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\$5

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Business Insurance

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Company thaws frozen defined benefit plan

In a rare step, research center offers combined benefit plan to attract, retain employees

By SALLY ROBERTS

EL SEGUNDO, Calif.—At a time when employers increasingly are phasing out their defined benefit plans, one California employer is going the other way and restoring its once-frozen traditional pension plan.

In a move the private, nonprofit company says will help it attract and retain workers, The Aerospace Corp. will again offer a defined benefit pension plan to all of its roughly 3,500 employees.

But rather than provide the same plan that it originally froze to new hires beginning in 1993 in favor of a new, more cost-effective defined contribution plan, the company is modifying both of its retirement plans and combining and

offering them in a single new program.

Unlike a hybrid pension plan—which legally is a defined benefit plan but includes both defined contribution and defined benefit features—Aerospace's new retirement program will involve both the traditional pension plan and the defined contribution plan, each offering about half of their current benefit levels.

All new hires as of April 1, 2005, will be put into the company's new combined retirement program. Current employees of the El Segundo-based company can either stay in their previous plan or join the new program.

Open enrollment will occur from July until August, and the combined program will become effective in October.

Aerospace Corp.

Headquarters: El Segundo, Calif.

Stats: Private, nonprofit company with around 3,500 employees.

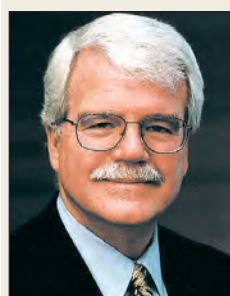
Business: Provides research, development and advisory services for the U.S. Air Force and other civil and commercial enterprises.

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Late News

Bill would deny PBGC funds for United deal

The House of Representatives voted last week to prevent the Pension Benefit Guaranty Corp.



Rep. Miller

from using funds to carry out its agreement with United Airlines to take over its pension plans. Rep. George Miller, D-Calif.,

attached the legislation as an amendment to an appropriations bill. Rep. Miller co-sponsored legislation last month that would place a six-month moratorium on bankrupt companies transferring their pension liabilities to the PBGC in the same manner as United.

AIIG unit to open branch in Vietnam

American International Underwriters Insurance Co., a unit of American International Group Inc., has been licensed to operate a multiline insurance business in Vietnam. Hanoi-based AIIG General Insurance (Vietnam), which will write commercial and personal property/casualty coverage, is expected to begin operations before year's end.

Aetna to acquire health network

Aetna Inc. is acquiring HMS Healthcare Inc., a regional health care network company, for about \$390 million. The deal will enable Aetna to strengthen its local market presence, particularly in Michigan and Colorado, and to enter the market for providing network access to other health plans in those states. HMS Healthcare's networks encompass

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Study calls for broadening U.S. terror coverage

RAND report cites TRIA gaps

By ROBERTO CENICEROS

While policyholders and insurers await a key U.S. Treasury Department report on long-term proposals for terrorism insurance, a study released last week maintains that merely extending the availability of the current coverage is inadequate.

Coverage now available under the federal Terrorism Risk Insurance Act falls short because terrorism threats are evolving, with international and domestic terrorists increasingly placing private-sector companies in their crosshairs, according to a RAND Corp. study financed by policyholders and insurers and released last week.

Still, the study concludes that allowing TRIA to expire without additional congressional action would only magnify the economic consequences of an attack. The study suggests that Congress consider policyholder subsidies or other measures that would encourage companies to purchase terrorism coverage.

The RAND Center for Terrorist Risk Management Policy released its study, "Trends in Terrorism: Threats to the United States and the Future

See RAND / page 21

IRS to examine captives for possible tax changes

Comments sought on cell deals, loanbacks, 'homogeneity'

By JERRY GEISEL

WASHINGTON—The U.S. Internal Revenue Service, in a first step that could lead to sweeping new rules, is asking for public comment on whether a wide variety of captive insurance funding and design arrangements are, in fact, insurance and thus entitled to favorable tax treatment.

In Notice 2005-49, the IRS and the Treasury Department, saying that they are aware of the need for more guidance in several captive-related areas, want comments on:

- What factors should be taken into account in determining whether cell captive arrangements should be considered insurance.

In typical cell arrangements, which have proliferated in recent years, a commercial insurer will "sponsor" a captive. That captive, in turn, will be broken down into segregated cells funded by individual insureds or clients to cover their own risks.

Such arrangements, promoters say, are attractive to employers that don't want to go through the time and expense of setting up their own captive insurers.

- Whether the qualification of an arrangement between related parties as insurance is affected by

a loanback of amounts paid as "premiums."

In such arrangements, also not uncommon, a captive parent, after contributing capital and premiums to the captive, will obtain a loan from the captive from the assets the captive holds and pay interest to the captive on that loan.

- What relevance "homogeneity" has to determine whether risks are adequately distributed for an arrangement to qualify as insurance.

While no one is sure—until the IRS provides more detail what the IRS is referring to—experts say the homogeneity issue, in general, refers to insurers providing line of coverage to many insureds in the same or similar industries or having many policyholders in single lines of coverage.

- In an issue that could have ramifications beyond the captive insurance industry, the IRS is asking for comments on the federal income tax issues raised by transactions involving finite risk.

While captive and tax experts aren't sure what triggered the IRS to seek comments, many welcome the guidance to fill an information vacuum.

"Taxpayers would like to have clear and consistent guidelines. There is a lot of confusion out there. Putting some parameters out there is a

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INTERNATIONAL

AIRMIC 2005
conference
report



U.K. sees liability
rate hikes slow

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Inside

Underwriters Labs issues marks of performance

In an update to its safety endorsements, UL has released performance marks. **Page 4**

Bill Clinton urges unity on health care reform

The former president urges politicians and insurers to work for reform. **Page 4**

Top N.Y. court throws out block to WellChoice change

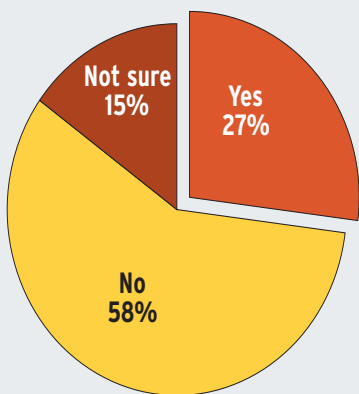
The former Blues plans' conversion to for-profit status is valid, the court ruled. **Page 4**

U.K. buyers see slowdown in liability rate hikes

The U.K.'s competition body finds that coverage cost increases are moderating. **Page 17**

Online poll - [6/20 - 6/24]

In light of the recent insurance industry investigations, are you any less likely to use alternative risk transfer products than you were a year ago?



Participate in BI's online polls at www.businessinsurance.com.

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REPORTING ON CORPORATE RISK AND EMPLOYEE BENEFIT MANAGEMENT NEWS

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Senators seek more detail on pensions

By JERRY GEISEL

WASHINGTON—Two key members of the Senate Finance Committee are sending letters to the three dozen companies they say have the nation's most severely underfunded pension plans seeking more information on those plans.

The letters are being sent by Committee Chairman Charles Grassley, R-Iowa, and Sen. Max Baucus, D-Mont., the committee's ranking minority member, as part of an effort to draft rules to tighten pension funding rules. The lawmakers are asking the 36 unidentified companies to provide such information as the current value of assets and liabilities, the amount of credit balances they have used and where plan assets are invested.

The information request, the senators say, is to help them understand the scope of pension underfunding and to assist them in drafting comprehensive reform legislation to prevent future dramatic underfunding.

"By being able to get more accurate infor-



Sens. Grassley (left) and Baucus are trying to understand pension underfunding, with an eye to drafting reform legislation.

mation about what's going on in some of the plans that may have problems, we'll be able to do a better job of reforming our pension plans," Sen. Grassley said in a statement.

House proposal advances

Meanwhile, a House subcommittee last week approved on a voice vote legislation to

tighten pension funding rules and better protect the Pension Benefit Guaranty Corp. from losses.

The bill, proposed by several House Republican leaders and approved by the Employer-Employee Relations subcommittee, would reduce to seven years the time employers have to amortize pension liabilities, bar employers with plans less than 80% funded from boosting benefits or claim credit for prior contributions that exceeded minimum contributions. The measure also would bar employees from accruing new benefits if their plans were less than 60% funded and require an acceleration of contributions for such severely underfunded plans.

Other provisions would require employers to value plan liabilities using interest rate assumptions tied to plan demographics and gradually increase the base annual PBGC premium to \$30 per plan participant from \$19.

The measure now heads to the House Education & the Workforce Committee, where a vote is expected this week.

Risk managers should speak louder on public policy, says AIA's Vagley

By MARK A. HOFMANN

WASHINGTON—Risk managers could have an influential voice on Capitol Hill, if only they would use it, says one of the highest-profile figures in the insurance industry.

That's particularly critical because many of the issues of importance to risk managers as well as insurers—tort reform, the nature of insurance regulation and the insurance implications of terrorism—are likely to remain in play for the foreseeable future, said Robert E. Vagley. Mr. Vagley, who has been president of the American Insurance Assn. since 1986, will step down from that post at the end of the month. Former Montana Gov. Marc Racicot will succeed him Aug. 1.

Mr. Vagley came to AIA via Capitol Hill, where he served as chief counsel for the House Committee on Education and Labor under the late Chairman Carl Perkins, D-Ky., in the 1970s. He left the Hill for private practice in 1980, and found that his previous work on black lung compensation "gave me a

window into the insurance industry." Six years later, he succeeded Larry Jones as AIA president.

During an interview earlier this month, Mr. Vagley said the biggest change over the past two decades has been the broadening of the scope of industry issues. "Our issues have transitioned from essentially local and state regulatory matters to huge 'bet-the-company issues,' such as asbestos liability and the Terrorism Risk Insurance Act," he said. "We have had to become more sophisticated."

He noted that during his first AIA board meeting, specific rating issues in specific states dominated the agenda. At AIA's most recent board meeting, larger issues like TRIA and tort reform came to the fore, he said. "The issues have gone from local to global, national and terribly consequential."

The nature of regulatory issues has changed, too. AIA broke with the rest of the industry in the early 1990s by advocating a

See VAGLEY / page 6



Robert E. Vagley

President, American Insurance Assn., since 1986

Age: 65

Previous career: Partner, Preston, Thorgrimson, Ellis & Holman, 1980-86; various positions including

chief counsel on the U.S. House of Representatives' Committee on Education & Labor, 1965-80.

Education: Bachelor of Science and Master of Arts, Pennsylvania State University; Juris Doctor degree, Georgetown University.

More insurers facing scrutiny on finite deals

By RUPAL PAREKH

Investigations into finite risk products intensified last week, with General Electric Co. and CNA Financial Corp. both announcing that they have received subpoenas from the U.S. attorney's office for the Southern District of New York.

