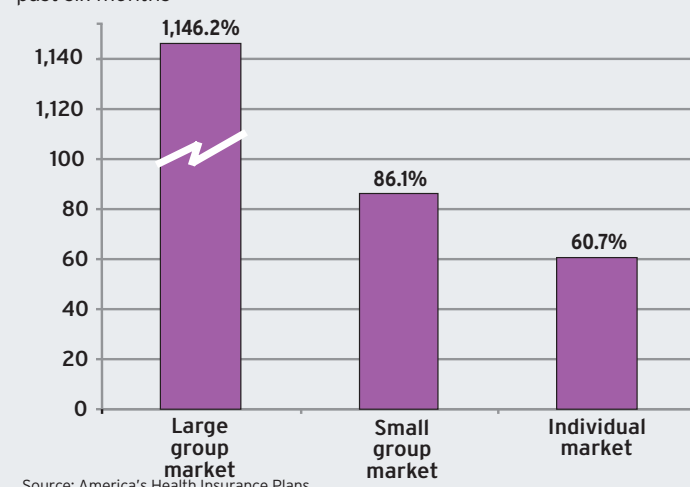
During that same six-month period, HSA enrollment in the small-group market—businesses with 50 or fewer employees—nearly doubled, to 147,000 from 79,000, and in the individual market, enrollment swelled to 556,000 from 346,000.

HSAs, authorized by Congress under a 2003 law, have been

See HSA / page 24

### Increase in members

Percent increase in covered lives with health savings accounts in the past six months



## Sears to end defined benefit pension

*Retailing giant cites uncertainty, competition as reason for move*

By JERRY GEISEL

**HOFFMAN ESTATES, Ill.**—Sears Holdings Corp. is phasing out its defined benefit pension plan.

Benefit accruals in the \$2.5 billion plan covering the Sears Roebuck & Co. operating unit will cease as of Jan. 1, 2006, with employees receiving coverage under a revamped 401(k) plan.

The cessation of benefit accruals comes on the heels of a major pension plan change that Sears announced last year and that became effective Jan. 1, 2005. Under that change, current employees 40 and older had the choice of continuing to earn benefits in the defined benefit plan plus a 401(k) plan or they could opt into an enhanced 401(k) plan. New employees and employees under age 40 could participate only in the enhanced 401(k) plan.

One factor driving the latest change is that offering a defined benefit plan has become "an unacceptable risk" due to the volatility of the cash funding requirements, a spokesman



PHOTO: ZUMA PRESS

Sears employees will be moved from a defined benefit plan to a revamped 401(k) plan.

for Hoffman Estates, Ill.-based Sears said.

Competitive pressures also were a factor, with few of Sears' competitors offering a defined benefit plan, making the provision of such a plan "competitively unsustainable," the spokesman said.

Additionally, employees increasingly are interested in more portable benefit programs such as 401(k) plans rather than traditional plans, the spokesman said.

Under the 401(k) plan that Sears will offer next year to all eligible employees, the company will match 100% of employees' salary deferrals up to the first 3% of pay and 50% of employees' pretax contributions on the next 2% of pay.

Other major employers that have, over the past year or so, moved away from defined benefit plans include Motorola Inc., IBM Corp., NCR Corp. and Aon Corp.

# Compensation scandal fallout hurts first-quarter results at Marsh, Aon

By SALLY ROBERTS

Growth continues to be a challenge at the world's two largest brokerages as they move forward with new business models in the wake of their settlements with state authorities over the illegal use of contingent commissions.

Dramatic decreases in contingent commission revenue, in addition to the lack of new and retained business and the softening property/casualty pricing environment during the first quarter of 2005 took a bite out of Marsh & McLennan Cos. Inc. and Aon Corp.'s brokerage revenues, the companies reported last week.

Revenues from MMC's risk and insurance services segment—which includes risk management services, insurance and reinsurance brokerage services and related insurance services—dropped about 11% to \$1.75 billion in

## Risk, insurance revenues down

The first quarter of 2005 shows a drop in revenues in the risk and insurance segments of both Marsh and Aon.

Marsh	Aon
<b>-11%</b>	<b>-4%</b>
<b>\$1.75 billion</b>	<b>\$1.40 billion</b>

Source: SEC filings

the quarter. Contingent commission revenues, which MMC refers to as market service revenues, declined \$179 million to \$32 million in the quarter. These revenues represent what MMC was owed on 2004 contracts with various insurers.

MMC ceased collecting contingent commissions last October following New York Attorney General Eliot Spitzer's fraud and antitrust suit against the company. Excluding the loss of MSA revenues, underlying revenues declined 5% in the risk and insurance services segment.

MMC earlier this year settled Mr. Spitzer's suit, agreeing to pay \$850 million in client restitution and to implement various reforms to its business practices (BI, Feb. 7).

In addition to declining revenues, a \$145 million restructuring charge in the quarter contributed to a 70% fall in profits at MMC to \$134 million. A majority of that charge, which comes on the heels of MMC's \$337 million restructuring charge in the fourth quarter of 2004, relates to the elimination of roughly 1,700 jobs, MMC said.

See **BROKERS** / page 25

# Buffett makes the case for finite cover

By GLORIA GONZALEZ

**OMAHA, Neb.**—Finite risk products are a valid and valued form of risk transfer, despite the regulatory scrutiny currently dogging the coverage, said Warren Buffett, chairman and chief executive officer of Berkshire Hathaway Inc.

"There is nothing at all wrong with finite insurance," Mr. Buffett said during the company's annual shareholders meeting on April 30. "We're issuing finite insurance policies every day. And there's nothing wrong, in my view, at all with retroactive contracts."

Mr. Buffett defended the use of finite coverage in response to a shareholder question, one of several related to finite reinsurance.

But while Mr. Buffett made general comments defending finite risk, he would not comment on testimony he gave to officials investigating the use of such products.

New York Attorney General Eliot Spitzer and officials from the U.S. Securities and Exchange Commission

questioned Mr. Buffett last month about a 2000 deal in which a unit of Berkshire Hathaway's General Re Corp. ceded \$500 million in a loss portfolio transaction with a unit of American International Group Inc. AIG has said it accounted improperly for the transaction as insurance.

Given Berkshire Hathaway's involvement in the finite risk market, Mr. Buffett's defense of the products is unsurprising, analysts say.

"Berkshire Hathaway is on the hot seat a little bit because of large amounts of finite reinsurance that (its units) National Indemnity and Gen Re write," said John L. Ward, a Cincinnati-based independent insurance analyst. "Some companies in the past...have misused the product. The products themselves are perfectly acceptable."

"From their perspective, it's been a good product," said Donald Thorpe, senior director, insurance at Fitch Ratings in Chicago.

Whether finite reinsurance remains a key part of the company's portfolio remains to be seen. While analysts do not expect the investigations to have a material impact on Berkshire Hathaway's finances, they wonder whether the company will be able to sell these products as frequently in the future.

If new rules regarding the use of finite risk products are established as a result of the investigations, the rules could make buyers shy away from the products, and that would have a short-term impact on Berkshire Hathaway, Mr. Ward said. But the company would eventually redeploy capital into other lines of insurance, he said.

## Errors & omissions

A story in the May 2 issue, "Drug Chain Trying Another Dose of PBM Business to Compete," contained an incorrect spelling of the name of the president and chief executive officer of the Pharmaceutical Care Management Assn. The correct spelling is Mark Merritt.



**Berkshire Hathaway Inc.'s Warren Buffett said, "There is nothing at all wrong with finite insurance."**

PHOTO: REUTERS

# Comp combined ratios continue to improve

By ROBERTO CENICEROS

**BOCA RATON, Fla.**—Workers compensation insurers' calendar-year combined ratio for 2004 dropped to 105%, a 4-percentage-point decline from a year earlier, according to a "State of the Line" market estimate released last week by NCCI Holdings Inc.

The findings mark the best performance for workers comp insurers since 1997, Boca Raton, Fla.-based NCCI said. Insurers' accident-year combined ratio, meanwhile, continued a downward progression, marking a 45-percentage-point improvement in five years. It now stands at 94%.

Accident-year data is based on accidents occurring in a 12-month period, whereas calendar-year data shows accounting information from many policy years with claim activity affecting one calendar year.

The line is showing other signs of improvement. For example, claim frequency continues to decline, a trend that began in the early 1990s, NCCI reported.

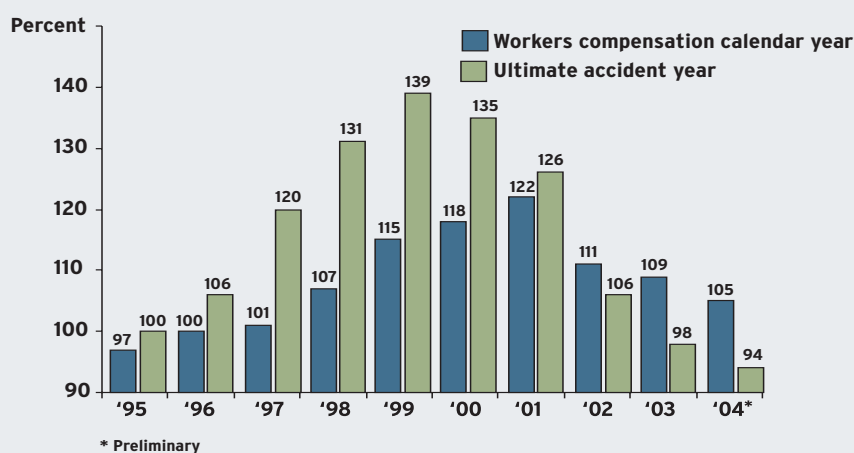
Despite the positive developments, trou-

bling issues remain. Record-low interest rates and mediocre stock market performance, for instance, continue to put downward pressure on the combined ratio need-

ed to make an adequate rate of return, the NCCI noted.

More information is available at [www.ncci.com](http://www.ncci.com).

## Accident year combined ratios on the mend



# Unions balk at United deal with PBGC

By JERRY GEISEL

**LACONIA, N.H.**—The leaders of the union representing United Airlines mechanics have warned that they will likely recommend a strike against the airline if, among other things, United's pension plan covering members of the Aircraft Mechanics Fraternal Assn. is terminated.

"We have no choice but to plan for a strike at some point soon. United is not only destroying our livelihoods but our retirement security," O.V. Delle-Femine, national director of the Laconia, N.H.-based union, said in a statement.

A proposed agreement reached late last month between United and the U.S. Pension Benefit Guaranty Corp. calls for the termination of all four of United's massively underfunded plans, including the one covering mechanics. Under the terms of the agreement, the PBGC would take over the four plans, which have



PHOTO: AFP

**The Aircraft Mechanics Fraternal Assn. has expressed its opposition to United Airlines' plan to terminate the pension plan that covers the company's mechanics.**

See **UNITED** / page 6



By Richard E. Sherman

## Perspectives

### Ask A Casualty Actuary

# Predictive modeling determines need for reserves

May 9, 2005

**Q**: For what types of workers compensation claims is there usually the greatest need for an actuarial reserve to supplement case reserves?

**A**: Medical case reserves for permanently disabled claimants.

A simple hypothetical example should illustrate this effectively. Jeremy's right leg was amputated in 2004 after a work injury at age 55. Suppose his initial artificial leg cost \$1,000. Jeremy's artificial leg must be replaced every 15 years, at about double the cost. According to mortality tables, he is expected to live until he is 78, so the claims adjuster makes a provision for one replacement leg in the case reserve. He builds in an intuitive estimate of the effects of future inflation by setting up \$2,000 rather than \$1,000.

As it turns out, 15 years from now, a much more sophisticated artificial leg will be the norm, so Jeremy will be able to walk much more easily. However, this leg will cost \$4,000, not \$2,000.

Is \$4,000 the best estimate of ultimate payments for Jeremy's claim? Actually not. What is needed is the expected value of future payments. This is obtained by determining what total future payments would be for each reasonably possible scenario and multiplying each estimate by the probability it will come to pass. In Jeremy's case, there are three scenarios.

First, he might die before reaching age 70, so no replacement leg would be needed. Second, he might have his leg replaced at age 70 and then die before reaching 85. And third, he might live beyond age 85, and so need two replacement legs—one at 70 and one at 85.

How much will that second replacement leg cost 30 years from

now? Rather than costing \$8,000, which is twice the \$4,000 cost of the first replacement leg, this second leg will be a technological marvel, with electronic sensors selectively activating plasma shock absorbers to ensure Jeremy a stable footing as he walks. This marvel will cost \$16,000, not just \$8,000.

While the cost of the second replacement leg may seem out of line, it is actually very typical of what has been happening to the cost of medical services and devices over the past several decades. While the cost of the exact same thing has been doubling (inflation of 5% per year) every 15 years, the cost of the newly prevalent form of care has been almost quadrupling (medical cost escalation of 9.7% per year).