Fairfield, Conn.-based GE in a statement said the subpoena it received is "general in nature" but acknowledged that its insurance arm, GE Insurance Solutions of Kansas City, Mo., has "made limited use of reinsurance with finite characteristics to manage the risks of catastrophic events such as storms or hurricanes and to protect itself and GE shareowners from the volatility that is inherent in its business."

Chicago-based CNA, meanwhile, announced its subpoena in an 8-K filing with the U.S. Securities and Exchange Commis-

sion. CNA also noted that the SEC is seeking additional documents related to its recent earnings restatement and its accounting for reinsurance contracts with Hamilton, Bermuda-based Accord Re Ltd.

Both GE Insurance Solutions and CNA were previously served with similar subpoenas by the SEC.

Several other insurance and reinsurance firms—ACE Ltd., Assurant Inc., Bristol West Holdings Inc., PartnerRe Ltd., Platinum Underwriters Holdings Ltd., St. Paul Travelers Cos. Inc., RenaissanceRe Holdings Inc. and XL Capital Ltd.—reported receiving finite risk-related subpoenas from the U.S. attorney earlier this month.

All of the companies that received subpoenas said they plan to cooperate with the requests.

Meanwhile, Fairfax Financial Holdings Ltd. said last Friday that its Fairmount Specialty

Group subsidiary has received a subpoena from the SEC that seeks information on "any nontraditional insurance product transactions" with General Re Corp. and its affiliates.

Toronto-based Fairfax said that Fairmount is cooperating with that request.

Previously, Philadelphia Consolidated Holdings Corp. said it had received a similar subpoena from the SEC that specifically seeks information on two of its units' dealings with Gen Re.

Two former Gen Re executives earlier this month week pleaded guilty to conspiracy charges stemming from an investigation of a \$500 million retrocessional loss-portfolio transfer deal the reinsurer struck with American International Group Inc. (BI, June 13). AIG earlier acknowledged that it accounted for the deal improperly and has restated its earnings accordingly.

Underwriters Labs issues performance marks

By MICHAEL BRADFORD

NORTHBROOK, Ill.—New marks from Underwriters Laboratories Inc. are signaling that some safety products can stand up to the performance rigors for which they have been designed.

The marks were developed because UL was "seeing a lot of dual use of equipment," explained Chris Hasbrook, general manager of the Northbrook, Ill.-based certification organization's Fire, Safety & Security and Environmental Services unit. Cameras used for security systems or global positioning systems, for example, can be installed both for

recreational and security uses.

UL has always tested safety and security devices for shock, fire and other hazards but is implementing the additional standards designed specifically to show that signaling and security equipment is not only free of those risks but will operate as expected.

Property owners and insurers now can choose products that bear the new marks to show they have undergone "performance testing" to prove they will hold up under rigorous environmental and workplace conditions, Mr. Hasbrook said. The new marks differentiate those products from similar prod-

ucts that carry the regular UL mark but have not been evaluated under the same standards, he said.

Mr. Hasbrook explained that performance testing for a security camera, for example, might determine that it could provide "a continuous feed of information without degradation," Mr. Hasbrook explained. Meaning, perhaps, that the video quality does not become "frayed or fuzzy in high humidity or heat," he said.

He said that UL is busy "getting the word out" through seminars and meetings with insurers that its

See UL / page 6

Marks of performance

The three new marks, which UL expects security and signaling product manufacturers to brand their products with by May 1, 2007, after undergoing performance testing, are:



■ Signaling mark. This mark applies to fire alarms, smoke detectors, hospital nurse-call systems and similar products.



■ Security mark. Intrusion detectors, burglar alarms, surveillance systems and other such products will bear this new UL mark.



■ Combination security and signaling mark. Examples of products carrying this mark are combination fire and burglar alarm systems or others that have similar dual security and signaling functions.



PHOTO: KEVIN KASSEL PHOTOGRAPHY © 2005

Former President Bill Clinton delivered the keynote speech to a standing-room-only crowd at the 2005 annual meeting of America's Health Insurance Plans.

Bill Clinton to AHIP: Managed competition is still the answer

By JOANNE WOJCIK

LAS VEGAS—Partisan politics will have to be set aside for meaningful health reform to take place in America, former President Bill Clinton said earlier this month in a keynote address to a health insurance industry trade group that was instrumen-

er. The Democrats can't solve it alone. The Republicans can't solve it alone. No provider group or consumer group can solve it alone," he said to a standing-room-only crowd attending America's Health Insurance Plans' 2005 annual meeting in Las Vegas June 8-10.

AHIP is the product of the merger of the Group Health Assn. of America and the Health Insurance Assn. of America, two health plan industry trade groups based in Washington. HIAA financed an advertising campaign during debate over the Clinton proposal that fea-

tal in defeating a reform proposal put forth by his administration in the early 1990s.

"We've got to solve it togeth-

See CLINTON / page 12

Errors & Omissions

• A story in the June 20 issue, "On-site Health Resource Centers Aim to Prevent Employee Illness," misspelled the company name of CHD Meridian, a Nashville, Tenn.-based subsidiary of I-trax Inc.

WellChoice for-profit conversion OK

New York high court upholds 2002 law permitting Blues plan change

By GLORIA GONZALEZ

ALBANY, N.Y.—The New York State Court of Appeals has rejected a legal challenge to the 2002 conversion of WellChoice Inc. unit Empire Blue Cross & Blue Shield to a for-profit company.

New York's highest court concluded that the allegations in a lawsuit filed by Consumers Union and five Empire BCBS policyholders against WellChoice and the state of New York were insufficient to support any cause of action.

The court granted the defendants' motion to dismiss the complaint, which charged that the New York Legislature violated the state's constitution when it passed a law in January 2002 allowing the company to convert because the statute applies exclusively to Empire as a

single entity.

In its decision, the court said the law did not violate the exclusive privilege clause of the state constitution because it did not prevent others from seeking to convert under similar parameters or promise Empire that other nonprofits would not be granted similar rights.

"We are pleased with the court's decision," said Michael A. Stocker, WellChoice's president and chief executive officer. "This resolves all legal issues pertaining to Empire's conversion, including the appropriate use of the proceeds."

Chuck Bell, programs director for the Yonkers, N.Y.-based Consumers Union, said the organization was "disappointed" by the court's ruling because it does not protect the assets generated by the Empire con-

version. The proceeds from the stock offering—valued at about \$800 million—are being held in escrow while the dispute is in litigation.

"We are concerned about the precedent it set for future transactions," Mr. Bell said, noting that HIP Health Plan of New York is in informal discussions with state officials regarding a possible conversion to for-profit status (*BI*, April 11).

Consumers Union, an independent, nonprofit consumer information and advocacy group, is reviewing its legal options and considering a possible appeal to the U.S. Supreme Court on whether the state has "property-taking" rights to the assets, an issue not fully clarified in the Court of Appeals decision, Mr. Bell said.

On-the-job safety concerns increase as numbers of senior workers rise

By MICHAEL BRADFORD

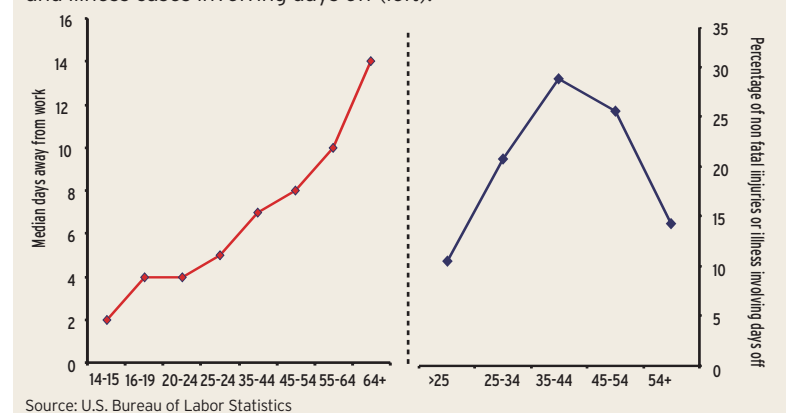
NEW ORLEANS—An aging workforce is causing employers to rethink the ways they need to keep their workers safe.

Workplace changes that take into account the growing numbers of workers in their senior years are being implemented, as employers consider ways to make jobs easier and less dangerous for employees whose vision, hearing, balance and other faculties are declining.

Employers with significant numbers of workers from the baby boom generation should pay particular attention to the challenges of keeping their employees safe, said Joel M. Haight, assistant professor of industrial health and safety in Pennsylvania State University's department of energy and geo-environmental engineering. "The initial members of that baby boomer club are now either at or nearing retirement, and there are a number of

Absenteeism due to illness or injury

Average days absent due to illness or injury by age (right). Nonfatal injury and illness cases involving days off (left).



safety- and health-related issues that need to be explored," he said.

Alma Jackson, president and chief executive officer of Colorado Safety Works Inc. in Grand Junction, Colo., said older workers also present training challenges. Em-

ployers have to be aware of ways in which aging affects the ability to learn, Ms. Jackson said.

The challenge becomes evident when considering numbers from

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Swiss Re study shows improved revenues for insurers worldwide

By RUPAL PAREKH

Benefiting from improved revenues and stronger financial positions in 2004, insurers worldwide are poised for growth in 2005, a study released Thursday by Swiss Reinsurance Co. says.

Global premium volume rose from \$2.958 trillion in 2003 to \$3.244 trillion in 2004, according to Zurich, Switzerland-based Swiss Re, with \$1.849 trillion attributed

high catastrophe losses stemming from hurricanes in the United States and the Caribbean and typhoons in Japan, tight underwriting and terms and conditions allowed insurers to post positive underwriting results, Swiss Re said.

Slight premium declines in both the life and nonlife industries in Japan were offset by strong gains for life insurers in Western Europe and emerging markets in South

and East Asia, and large increases among nonlife insurers in the United States, Europe, China, Russia, South Africa and India.

"With its financial

strength improving further in 2004, the industry is in good shape to leverage growth opportunities in 2005," Thomas Hess, head of economic research and consulting at Swiss Re, said in the report.

Going forward, regulatory reform will create new opportunities for insurers, especially in Western Europe and developing countries, the study said, though the pace of growth is expected to accelerate for life business and slow down on the nonlife side.

The "World Insurance in 2004" study is available free on Swiss Re's Web site, www.swissre.com/sigma.

World premium volume increased

In millions of dollars

Premium volume		% change (inflation adjusted)
2004	2003	
\$3,243,906	\$2,958,359	2.3%

Source: Swiss Re/Sigma

to life insurance and \$1.395 trillion to nonlife business.

After a minor downturn in 2003, life insurers returned to growth last year, raising premium income by 2.3% in 2004, compared to 2003's premium decline of 0.7%. "Reduced profit participation, lower guaranteed rates and cost savings were the biggest help" in this sector, the study said.