Now, back to figuring out the expected value of future medical costs for Jeremy.

According to current mortality tables, there is about a 25% chance of Jeremy dying before 70, a 50%

chance of his dying after 70 but before 85, and a 25% chance of his living beyond 85.

The expected value of future payments has three parts. The first is \$0, which is the absence of any future cost times the probability of 25% that Jeremy will die before 70. The second is \$2,000, which is the \$4,000 cost of the first replacement leg times the 50% probability. The third is \$5,000, which is the cost of both the first and second replacement legs (\$20,000) times the 25% probability of his living beyond 85. Adding these three parts yields an expected value of future medical payments of \$7,000, which is three and one-half times greater than the \$2,000 case reserve set up soon after the initial leg was provided to Jeremy.

In an inflation-free world, the actuarial estimate would equal the claims adjuster's estimate of \$1,000 (one future leg). The expected value would be \$1,000 times 50% plus \$2,000 (two future legs) times 25%, totaling \$1,000. So it is the future escalation of medical costs, coupled with the possibility of Jeremy living beyond 85 that causes the expected value to be three and one-half times the typical case reserve.

Are claims adjusters being conservative because they are assuming a life expectancy that is the same as it would be for the general population? Surprisingly, various studies indicate that, after permanently disabled workers' conditions stabilize, their mortality rates are very similar to, if not lower than, those of the general population. They get better medical care, and they tend to be less subject to the risks and stresses

of the average person.

Two other factors might cause mortality table-based case reserves to be low. First, the actual probabilities of Jeremy dying during each future year would likely be less than a recent table would assume because of the continued effects of improvements in medical science.

Second, if Jeremy were to live beyond 85, he might require in-home medical care because of his lack of mobility. Such costs could be substantial. So the expected value of future payments also should factor in these costs, multiplied by the probability that this situation could arise in the future.

Predictive modeling techniques can help quantify these effects on expected costs and gauge the high level of uncertainty in ultimate costs for these claims.

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

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

*This month's column on actuarial issues in the casualty field is written by Richard E. Sherman, president of Richard E. Sherman & Associates Inc. in Ashland, Ore.*

*Address your questions to ASK, Business Insurance, 360 N. Michigan Ave., Chicago, Ill. 60601. Please give us your name, title and employer; however, Business Insurance will consider unsigned letters.*

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A PUSSYCAT, YOU WOULDN'T  
NEED A BROKER LIKE US.

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## United: Unions balk at deal

Continued from page 4

about \$6.6 billion in PBGC-guaranteed benefits, and would drop all claims against United.

In return, the PBGC would receive United-issued securities, including interest-bearing notes that would have an issued face value of \$1 billion and 5 million shares of preferred stock that the PBGC could later convert into United common stock.

The union representing United flight attendants has issued a similar warning.

A hearing on that proposed agreement is scheduled before a U.S. bankruptcy court judge in Chicago this week.

Meanwhile, financially struggling Delta Air Lines Inc. estimates that, under current federal funding requirements, it will have to contribute about \$3.1 billion to its pension plans between 2006 and 2008.

Delta, in a filing with the U.S. Securities and Exchange Commission, projects funding obligations of \$600 million in 2006, \$950 million in 2007 and \$1.6 billion in 2008. The bulk of those contributions would be for Delta's qualified

pension plans.

Delta pegs its 2005 pension obligation at \$450 million, about half of which it has already contributed.

The Atlanta-based airline says contributions to its plans could be cut if Congress passes a bill recently introduced by Sens. Johnny Isakson, R-Ga., and John D. Rockefeller IV, D-W.Va., that would allow commercial airlines to amortize pension liabilities over 25 years, about five times slower than current requirements for employers with severely underfunded plans.

While Delta says it supports the proposal, it notes it cannot predict whether Congress will act on the measure.

Delta already has taken some steps to control the cost of its pension plans, which are underfunded by about \$5.3 billion. Last year, for example, it reached an agreement with its pilots to stop future benefit accruals for the pilots' plan, effective Jan. 1, 2005.

US Airways Group Inc. already has shed its pension plans, with the PBGC taking over the responsibility to paying about \$3 billion in guaranteed benefits to participants.

## Editorial

# HSA's offer incentives for health care savings

WITH ENROLLMENT MORE than doubling in just six months, it is clear that health savings accounts linked to high-deductible insurance plans are on their way to becoming a major and very welcome option in the health insurance market.

As we report on page 3, a survey by America's Health Insurance Plans found that enrollment in HSA-linked plans leaped to just over 1 million lives as of March, up from just under 440,000 last September, with the most impressive growth occurring in the employer market.

What is remarkable about this growth is its speed. Barely a year and a half has gone by since Congress passed legislation authorizing HSAs and their tax-favored status and only 10 months since the Treasury Department issued sufficient guidance to give employers the comfort level to offer the arrangements.

Often the public, employers and insurers are slow to react to legislative changes. That certainly has not been the case here. Indeed, health insurers are almost tripping over themselves to get into the consumer-driven market, of which HSAs and a somewhat similar plan—health reimbursement arrangements—are a part. Just last week, for example, WellPoint Inc., the nation's largest health insurer, announced it is purchasing Lumenos Inc., a pioneer in the consumer-driven health care market, while United-Healthcare Group, the nation's second-biggest insurer, last year bought Definity Health Corp., another pioneer, to give it a much greater presence in the market.

The rising interest among employers, insurers and individuals in consumer-driven plans is not surprising. For employers, consumer-driven plans, because of their high deductibles, cost a lot less—anywhere between 30% and 40% less—than traditional plans.

For employees, the plans give them a powerful financial incentive to use health care services more carefully. In the case of HSAs linked to high-deductible plans, funds remaining in the account that are not used to pay for uncovered health care expenses, such as those falling under the deductible, can be rolled over year after year to pay for health care expenses in succeeding years.

Additionally, when employees retire, they can withdraw funds tax-free to pay for retiree health care expenses, no small attraction at a time when employer-subsidized coverage is withering away.

These kinds of incentives to use services carefully are almost totally lacking in traditionally designed plans, with their low cost-sharing requirements. No wonder they have become so expensive.

It would be naive to say that consumer-driven plans are a panacea for high health care costs. Obviously, there are many factors—such as medical provider consolidation and the resulting greater leverage these providers have in rate negotiations with insurers—that drive up costs and that consumer-driven plans cannot influence.

But we think the plans can play a significant role in keeping cost increases to more-reasonable levels and that, for this reason, they deserve serious consideration by all employers.

## Letters

## TRIA a violation of the U.S. Constitution

To the editor: There should be no extension of the Terrorism Risk Insurance Act.

If we are at war, then a formal declaration is required. If we are not at war, then the government should not subsidize the insurance industry with claim reimbursements. The U.S. Constitution requires a formal declaration of war. TRIA is a violation of the Constitution and 200-plus years of U.S. history if war remains undeclared.

I also oppose any extension because for-

eign-owned reinsurers and insurers stand to benefit from payments that originate with the U.S. taxpayer. I owe them no such hand-out! Make them cover the exposure or force them to leave the market as insurers and reinsurers for all lines and investments. Maybe then Asian and European nations will provide a bit more support and less opposition to our country!

**Bill Ford**  
Prattville, Ala.

## Schillerstrom



## Editorial

# London brokers driving on wrong side of street

WHILE MAJOR INSURANCE brokers and London market insurers dance around the topic of compensation for brokers' services to underwriters, we fear that both sides are again giving short shrift to buyers' interests.

It is reassuring that most of the world's largest brokers are sticking to their pledge to abandon contingent commissions and other payments from insurers in the United States. But they seem to be taking a different approach in London.

As we report on page 21, Aon Ltd. has reached an agreement with underwriters in London whereby it will receive compensation out of gross commissions from insurers for services that the broker provides in London's subscription market.

Aon is not the only broker seeking compensation for services that are provided to London market underwriters and that are not customary elsewhere. Marsh Ltd. and Heath Lambert Group also are negotiating arrangements with London market insurers to ensure that they are compensated for services such as policy issuance and claims services.

The brokers contend that placing business

in London is more expensive than in other markets and therefore additional compensation is appropriate. Aon, for one, has agreed to make such compensation transparent by fully disclosing it on placement slips.

The lack of disclosure is what led to the compensation scandal that exploded last year, but the problem had been simmering since at least 1998. Transparency by itself is not a solution to what we view as a flawed system that led some to blatantly abuse clients' trust and cynically disregard business ethics. These acts by a few cast a shadow over the whole industry. Removing that taint requires real change.

Arrangements in which brokers accept compensation from clients as well as insurers are bound to lead to confusion and potentially to breach of client trust. Why not consider a setup where brokers receive a higher placement commission, reflecting additional levels of service? Or perhaps London market insurers should take over responsibility for the services brokers now provide, as insurers in other markets do.

Whatever the solution brokers and London market insurers settle on, the interests of the buyer should always come first.

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# Spotlight

## Enterprise Risk Management

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in ERM implementation / page 10

Real-world experiences  
enrich data analysis / page 17

Common language helpful  
in explaining risk / page 18



## To ensure success, get backing from management

By **DAVE LENCKUS**

Risk managers who embark on enterprise risk management plans likely will find their major problems arising in just a handful of areas, according to experts.

Most of the pitfalls and mistakes are, by themselves, capable of dooming a new enterprise risk management effort, the experts say. But risk managers easily can steer clear of those problems or handle them as they occur, they say.

The success of what experts maintain is a process, rather than a project, for managing risks enterprisewide depends heavily on securing management support, committing ample time to the effort, planning wisely, proving the plan's worth early and pacing yourself.

In enterprise risk management, "the risk manager's task is to synthesize risk around the firm and show which risks the company should be taking" because of their potential financial payoff, said Prakash Shimpi, the New York-based practice leader-enterprise risk management at the Tillinghast consulting unit of Towers Perrin.

While experts note that many risk managers do not know where to begin, they agree that obtaining the sponsorship of the chief executive officer or chief financial officer should be at the top of the risk manager's priority list.

One risk manager for a large organization that is implementing an enterprise risk management plan asserted that failing to obtain executive management support will doom a plan. Without that support, middle and senior management will be reluctant to assume additional responsibilities to make the plan work, the risk manager said.

Before consulting on an enterprise risk management plan, Mercer Oliver Wyman typically asks its client risk managers to obtain that executive sponsorship, said Michael Chagares, a Washington-based director for the unit of Marsh & McLennan Cos. Inc.

Even if a risk manager does manage to make

# SAFEGUARDING THE ENTERPRISE STARTS AT THE TOP

See **SUCCESS** / page 12

**RANKING: Risk Management Consultants** PAGE 16

# Actuaries seeking lead role in ERM implementation

By RUPAL PAREKH

As companies continue moving toward a more holistic approach for managing risk, it is becoming increasingly important to make sure that the person in charge of enterprise risk management has the right blend of skills to lead the effort.

While some experts believe risk managers are naturally suited for the job, others think that individuals trained in the actuarial field may be an equally good fit—if not better—to lead ERM, including serving in the role of chief risk officer.

In March, the Schaumburg, Ill.-

based Society of Actuaries and the Arlington, Va.-based Casualty Actuarial Society announced a partnership to promote ERM among their members. One of the aims of initiative, the societies said in a statement, is to “establish the position of the actuarial profession as the pre-eminent profession in the field of enterprise risk management.”

According to Stephen D’Arcy, president of CAS and finance professor at the University of Illinois at Urbana-Champaign, ERM represents a logical career path for the actuarial community.

“We feel that we have some very,

very significant qualities to bring to the table,” Mr. D’Arcy said, citing as the first quality the possession of quantification skills.

To attain their designation, actuaries are required to be well versed in mathematics, including calculus, probability and statistics. “These are areas that many other people feel uncomfortable in” but that are useful for measuring risks, he said.

Mr. D’Arcy stressed that a CRO cannot merely be a number cruncher, though. Such an individual must also be able to translate metrics into concepts that are understandable, he said.

A survey released in February by the Tillinghast unit of New York-based Towers Perrin found that 40% of CROs at insurance firms now report directly to their chief executive officers, up from 26% percent in 2002.

Having a CRO who is capable of executing complex calculations but unable to successfully communicate the meaning of those numbers to senior executives and boards of directors is “useless,” acknowledged Mr. D’Arcy. But he noted that actuaries are generally adept at “explaining complex mathematics in terms that nonmathematicians can

understand.”

Additionally, a unique characteristic actuaries can bring to top ERM positions is that they are bound to certain professional standards under the “actuarial code of conduct,” Mr. D’Arcy said. This is important, he said, “because it means we have to act in the best interest of the company we are representing.”

Max J. Rudolph is a vp and actuary at Omaha, Neb.-based Mutual of Omaha Insurance Co. and head of the SOA’s taskforce for ERM. Mr. Rudolph said he views actuaries as ideal candidates for chief risk officer positions, for insurance companies in particular, “because they have the ability to model contingent events” and can “act as a demographer to map out contingent risks.” Mr. Rudolph said he has also observed that actuaries who are new to the field—including students who are just completing their designations—are especially interested in pursuing careers in enterprise risk management.

**Actuaries “have the ability to model contingent events.”**

**Max J. Rudolph**  
Mutual of Omaha Insurance Co.

Richard S. Betterley, president of Sterling, Mass.-based Betterley Risk Consultants Inc., meanwhile, does not see “a real natural fit between the actuarial position and the CRO.” Mr. Betterley said, “I’m not entirely sure that the traditional actuary is likely to be trained in the areas that a CRO needs to be trained in.”

In his view, “a person who is trained up as a risk manager and has gotten their educational training through the MBA route, as opposed to the CPCU route,” represents the ideal candidate to head up an ERM initiative. Mr. Betterley noted that the Chartered Property Casualty Underwriter designation, while valuable, is more focused and less applicable to a CRO-type position than is a broad-based business background.

“As part of an overall enterprise risk management process, actuaries can add a lot by making things a bit more objective” and “can be very helpful in predicting high-frequency events,” said John W. Schaefer, senior vp of enterprise risk management for ABD Insurance & Financial Services in Redwood City, Calif. Still, he said, “I view them as being a more likely source of support for the function than the chief risk officers themselves.”

Comparing the core abilities of traditional risk managers to those of traditional actuaries, Mark Charron, a principal with Deloitte Consulting L.L.P. in Hartford, Conn., said he sees certain strengths that would make each an asset to an ERM effort. Because actuaries are armed with high-level quantification skills, they generally better understand balance sheet risks, while risk



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## CRO: Actuaries seeking a lead role in ERM implementation

Continued from page 10

managers are often more familiar with how entities work and with identifying areas of concern in how businesses operate, he said.

"I don't think we'll have steel-cage match between a risk manager and an actuary for this position," said Mr. Charron. "They should both be part of the ERM initiative at an organization."

Christopher A. Duncan served as CRO for Delta Air Lines before his current post as senior vp at Marsh Inc. in Atlanta, where he specializes in product development and national accounts.

Promoted from director of risk

and insurance to CRO following the Sept. 11, 2001, terrorist attacks, Mr. Duncan was responsible for four functions: risk and insurance, internal audit, information security and privacy, and ERM initiatives.

Mr. Duncan said his time at Delta convinced him that "there are different skill sets for ERM at different companies." "ERM is still very much a developing area," he said, and "anyone who is going to do the job has to develop (his or her) own path."

That said, Mr. Duncan noted that there are certain qualities that anyone in a CRO-type position should possess, such as having a broad

range of expertise and being a self-starter. A sales and marketing background is also key, he said, because the person in the position will need to "package, communicate and deliver the value of ERM." He added, "You need to do a reality check on your own personality, because being a CRO deals with massive uncertainty, and some people are cut out for that and some people aren't."

In the future, "the whole concept of the chief risk officer is going to be open competition—not only between the insurance risk manager and the actuary," Mr. Charron predicted. People with "widely di-

verse" management capabilities increasingly will take on this role, he said.

"I've seen a wide range of people take on this position," noted Prakash Shimpi, practice leader with global responsibility for ERM at Towers Perrin's Tillinghast unit in New York.

But Mr. Shimpi stressed that "a chief risk officer position is not a one-person show." Ultimately, a company's board and its chief executives, legal counsel, Internet technology department and auditing and accounting staff all must come together to best execute an enterprisewide approach to risk, he said.

## Success: Seek support of management

Continued from page 9

some headway without top-level support, it likely will have little value, according to Randy Nornes, managing director-strategic accounts management at Aon Corp. unit Aon Risk Services in Chicago.

For example, he said, one client risk manager who did not first obtain CEO support spent significant time obtaining "lower-level" risk information before discovering that the direction of the company—and, as a result, its risk profile—had changed.

Part of the support that risk managers must secure from executive management should be a long-term commitment to providing financial and personnel resources, experts assert. Risk managers will need that help because their traditional risk management duties will continue to require attention as they focus on enterprise risk management, they say.

Several risk managers elevated their authority by asking senior management to name them chief risk officer or director of enterprise risk.

**Michael Chagares**  
Mercer Oliver Wyman

Risk managers also must be able to "command the organization's respect to drive this," because they have to work across the organization, Mr. Chagares said.

"If the risk manager is four, five or six layers down from the top, this can be very challenging," he said.

Mr. Chagares said several risk managers he has consulted on enterprise risk management plans elevated their authority by asking senior management to name them chief risk officer or director of enterprise risk.

Absent that, risk managers with successful enterprise risk programs "had very visible and hands-on support and sponsorship from the CEO, CFO or the chief strategy officer," which is a relatively new corporate management position that reports to the CEO, Mr. Chagares said.

Mr. Nornes agreed that even a risk manager who is several rungs down on the corporate ladder can drive an enterprise risk management plan if a top executive sends a letter to management throughout the organization explaining the plan's objective, the process and the level of cooperation needed.

Driving the process is a full-time job, but some risk managers mistakenly commit only a portion of their

Continued on next page



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Continued from previous page  
time to it, experts say.

"I think people underestimate how much time is required" to design, build and implement an enterprise risk management plan, said Lisa Kremer, managing director-enterprise risk management at Aon Risk Consultants in San Francisco.

Mr. Chagares said "nothing got off the ground" both times he saw risk managers take a part-time approach. "You really need a focused effort and to immerse yourself into this," he said. "You have to be an educator, a facilitator, the great communicator and a coordinator" to drive enterprise risk management out to operations management.

But even making a significant time commitment cannot compensate for taking a haphazard approach to enterprise risk management, which is a fairly common mistake made by risk managers, experts say.

Many risk managers create a corporate risk profile "and never get beyond this," because they lack a plan for building and implementing an enterprise risk management process, Mr. Chagares said.

Planning also is important even before the risk manager sets out to assess the organization's risk, Mr. Nornes noted.

At many large companies, audit committees and Sarbanes-Oxley financial report compliance teams are ahead of risk management in trying to assess enterprise risk, Mr. Nornes said. "So, as a risk manager, I'd do some internal networking and find out what's going on," he said.

"Too many cooks in the kitchen can kill the deal, too," he said. Support and a clear direction from top management "tends to short-circuit that," he said. And building a cross-functional team that involves the audit and Sarbanes-Oxley groups helps, too, he said.

Risk managers sometimes also fail to plan how to collect meaningful enterprise risk data, Ms. Kremer said.

Ms. Kremer and Mr. Nornes recalled how some clients wasted their own and others' time by collecting data in two or three different ways in an effort to understand how risk at a unit level may affect the organization.

For example, in one case, quantifying a unit's risk as high rather than by assessing its potential financial impact on the organization overinflated the risk's significance enterprisewide, Mr. Nornes said.

Conversely, a credit risk, for example, could appear immaterial for several business units but be a significant organizational risk if the units conduct business with many of the same corporate clients, Mr. Nornes pointed out.

At this early stage of the process, skepticism and resistance likely will be at their zenith throughout the organization, experts say. This is when risk managers should waste no opportunity to drum up support by engaging enterprise risk management to help a business unit resolve a problem, they say.

Mr. Chagares noted that, in one case, the process revealed that a contemplated business deal was far riskier than management originally understood, and the deal was scrapped. In another case, the process showed that a proposed deal was potentially far more lucrative than management had envisioned given the relatively minimal risk involved, and that deal was cemented. Both proved to be the right decisions, he said.

But experts advise risk managers to pace themselves; they must resist their own urges and pressure from executive management to implement enterprise risk management organizationwide too quickly.

The risk manager who is in the

### Common ERM mistakes

- Not securing management support for enterprise risk program
- Lack of planning
- Haphazard approach
- Not building a cross-functional team
- Failure to collect meaningful data
- Rushing to implement ERM

middle of implementing an enterprise risk management plan said management's expectations have to be aligned with the "reality" of

how much can be done within a short period with given resources.

Those kinds of frank discussions with management "are not easy conversations to have," the risk manager acknowledged.

Philip J. Grewar, director of the risk management branch of the government of British Columbia in Victoria, is in the third year of implementing an enterprise risk management process, and he said the effort is "going along a path of success." But Mr. Grewar said that he thinks he introduced critical computer software one year too early.


The software allows various units to update a risk register, which allows multiple users to view organizational risks, the risks' potential impact on the organiza-

tion and risk mitigation measures.

But less-sophisticated, albeit less-robust, software would have sufficed for a year, Mr. Grewar said. Introducing the new software too early created unnecessary strain on those who already were trying to adjust to a new process, he said.

While risk managers should complete a corporate risk profile expeditiously to have a fresh snapshot of their organizations' risks and assist a business unit early in the process, experts agree that rushing the implementation of the entire enterprise risk management process will result in only a quick failure.

"It's a journey, as opposed to a quick-fix thing," Mr. Grewar said.

  
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Reflects both independent and nonindependent risk consultants<sup>1</sup>

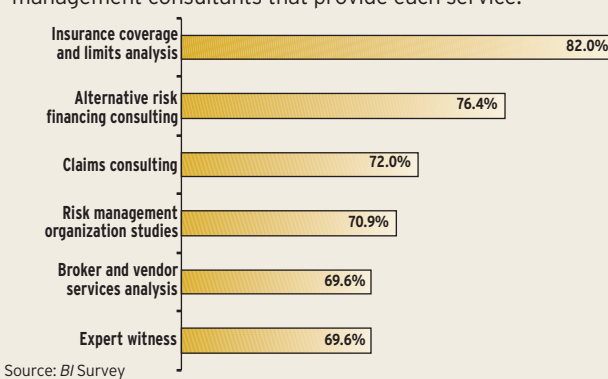
Company	2004 unbundled revenue from risk management consulting
Kroll Inc. <sup>2</sup>	\$480,000,000 <sup>3</sup>
Deloitte Consulting L.L.P.	\$94,500,000
PricewaterhouseCoopers L.L.P.	\$93,600,000
Ernst & Young L.L.P.	\$44,835,000
RMI Consulting Inc.	\$11,700,000

<sup>1</sup> Companies need not derive majority of revenues from unbundled risk management consulting, but those deriving 50% or more of such revenues from actuarial, captive, environmental, property loss or safety consulting are not ranked. <sup>2</sup> Includes Marsh's Risk Consulting Practice <sup>3</sup> BI estimate.

Source: BI Survey

### Most common services

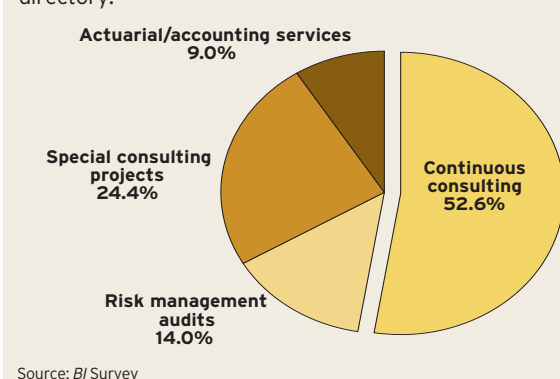
Percentage of all companies in the directory of risk management consultants that provide each service.



Source: BI Survey

### Revenue sources

Breakdown of revenue sources for all companies listed in the directory.