While momentum slowed on the nonlife side, those insurers also improved profitability by 2.3% in 2004, Swiss Re estimated, mostly due to disciplined underwriting. Despite last year's record-

UL: Certification organization adds new testing standards

Continued from page 4

new testing is being implemented and its three new marks (see box, page 4) now indicate which products have shown to meet the standards.

Ron Thornton, president and chief executive officer of the Inland Marine Underwriters Assn. in New York, said his group and UL, along with the Central Station Alarm Assn., a Vienna, Va.-based group of providers and users of UL-approved products and services, are holding a seminar in Chicago this week to discuss with insurers, systems vendors and property owners the importance both of alarm systems and of the services provided by UL. The new marks, while not a focus of the seminar, may come up as a topic of discussion, he said.

Mr. Thornton said it is more important for insurers to know that a property owner's alarm system overall has been certified by UL than whether all its component products carry the new marks. An alarm system could be made up of products that are not all UL-branded. Some products carry a mark from FM Approvals, a testing laboratory that is a unit of Johnston,

R.I.-based FM Global.

Even if a component product carries a mark, that says "nothing about maintenance and upkeep" of the system or whether it has been installed correctly, Mr. Thornton pointed out, and that's why an entire system needs to be certified.

A spokesman for FM Global pointed out that FM Approvals has tested 45,000 products and services to "make sure they will not fail in a real-world situation in a client's facility." Those products are recommended to policyholders that need to install safety or security devices, he said.

The spokesman stressed that FM Global puts "skin on the line" by recommending FM Approval-branded products to its policyholders. If a recommended product fails and leads to a loss, FM could be on the hook for the claim payment, he said.

As for UL's marks, Mr. Hasbrook pointed out that "an environment is already safe" if signaling and security systems carry the standard UL mark. The new marks, though, will indicate that the products are "both safe and tested for performance," he said.

NIST recommends changes to make tall buildings less hazardous

By MARK A. HOFMANN

NEW YORK—The National Institute of Standards and Technology is recommending changes in the design, construction, maintenance and use of tall buildings as a result of its three-year investigation into the destruction of the World Trade Center in the Sept. 11, 2001, terrorist attacks.

Gaithersburg, Md.-based NIST, a part of the U.S. Department of Commerce, issued its 30 specific recommendations last week in New York. The recommendations cover eight areas:

- Increased structural integrity.
- Enhanced fire resistance of structure.
- New methods for fire-resistant design of structures.
- Active fire protection.
- Improved building evacuation.
- Improved emergency response.
- Improved procedures and practices.
- Education and training.

For example, under the heading of increased structural integrity, the recommendations call for the nationwide adoption of standards and codes to prevent progressive collapse and more reliable means of predicting failure in buildings sub-

jected to multiple hazards. The recommendations for enhanced fire resistance include improvements to the standard for fire-resistance testing of building components, assemblies and systems, a standard that dates back about 100 years.

The proposals are simply recommendations, and NIST called upon both private organizations that develop safety standards and state and local agencies that adopt and enforce them to pursue the recom-

mendations.

In a statement accompanying the release of the recommendations, Shyan Sunder, NIST's lead WTC investigator, said the recommendations "should lead to safer and more effective building evacuations and emergency responses. However, improvements will only be realized if they are acted upon by the appropriate organizations."

Further information is available at <http://wtc.nist.gov>.



The destruction of the World Trade Center in the Sept. 11, 2001, terrorist attacks led the National Institute of Standards and Technology to recommend changes in the design, construction, maintenance and use of tall buildings.

Vagley: Risk managers need to speak up

Continued from page 3

federal role in insurance regulation. Although that was rank heresy at the time, the idea of a federal role—most notably an optional federal charter for insurers with interstate business—has become more widely accepted, noted Mr. Vagley.

"A significant (federal) role in insurance regulation is inevitable. And although we were a voice in the wilderness back in 1991 and 1992, its indicative that we are now part of a vast majority in the industry that favor a federal role," said Mr. Vagley. "The economics and competitive efficiencies of our industry will demand it." He predicted that an enhanced federal regulatory role would occur through an incremental, evolutionary process.

The state system of insurance regulation "is straining at the seams" to catch up to the demands of a national and global industry, he said. "Notwithstanding their best efforts" state regulators cannot "deliver the regulatory uniformity our industry now demands."

"This is a serious business and our companies shouldn't be jerked around by political aspirants on issues that are critical to us and our customers," he said.

"Our experience with TRIA really underscored, to me, our need for an advocate at the federal level, and the importance of having someone at the federal level who can speak as an advocate with clarity and understanding about the insurance mechanism, someone like Alan Greenspan is for the banking industry. I think we suffer from not hav-

ing that kind of federal advocate," he said.

Mr. Vagley also expressed frustration with the continued division of the insurance industry into numerous trade associations and organizations. He said he regards his efforts to "restore AIA to prominence" and to build it into a "premier business advocacy organization" as his greatest achievement. But he added that

"There's just no way you can underwrite, try as you might, nuclear, biological, chemical or radiological risks."

Robert E. Vagley
American Insurance Assn.

his biggest disappointment was the failure to draw all of the "leading companies under the AIA umbrella."

"I think we pay a price for our industry's fragmentation," he said.

And given the issues facing the industry, effectiveness will be critical, he said. "There are two large baskets of issues that will probably always be with us," he said.

"We are always going to be in the public policy businesses of tort reform and regulatory reform," said Mr. Vagley. But the industry confronts a new issue in "our experience with terrorism—trying to deal with an insurance industry with events that are not only unforeseen

and intentional, but acts that are utterly uninsurable against the backdrop of a public expectation that we can underwrite anything as long as we try.

"There's just no way you can underwrite, try as you might, nuclear, biological, chemical or radiological risks," he said.

Risk managers have a critical role to play in these debates, he said.

"I've been an advocate for years of a vital, active role for risk managers, if only they would use it. I think risk managers have the most credible voice as consumer advocates in the commercial insurance sector, and I lament the way other so-called and self-appointed 'consumer advocates' purport to speak for them. I think risk managers need to speak up and they need to let their voices be heard in the various public policy arenas. I think they underestimate and understate the kind of influence they can have and the need that policymakers have to hear what they have to say."

"There's just such an untapped potential there for risk managers to become involved and be influential in advancing and protecting their own interests," Mr. Vagley said.

"Here we are, 435 insurance companies, making as much noise as we can, looking out at thousands of risk managers and insurance agents with admiration and envy," he said. "We hear from the agents; I think we need to hear from the risk managers. They really need to step up with their credible voice and be heard."

Editorial

Cost war is winnable

ONLY A FEW YEARS AGO, the news on the health care cost front was going from bad to worse. Not only were costs increasing by double-digit percentages, but the rate of increase was accelerating.

Now, there is growing evidence that the worst is over. Earlier this month, for example, the California Public Employees' Retirement System, one of the nation's largest purchasers of health care benefits, reported its health plan premiums will increase next year by an average of 8.9%.

That's a slight improvement from this year's average premium rate increase of 9.9%, but a huge change from 2004 when rate increases averaged 16.4% and 2003 when rates rose, on average, by a staggering 24.1%.

CalPERS is not alone in reporting a slowing of health plan cost increases. While it is still early in the 2006 renewal season, benefit consultants say preliminary indications are that rate increases—by the time negotiations with plans have concluded—should average around 8% to 9%, or roughly one percentage point less compared to this year.

Obviously, any enthusiasm over the moderation of cost increases has to be tempered by a somber recognition that costs still are increasing at a rate several times faster than general inflation.

On the other hand, given that only a few years ago employers openly questioned

whether health care costs could be controlled, the change in direction on the cost front has to be viewed as good and important news.

We don't think the slowing of health care cost increases is a one- or two-year fluke. In fact, the slowdown is largely the result of steps employers and health plans have been taking over the last few years.

At a very basic level, employers have increased employee cost-sharing requirements, which they had let slip to absurdly low levels, to make employees more exposed to costs. This gives employees true financial incentives to use services more wisely, such as getting a prescription filled with a generic rather than a much more costly but no more effective brand-name product.

At a more advanced level, employers have been expanding health promotion programs to identify and help employees overcome health conditions—such as obesity—before they become major and costly medical problems.

Finally, health care purchasers have begun to stand up to medical providers charging exorbitant rates. CalPERS, for example, last year dropped from its HMO network nearly two dozen hospitals that charged rates it found excessive. That move that has encouraged other purchasers to do the same.

Obviously, the battle to control health costs is far from over, but it is a battle very much worth waging and it is one employers shouldn't feel they have no chance of winning.

Schillerstrom



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Business Insurance welcomes letters to the editor. The section is intended to be a forum for readers' opinions and comments. We reserve the right to edit letters for clarity or space. We will not publish unsigned letters.

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Consider all sides of AIRMIC broker model

A BROKER COMPENSATION MODEL proposed by the Assn. of Insurance & Risk Managers deserves serious consideration.

As we report beginning on page 17, AIRMIC's leaders suggested at the association's annual conference this month that brokers be compensated solely by the client, not by insurers. This is a bold idea that generally pleases U.K. insurers and brokers. But we think risk managers should consider the pros and cons.

Following the investigations of wrongdoing, AIRMIC adopted a wait-and-see

approach, letting the market sort itself out before the association proffered its position.

On the one hand, a system in which only the client pays the broker would seem to eliminate the conflicts of interest that can arise when insurers sign the checks. It would bring insurance in line with other professional services, for which intermediaries are most often paid by their clients, not the sellers. In addition, insurers could base their premiums on risks and not have to factor in commission expenses.

On the other hand, though, AIRMIC leaves open the question of whether insurers

should cut their rates to reflect expense reductions, whether brokers should be paid for services on behalf of insurers and what brokers should charge clients.

AIRMIC correctly noted that smaller buyers may be disinclined to pay fees, and the association said commissions still have a place. Implicit in this statement is that brokers perform a valuable service and can expect to charge a minimum fee for doing so.

The complexity of risk placements aside, brokers can reduce their fees only so much. If buyers are going to pay brokers, then both parties need to agree on how to price that re-

lationship. And buyers should get rate relief from insurers.

Like its counterpart risk management organizations in the United States and elsewhere, AIRMIC is calling for transparency and the disclosure of all compensation in insurance transactions. Indeed, AIRMIC said a survey revealed that 95% of its members favor the automatic disclosure of compensation, while 5% had no opinion.

We have long agreed that transparency and disclosure should be key parts of buyers' dealings with brokers and insurers. The ball is now in the industry's court to make that happen in every instance.

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Perspectives

Ask A Risk Manager

Sarbanes-Oxley brings opportunity

Q: Why should risk managers care about the Sarbanes-Oxley Act and the compliance efforts of their companies?

A: As anyone who reads the trade publications knows, there exists no shortage of reports and opinions on the challenges and costs of complying with the federal Sarbanes-Oxley Act, which, stated in the simplest terms, requires public companies to certify for the benefit of their stakeholders the accuracy of their statements as to their financial health.

Each week, it seems, some new source documents the substantial cost and significant impact on the companies that are required to become compliant. Attention has been increased by the convictions of the chief executive officer of WorldCom Inc. and the CEO and chief financial officer of Tyco International Ltd., the first group of executives found to have violated the financial reporting mandates of Sarbanes-Oxley.

Central to the work of achieving compliance is assessing the controls that both directly and indirectly affect the accuracy of a company's financial transactions and the reports on which they are based. While these controls are largely financial in design, they also include many operational, compliance and strategic measures that make up the overall control structure of every company. The financial, operational and compliance controls are the bread and butter of the internal auditor, while the annual audit of the company's financial statements is, of course, of particular concern to the external auditor and the board of directors. The strategic, or business-related, controls and the risks to which they relate are the least

understood and the most difficult to document and measure.

And therein lies the traditional connection for risk managers. Just as the controller has been held accountable for financial reporting controls and the compliance head for compliance controls, the traditional risk manager has historically

historically come under the charge of the risk manager? They are risks that matter because they can threaten one or more of a company's key objectives and because they could be addressed by controls implemented by an individual within the company structure. Consequently, risk managers should be concerned

risks and the controls, processes and objectives that relate to them. Only through a thorough understanding of the company's overall control structure and its relationship to risk and objectives can a risk manager expect to move beyond responsibility that is limited solely to insurable risks and take on a broad-

noninsurable risk control structure of your company, take the initiative to develop relationships with those in charge of key control structures. Get to know your internal auditor and develop the ability to assess the results of his or her audit work, which will clearly indicate the extent to which your company's control structure is effective. After all, your D&O underwriter has a direct stake in that assessment and will expect you, as the risk manager, to be able to articulate it.

The success of risk management at any company is significantly affected by the level of integration and cooperation among its key risk control stakeholders. Each company will populate this group a bit differently, but you should know who its members are and gain their respect and understanding for your interest in the risk control structures they oversee. It will go a long way toward making the contribution of which all risk managers are capable.

"...accountability for the risks throughout an enterprise should normally rest with the party that has the most opportunity to ensure that they are effectively controlled."

been held accountable for the controls related to a company's many insurable risks, which are typically operational in nature. Take employee injury as an example; most traditional risk managers have been responsible for the risk financing of employee injuries, typically through insurance, as well as for structures that attempt to prevent accidents and to control the cost of losses should they occur. This same construct is true for most other insurable exposures, at least in the higher-performing organizations.

Of course, accountability for the risks throughout an enterprise should normally rest with the party that has the most opportunity to ensure that they are effectively controlled. Many of these controls, though, are often "owned" by more than one party in today's businesses, making their assessment all the more challenging. That is one process to which today's strategically oriented risk managers can contribute.

But what about all those other risks that aren't necessarily insurable and, in most cases, have not

about these risks. That concern should stem from the need for comprehensive risk management.

As a result, a risk manager must have a direct interest in the effectiveness of all controls. Many of these controls, particularly those of the financial variety, will factor into a Sarbanes-Oxley compliance initiative. And though compliance with the Sarbanes-Oxley Act stresses financial reporting controls, many operational controls will also be addressed by these efforts.

Although the Sarbanes-Oxley compliance effort is typically led by a company's finance department and/or its internal audit department, the risk manager must be familiar with both of these areas. By developing relationships with key entities and individuals with a stake in risk control, risk managers can plug into the control structure monitoring system to effect some degree of oversight and to develop their own insight as to how well the controls that are in place are functioning. This should be true even if risk managers have no formal process for evaluating noninsurance

er accountability for all significant or material risks.

Sarbanes-Oxley compliance efforts have quickly developed into major enterprisewide initiatives. As a result of the priority status and resources they have received, those risk managers who establish their connections to those efforts have an unprecedented opportunity to develop a wider approach to managing risks regardless of insurability.

On the downside, these efforts can involve such detailed assessment that getting too close to them can slow down or even stall a truly holistic approach to risk management. After all, as important as Sarbanes-Oxley compliance has become for all public companies, it is narrowly focused on financial reporting risks and controls and is only a subset of the broader group of significant risks that must be effectively managed in order for companies to meet their key objectives. That being true, it is critical to carefully plan how to ensure that all key risks are appropriately addressed.

So, where should you start? If you're not currently involved in the

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.

This month's column on risk management issues is written by Christopher E. Mandel, assistant vp-enterprise risk management at USAA Group in San Antonio, the 2004 Risk Manager of the Year and past president of the Risk & Insurance Management Society Inc.

Address your questions to ASK, Business Insurance, 360 N. Michigan Ave., Chicago, Ill. 60601-3806. Please give us your name, title and employer; however, Business Insurance will consider unsigned letters.

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Business Insurance accepts articles from experts in commercial insurance, risk management and employee benefits management for publication in its Perspectives section.

The section is intended to be a forum for readers' opinions and a forum for the discussion of technical topics that do not lend themselves to a news story. Therefore, Perspectives articles should take a point of view, offer advice and/or explain a technical subject. They should not present case studies or promotional information.

All articles for the Perspectives page should address the concerns of the corporate buyer of insurance; i.e., the risk management or

employee benefits manager. Material written for only the concerns of brokers or underwriters is not appropriate.

To submit an article for the Perspective section:

- Send us a letter describing the topic you would like to address. You might want to suggest alternative topics. For each topic, briefly describe what you want to say and accomplish in the article.

- You will receive from us an acceptance or declination of your article idea.

- If accepted, we will respond with comments and request the full article, which generally should be no longer than 800 words.

- All articles are to be accompanied by a color photograph of the author and a brief biography.

- We will notify you of any questions we have about your article or substantial editing we think is necessary.

All authors must assign the copyright on the article to *Business Insurance*.

Because of the volume of Perspective submissions we receive, we cannot guarantee a date in which an article will appear. For the same reason, we will not run more than one article in a calendar year from the same author.

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Graying population set to dictate health care delivery terms

By JOANNE WOJCIK

LAS VEGAS—An aging society, stepped-up immigration and advances in technology will converge over the next 20 years to radically change the way health care benefits are delivered and financed in this country, an author on future trends.

Thanks to the baby boom, more working-age Americans than ever before are providing the tax base to finance today's social service programs for the very young and the very old. But by 2025, the United States will have "an hourglass society," with the largest number of older people in history and, at the same time, the largest number of young people and, in proportion, the fewest number of working-age adults, noted Andrew Zolli, "futurist-in-residence" at Popular Science & American Demographics magazines and a Visiting Fellow of the Woodrow Wilson Foundation.

The older-skewed demographics will ensure that public programs such as Medicare and Social Security

continue, he predicted. That's because older people are more likely to vote, Mr. Zolli said, and as the massive group of baby boomers reaches retirement age, its members will be likely to vote for those candidates who are inclined to work to protect such benefits.

Mr. Zolli said, though, that "some of them are not going to be able to afford to retire yet, because they're protecting benefits."

And he predicted that those who are already retired at that time will either have to return to the workforce or seek assistance from their children, because many will outlive their retirement savings.

"Today there are more people over the age of 85 leaving Florida than there are going into Florida, and do you know why? Because they're outliving their income. And where they're coming is back home. A woman born after 1980 is statistically guaranteed to take care of her mother longer than her mother took care of her," Mr. Zolli said.

This, he said, will redefine the family "from a two-generation nu-



More people are leaving Florida 'because they are outliving their income.'

Andrew Zolli
Popular Science
and American Demographics

clear family into a three-generation or four-generation family in which health care is managed as a family construct, not an individual

construct."

In addition, because of immigration—something that will have to be encouraged to provide taxpayers to support the retired baby boomers—by midcentury, white non-Hispanics will be, for the first time in history, a statistical minority in a society in which there will be no racial, cultural or ethnic majority, Mr. Zolli said.

"Where do you think the new Americans are going to come from?" he asked. "You can't run an hourglass society for long without outsourcing and immigration—tons of immigration. We need to get ready for Ellis Island II."

Asian and Hispanic cultures will be the two cultures that will have the greatest influence on the U.S. health care system, he noted.

Finally, the so-called consumerism movement in health care will not be confined to high-deductible health plans and health savings accounts, according to Mr. Zolli.

More and more individuals are using the Internet to compare doctors, medications and other treat-

ments. And they are looking not to the experts but to other consumers to provide this research, he said.

As an example, he described a sociological study he conducted using a simple query on the Internet. The initial question posted—"I'm having a bad reaction to this drug. What do I do?"—spawned five initial responses from individuals who had had similar problems and 161 secondary responses, including 41 by fellow patients, 54 by family members and 21 by doctors.

It also produced referrals to 64 Web resources, including a half-dozen major papers.

The end result: 11 prescription changes and four changes in physician.

"That's what the network around one question looks like when you map it," he said. "Suddenly they're having a conversation outside of the traditional health care system, online, all by themselves."

Such interactions, Mr. Zolli said, will stimulate the once-discouraged use of self-care, another factor that he predicted will have an impact on the health care system.

Clinton: Managed competition can solve woes

Continued from page 4

tured a middle-class couple—Harry and Louise—who were worried that the proposal would destroy the health care system. The ad increased public skepticism of the plan and helped lead to its eventual collapse.

During his speech, Mr. Clinton renewed his support for his administration's "managed competition" proposal, which would have required health plans to offer a limited menu of comparable benefit plan designs and then compete against one another based on price and network quality. The plan mirrors the one currently used by the federal government to purchase health care benefits for its employees.

"You could still have every health insurance company in the country involved in health insurance, but

there would have to be a lot more cooperation, a lot more pooling. You might have to make some changes to antitrust law to let it happen," he said.

"But there is a way to maintain the system that we have, still cover everybody and drastically cut transaction costs," which he said adds approximately \$200 billion annually to the cost of the nation's health care system.

"I think that is what most of you want. I can't imagine that you really like the way this works sometimes," he said. "We hire more people than anybody else hires in the world to delay payment and more people on the other side trying to get payment."

Mr. Clinton also noted that the number of uninsured had been declining at the end of the 1990s while he was still in office, but that

it shot up when the economy went into a tailspin at the beginning of the 21st century.

"The General Motors announcement was the opening salvo in a long, agonizing process," Mr. Clinton said, referring to the Detroit-based automaker's recent announcement that it would eliminate 25,000 jobs because of the high cost of its workers' health care. He said that unless the country can find a way to make health care more affordable for employers, there will be even more job losses and individuals without coverage.

"How many people are they going to lay off in Canada? None. All in America," Mr. Clinton said.

"It's unacceptable that we have a health care system that costs more than anybody else's. We spend 15% of GDP on health care; nobody else is over 11%. In a \$10 trillion economy, that's \$400 billion. So we write \$400 billion (more) in checks every year than anybody else would," he said.

In addition, "we've got over 40 million people without health insurance, and everybody we're competing with covers everybody on \$400 billion less than we spend," Mr. Clinton said.