Source: BI Survey

# Largest independent U.S. risk management consultants

## Companies deriving a majority of their gross revenues from unbundled risk management consulting\*

Rank	Company/Address	Telephone/Fax/Web site	2004 unbundled revenue from risk management consulting	Unbundled clients	Professional staff	Principal officer
<b>1</b>	RMI Consulting Inc. 20 Soundview Marketplace Port Washington, N.Y. 11050	516-767-7373 Fax: 516-767-7486 <a href="http://www.rmiconsulting.com">www.rmiconsulting.com</a>	\$11,700,000	500	37	MaryAnn Sackman, president
<b>2</b>	J.H. Albert International Insurance Advisors Inc., dba Albert Risk Management Consultants 72 River Park Needham Heights, Mass. 02494-2631	781-449-2866 Fax: 781-449-5340 <a href="http://www.albertrisk.com">www.albertrisk.com</a>	\$8,100,000	600	35	Alfred H. Nagelberg, Stuart T. Cowart, presidents
<b>3</b>	Alpha Risk Management Inc. 60 Cutter Mill Road Great Neck, N.Y. 11021	516-829-3500 Fax: 516-829-6029 <a href="http://www.alpharisk.com">www.alpharisk.com</a>	\$3,650,000	72	18	Herbert H. Feldman, president/CEO
<b>4</b>	Taylor Risk Consulting 16415 Addison Road, Suite 800 Addison, Texas 75001	972-447-2055 Fax: 972-248-1729 <a href="http://www.taylorrisk.com">www.taylorrisk.com</a>	\$3,487,447	75	16	Gabriel Lugo, senior vp
<b>5</b>	RCS Services 5506 Mitchelldale Houston, Texas 77092	800-807-7475 Fax: 713-461-2457 <a href="http://www.rcsservicesinc.com">www.rcsservicesinc.com</a>	\$2,821,094	283	12	Trish McCall, president
<b>6</b>	Robert Hughes Associates Inc. 508 Twilight Trail, Suite 200 Richardson, Texas 75080	972-980-0088 Fax: 972-233-1548 <a href="http://www.roberthughes.com">www.roberthughes.com</a>	\$2,547,565	233	16	John R. Oakley, president
<b>7</b>	North American Risk Management Inc. 100 First Ave., Suite 266 St. Petersburg, Fla. 33701	727-287-1564 Fax: 727-287-1666 <a href="http://www.narm.biz">www.narm.biz</a>	\$2,410,000	152	53	Harold R. Schade, president
<b>8</b>	Bickmore Risk Services 1831 K St. Sacramento, Calif. 95814	800-541-4591 Fax: 916-244-1199 <a href="http://www.brsrisk.com">www.brsrisk.com</a>	\$2,280,000	250	57	John E. Chaquica, principal/CEO
<b>9</b>	Kevin F. Donoghue & Associates 190 High St. Boston, Mass. 02110	617-482-7015 Fax: 617-556-4030 <a href="http://www.kfda.com">www.kfda.com</a>	\$2,200,000	140	13	Kevin F. Donoghue, president
<b>10</b>	Insurance Buyers' Council Inc. & First Risk Management/IBC Inc. 9720 Greenside Drive, Suite 1E Cockeysville, Md. 21030	410-666-0500 Fax: 410-666-6177 <a href="http://www.consultibc.com">www.consultibc.com</a>	\$2,010,575	135	9	Adam P. Sielicki Jr., president/treasurer

\* Business Insurance defines independent consulting operations as those that are not owned by insurers or brokers. In addition, companies deriving 50% or more of their revenues from actuarial, captive, environmental, property loss or safety consulting are not ranked.  
Source: BI survey

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May 9, 2005

# ERM requires practical approach to data analysis

By REGIS COCCIA

**CHICAGO**—Effective analysis and management of enterprise risks requires risk managers to look beyond apparently random data and apply real-world experiences, a panel of experts suggested.

“Enterprise risk management forces us to think deeply about risk,” said Shaun Wang, director of the actuarial science program at Georgia State University’s J. Mack Robinson College of Business in Atlanta. “Our understanding of risk is enriched by actual experiences.”

Mr. Wang moderated a panel discussion on randomness in risk management last week at the 3rd Annual Enterprise Risk Management Symposium in Chicago, sponsored by the Casualty Actuarial Society, the Society of Actuaries and the Professional Risk Managers International Assn.

The goals of risk control are to “know what risks you’re taking, know what your tolerances are, minimize uncompensated risks and minimize unanticipated risks,” said Leslie Rahl, president of Capital Market Risk Advisors Inc. in New York, a firm that provides consulting services to hedge funds and other investment managers. She previ-

ously was co-head of derivatives during a long career at Citibank.

Ms. Rahl likened identifying enterprise risks to a game in which a person identifies by touch an object in a box. “Whatever metric you’ve adapted, you’ve got to pick several to get a picture of what’s in the box,” she said.

While stress testing capital is an important part of enterprise risk management, Ms. Rahl quipped, “We seem to have a once-in-a-lifetime crisis every three or four years. We’ve got to deal as risk managers with the fact that these once-in-a-lifetime crises do happen.”

“We seem to have a once-in-a-lifetime crisis every three or four years.”

**Leslie Rahl**  
Capital Market Risk Advisors Inc.

Nassim Nicholas Taleb, a professor in the Sciences of Uncertainty at the University of Massachusetts, Amherst, and a pioneer in financial

derivatives, spoke about the need to question assumptions about risk, particularly those based on routine events.

“You can’t understand the regular without understanding the exception,” Mr. Taleb said. “Close to 100% of economics is based on variations of Gaussian,” or bell-curve distributions that appear to have a repeating pattern of probability, “but the world of economics is ruled by jumps,” he said.

Small samples of data also can lead to biased analyses, he said, in effect hiding both positive and negative extremes. “If you were search-

ing for trillionaires, you’d completely miss (the world’s richest person) Bill Gates, so you have to” refine your field based on what you do know, Mr. Taleb said.

“We mortals do not observe probability distributions. What we observe is data, and most of the time we observe the wrong correlation,” he said. As an example, he said many economists overlook a statistic about market capitalization. “There are 10,000 companies listed in America. How many represent half the capitalization of the market? Eighty to 90,” Mr. Taleb said.

## ERM education centers



The following are confirmed charter members of ERM Institute International Ltd., a Georgia-based nonprofit education and research organization:

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# Communication key to success in enterprise risk management

By REGIS COCCIA

**CHICAGO**—Communication and the promotion of behavioral changes throughout an organization are key challenges in implementing enterprise risk management programs, experts noted at the 3rd Annual Enterprise Risk Management Symposium last week.

During a discussion of the challenges of ERM, panelists outlined important considerations, and a former chief risk officer presented lessons his company learned.

"Enterprise risk management often is viewed as a threat by other areas of the organization," said Christopher A. Duncan, a senior vp at Marsh USA Inc. in Atlanta and former chief risk officer of Delta Air Lines Inc. "Part of the challenge of ERM is convincing those other areas that it's not a threat."

Under Mr. Duncan's leadership, Delta introduced an ERM program after the Sept. 11, 2001, terrorist attacks. He said the airline made a "conscious choice" to focus on subjective risk evaluation rather than quantitative analysis and to emphasize collaboration within the company instead of centralizing the CRO function.

"At Delta, orphan risks tended to hang out there" and weren't being addressed by the "silos," including the legal, financial, business planning, operational, safety/security and audit departments, Mr. Duncan said.

To help ensure that the diverse business areas came together to consider risks Delta faced, Mr. Duncan established an enterprise risk council, which he chaired. The council was charged with taking an enterprisewide view to coordinate risk management and identify Delta's risks early on, he said.

"The main challenge of ERM isn't so much knowing what your risks are. It's 'What are you going to do about them?'" Mr. Duncan said.

A key to Delta's ERM program

was to provide risk maps that could present scenarios to various departments, he said. "You need a common language to communicate" with marketing, finance and other areas. "When you meet with your CEO, you don't have time to get

**ERM "ultimately is about communication. Every board must have well-developed, current information and credible insights to communicate their actions in good times and in bad."**

Prakash A. Shimpi  
Tillinghast

into all the analytics. What you need is a simple story" that stakeholders can understand in 15 to 20 minutes, he said.

"Our big breakthrough was translating risks into a severity matrix," Mr. Duncan said. He classified dozens of risks for the airline as "low" severity, "moderate," "high" and "survival bet." "The value of the risk map was the conversations it created" among Delta's departments, he said.

Offering his thoughts on key lessons in enterprise risk management, Mr. Duncan said it's important to "focus on initial successes to seed the company" for future risk management efforts. "The key to all risk management is to change behavior" and promote positive decisions, he said.

Other factors in successful ERM programs, he said, include:

- Clear ownership and account-

ability of risk.

- Realistic expectations of risk control.

- Priorities on closing gaps within the organization's risk management programs.

- Integrating financial planning and human capital strategies.

- Ongoing communication efforts.

Harry Panjer, a professor at the University of Waterloo in Waterloo, Ontario, suggested that operational risk can be characterized in quadrants reflecting low and high levels of frequency and severity. "How you deal with operational risk is a function of where you are on this continuum," Mr. Panjer said.

Most operational risk management focuses on high-frequency/low-severity risks and those that are low-frequency/high-severity, he said. Companies facing high-frequency/high-severity risks "don't stay in business long," he noted.

Modeling these different types of risks calls for varying approaches, Mr. Panjer suggested. For example, counting rare events, such as those labeled low-frequency/high-severity, can be futile, he said. But aggregate loss models need to measure the number and severity of those occurrences, which are among the most difficult to analyze, he said.

"Enterprise risk management ultimately is about communication," said Prakash A. Shimpi, global practice leader of ERM at the Tillinghast unit of Towers Perrin in New York. Mr. Shimpi, the panel moderator, said, "Every board must have well-developed, current information and credible insights to communicate their actions in good times and in bad."

The ERM Symposium, sponsored by the Casualty Actuarial Society, the Society of Actuaries and the Professional Risk Managers International Assn., attracted more than 400 attendees to Chicago May 1-3. For information on the next symposium, visit [www.emsymposium.org](http://www.emsymposium.org).

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## Health Net settles physician class action

**LOS ANGELES**—Health Net Inc. will spend up to \$140 million to settle a lawsuit with 900,000 physicians regarding its claims payment practices and institute a new system to more efficiently manage future claims.

The Los Angeles-based managed care company has agreed to implement many changes to its business practices, including enhanced disclosure of certain claims payment practices; payment of electronically submitted claims in 15 days and 30 days for paper claims; and establishing an external review board to facilitate prompt, independent resolution of billing disputes.

Health Net estimates that the direct and indirect costs to implement the business practice changes

will be more than \$80 million over the four-year term of the commitments in the settlement agreement. In addition, the settlement includes a payment of \$40 million to general settlement funds and an expected award of up to \$20 million for plaintiffs' legal fees.

The settlement would end several class-action suits brought against the company by physicians, the first of which was filed in September 1999. The settlement was expected to be presented Friday for approval in the U.S. District Court for the Southern District of Florida in Miami, which is overseeing the lawsuits brought against several managed care companies. Final approval is expected to take five to six months, the company said.

Health Net will record an approximately \$66 million pretax charge against earnings in the first quarter of 2005 to account for the settlement amounts, its legal expenses and other costs related to the litigation in Miami.

The company reported net income of \$21.3 million in the first quarter of 2005, up 30% over the same period a year ago.

First-quarter revenues, though, decreased 0.5% to \$2.9 billion as lower health plan enrollment almost completely offset improved yields, the company said.

Total commercial membership fell 3% to 2.76 million in the first quarter compared to the prior-year period.

—By Gloria Gonzalez



## COMMENTARY

Senior Editor Douglas McLeod

# Integro founders not so good with names

Robert Clements and the other ex-Marsh & McLennan officials who are starting a new insurance brokerage from scratch already have enough work cut out for them. They shouldn't have to waste effort on trifling details. But they need to spend some time rethinking the name they've chosen for their start-up: Integro.

Integro certainly could be the name of an insurance broker, if they say so, but it sounds more like a lawn care product.

The whole issue of nonsense names has, I admit, already been beaten to death by writers with geezerish tendencies going back at least as far as Exxon Corp., which was ridiculed for making up a name without the word "oil" in it.

Now we have a panoply of such names, ranging from Accenture (a management consultant or a steak seasoning?) to Zentropy Partners (a marketing firm or a chain of Buddhist weight loss clinics?).

You have to admire business people, in a way, for reaching beyond merely descriptive names for their enterprises. Things would be pretty dull if every corporation's name were the equivalent of "United Brake & Strut Mfg. Co."

A few years back, Willis Group tried to get everyone to call it, "Willis, The Risk Practice." While this made it clear what kind of work Willis did, it didn't have the ring of, say, "Dennis, The Menace," and Willis wisely dropped it.

Odd names also grow familiar with time. "Exxon" provoked laughter at first, but no one gives it a second thought today.

Aon—Gaelic for "oneness," as Aon Corp. tirelessly points out—looked strange to people used to Rollins Hudig Hall, but it is now the most commonly used Gaelic word in many risk managers' vocabularies.

Names like Aon make sense in the brokerage industry, too, since consolidation has threatened monikers that would outdo those of 10-partner law firms. Who would want to address a letter to someone at "Rollins, Burdick, Hunter, Bayly, Martin, Fay, Hudig-Langeveldt, Hall, Alexander, Alexander, Minet, Jauch & Huebener"?

Integro, though, raises the same question prompted by other corporations that have synthesized their names from bits of Greek, Latin, Sanskrit, Hindi and who knows what else: Does this company really

want people to know what it does?

You can't blame Integro for being circumspect. Insurance brokers' reputations are not at their peak: Marsh has settled charges that it defrauded clients by rigging bids and steering business to insurers paying it the highest contingent commissions. Aon and Willis have settled similar client-steering charges, and Arthur J. Gallagher & Co. has set aside money to resolve various investigations into its business practices.

This may not be the best time to hang a sign on your new headquarters building reading, "United Big Name Insurance Brokers." Better to pick a name that connotes admirable qualities that you claim for yourself and that you would like people to infer are lacking in your competitors.