Finally, "study after study after study shows medical mistakes kill tens of thousands of people a year, that our lifestyles are driving us into early graves in record numbers and we don't necessarily have better outcomes," he said. "So we have a cost coverage and quality challenge in America."

"We cannot maintain our manufacturing base and we cannot maintain the strength of our economy as a producing nation...if we insist on spending 2% more of our national income moving paper through the health care system than anybody else on Earth," Mr. Clinton said.

CDHP success stories all on the same page

By JOANNE WOJCIK

LAS VEGAS—Early research has shown that employers that have successfully implemented consumer-driven health plans all had several things in common, the foremost of which was extensive communication, usually from the chief executive officer.

And while these early adopters are definitely finding that employees with health reimbursement accounts become better health care consumers, the results may be even better when employees are enrolled in health savings accounts in which their own money is at stake, a benefits expert suggests.

According to surveys conducted by Mercer Human Resource Con-

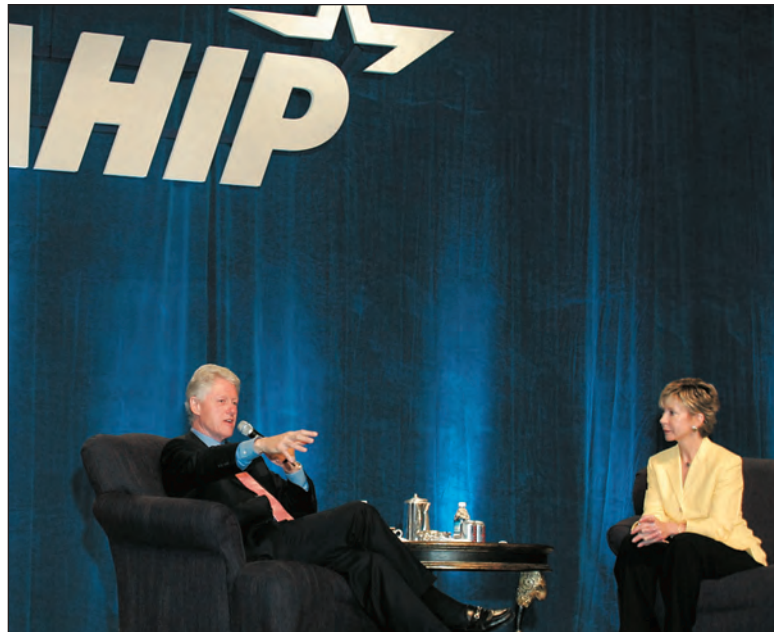
sulting and the Segal Co., those employers with the greatest success in implementing CDHPs had three things in common, said Leonard R. Grover, senior consultant at Marsh USA Risk & Insurance Services.

"They all had a commitment from senior management. They all provided employees with extensive communication and education materials. And, last but certainly not least, they all had open communications about the impact of medical costs on the companies' financial health as well as on employees' financial health," he said.

"When you have the CEO explain, 'Not only (are health care costs) hurting us financially as a

See CDHPs / page 14

PHOTO: KEVIN KASSEL PHOTOGRAPHY © 2005



Former President Bill Clinton fields questions from the audience at the America's Health Insurance Plans' annual meeting earlier this month, while AHIP President Karen Ignagni looks on.

Over 3,500 attend AHIP

LAS VEGAS—More than 3,500 health insurance industry executives attended the 2005 annual meeting of America's Health Insurance Plans June 8-10 at the Venetian hotel on the Las Vegas strip.

Based in Washington, America's Health Insurance Plans is the principal industry trade group for U.S. health insurers, representing nearly 1,300 member companies providing health insurance coverage to more than 200 million people. AHIP member companies offer medical ex-

pense coverage, long-term care insurance, disability income insurance, dental insurance, supplemental insurance, stop-loss insurance and reinsurance to consumers, employers and public entities.

Next year's conference will be held June 7-9 in San Diego. The organization also offers special-interest institutes throughout the year.

For more information about AHIP and its many conferences and institutes, visit the organization's Web site at www.ahip.org.

CDHPs: Common factors seen

Continued from page 12

company but it's going to hurt your merit increases, because there will be less money to go into the pool,' we have found the message gets through," Mr. Grover said.

The surveys were conducted to help guide employers considering whether to implement CDHPs, he explained during a session titled "Employer Attitudes and Experiences in Consumer Choice" at the 2005 annual meeting of America's Health Insurance Plans, held June 8 through 10 in Las Vegas.

Employers "generally ask three basic questions," he said. "They want to know how satisfaction is inside these plans, how behavior changes and then how the costs change."

"The only groups that can answer these questions are those that have already put in plans," Mr. Grover said. Unfortunately, the findings of both the Mercer and Segal surveys represent only a limited number of employers' experiences, he acknowledged.

And because all of the plans studied included only an employer-funded HRA option and not a health savings account, they don't really provide an indication of how employees might use the money if it were their own, Mr. Grover said.

"The majority of employees that

are enrolled in employer-sponsored consumer-directed health plans today are on an HRA in a dual-choice environment next to an HMO or PPO. There are a few employers that offer an HRA as the only option," he said. "And then a very small percentage of employers are offering health savings accounts as the only option."

But "employees don't own the money in an HRA," Mr. Grover pointed out. "It's kind of loaned to them by their employers. After several years, if they leave, they forfeit the balance."

In a health savings account, where employees have a vested interest, that money is their money even if they leave the employer, in contrast to an HRA that is not portable. Employer money that goes into an HSA belongs, by law, to the employee and has future value. "Will that be an added factor in terms of influencing behavior?" Mr. Grover asked.

"Once we can look into the experience of employers that offer health savings accounts as the only option—so there's no argument about risk selection (and) they're all on the consumer-directed plan—then even the hardest critics of consumer-directed health plans are going to be able to see the level of behavior changes and cost changes," he said.

Older workers: More on-the-job safety concerns

Continued from page 4

the U.S. Bureau of Labor Statistics showing that there are now around 25 million workers 55 and older, Mr. Haight emphasized. That compares with around 15 million workers in that age group 10 years ago.

Statistics show that although workers age 55 to 64 are not the most-injured group, they tend to be off the job longer than their younger counterparts, who typically need less time to recuperate when injured.

Mr. Haight and Ms. Jackson, who spoke at separate sessions at the American Society of Safety Engineers' Professional Development Conference & Exposition in New Orleans earlier this month, outlined some of the special demands older workers place on workplace safety and training.

"Visual acuity deteriorates with age," Mr. Haight pointed out. The ability to see a "moving target" worsens, and older workers "need more time to see everything that needs to be seen" when confronted with a computer screen or other situations in which there is "scene clutter," he said.

"About 80% of what you learn comes through vision," Ms. Jackson explained. That means training materials designed without consideration for how they are visually processed by older workers could have

a negative impact on how well the information is learned, she said.

"If you can't hear it, you can't learn it, either," Ms. Jackson said. And even when hearing is not significantly impaired in older workers, they often hear words that "all smear together" because of declines in central nervous system functions and are more easily distracted from a speaker by other noise, she said.

Hearing loss generally begins around age 35, Mr. Haight said, and "becomes more pronounced as we age." And he noted that while research hasn't shown exactly why it happens, less attention gets paid to "auditory input" such as verbal instructions and alarms over the

years.

Strength, range of motion, speed of movement and resistance to fatigue all decline as workers age, Mr. Haight pointed out. And there is a "well-established decline in balance," he said.

There are many things employers can do to make their workplaces safer for older workers, Mr. Haight and Ms. Jackson said. Among them, they suggested, employers can:

- Ensure lighting is adequate and provide greater illumination if needed.
- Find ways to reduce the amount of heavy lifting.
- Design flooring that is solid and

See **OLDER WORKERS/** page 16

Safety pros tough it out

NEW ORLEANS—Safety professionals showed no fear of heat and humidity, choosing to gather in New Orleans for their conference held June 12 through 15.

The American Society of Safety Engineers' Professional Development Conference & Exposition drew more than 3,000 attendees to the Ernest N. Morial Convention Center for a full slate of educational sessions,

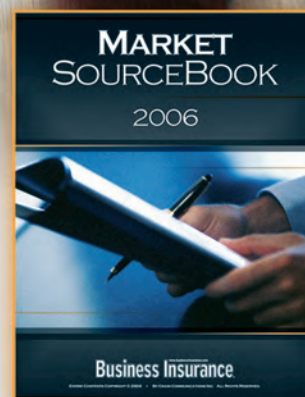
speeches and social events. Dozens of safety and risk management topics were covered in sessions that ran from covering the basics to those at the executive level.

The society will hold next year's conference in Seattle on June 11 through 14. Information is available at www.asse.org or by calling the ASSE at 847-699-2929.

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Between the Lines

Compiled by Joanne Wojcik

Maybe you shouldn't eat even just one

Obesity rates in the United States may be at an all-time high, but that has nothing to do with the Environmental Law Foundation's recent demand that potato chip makers publish warnings that these fattening snacks can cause cancer.

"Thinking about potato chips as making you fat and thinking about potato chips as maybe contributing to cancer, those are different and distinguishable concerns," said Alise Cappel, research director for the Oakland, Calif.-based environmental watchdog organization.



ELF filed notices June 16 that it planned to sue food manufacturers to require them to put warnings on potato chips because they contain high amounts of acrylamide, a cancer-causing chemical. Under California's anti-toxics law, Prop. 65, companies are required to warn consumers about products containing chemicals known to cause cancer or birth defects.

In response to the attacks, Dallas-based Frito-Lay, the nation's largest potato chip maker, issued a statement saying that the company's "food safety standards are very stringent and meet all federal and state regulations." A spokesman also pointed out that acrylamide occurs naturally in 40% of the food supply in varying levels, and he referred to a study by the U.S. Food & Drug Administration that supports this assertion.

Still, tests performed by ELF showed that even though other foods contain acrylamide, potato chips have the highest levels, according to Ms. Cappel. She did not know, though, whether other foods with high levels of acrylamide might meet the Prop. 65 warning threshold.

"I haven't done those calculations. I would expect some are, but I can't tell you without going back and taking a real hard look. We just want people to be able to know about the presence of this chemical in potato chips."

Although acrylamide, a synthetic polymer used for grout and in treating sewage, was placed on California's Prop. 65 carcinogen list in 1990, it was not until 2002 that Swedish scientists discovered acrylamide is also created when starchy foods are cooked at high temperatures.

Too much of a good thing

At a time when regulators are questioning the solvency of so many insurers, isn't it ironic that Allstate's chief executive officer has to defend the insurer's "overcapitalization"?

In an interview with MarketWatch earlier this month, Allstate Chairman and CEO Edward Liddy said the Northbrook, Ill.-based insurer will put its spare cash to use "wisely" or put it toward buying back shares of the company's stock.