Integro suggests "integrity" and "growth," both aspects of the business that large, established brokers are struggling with in the wake of the compensation scandal.

Like Accenture, Verizon and a host of other names, though, Integro is so weirdly untethered to its industry that it could be used by anyone.

You wonder what other possibilities the Integro people considered.

How about Diligentsia, suggesting an elite group of people who hang out together being diligent?

Or Candidian, implying a commitment to straightforwardness bordering on the naive; or Credibilibus, suggesting people who are have a lot of credibility but are sometimes bad-tempered?

What about Asterisk? The "risk" clearly defines the business the company is in, and the "aster" is...well, a nice-looking plant.

Mr. Clements and his colleagues did a better job naming their previous start-ups. ACE was not only an acronym for American Casualty Excess but also suggestive of the highly skilled staff the underwriter attracted. XL Insurance Co.'s name described the excess liability business it was created to write. Arch Capital is a perfectly fine name for an investment firm.

Integro, though, needs work.

If they really want set themselves apart from the rest of the industry, I suggest that Integro's founders follow the lead of the pop star Prince and adopt a hieroglyph for a name. The company could call itself "𐀀," for example, and be referred to as "The Brokers Formerly Employed by Marsh."

Senior Editor Douglas McLeod can be reached at [dmcLeod@businessinsurance.com](mailto:dmcLeod@businessinsurance.com).

# Massachusetts to tighten rules on finite reinsurance contracts

**BOSTON**—The Massachusetts Division of Insurance is planning to tighten reporting requirements on finite reinsurance transactions, as various regulatory authorities continue scrutinizing such transactions.

The division plans to require that an insurer's audit committee chair sign off on any finite reinsurance contracts, including certifying that there are no informal or side agreements that might affect transactions involving Massachusetts-based companies, a division spokesman said. The new requirement will go into effect as soon as each insurer receives a letter from the commissioner. The letter will be sent before the end of this month, he said.

"We are adding another security check to the system that will ensure

that insurers are not entering into side agreements," the spokesman said. State Insurance Commissioner Julianne Bowler wants to increase pressure on company managers so they question whether proper procedures are being followed, the spokesman said.

State, federal and international regulatory authorities are increasingly scrutinizing such deals with an eye toward introducing stricter risk transfer and disclosure requirements (*BI*, April 18).

These authorities include the National Assn. of Insurance Commissioners in Kansas City, Mo.; the American Academy of Actuaries and the Securities and Exchange Commission, both in Washington; the Financial Accounting Standards Board in Norwalk, Conn.; and the International Accounting Standards

Board in London.

One NAIC working group is considering whether states should modify the accounting rules to allow for bifurcation, which would allow insurers to report the risk transfer portion of a finite reinsurance agreement as insurance but require them to report the rest of the contract as financing, the spokesman said. According to the commissioner, such a change may make such transactions less attractive to companies, the spokesman said.

The New York Insurance Department has already issued finite-related requirements, including one calling for insurer executives to attest under oath that all finite reinsurance contracts used by their companies constitute valid reinsurance (*BI*, April 4).

—By Meg Fletcher

## Industry variation

How the funding levels of multiemployer pension plans vary by industry

Industry	Funded level
Retail, trade and food	90%
Entertainment	89
Manufacturing	86
Transportation	82
Construction	82
Services	78

Source: The Segal Co.

## Survey: multiemployer pension plans have slipped

Hit by the decline in the equities markets and falling interest rates over the past several years, the funded position of multiemployer pension plans has slipped, according to a new survey.

The survey of 432 multiemployer plans by The Segal Co. of New York found that the plans with plan years ending in 2003 or 2002 were, on average, 83% funded. That compares to a funding level of 87% in the

benefit consulting firm's previous survey of plan years closing in 2001 and 2000.

Plans in the retail trade and food industries had the highest funded ratio, averaging 89%, while plans in the services industry had the lowest funded ratio, averaging 78%.

Copies of the 2004 Survey of the Funded Position of Multiemployer Plans are available at [www.segalco.com](http://www.segalco.com).

—By Jerry Geisel

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# Aon revamps London market charges

*Change will trump previous plan to impose fixed insurer payments*

By SARAH VEYSEY

**LONDON**—Underwriter representatives are welcoming Aon Ltd.'s agreement to use a new compensation model, which insurers hope will inspire other brokers to adopt similar models.

Aon last week said it had shelved a plan to impose a set commission charge on insurers when placing risks in London, and instead reached agreement on an alternative with representatives from Lloyd's of London and the London company market. Underwriter groups resisted Aon's initial model, arguing it would alter the relationship between broker and underwriter. The groups contended that the broker is the agent of the insurance buyer, not the underwriter, so underwriters should not be charged for services performed on insurance transactions.

Under the new agreement, Aon Ltd., the U.K. arm of Aon Corp., will detail on London market slips all payments it receives from policyholders and insurers when placing business in London. All parties involved, including buyers, will be able to see how much the broker will receive in commissions and fees (see chart). No fixed percentage of premiums for classes of business would be set, according to a spokeswoman for Aon. Instead, charges would be determined on a case-by-case basis and recorded fully on the slip.

The new model resulted from discussions between Aon and a joint Lloyd's Market Assn. and International Underwriting Assn. committee set up in January to discuss brokers' proposals to replace revenues derived from contingent commission or volume-driven arrangements. Many brokers abandoned such arrangements last year in the wake of investigations into broker compensation practices.

Other brokers, including Marsh Ltd. and Heath Lambert Group Ltd., have proposed models under which they would receive fixed percentages of premium for performing services in the London market. Underwriter groups, however, have expressed discomfort with both proposals (*BI*, April 18; March 28). Marsh last week indicated it has not changed its plan (see story, page 3).

In December, Aon Ltd. said it would charge underwriters a fixed percentage of premium—dependent on the class of business—for services provided on specialty business placed in London. The broker said the charge would cover services including policy issuance and claims handling.

## Insurers react

London market underwriters objected, however, contending that a commission charge on the insurer for services provided by the broker would contravene the principle that

## Disclosed on the slip

Under Aon Ltd.'s agreement with London market underwriters, three information boxes will appear on every coverage slip, stating:

- Whether the placement is subject to a fee agreed with the insurance buyer.
- The percentage of premium that the retail or wholesale broker will receive as a commission.
- The percentage of premium paid by insurers as commission to London market brokers placing business in the subscription market.

the broker is the agent of the buyer.

In a conference call to analysts to announce results last week, Patrick G. Ryan, executive chairman of Aon, said that Aon—like other brokers—needed to find a way to reflect the fact that “costs in the London market for services we provide underwriters are historically a lot higher than elsewhere.” In the London market, he said, underwriters have tended to rely on brokers for services such as policy issuance and claims handling more heavily than in other markets. That is largely because of the nature of the London subscription market, whereby several different underwriters may appear on the same slip.

After discussions with London market representatives, Mr. Ryan said Aon concluded the market “does not, and will not, have an agency relationship with brokers.”

Therefore, he said, rather than a model requiring insurers to pay brokers' expenses out of net premium for services provided, the broker

had agreed to charge commissions as a percentage of gross premium. Negotiations about the size of that commission will be individual and transparent, he noted.

“I am quite sure that as other brokers reach agreement with the London market, that template, that pattern, will be consistent,” Mr. Ryan said.

## Agreement expected

One source, who asked not to be named, said that the LMA-IUA joint working party was close to agreement with at least one other major broker and several large brokers about using a model similar to Aon's.

The LMA, which represents underwriters at Lloyd's, and the IUA, which represents London company market insurers, welcomed Aon's agreement to use the proposed new model.

Bill Rendall, head of underwriting and claims at the LMA, said the model was acceptable to underwriters because it does not “contain any element of underwriters paying brokers for services.”

“Aon are to be commended for their leadership in this matter and it is to be hoped that the new model will become a template for wider use in the market,” IUA Chairman Tony Medniuk said in a statement.

“Underwriters, brokers and customers will all benefit as transparency in dealings is a fundamental requirement for strengthening mutual confidence following recent criticisms of prior market practice,” Mr. Medniuk said.

A spokesman for the London-based Assn. of Insurance & Risk Managers declined to comment.

One London-based risk manager, an Aon client who asked not to be identified, said buyers would now have to consider the implications of the new model and whether it might result in higher fees for buyers.

**'Underwriters, brokers and customers will all benefit as transparency is a fundamental requirement for mutual confidence.'**

Tony Medniuk  
IUA

## Updates

### XL Europe forms North American team

XL Europe Ltd., the Dublin-based arm of XL Capital Ltd., has recruited a team to underwrite North American casualty umbrella and excess business in London. The unit will have capacity of \$50 million, XL Europe said in a statement. The four-person team is headed by Glenn Burles, formerly chief underwriting officer of Zurich Specialties London Ltd., the statement said.

### Mercer purchases Mellon Australian unit

Mercer Human Resource Consulting has completed its acquisition of the Australian operations of Mellon Human Resources & Investor Solutions. The Mellon Australian unit, which operates in Adelaide, Brisbane, Melbourne, Perth and Sydney, has about 220 employees and revenues of more than \$23 million Australian (\$19.5 million) and provides a wide range of services, including actuarial, benefit communications and asset consulting.

### R13K system permits facultative business

R13K has extended its system to allow facultative business to be traded via its electronic reinsurance hub. The system will handle all classes of facultative business, said Alex Letts, chief executive of R13K. The R13K exchange in London, which was formed in 2000, allows insurers, reinsurers and brokers to negotiate, exchange and bind contracts online. The company operates a similar exchange in Singapore for the Asian market.

### Briefly noted

Munich, Germany-based insurance giant **Allianz A.G.** posted net income of more than 1.1 billion euros (\$1.49 billion) in 2004, an increase of about 30% over 2003, according to preliminary figures. Allianz announced the preliminary results at the company's annual meeting in Munich on Wednesday, saying the increased profits were due to improved operating performance....**Aon Captive Services Group** has opened an office in Malta. Aon Insurance Managers Ltd. was set up to take advantage of Malta's entry into the European Union, which occurred in May 2004, and the domicile's desire to attract European insurance business, Aon Captives Services Group said in a statement....London-based broker **Cooper Gay Group** has opened an office in Rio de Janeiro, Brazil. The company already has offices in Chile, Colombia, Ecuador, Mexico and Peru.

—By Sarah Veysey

## Australian regulator proposes tighter rules for insurers

**SYDNEY, Australia**—The Australian Prudential Regulation Authority has proposed new standards for the supervision of non-life insurance companies.

APRA, the Australian insurance regulator, is proposing that appointed auditors should complete an annual financial condition report on insurers and undertake a peer review of actuarial valuations of insurance liabilities, among other things.

Under the draft proposals, chief executive officers and chief financial officers of Australian nonlife insurers would be required to attest to the financial information supplied by the

company to APRA, its approved auditor and its approved actuary.

APRA also said it would introduce stricter requirements for the approval of arrangements that provide only limited risk transfer; clarify and strengthen existing requirements for business planning, risk management, reinsurance management and outsourcing; and ensure that insurers adequately document reinsurance contracts.

APRA said it would accept public comment on the draft proposals until Aug. 5.

The draft standards can be viewed at [www.apra.gov.au](http://www.apra.gov.au).

—By Sarah Veysey

## Bahrain issues insurer capital requirements, conduct rules

**MANAMA, Bahrain**—The Bahrain Monetary Agency has introduced insurance regulations that will apply to all insurance companies, including Islamic insurance companies, operating in the country.

The Manama, Bahrain-based BMA said the rules would bring regulation in Bahrain into line with standards set by the International Assn. of Insurance Supervisors.

The regulations cover capital adequacy, business conduct and risk management of insurance firms, among other things.

Bahraini companies must calculate their capital adequacy based on shareholders' equity, while overseas companies operating in Bahrain must calculate their capital adequacy based on their audited net assets determined in accordance with the

accounting standards that would apply if they were Bahrain-based joint stock companies, according to the rulebook.

The minimum paid-up capital for Bahraini insurance firms is 5 million Bahraini dinar (\$13.3 million), while Bahraini companies writing only reinsurance must have minimum paid-up capital of 10 million Bahraini dinar (\$26.5 million).

The BMA said that, where applicable, transition periods had been incorporated into the rules to allow companies to adapt.

The rules also cover takaful or re-takaful companies—mutual insurers and reinsurers that pool premiums in accordance with Islamic law.

The rules can be viewed at [www.bma.gov.bh](http://www.bma.gov.bh).

—By Sarah Veysey

## Integro: Brokerage gets off the ground after securing startup capital

Continued from page 1

Marsh, in particular, has seen several high profile dismissals and resignations, including Mr. Egan's, as a result of the investigations.

The disruptions among other brokers could favor Integro, executives said.

"We're not entering a field where there is no room for another competitor," said Mr. Clements, who is chairman of Integro. "We wouldn't be doing this if we hadn't been encouraged...by large users of insurance who would like more choice, by underwriters who would like a more diverse distribution system...and by brokers themselves who...would also like additional choice about where to practice. We believe we offer a very attractive opportunity for all three constituencies," he said.

The launch of Integro also introduces "a fresh business model" for the insurance brokerage industry, which has been plagued recently by numerous regulatory investigations, according to a company statement.

That business model includes the guiding business principles of "clients first, transparent business

practices and dedicated, quality brokerage services" and the belief that brokerages work best when they are free-standing businesses and not part of larger holding companies.

"We don't think that being part of a large combined company that has multiple, sometimes unrelated businesses, and management that doesn't have any experience being an insurance broker is the best position to address clients' interests when they're looking for a professional insurance broker," said Mr. Garvey, who is president of Integro.

At the same time, Integro is a well-capitalized startup that is free from traditional industry processes and technology, the executives say.

"We're not only unencumbered by substantial fines and penalties and restitution funds and reputational damage, we're also unencumbered by expensive legacy operating systems and unencumbered by unrelated business lines that distract management's attention and deplete capital," Mr. Garvey said.

While Integro may be unbur-

dened by the fallout associated with the broad investigation into the insurance brokerage industry that began last year with New York Attorney General Eliot Spitzer, the three executives running the new brokerage have all at one time had a hand in running Marsh Inc., where the alleged fraud and bid-rigging activities charged in Mr. Spitzer's October civil suit against MMC occurred.

"While we've had careers at Marsh...we were not involved in or implicated in any way in any of the wrongdoing that happened at Marsh," said CEO Mr. Egan. "So it's not an issue personally for us, and our company...does not have some of the pressures of restitution funds and years of civil litigation" that the other large brokerages are dealing with, he said.

Mr. Egan, former president and chief operating officer of Marsh Inc., was asked to resign from his position in the wake of the investigations and litigation. According to an MMC statement at the time, the decision was not based on any suggestion of culpability but because Mr. Egan was accountable for areas of Marsh's business that were being

investigated.

Mr. Garvey, former co-president of Marsh, who replaced Mr. Egan, resigned from the brokerage in March.

Mr. Clements, former president of MMC and chairman of Marsh Inc., most recently stepped down as chairman of Arch Capital Group Ltd., the Bermuda-based insurer he created. He also had a hand in building such Bermuda-based powerhouses as ACE Ltd., XL Capital Ltd., and Mid-Ocean Reinsurance Ltd.

With more than \$300 million in capital now in place, Integro's executives say they are ready to proceed with plans for a "rapid assembly" of talent.

"We're not going to be a roll-up firm like some other brokers in the market today," Mr. Garvey said of Integro's growth strategy.

While Integro may make some small acquisitions from time to time, "the intended use of our capital is to be able to put in place a rapid assembly of talented brokers."

Among Integro's recent hires is Joe Salerno, Marsh's former chief financial officer, who is Integro's

CFO. Walter S. Tomenson, former chairman of global client development at Marsh in New York, is now a senior partner with Integro, and Don Davidson, a former executive vp with Aon in Chicago, is now a managing director with the new brokerage.

With offices already in New York and San Francisco, Integro plans to open offices in Toronto, London and Bermuda and other major U.S. cities, including Chicago, Los Angeles and Atlanta, shortly. After that, the company will focus on opening offices in major cities in Europe.

At least one market observer last week said he thinks the market will be receptive to Integro.

"I think the market's always receptive to a new player. This is not an industry where there isn't room for more competition," said Ken Crerar, president of the Council of Insurance Agents & Brokers in Washington.

"I think what's happened in the market over the last six months has caused a lot of people to re-evaluate what they are doing both within the brokerage business as well as on the client side," he said.

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All enquiries should be addressed to the Scheme Administrators, United Standard Insurance Company Limited, c/o PricewaterhouseCoopers LLP, Plumtree Court, London, EC4A 4HT, United Kingdom, fax number +44 (0) 20 7804 5203, or email [united.standard@uk.pwc.com](mailto:united.standard@uk.pwc.com).

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## HSA: Large employers lead way in plan growth

Continued from page 3

available since Jan. 1, 2004. But many employers waited to offer the plans until after the Treasury Department resolved many of the operational questions that had been raised about HSAs, AHIP officials say.

In the wake of that regulatory guidance, released last August, larger employers now are moving to include HSAs as part of the health insurance plan choices they offer employees, said AHIP President and Chief Executive Officer Karen Ignagni.

### HSA growth forecast

Ms. Ignagni expects growth of HSA-high deductible plans, whose premiums are substantially lower than more traditional health care plans, to continue to be strong.

"The number will definitely be higher the next time out," she said. Indeed, more insurers are moving

into the HSA market. AHIP found in its September 2004 survey that only 29 member companies offered HSA programs. In the latest survey, 99 members offered HSA programs, with another 19 members intending to enter the HSA market soon.

Clearly, the lower cost of HSA-linked high-deductible plans is attracting both employer and individual purchasers.

The AHIP survey found that the annual premium, as of March 2005, for an HSA-linked high-deductible plan for family coverage offered to larger businesses averaged \$6,839. By contrast, a Kaiser Family Foundation last year reported that the average annual premium for family coverage through preferred provider organizations exceeded \$10,000. The premium costs of the HSA-high-deductible plans do not, however, include contributions, if any, made by employers to the HSA itself.

HSA critics predicted that people

opting for HSAs would tend to be younger, but the AHIP survey found otherwise. Specifically, 52% of those covered by HSAs in the personal lines market were age 40 or older, while 43% of enrollees in the small-group market were 40 or older, as were 46% in the large-group market.

The plans are appealing to a broad audience of purchasers, who are interested in a more affordable product, Ms. Ignagni said.

That audience includes individuals who previously lacked health insurance. For example, 37% of enrollees in the personal lines market were previously uninsured.

The uninsured are gravitating to HSA policies, compared to more traditional plans, because of their lower cost, Ms. Ignagni said. "One can be optimistic in looking at the data" that such a trend will continue, she said.

Copies of the AHIP survey are available at [www.ahip.org](http://www.ahip.org).

## Features of 'best selling' health savings accounts

In the large-group market, the America's Health Insurance Plans survey on health savings accounts included the following findings on what respondents said were their "best selling" HSA products:

- The average annual deductible for single coverage averaged was \$1,607, while the deductible for family coverage averaged \$3,000.

- The average annual out-of-pocket limit averaged \$3,190 for single coverage and \$6,350 for family coverage.

- The average lifetime maximum benefit for both single and family coverage averaged \$2.1 million.

Under law, HSAs must be

linked to high-deductible health insurance plans. Both employers and employees can make tax-deductible contributions to HSAs, which are used to pay for uncovered health care expenses, such as those falling under the plan deductible. Enrollees can withdraw funds from the HSAs tax-free to pay for health care expenses. Unused account balances can be rolled over at the end of the year to pay for medical expenses incurred in succeeding years.

When employees retire, they can tap HSA balances, tax-free, to pay for retiree health care expenses, such as Medicare premiums.

—By Jerry Geisel

## PRODUCTS & SERVICES

PHOTO: AFP



### Lexington offers outsourcing endorsement

**NEW YORK**—Lexington Insurance Co., an American International Group member company, is offering an endorsement to its property policy that addresses outsourcing risks.

The Outsourcing Protector is intended to protect companies from emerging outsourcing-related risks not covered by traditional property policies. The endorsement covers business interruption costs and extra expenses incurred due to fires and other covered causes of loss that occur at the outsourcing vendors' facilities. Also, if terrorism and/or cyber-related coverages have been purchased in the property policy, the endorsement will indemnify these risks as well.

The limit is subject to individual risk underwriting but is not to exceed \$10 million.

For more information, contact John Foreman, vp-Lexington Property at 617-330-8429 or at [outsourcingprotector@aig.com](mailto:outsourcingprotector@aig.com).

### Crump Financial launches mortgage E&O program

**NASHVILLE, Tenn.**—Crump Financial Services Inc. of Nashville, a subsidiary of Crump Insurance Services Inc., is offering an errors and omissions program for mortgage bankers and brokers.

Crump Financial and Atlanta-based ACE Westchester Surplus Lines Insurance Co. have partnered to

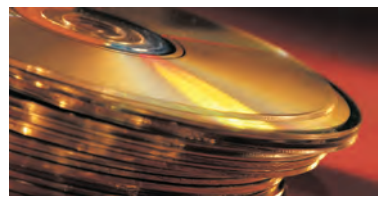
offer the Prime Advantage E&O policy and fidelity bond. The program features coverage for independent contractors and leased employees, coverage for demands for nonmonetary relief, defense costs for defective title claims and an enhanced settlement clause with a 70/30 provision, among others. Some of the fidelity bond features include fraudulent document coverage, computer fraud coverage and forgery and securities coverage.

The E&O and fidelity limits are available up to \$2 million. Higher limits are available on a case-by-case basis.

For more information, visit [www.primeadvantage.crumpins.com](http://www.primeadvantage.crumpins.com).

### Law firm issues risk management DVD

**ANCHORAGE, Alaska**—Knutson & Associates Inc., a law firm specializing in the outdoor recreation industry, has developed a risk management educational tool to assist outdoor recreation businesses in managing legal risks.



The "State of Risk" DVD provides instruction on how to develop a risk management plan, along with instruction on the principles of negligence-oriented claims and the types of claims that are made against recreation providers. It is targeted to guides, outfitters, educators and land administrators.

Educational literature also accompanies the DVD and includes a PDF outline providing details on the case studies referenced in the DVD,

and two documents, one describing the Supreme Court decisions on use-of-release and waiver contracts, and the other listing current outdoor recreation legislation for each state.

To order a copy of the DVD or to learn more, visit [www.traceyknutson.com](http://www.traceyknutson.com).

### MetLife introduces critical illness coverage

**NEW YORK**—MetLife has unveiled its new Critical Illness Insurance products available on a group or individual basis.

Employers can offer the New York-based MetLife's new Critical Illness Insurance through the workplace to their employees. It provides coverage for six prevalent critical illnesses, including cancer, coronary artery bypass graft, heart attack, kidney failure, major organ transplant and stroke.

A lump sum of up to \$100,000 is paid to an individual who experiences one of the covered conditions. The payout offers financial flexibility and can be used to help pay for additional expenses associated with the illness, such as travel to treatment centers and medical and prescription drug deductibles.

For more information, visit MetLife's Web site at [www.metlife.com](http://www.metlife.com).

### Target Insurance offers new coverage programs

**AVON, Conn.**—Target Insurance Services is launching professional liability programs for accountants, home inspectors and large law firms.

The Accountants Professional Liability Program is targeted to accounting firms with \$3 million or less in annual revenue. The policy

includes terrorism coverage, prior acts coverage and coverage for trustee services, among others. Limits are available up to \$10 million.

The Home Inspectors Professional Liability Program is available in all states except for Alaska and Hawaii. Some of its offerings include coverage for residential and light commercial inspections, optional general liability and optional endorsements for radon, termites, lead and septic. Limits are available up to \$1 million.

The third new market, Professional Liability Program for Lawyers 50+, accommodates law firms with 50 or more attorneys. Its primary and excess policies provide defense reimbursement, title agent, notary public and arbitration/mediation coverage. Limits of up to \$10 million are available.

For more information, visit the Avon, Conn.-based company's Web site, at [www.target-capital.com](http://www.target-capital.com).

### Reed Group releases disability resource

**WESTMINSTER, Colo.**—Reed Group L.L.C. has released the Internet version of the fifth edition of The Medical Disability Advisor. It features workplace disability duration guidelines and is developed for professionals who require familiarity with the injuries and illnesses of employees.

The latest edition of the MDA features rehabilitation guidelines for musculoskeletal conditions, American Medical Assn. Current Procedural Terminology codes with procedure descriptions, highest-frequency workers compensation conditions, and incidence and prevalence conditions and procedures, among others. The publication also includes information on the factors influencing the length of disability, predicted outcomes and

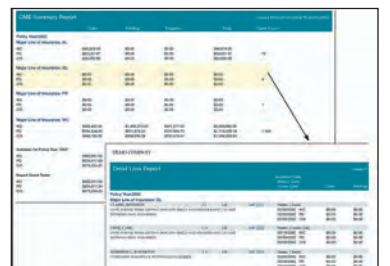
prognosis and work restrictions and accommodations.

This product is available in other formats, including multivolume textbook, CD-ROM and data integration linking to proprietary claim or case management systems; all will be available August 2005. To learn more about the Westminster, Colo.-based Reed Group's latest MDA release, contact the company at 866-889-4449.

### St. Paul Travelers updates RMIS product

**HARTFORD, Conn.**—St. Paul Travelers Inc. has enhanced its risk management information system e-CARMA.

The expanded e-CARMA product features a new executive-level reporting function that uses the system's Web-enabled Company At



A Glance tool to provide thumbnail reports, including financial summary, loss trending and claim frequency by region.