Mr. Liddy

Allstate made more than \$1.1 billion in net income in the first quarter of 2005, after previously having several lucrative quarters. Mr. Liddy attributes much of those profits to good underwriting performance derived from using a tiered pricing model it introduced in 1999.

Mr. Liddy also gave some credit to the insurer's enterprise risk management system, which is used to assess all risks facing the company, including natural disasters, interest rate fluctuations and regulatory changes, so Allstate can allocate its capital accordingly.

A 'wholesale' approach to health care

As the cost of health care continues to soar, it should come as no surprise that the nation's largest retailers should find ways to get into the business.

Target Stores have their in-store MinuteClinics, Wal-Mart Stores Inc. is selling home traction equipment for back pain sufferers, and now Costco Wholesale Corp. is offering health insurance to "executive" members in some of its Southern California stores.

And in keeping with the warehouse chain's bulk-buying strategy, the premiums will be 5% to 20% less than Costco members might be able to obtain if they bought coverage on their own in the individual market, the company claims.

The new program is being offered through Cypress, Calif.-based PacifiCare Health Systems Inc.

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

Older workers: Aging employees raise new issues

Continued from page 14
smooth.

- Remove extraneous information from computer screens.
- Reduce noise levels.
- Increase the size of lettering on signs in the workplace.

And while older workers may not be as nimble as their younger counterparts, they are not the most often injured, statistics show. "There is nothing in the 55-to-64 age group that indicates that they are any worse than anyone else," Mr. Haight said of injury rates.

"Experience probably has something to do with it," he speculated

but noted it is unclear how time on the job relates to safety.

Still, even though numbers show that older workers are not the most often injured, it does usually take them longer to get back to work should they become injured or ill.

The BLS reported that in 2001 workers age 45 to 54 accounted for 20.8% of the nonfatal injuries and illnesses involving days away from work, while workers older than 54 made up just 10.5% of those cases. Workers age 35 to 44 were involved in 28.8% of off-the-job injuries and illnesses, resulting in the highest percentage of incidents.

But the bureau's figures also showed that the median number of days off the job because of injuries and illnesses amounted to just eight for workers age 45 to 54, compared with 10 for the 55-to-64 age group and 14 for those older than 64. Workers age 35 to 44 needed a median of seven days away from work.

Ms. Jackson explained that some factors may exacerbate older workers' injuries and keep them off the job longer. "A person with a back injury may have degenerative disc disease," she said, or an individual with diabetes may be "slower to heal."

COMINGS & GOINGS - INDUSTRY

Insurers

New York-based Assurant Inc. has made three senior-level appointments:

▪ **Robert B. Pollock** has been named president and chief operating officer of Assurant. Mr. Pollock was executive vp and chief financial officer of Assurant.

▪ **P. Bruce Camacho** has been named executive vp and CFO of Assurant. Formerly, Mr. Camacho was president and chief executive officer of Assurant Solutions.

▪ **Jerome A. Atkinson** was named executive vp and chief compliance officer of Assurant. Previously, Mr. Atkinson was executive vp and general counsel, Assurant Solutions.

Zurich Financial Services has announced that **John Treacy** will join its North America operations as senior vp-corporate controller/regional group controller. Currently, Mr. Treacy is senior vp and corporate controller for St. Paul Travelers Cos. Inc.

Also at Zurich, **David Levinson** has been named senior vp-finance. Previously, Mr. Levinson was corporate controller for Zurich's

North America commercial unit.

Reinsurers

Neill A. Currie has joined Pembroke, Bermuda-based RenaissanceRe Holdings Ltd. as executive vp, overseeing its marketing and client relations activities. Previously, Mr. Currie served as a director of Platinum Underwriters Holdings.

Agent brokers

Scott G. Meyer has joined Thilman Filippini as managing director in its Chicago office. Previously, Mr. Meyer was an executive vp/managing director with Aon Corp.

Managed care

Elizabeth R. Haar is the new president and chief executive officer of Accident Fund Insurance Co. of America, a workers compensation subsidiary of Blue Cross & Blue Shield of Michigan. Previously, she was executive vp and chief business development officer of the Lansing, Mich.-based company.

Gregory W. Fischer has joined Charleston, S.C.-based Thomas

Cooper & Co. Inc., a subsidiary of Blue Cross & Blue Shield of South Carolina, as COO and executive vp. Previously, Mr. Fischer was assistant vp of operations and information systems for another Blue Cross & Blue Shield unit, Planned Administrators Inc.

Caremark Rx Inc. of Nashville, Tenn., has promoted **Howard McLure** to senior executive vp and COO. Mr. McLure had previously been executive vp and CFO at Caremark. Replacing Mr. McLure as executive vp and CFO is **Peter Clemens**, formerly senior vp and treasurer.

Concentra Health Services Inc. in Addison, Texas, has appointed **Archie Simons Jr.** president of the company's Integrated Choice unit. Previously, he was president of Synchrony.

Business Insurance would like to report on senior-level changes at commercial insurance companies and service providers. Please send news of recently promoted, hired or appointed senior-level executives to: Joe Walker, Business Insurance, 360 N. Michigan Ave., Chicago, Ill. 60601-3806; jwalker@businessinsurance.com.

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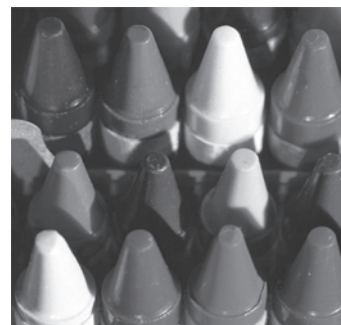
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June 27, 2005

World

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Brokers should be paid by buyers: AIRMIC

Nearly all risk manager members want more transparency in compensation, survey finds

By SARAH VEYSEY

LONDON—Brokers should be compensated only by policyholders and should receive no payments from insurers, leaders of the Assn. of Insurance & Risk Managers said.

In addition, all compensation paid to brokers should be fully disclosed and such disclosure should be made mandatory, according to AIRMIC officials.

A recent survey of risk managers clearly demonstrates that U.K. policyholders want a more transparent insurance buying system and insurers and brokers should strive to meet those expectations, they said.

Andrew Cornish, head of insurable risk at Centrica P.L.C. in Windsor, England, and the outgoing chairman of AIRMIC, said that AIRMIC had concluded, after consulting with its members and a working

group established to discuss the issue, that brokers should be remunerated only by their clients.

He was speaking at AIRMIC's annual conference, which was held in Brighton, England, June 13-15.

Mr. Cornish made his comments following the announcements by some London-based brokerage firms over the past several months detailing how they were changing their remuneration models to eliminate contingent commissions but still include payments by underwriters to compensate brokers for the services they provide to the market.

AIRMIC's incoming chairman, Peter Berring, group risk manager for De La Rue P.L.C. in Basingstoke, England, said that the proposed reforms to brokerage compensation models still have a



AIRMIC's incoming Chairman Peter Berring, left, with outgoing Chairman Andrew Cornish.

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Updates

SCOR raises funds in share issue

SCOR S.A. said Wednesday it had raised about 202.8 million euros (\$246.1 million) from a share issue. The Paris-based reinsurer said the proceeds of the share issue would be used to purchase the remaining shares in Irish-based reinsurer IRP Holdings Ltd. that it does not already own, and to shore up the financial base of the SCOR group. SCOR was downgraded by rating agencies in 2003 after it announced reserve strengthening and losses. SCOR is currently rated BBB+ by Standard & Poor's Corp.

Lloyd's Omega seeks merger with Hardy

Lloyd's of London managing agency Omega Underwriting Holdings P.L.C. has approached Hardy Underwriting Group P.L.C. about a possible merger. Omega, which operates multiline syndicate 958, has made two recent offers for Hardy, which operates multiline syndicate 382 at Lloyd's, Hardy said in a statement. Hardy said it had rejected both proposals because they "were not in the best interests of (Hardy's) shareholders." However, both companies said in separate statements that they would enter into further merger talks. Omega's syndicate 958 has capacity of £225 million (\$410.2 million) at Lloyd's for 2005, while Hardy's syndicate 382 had capacity of £100 million (\$191.6 million).

Heath Lambert launches Malta captive manager

Heath Lambert Group has set up a captive management operation in Malta. Heath Lambert Insurance Management Group has entered into a joint venture with local broker Jatco Insurance Brokers and Sisiell Ltd., a Malta-based company, Heath Lambert said in a statement. Malta joined the European Union in 2004, and captives domiciled there can write business directly into E.U. markets.

PPF releases investment principles

The U.K. Pension Protection Fund has published its statement of investment principles. The London-based PPF, which is based loosely on the U.S. Pension Benefit Guaranty Corp., was set up to safeguard the pensions of defined benefit plan members whose sponsoring employers go bankrupt and leave their pension plans underfunded. The PPF said that levies on employers would be invested in bonds. The PPF has appointed Insight Investments and PIMCO as fund managers, and State Street Bank as custodian, it said in a statement.

PHOTO: EPA/PAVEL WOLBERG



Crash claims may top \$33 million

The Assn. of Insurance Brokers & Agents, based in Tel Aviv, estimates that claims may exceed 150 million shekels (\$33 million) following the June 21 collision of an Israel Railways passenger train and a 40-ton coal truck.

The crash, left, killed eight people and injured 200. The commuter train was en route from Tel Aviv to Beersheva.

Israel Phoenix Assurance, which provides property and liability

coverage for the privately held rail company, declined to comment on the impact the accident would have on its business, but confirmed that it did provide coverage to Israel Railways.

A spokeswoman for Munich Reinsurance Co. acknowledged that the German-based reinsurer would be affected by the losses but noted that they would be "on the low side of our account."

—By Barbara Cockburn

Better exchange of information credited for slowing rate increases in liability market

By BARBARA COCKBURN

LONDON—Rate increases in the U.K. liability insurance market have slowed significantly since the huge premium hikes imposed in 2002, according to a report by the U.K. government's competition watchdog.

Better information exchange between insurance stakeholders is one factor that has helped stem the increases, according to the report, which was released last week.

However, significant changes to rehabilitation services and claims processes still need to be introduced to help prevent future large premium increases, observers say.

The Office of Fair Trading's report found, for example, that employers liability premiums increased by 7% on average in 2004, down from hikes of about 50% in 2002. Public liability premiums, meanwhile, rose by 4% last year, compared with 30% to 40% in 2002, the OFT reported.

The 2003 report showed wide variations in increases, with some premiums rising by more than 200% following several years of declines.

In its latest report, the OFT attributes the improved conditions to several factors, including improved information exchange among policyholders, brokers and insurers; initiatives designed to reduce legal costs; and changes to renewal notice periods.

U.K. liability rate hikes easing

Employers liability rates increased by 7% in 2004 compared with 50% in 2002.

Public liability rates increased by 4% compared with 30% to 40% in 2002.

In addition to lower rates, policyholders are benefiting from: better information; initiatives to cut legal costs; and longer renewal notice periods.

Source: Office of Fair Trading

Since the previous report, working parties, either led or attended by various government departments, have aimed to raise awareness among companies of the requirements for insurers, such as introducing longer renewal notice periods and providing information on reasons for likely premium increases, the OFT notes. In addition, there have been improvements in risk management, leading to premiums more accurately reflecting risks, the OFT said.

The latest study also found that "significantly" fewer businesses in 2004 than in 2002 were denied renewal of their coverage by their insurance company or denied coverage by other insurers. The 2004 report found that the number of businesses denied coverage fell by two-thirds to just 3%.

In addition, policyholders "more generally seem to have been more prepared in budgeting for premiums in their own business plans," the study says.

The OFT in 2002 undertook an examination of

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Brokers: Transparency needed

Continued from page 17

way to go before they will be completely acceptable to risk managers, but he added that AIRMIC wants to "accelerate the move toward transparency."

Mr. Cornish pointed out that, in a survey of 125 AIRMIC members conducted just before the conference, 65% of the risk managers who responded said they believe that brokers should receive no payment at all from underwriters.

He noted that the abolition of insurer payments to brokers might result in higher fees or commission payments but that the total cost of

premiums and broker compensation should not increase.

AIRMIC also called for the automatic disclosure of fees and commissions. Currently, U.K. regulators require that brokers provide such information only on request.

Almost all of the respondents to the AIRMIC survey—95%—said they believe that brokers should automatically inform their clients about all aspects of their remuneration, including the details of facultative reinsurance arrangements.

Mr. Cornish said that AIRMIC will continue to call for full disclosure to become mandatory.

Risk managers need to keep brokers and insurers in the loop on placements

By SARAH VEYSEY

BRIGHTON, England—Risk managers should work with the insurance market to make insurance placements easier and more timely, a panel of insurers and brokers said.

By starting work on insurance placements early and communicating frequently with brokers and insurers, risk managers can help improve the process of obtaining commercial insurance coverage, panelists said at a session of the Assn. of Insurance & Risk Managers conference in Brighton, England.

The comments were made shortly after AIRMIC released a survey of its members that revealed that 85% of U.K. risk managers said they supported the use of contractual performance indicators for brokers and insurers.

Those indicators could include a variety of timeframe measures for broker and insurer services, AIRMIC said (see related story).

Brokers and insurers speaking on the panel said they believed that they already abide by such indicators and that they would comply with any financial sanctions that might be imposed if indicators are not met.

But the panelists urged risk managers to cooperate more fully with their brokers and insurers.

"Far more important than achieving regulatory compliance is achieving a higher standard of service," said Toby Foster, chief executive of the retail brokerage operation of Marsh Ltd., the London-based arm of Marsh Inc.

"My advice for AIRMIC members is simple: start the process early and manage it through the process," said Carl Bach, president, U.K. and Ireland for ACE European Group, a division of Bermuda-based ACE Ltd.

Brokers need information early from risk managers in order to

ensure that there can be contract certainty at coverage inception dates, said Mike Hammond, CEO of the Risk Solutions division of London-based broker Jardine Lloyd Thompson Group P.L.C.

The U.K.'s insurance regulator, the Financial Services Authority, has set a deadline of Jan. 1, 2007, for the insurance industry to achieve contract certainty at inception for commercial insurance policies.

Mr. Hammond added that there needed to be better ways of testing wordings to achieve more clarity about contracts at inception. This may, initially, result in higher costs for the industry and those costs would be borne by buyers, he warned. However, the added clarity would ultimately result in a more efficient marketplace.

"Your role as risk managers is absolutely vital in this debate," said Doug Pennycuik, general manager of Allianz Global Risks, a unit of Munich-based Allianz A.G., in London.

"We need to listen to you on an ongoing basis, not once a year," he said. "We, as an industry, need to take control of our own destiny. The industry has been dominated by outdated procedures. The era of 'we've always done it that way' is over."

Mr. Pennycuik said that risk managers should ensure that they have a strong, tripartite, relationship with both their brokers and insurers.

Risk managers must ensure that they are actively involved in any debate about changes to the industry, John Thornton, chief executive of the risk management services division of Aon Ltd. in London said during the discussion.

The industry needs to change, he said, and the necessary changes cannot happen without the "active engagement of risk managers," he said.

Risk sharing could bring costs down while insurers enjoy potential upside

By REGIS COCCIA

BRIGHTON, England—Allowing insurers to share in their buyers' fortunes as well as their losses could achieve financial benefits that largely have been unattained by other risk sharing models, according to panelists.

Treating risk financing more like an equity investment that reduces the cost of risk while permitting risk takers to share in any profits could be an approach that would be beneficial for risk managers and insurers, they said.

The panel spoke at a session at the 2005 Annual Conference of the Assn. of Insurance & Risk Managers, held May 13 through 15 in Brighton, England.

The panelists—Peter Berring, director of group risk for De La Rue P.L.C. in Basingstoke, Hampshire, England; Oscar Tymon, partner at JLT Risk Solutions Ltd. in London; and Hugh Rosenbaum, a U.K.-based independent consultant affiliated with Tillinghast—suggested that risk sharing models need to be modified.

From the buyer's perspective, "How do we get so-called credit for risk management strategy?" asked Mr. Berring. "I don't think we ever saw real credit for the risk

management process. When you're sharing risks, you tend to get recovery."

At the same time that market turns "shock balance sheets" by forcing buyers to take higher retentions and pay higher rates, "all we ever do is give insurers the downside potential," Mr. Berring said. "Why not start making the cost of insurance go down and give insurers the upside potential too?"

Do-it-yourself models fail

Various alternative risk financing methods involving captives, such as small-scale exchanges developed for the purpose, didn't really partner with insurers and ultimately failed, Mr. Rosenbaum pointed out. "The do-it-yourself aspect of risk sharing never seemed to work well by itself. It always worked better with a finance partner," he said.

To assess whether an exposure is insurable, risk managers need to determine "which risks belong with insurers and which really belong with shareholders," suggested Mr. Tymon. Fortuitous risks are the domain of the insurance industry, but equity rather than an insurance policy should back

business risks, he said.

"The insurance industry has wanted to get closer to the bottom line of a company, investing toward equity," Mr. Tymon said. "At the same time, smart clients have been saying there's some dumb capital in the insurance industry," so there is pressure pushing insurers back toward providing capital only for fortuitous risks. "When we talk about risk sharing, we're really talking about tension" between the extremes of pure equity investment and traditional insurance capacity, he said.

"Why don't we look to reduce the premium price by offering the insurer shares in the company?" Mr. Berring proposed. That way, an insurer can begin to benefit from the process of protecting a buyer's balance sheet, he said.

Mr. Rosenbaum said captives could have a role in risk sharing. He suggested that a captive could be "the moderator of the deal" in which an insurer invests in the captive's parent. The form of the investment could be common shares or some other security interest, even bonds, he said.

"Where an insurer is making more of an investment-style investment, it should stand to gain," Mr. Tymon said.

Employee contact key to quick return from illness

Early intervention keeps costs down and boosts workers' morale

By SARAH VEYSEY

BRIGHTON, England—Employee rehabilitation after injury or illness can help keep business costs down as well as boost the morale of the staff, a group of experts said.

By taking simple measures such as staying in contact with workers when they are sick or injured, employers can get employees back to work as fast as possible, they said.

These comments were made at the release of two guides on occupational rehabilitation at the Assn. of Insurance and Risk Managers' annual conference in Brighton, England, held June 13 through 15.

The two guides, launched jointly by AIRMIC and the Confederation of British Industry, aim to help employers instill a "rehabilitation culture."

"Executives are fond of saying that their people are their greatest assets. We're saying, 'Look after your people, and they will look after your business,'" said Andrew Cornish, head of insurable risk at Centrica P.L.C. and the outgoing chairman of AIRMIC, in a statement.

One of the guides is written for managers in the field, while the other is aimed at senior managers. The guides outline the ways improving employee rehabilitation

can reduce costs and benefit the workforce, and they present a series of case studies of successful rehabilitation programs.

In particular, the guides emphasize that early intervention when an employee becomes sick or injured is key to a successful rehabilitation policy.

"If an employee is off through injury or long-term sickness, don't wait for them to contact you," the guide for senior managers advises.

Once a sick or injured employee has been contacted and determined to be unable to return to work in his or her previous capacity, the employer should consider whether there are alternative duties the employee could perform, according to the guide for field managers. The employer should determine if help with transportation to work or improving accessibility at work could help the employee, or if allowing that employee to work from home would be a viable option.

Reducing the costs of sickness and injury absence should be viewed by risk managers as "part of the overall cost of risk", according to Peter Berring, group risk manager for De La Rue P.L.C. in Basingstoke, England, and the incoming chairman of AIRMIC.

According to examples cited in the guides, employers can see significant benefits from implementing rehabilitation programs.

Rolls Royce P.L.C., for example, implemented a sickness absence management policy in the late

1990s that has resulted in a reduction in staff absences of about 15%.

Speaking at the AIRMIC conference, David Ireland, group insurance director of Vinci P.L.C., noted that encouraging rehabilitation at Vinci is part of an ongoing program of occupational health.

Having such a program in place, Mr. Ireland said, helps to engender a feeling among employees that their employer cares for them.

'Progress through Partnership' theme of 2005 conference

BRIGHTON, England—About 600 delegates attended the Assn. of Insurance & Risk Managers' annual conference held in Brighton, England, June 13 through 15.

The theme of the conference, held at the Brighton Centre, was "Progress through Partnership."

At the conference, Andrew Cornish, head of insurable risk at Centrica P.L.C., handed over the role of chairman of AIRMIC to Peter Berring, group risk manager for De La Rue P.L.C. in Basingstoke, England. The theme of Mr. Berring's year in office will be "Teamwork and Trust."

Next year's conference will be held in Bournemouth, England, June 12 through 14.

Industry lobbies for long-term terror solution

By MARK A. HOFMANN

WASHINGTON—The Property Casualty Insurers Assn. of America hopes that Congress will heed its call for a long-term solution to the problem of providing terrorism insurance.

The Des Plaines, Ill.-based insurer group has unveiled a number of options it wants Congress to consider as it ponders whether to extend the Terrorism Risk Insurance Act beyond its current sunset of Dec. 31. PCI also launched a targeted advertising campaign in two Capitol Hill newspapers last week promoting a long-term solution.

PCI's actions came as lawmakers, risk managers, insurers and others await a Treasury Department report on the state of the terrorism insurance market. The report, which must be issued by June 30, will examine the impact of the Terrorism

Risk Insurance Act. TRIA, which created a federal financial backstop for insurers facing future catastrophic terrorist attacks, was designed to provide terrorism insurance capacity while allowing a private terrorism insurance market to emerge. While TRIA has created capacity, an adequate private terrorism insurance market has not come into being. Bills that would extend TRIA for two years have been introduced in both the House and Senate, but key lawmakers declined to move on either until Treasury issued its report.