The Red Flag alert capability identifies and posts information that will affect overall loss costs. Other features include an online scorecard that provides client-specific graphs examining the trends driving loss costs; and a triangle facility that allows users to investigate loss data over time.

For more information on the Hartford, Conn.-based St. Paul Travelers e-CARMA system, visit [www.stpaultravelers.com](http://www.stpaultravelers.com).

## WellPoint: Lumenos to help steer toward consumer-driven opportunities

Continued from page 1  
ucts.

Under the terms of the transaction—expected to close in the second quarter and subject to approval under federal antitrust laws—publicly traded WellPoint will pay Lumenos' private investors approximately \$185 million in cash. The deal will not impact WellPoint's 2005 earnings, the firm said.

WellPoint, which had a total enrollment of 28.5 million as of March 31, is the biggest managed care firm in the country, operating under the Blue Cross and Blue Shield name in 13 states, and through non-Blue branded operations in other states.

Formed in 1999, Lumenos has projected revenues of nearly \$45 million for 2005, and an enrollment of about 214,000 among 88 self-funded clients, of which roughly one-third are Fortune 1000 and Global Fortune 500 companies. The company was ranked the third-largest consumer-driven health plan by *Business Insurance's* 2005 ranking of the nation's leading CDHP providers.

"Lumenos is already an established CDHP, so WellPoint can use what Lumenos already has, and offer it to their customers," said Sally Rosen, a senior financial analyst with Oldwick, N.J.-based A.M. Best Co.

Lumenos' plan offerings include health savings accounts and health reimbursement arrangements in all 50 states, that enrollees use to pay for costs not covered under the high-deductible insurance plan to which the accounts are linked. The

company also has a health incentive account product that grants employees cash rewards for taking steps towards health improvement. Additionally, last month Lumenos introduced the "Next Generation" HSA which permits movement between HRA and HSA plans, and carry-over of unused HRA dollars to offset potential coinsurance costs under HSAs.

These types of products, which place more of the onus of health care spending on consumers rather than employers, are growing in popularity. A survey released last week of 99 members of the Washington-based trade group America's Health Insurance Plans found that nearly 1.03 million people were enrolled in high-deductible HSA-linked plans as of March—up from 438,000 in September 2004 (*BI*, January 17).

The health care market overall is seeing "trending toward the product side," and "trending towards higher-deductibles," said John L. Ward, a Cincinnati-based independent insurance analyst.

"There's been a long list of mergers and acquisitions in the history of Anthem and WellPoint, and this is a comparatively small one," Mr. Ward noted. But, "It's strategic in the sense that it's a real commitment to this next generation of consumer driven health care."

According to John Watts, president and chief executive officer of national accounts for WellPoint, "The interest in consumer-directed products is high and growing all the time."

Although WellPoint previously

had never teamed up with Lumenos, Mr. Watts said, their management saw that Lumenos "had a very strong leadership position in the area of consumer-driven health products and we thought it would be a very good opportunity to bring that resource into our company."

Mr. Watts stressed, "We are going to work really hard to embrace their culture as it pertains to consumerism."

Indeed, although Lumenos will

**'We are going to work really hard to embrace their culture as it pertains to consumerism.'**

**John Watts**  
WellPoint Inc.

now operate as a wholly-owned subsidiary of WellPoint, the agreement between the two companies ensures that the Lumenos name will remain intact. In addition, the company will continue to be headquartered in Alexandria, Va., and its CEO, Chip Tooke, and all management and staff will be retained.

"The most important thing to us, because we have been so pleased with Lumenos, is that the management stays in place," said Deborah Sanders, senior director, human resources at Fujitsu America Inc. in Richardson, Texas.

Fujitsu became a Lumenos client in 2003, and began offering its HRA product to employees last January. Since then, the technology firm has seen enrollment grow to more than 7,000 employees and dependents.

According to Lumenos' Chief Strategy Officer, Doug Kronenberg, conversations with WellPoint that led up to the last week's acquisition announcement were heavily centered upon the importance of maintaining the Lumenos brand.

"We've spent five-and-a-half years building an identity completely on consumer-driven health care," Mr. Kronenberg said. "It only makes sense if we continue to operate as we have in the past."

Not that the health plan wants to function precisely as it always has; the major anticipated change for Lumenos spurred by the deal is increased access beyond its current network of 375,000 doctors and 50 hospitals and other health care providers nationwide.

As a relatively young company, Lumenos will now have the opportunity to "grow a lot faster with the type of resources that WellPoint has," Mr. Kronenberg said.

"We're going to be adding millions of consumers to the plan instead of thousands," he said of the marriage.

Helen Darling, president of the Washington-based National Business Group on Health views the acquisition as "a clear signal" that high-deductible and consumer-centric plans are in great demand by the large insurers. Meanwhile, employers for several years have been

saying they are interested in consumerist models, but in truth, "they are a little nervous about them," Ms. Darling said. The fact that large publicly held health plans are offering CDHP's, however, gives employers greater comfort.

Furthermore, she said, many employers like being able to offer consumer-directed plans and more traditional plan designs through just one carrier, she said.

"The tools we've had so far have been great," said Ms. Sanders of Fujitsu, but with the additional capital support that will be provided by WellPoint, she also hopes that Lumenos will be able to enhance their suite of consumer health tools.

"What was really a nascent industry has really gone mainstream," said Jay Savan, health and welfare group leader at Towers Perrin in St. Louis. "On the one hand it's a good thing, because it broadens the reach," but, he cautioned, it also "provides the opportunity to squelch innovation."

"When a small entity is gobbled by a bigger entity, typically some of the innovation is lost," Mr. Savan has observed, due partly to added layers of bureaucracy. "The industry is now really owned by the major carriers. There really are no independents anymore."

"There's just not a whole lot of movement opportunity left in the market" in terms of consolidation of CDHPs, Mr. Savan asserted. But, he noted, "that is not necessarily a bad thing, because one of the things that corporate buyers look for in the marketplace is stability."

## Brokers: Compensation scandal fallout hurts first-quarter results

Continued from page 4

Executives said last week that additional charges of about \$225 million, representing severance for the elimination of an additional 800 to 1,000 positions and real estate costs, will be spread over the remainder of the year.

While cost control and reduced expenses contributed to a 17.6% rise in net income to \$200 million for the first quarter at Aon Corp., revenues from its risk and insurance brokerage service segment were down 4.4% to \$1.40 billion. Excluding contingent commission income, which was \$12 million in the quarter compared with \$35 million in the first quarter of 2004, organic revenue declined 3%. The contingent commissions represent revenues from agreements that were in place prior to Aon's decision last year to stop taking the commissions.

Aon earlier this year agreed to pay \$190 million to settle charges from Mr. Spitzer and other authorities related to the brokerage's placement practices.

In addition to softening rates and significant declines in contingent commission revenues, executives from both firms say distractions associated with the investigations and resulting settlements hampered new business production and resulted in lost business in their U.S.

brokerage operations.

"We announced our settlement during the first quarter," said David P. Bolger, Aon's chief financial officer, in its conference call to analysts. "I think there was still a lot of noise and distraction about the investigations and the impact and I think that was partly reflected in lower new business than what we expected."

"It's hard to imagine more adversity for a company and its employees than we had at Marsh," Michael G. Cherkasky, president and chief executive officer, said in a conference call to analysts, referring to MMC's retail brokerage unit Marsh Inc. "We were under investigation, our integrity had been questioned, employees were uncertain if they had jobs, there was new management and a new business model was in development. Distractions were in every corner and every water cooler," he said.

He cautioned that Mr. Spitzer's investigation has not ended.

"We have some ongoing criminal investigations in the New York AG's office for people who used to be with this company (and) we expect there will be other pleas and indictments," he said. "It's not something that is over and I don't want anyone to think that we think it's over."

In their respective conference calls, executives discussed their business models going forward as they seek ways to recoup lost contingent commission revenues.

Marsh's Mr. Cherkasky said that the insurance industry in the United States has "largely accepted" its higher standardized commission rates.

**'It's hard to imagine more adversity for a company and its employees than we had at Marsh.'**

**Michael B. Cherkasky**  
Marsh & McLennan Cos. Inc.

Earlier this year, the brokerage announced that it was moving to a standardized rate card for insurers in the United States and would abandon unprofitable—predominately small—accounts. (*BI*, March 7).

The standardized rates are being phased into place in the third quarter and are expected to recoup up to 25% of the revenue lost in the elimination of contingent commissions, Mr. Cherkasky said on the confer-

ence call.

"The volume of conversations we've had are going very, very well," Mr. Cherkasky said. "There are a couple of carriers who we need to have more conversations with. They understand what we are proposing...but there still is certainly a reluctance with a couple to sign up to this."

He also noted that the process of shedding unprofitable accounts is well underway.

"The things that could be shed in the last few months have been, and we are actively in that process of moving out of that business," he said, noting that it is a year-long process due to the various timing of contracts.

### Aon's plans

When asked about whether Aon might follow suit by shedding unprofitable accounts, Gregory C. Case, Aon's president and CEO, said on a conference call, that he can't envision a circumstance in which Aon would "in an unqualified way" cut a segment of clients based "on pure economics."

"We owe them a level of service and commitment," he said.

Mr. Case, however, did say that Aon is in the process of gaining a better "micro" understanding of the

profitability or economics of individual accounts. Aon's overall goal, he said, is to help clients understand the tradeoff between what value Aon brings to the table vs. the cost for that value.

"If we can't get that balance, irrespective of the segment...then we certainly will walk away on a client by client basis," Mr. Case said. But "our effort is going to be devoted to and focused on getting our clients to understand that balance and that trade off," he said.

And for some clients that will mean higher costs, he said.

"We're going to go to the market in a very specific client-oriented way, segment by segment, product by product and bring them a set of solutions that we think will help them succeed," Mr. Case said. And if Aon does that consistently, then "the economics will take care of themselves."

In London, Aon Ltd. announced last week that in the face of market resistance it had abandoned its recently announced plan to impose a set fee on insurers when placing risks in London, instead agreeing on an alternative model with the International Underwriting Assn. (see story, page 21).

Mr. Cherkasky said that Marsh is still working out its commission structure going forward in London.

# Greenberg hits back at AIG board on 'vile accusations'

By DOUGLAS McLEOD

**NEW YORK**—Maurice R. Greenberg responded angrily last week to American International Group Inc.'s decision to restate nearly five years of its financial results, even as investigations into the company reportedly expanded to include a

probe into whether Mr. Greenberg tried to manipulate AIG's stock price before his March resignations as chairman and chief executive officer.

In a May 4 letter to AIG board members that highlights the widening gulf between Mr. Greenberg and the company he built, Mr.

Greenberg sharply criticized the company's decision to change its accounting for numerous transactions going back to 2000.

He also attacked AIG's conclusion that its internal controls were weakened, in part, by the ability of "certain former members of senior management" to circumvent the controls in some cases.

"Given the innuendo contained in AIG's release of May 1 which can be interpreted as impugning the integrity of prior and present AIG management, I was surprised that this press release provided no factual basis to explain why AIG or PricewaterhouseCoopers changed its position" on the accounting issues, Mr. Greenberg wrote. "It is clear that the restatement entails hindsight analysis about complicated accounting issues which were originally made on a good-faith basis both by management (former and present) and AIG's auditors without objection or inquiry from the board."

Mr. Greenberg also complained that AIG reached its conclusions without consulting him or former Chief Financial Officer Howard I. Smith, who was fired for refusing to cooperate with New York state and federal inquiries.

"To have all of the accomplish-

ments of my management team spoiled by judgments seemingly based upon incomplete facts is exceedingly disturbing," he told AIG directors. "I have known many of you for a long time and am puzzled by your refusal to share sufficient information with me to permit me to respond to the vile accusations being made against me."

Meanwhile, federal prosecutors in New York are investigating whether Mr. Greenberg tried to manipulate the price of AIG shares earlier this year, the New York Times reported Friday, citing sources officially briefed on the inquiry. The price of AIG stock began a steep decline in late February, after the company disclosed that it had been subpoenaed by New York Attorney General Eliot Spitzer and the U.S. Securities and Exchange Commission regarding certain of its own assumed reinsurance transactions.

In recorded conversations with an AIG trading executive in February, Mr. Greenberg ordered the trader to buy AIG shares, the paper reported. The purchases may have violated federal securities laws, the newspaper reported.

The conversations, captured by a recording system used by the trading division, were reviewed by AIG and its lawyers and turned over to

the U.S. Attorney for the Southern District of New York in Manhattan and to the SEC, according to the report. Federal prosecutors have since subpoenaed all of the AIG trading group's recordings, the report said.


A spokesman for the U.S. attorney's office declined to comment.

An AIG spokesman declined to comment beyond saying "we are cooperating with regulators in their inquiries to the fullest extent possible."

A spokesman for Mr. Greenberg's legal team said the lawyers have not been able to review recordings or a transcript and therefore could not comment.

Mr. Greenberg has faced questions about possible AIG stock manipulation before: federal authorities last year pursued an investigation into a 2001 effort by Mr. Greenberg to enlist the help of Richard Grasso, then head of the New York Stock Exchange, to shore up AIG's share price. The insurer was then in the process of its \$23 billion acquisition of American General Corp., an acquisition that would have cost AIG more if its stock dropped below a defined level before the deal closed.

That investigation has reportedly been closed.



**Maurice R. Greenberg**  
Former AIG chairman and CEO

"There is no factual basis to explain why AIG or PricewaterhouseCoopers changed its position."

"To have all of the accomplishments of my management team spoiled by judgments seemingly based upon incomplete facts is exceedingly disturbing."

## AIG equity cut by \$2.7 billion

By JUDY GREENWALD

**NEW YORK**—American International Group Inc. said it will restate more than four years of financial reports, which will cut its stockholders equity by \$2.7 billion, or about \$1 billion more than its earlier estimate of \$1.66 billion.

The \$2.7 billion cut, though, still represents just 3.3% of its \$82.87 billion in stockholders equity as of Dec. 31, 2004. The company also said it will file its delayed 10-K annual report with the U.S. Securities & Exchange Commission by May 31.

AIG's statement, which reports on its internal review, also details "certain control deficiencies," including the ability of certain unidentified former members of senior management—widely presumed to be former Chairman Maurice R. Greenberg and former Chief Financial Officer Howard I. Smith—to "circumvent internal controls over financial reporting in certain circumstances."

Mr. Greenberg took issue with the AIG statement in a caustic letter to the company's board of directors (see related story).

The May 1 statement also cites ineffective controls over accounting for certain structured transactions and ineffective balance sheet reconciliation practices.

AIG President and Chief Executive Officer Martin J. Sullivan said in a statement that "we now

know that there were serious issues with our internal controls and that it is necessary for us to address those issues and strengthen our controls."

AIG said that, as a result of the review, it will restate its financial statements for the years ended 2000 through 2003, for the quarters ended March 31, June 30 and September 30 in 2004 and 2003, and for the quarter ended Dec 31, 2003.

The \$2.7 billion reflects \$2 billion of accounting errors and \$700 million of incorrect estimates of taxes, acquisition costs and other contingencies and allowances, the statement said.

Areas where there will be accounting adjustments include:

- **Risk transfer.** AIG said, based upon its internal review, "there was insufficient risk transfer to qualify for insurance accounting for certain transactions." It specifies transactions involving Union Excess Reinsurance Co. Ltd., a Barbados-domiciled reinsurer, and transactions involving a subsidiary of General Re Corp., among others. A 2000 loss portfolio transfer AIG assumed from Gen Re has been under investigation by the office of New York Attorney General Elliot Spitzer and the SEC.

- **Asset realization.** The company said it has concluded that adjustments should be made to the value of certain assets included in its consolidated balance

sheet.

- **Net investment income.** AIG said it has determined that the accounting for certain transactions had the effect of improperly converting capital gains into net investment income and was inconsistent with Generally Accepted Accounting Principles.

The company also found that its accounting for certain derivatives was incorrect and needs to be adjusted. Under the Financial Accounting Standards Board's Financial Accounting Standards No. 133, derivatives used for hedging must be specifically matched with the underlying exposures and appropriately documented, but AIG "did not meet these requirements," according to its statement.

The derivatives adjustment will increase the company's shareholders equity as of Dec. 31, 2004, by \$2.4 billion. It will not, though, change AIG's liquidity or overall financial condition.

Meanwhile, Chicago-based CNA Financial Corp. said it would restate its financial statements for year-end 2004, 2003 and 2002. The insurer said its move is based primarily on reconsideration of its accounting for its former equity interest in Hamilton, Bermuda-based Accord Re. Ltd., and for several reinsurance contracts with Accord Re. CNA acquired a 49% ownership in Accord when it acquired the Continental Corp. in 1995.

## Restatement: Finite deals lead AIG, CNA to change accounts

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ers' equity, because of accounting errors that misled investors about its fiscal health. The company said it would also further delay its already postponed 10-K filing with the Securities and Exchange Commission until no later than May 31.

In March, AIG projected that restatements stemming from accounting probes could lead to a \$1.66 billion decrease in sharehold-

More insurers will likely restate their accounts as they scrutinize their financial reinsurance deals, observers say.

ers' equity but that an extensive review of its books was continuing (BI, April 4).

Chicago-based CNA said that its restatement, which will correct its accounting for several reinsurance contracts with a former Bermuda-based affiliate, would result in a \$29 million reduction in its shareholders' equity, or 0.3% of the total as of Dec. 31, 2004.

In addition, Sydney, Australia-based Zurich Financial Services Australia Ltd. said last week it is delaying issuing its 2004 results while it holds discussions with Australian regulators over how it should ac-

count for five-year-old finite reinsurance arrangements.

Others who have already restated their financial reports include Armonk, N.Y.-based MBIA Inc. The financial guarantee insurer said in March it would restate its financial statements for 1998 and subsequent years to correct its accounting testimony of two financial reinsurance agreements with the former Zurich Reinsurance North America (BI, March 14).

In addition, Hamilton, Bermuda-based RenaissanceRe Holdings Ltd. said it is restating its earnings for

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## Restatement: AIG, CNA to change accounts

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2001 through 2003 after concluding that it accounted improperly for transactions with finite reinsurer Inter-Ocean Holdings Ltd., which has been placed in runoff (*BI*, April 11).

### More expected

More such announcements should be expected as insurers put their financial reinsurance transactions under scrutiny, say observers.

"Insurance accounting in general is somewhat subjective, and there are certain ambiguities associated with certain products that have been sources of growth more recently," said Mark Lane, a principal and research analyst with William Blair & Co. in Chicago.

"So within this environment, companies are also going to try to proactively make changes so that the regulators don't make them make changes," he said.

"We're in an environment where regulatory scrutiny is extremely high. Accountants and regulators are interpreting situations differently than they did when all of these transactions were put on," said Mr. Lane.

Gregory Taxin, CEO of San Francisco-based Glass, Lewis & Co., which advises institutional investors, said, "What you're going to see in the insurance industry more broadly is audit committees focusing carefully on the accounting issues that have been identified at

AIG and CNA, and probing management on those same topics, and that may well lead to additional restate-

**"Within this environment, companies are also going to try to proactively make changes so that regulators don't make them make changes."**

**Mark Lane**  
William Blair & Co.

ments."

John L. Ward, a Cincinnati-based independent insurance analyst, said: "It would almost be surprising if there were not more restatements and announcements, because it's a complicated area undergoing tremendous scrutiny. There have to be more restatements in the works."

New York-based independent insurance analyst Myron M. Picoult noted that transactions now under scrutiny had previously been vetted and approved. Now, he said, judgment calls are being made on the rules, which were never well defined and perhaps not enforced, and being applied retroactively. The second-guessers "are coming out of the woodwork," he said.

### Eyes on AIG

Meanwhile, in reaction to AIG's announcement, rating agencies A.M. Best Co., Fitch Ratings and Moody's Investors Service all lowered AIG's ratings.

Best downgraded the financial strength ratings of most AIG insurance subsidiaries to A+ from A++, Fitch cut AA+ from AAA all of AIG's AAA insurance company ratings, and Moody's lowered the insurance financial strength and debt ratings of several AIG entities.

After AIG's May 1 announcement, its stock rose more than 5% the next day, to \$53.44, although it closed still far below its 52-week high of \$74.98.

Mr. Lane said, "I don't think the earnings restatement was shocking," given the nature of the issues already disclosed, the complexity of its business and the current environment.

Nor was the latest 10-K delay a surprise, said Mr. Lane.

"The additional findings confirm that there was broad earnings management at AIG for at least the last five years," he said. "But I think the market reacted favorably, given that we didn't see a huge adjustment from the prior expectations that management laid out."

While the additional \$1 billion hit to stockholders' equity is large on an absolute basis, on a relative basis it is "very manageable," he said.

## Late News

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claim in a Florida court. Florida is the third state to approve such medical criteria legislation in the last year, joining Ohio and Georgia.

### Guy Carpenter broadens compensation disclosure

Guy Carpenter & Co. Inc. has launched a compensation disclosure program for its global facultative reinsurance placements. The reinsurance brokerage unit of Marsh & McLennan Cos. Inc. will now disclose to clients the range of facultative brokerage rates that apply in regions of the world where it operates and any upward deviations from those rates, and will work with brokers or other representatives of policyholders only when those policyholders agree to Carpenter's participation. It also will inform its ceding company clients if it shares placement revenue with a retail agent or broker. The Marsh unit previously implemented a similar disclosure policy covering treaty business.

### Willis hires benefits team from Marsh

Willis Group Holdings Ltd. has expanded its employee benefits practice in New York with the addition of a team of six former Marsh Inc. benefits professionals. Lauret McCabe, a former managing director of Marsh, is now executive vp and New York employee benefits practice leader for Willis. In addition: Robert Lustberg, a former Marsh senior vp and team leader, is now senior vp and client service leader at Willis; George Wilson and Shari Rock, former Marsh vps, are now senior vps and senior client managers at Willis; Pauline Sobelman, a former senior consultant at Marsh, is now vp and senior client manager at Willis, and Sarah White, a former Marsh assistant vp and benefit consultant, is now an assistant vp and client manager.

### Paxson, Zurich settle Sept. 11 claims

Paxson Communications Corp., an owner and operator of television stations, said it will receive a total of \$24.5 million under a settlement with a Zurich Financial Services Group Inc. unit related to damage to broadcast equipment caused by the Sept. 11, 2001, terrorist attacks. According to a spokeswoman for Paxson, the company filed claims for

property damage, business interruption and extra expense with its insurer, Zurich American Insurance Co., "within several days," of Sept. 11. An antenna, transmitter and other broadcast equipment for its New York television station, WPXN, were destroyed in the collapse of the World Trade Center.

### Long-term care liability costs, claims rising

Liability costs for the long-term care profession increased 182% between 1996 and 2004, according to a study by Aon Corp. Taking an even longer view, the "Long Term Care 2005 General Liability and Professional Liability Benchmark Analysis" found that the annual patient care liability cost for each occupied bed in a long-term facility jumped from \$430 in 1993 to \$2,310 last year. The research also found that the number of claims annually that long-term care operators incurred rose from 6.2 per 1,000 occupied skilled nursing care beds in 1996 to 13.1 per 1,000 in 2004.

### CIGNA posts profit rise, announces staff cuts

CIGNA Corp. reported \$436 million in net income for the first quarter of 2005—up from \$68 million in the prior year—attributing the gain to the sale of its retirement benefits business and higher earnings in its health care, disability and life, and international businesses. Revenues decreased 8% to \$4.3 billion, though, as falling membership levels pressured premiums and fees. Total medical membership as of March 31 was 9.0 million, a 12% decrease from the prior-year period. CIGNA also announced that it is planning to cut about 1,700 jobs and took a charge of \$33 million for related severance costs.

### Briefly noted

**Jack Webb**, a former president of California's State Compensation Insurance Fund, has died at age 69. Mr. Webb, who joined SCIF in 1959 and served as its president from 1986 to 1995, had been undergoing treatment for lung cancer....An organization made up of employers, insurers and physicians has agreed on a starter set of 26 clinical performances for care provided in an ambulatory setting. The measures developed by the **Ambulatory Care Quality Alliance** cover such areas as cancer screening, asthma and depression and are intended to be utilized for quality improvement, public reporting and pay for performance programs.


## BI Stock Index [ 5/2 - 5/6 ]

Up-to-the-minute data for all the companies that comprise the BI Stock Index can be found at [www.businessinsurance.com](http://www.businessinsurance.com)

### Percentage change of BI Stock Index vs. key indicators

**BI Stock Index**   
**2353.09** **2.82**

**Dow Jones**   
**10345.40** **1.50**

**S&P 500**   
**1171.35** **1.25**

### Largest gains

Aon Corp.	16.16%
MetLife Inc.	11.95%
United Fire & Casualty Co.	9.27%
MBIA Insurance Group	9.03%
HCC Insurance Holdings	8.63%

### Largest losses

Vesta Insurance Co.	-7.76%
Harleysville Group	-6.93%
PMA Capital Corp.	-6.49%
NYP Magic Inc.	-3.69%
Lincoln National Corp.	-3.40%

### Weekly change by market segment

Brokers	4.93%
Insurers/Reinsurers	1.93%
Managed Care Organizations	2.68%

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



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New **Online Poll**: How likely is it that your company will offer employees health savings accounts linked to high-deductible insurance plans within the next 12 months?

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