An option PCI has suggested Congress consider as part of a long-term strategy is allowing pre-emption of state laws that limit insurers' flexibility in pricing terrorism insurance. PCI also called for creating a government-sponsored entity that would allow insurers to share or pool some of the risk and creating a

market for catastrophic terrorism bonds.

"None of this eliminates the potential of a temporary extension" of TRIA, said PCI President Ernie Csiszar in a Washington interview last week. He added though, "if the industry doesn't make an effort to come up with a long-term solution, you're not going to see its wishes answered in simple extension."

Other insurance industry groups share PCI's goal of a working out a long-term solution to the terrorism insurance question.

"We think they're doing exactly the right thing in terms of trying to identify the different tranches of a federal role," said Joel Wood, senior vp at the Council of Insurance Agents & Brokers in Washington. Mr. Wood noted that the CIAB supports the TRIA extension bill introduced by Sens. Chris Dodd, D-Conn., and Bob Bennett, R-Utah,

earlier this year. "But whether Dodd-Bennett or an extension of TRIA prevails or not, this is a long-term problem and we've been engaged in conversations with PCI and other industry groups" about how to achieve this, he said.

"We have had discussions with PCI about their thoughts on a long-term proposal," said Julie Rochman, a senior vp at the American Insurance Assn.

"AIA has also been working on this issue for several months. We know it's very complex and that ultimately it will be up to the Congress to decide how much 'skin in the game' insurers must have. We are very much looking forward to the Treasury study and to subsequent hearings so we can get a long-term program in place before the end of the year, and failing that, extend the existing backstop," said Ms. Rochman.

RAND: Report cites TRIA shortcomings in some kinds of attacks

Continued from page 1

of the Terrorism Risk Insurance Act," to coincide with the National Symposium on the Future of Terrorism Risk Insurance, held June 20 at the University of Southern California. The symposium was sponsored by RAND, the Department of Homeland Security, USC's Center for Risk & Economic Analysis of Terrorism Events, the Wharton Risk Management & Decision Process Center at the University of Pennsylvania and The Communications Institute.

The RAND report's authors say that the success of anti-terrorism measures have forced Al Qaeda to shift its focus to softer, easier-to-attack targets owned by private-sector companies. Additionally, increased security at prominent sites and government facilities has moved the attack threat to privately owned civilian venues, especially those with unimpeded public access, they say.

Terrorists' shifting focus to corporate assets underscores the need to extend TRIA to allow policymakers time to formulate a viable long-term solution for terrorism coverage, policyholders and insurers advocated last week at the symposium.

TRIA, which provides a government backstop for insurers in the event of a future catastrophic terrorist attack, is set to expire on Dec. 31. Some free-market advocates argue that the government should not provide insurance for private industry and should let the measure expire, while other critics complain that TRIA is a bailout for insurers.

But the RAND report states that because Al Qaeda, the Islamic terrorist group held responsible for the Sept. 11, 2001, terrorist attacks, and its leader, Osama bin Laden, remain determined to cause losses that would reverberate throughout the U.S. economy, insurance should be considered an anti-terrorism tool, not just an economic development boost following an attack.

"If the RAND study and others suggest that radical Islamic terrorism is aimed at disrupting U.S. economic stability, then it is incumbent on

the federal government, as part of its national security responsibility, to create a framework to stabilize those risks," said Peter Lowy, chief executive officer of Westfield America Inc.

Mr. Lowy represented policyholders and spoke last week before the symposium on the future of terrorism insurance. He also serves on the advisory board of the RAND CTIRMP.

Westfield America is a publicly traded real estate company that owns and operates 127 shopping malls in four countries, with proper-

ty values exceeding \$41.6 billion. It purchased lease rights to the World Trade Center retail mall just six weeks before the Sept. 11, 2001, attacks and is still grappling with "a large number" of related lawsuits, Mr. Lowy said.

Mr. Lowy said that the extension of TRIA is vital in the short term for the U.S. economy and national security. He acknowledged, though, that TRIA also has its shortcomings and that renewing it every couple of years is inefficient.

A long-term solution to business' need for terrorism coverage, therefore, is also necessary, Mr. Lowy said. He called for Congress or President Bush to form a "blue-ribbon" commission of stakeholders to tackle the issue.

Mr. Lowy told the symposium that his company is currently renewing its insurance coverage and faces difficulty obtaining the necessary terrorism coverage limits. Efforts to mitigate the risk of terrorist attack are also difficult because of a lack of guidance from the federal government.

Without adequate insurance coverage, companies such as his could be forced to forgo development projects that would otherwise create thousands of jobs and help fill local tax coffers, Mr. Lowy said.

The RAND report details the alleged shortcomings and gaps in TRIA spoken of by Mr. Lowy and others at the symposium.

One of the greatest weaknesses of the current terrorism insurance market stems from TRIA's treatment of chemical, biological, radiological and nuclear attacks, according to the report.

Under the act, insurers can exclude coverage for damages from CBRN attacks, except in the case of workers compensation losses.

There is good reason for insurers to avoid the "open-ended" losses that could stem from a dirty-bomb attack, the RAND report states. Such attacks could contaminate a 10-square-mile area and lead to "enormous" losses. But predicting the

consequences of a CBRN attack is likely to be an insurmountable problem for some time, the report says.

Yet there is a growing risk that terrorists could execute a radiological attack. Materials to make dirty bombs are available from many sources in the United States, the RAND study authors say.

"CBRN attack insurance may thus be an area where a direct government program, like war risk insurance, is appropriate," the RAND report concludes.

There are other shortcomings with current TRIA coverage. For example, it excludes coverage for attacks from domestic terrorists. Yet there is also a growing groundswell of domestic radicalism motivated by anti-globalism and bent on causing economic damage to corporations, the study found.

Additionally, TRIA does not provide adequate financial protection for the U.S. economy, because the "take-up rate" for terrorism coverage remains low. Speakers at the symposium said only about 50% of large policyholders purchase the coverage.

The study states that Congress might, therefore, consider subsidizing coverage or lowering the deductible that insurers are responsible for before federal reinsurance is available. The latter measure could reduce the price of coverage, the study says.

Meanwhile, a public policy consensus on a long-term solution for terrorism insurance needs has yet to emerge, Debra Ballen, executive vp for the American Insurance Assn. in Washington, said.

The wait for the Treasury report on terrorism insurance—expected by month's end—is adding to delays for crafting a long-term solution, Ms. Ballen said.

"There has been a sense on Capitol Hill, and the administration as well, that we ought not publicly talk about where to go from here until Treasury has come out with its study," Ms. Ballen said.



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Aerospace: In rare move, company thaws out its frozen defined benefit plan

Continued from page 1

Bucking a trend

At a time when more employers are phasing out defined benefit pension plans for several reasons, including the volatility of the contributions they must make and an uncertain regulatory and legal environment, Aerospace is bucking the trend, benefit consultants say.

Indeed, a recent analysis by Watson Wyatt Worldwide concluded that the number of Fortune 1000 companies that have frozen or terminated their defined benefit plans continues to grow (see box). But while there is a move away from defined benefit plans, unfreezing a traditional plan is not unheard of, consultants say.

"We're working with a couple of employers here in the Colorado area that are putting in new (pension) plans that they didn't have before, and we've got another client in the Los Angeles area that did something very similar to what

Aerospace did—opening up an old plan," said Donald E. Fuerst, a principal in the Denver office of Mercer Human Resource Consulting, who helped Aerospace develop its new retirement program. Mr. Fuerst acknowledged, though, that "there aren't many, I will say that."

"From time to time, I would suspect—especially if we get some of those funding and cash balance issues resolved in a reasonable and balanced way—more employers will consider unfreezing their plans," said Scott Macey, a senior vp for Aon Consulting in Somerset, N.J. Such decisions will depend on each employer's circumstances, such as their competitive situation and whether they can afford the plan, he said.

In Aerospace's case, the decision to reopen its defined benefit plan as part of the combined program had everything to do with attracting and retaining employees, said Charlotte Lazar-Morrison, director of human resources.

When Aerospace originally froze its pension plan at the end of 1992, "it was at a time we were going through downsizing," she said.

"We wanted to be able to attract all different kinds of employees, and the feeling was the defined contribution plan wasn't one that was always really attractive."

Charlotte Lazar-Morrison
Aerospace Corp.

As a cost-savings measure, all new hires were put into a new defined contribution plan, while existing employees remained in the old plan.

But after years of increasing Aerospace's contributions to the defined contribution plan to remain competitive, "it started becoming very close in cost to the defined benefit plan," Ms. Lazar-Morrison said.

At the same time, "after we cycled through the downturn in the '90s, we started to need to rehire again, and we looked at what our competitors had and a number of them offered both a defined benefit and defined contribution plan to their employees," she said.

"When we went to attract what was a midcareer hire...they looked at our defined contribution plan, and we'd get comments that it was not enough."

Although Aerospace mainly hires experienced workers, it also was looking to hire less-experienced staff, Ms. Lazar-Morrison said. "We wanted to be able to attract all different kinds of employees, and the feeling was the defined contribution plan wasn't one that was always really attractive to a more experienced person or for somebody who had come from another company" that provided both types of plans.

Retaining current employees was another key consideration for Aerospace, which serves the U.S. Air Force in the scientific and technical planning and management of its missile-space programs.

Because Aerospace does not have a vesting schedule, having only a defined contribution makes it too easy for employees to leave, Ms. Lazar-Morrison said.

"We like people to stay because of the nature of our business. We like continuity between projects, and the experience that people bring is very important to us," she said.

The new plan

Under Aerospace's new combined retirement program, employees will receive a retirement benefit roughly equal to what each separate plan currently provides, with half of the benefit coming from each.

For example, while Aerospace annually contributes a fixed 8% of an employee's pay to his or her defined contribution plan account, employees in the combined program will receive 4%. The plan will be funded entirely by the company; employees will make no contributions, Ms. Lazar-Morrison said.

Similarly, benefits in the traditional plan, which contain both fixed and variable benefits, accrue at about half the level of the existing plan. And while the existing pension plan offers full retirement benefits at age 62, under the new program, the retirement eligibility age was upped to 65, she said.

About 45% of Aerospace's employee population is currently enrolled in the company's traditional defined benefit plan, and Ms. Lazar-Morrison expects most of them to stay there. Of those currently in the defined contribution plan, Aerospace expects that about 25% will move to the new program, "but it could be higher," she said.

The new program is not expected to increase Aerospace's retirement benefits costs, she said.

"When we go into the modeling software provided to employees...in most cases, the new program shows a better benefit for the employee despite the fact it's cost-neutral to the company," Mercer's Mr. Fuerst said.

And while Ms. Lazar-Morrison said she is concerned about pension funding volatility, "we think we have a good strategy in place for funding our plans."

A coming Ice Age? Plan freezes and terminations grow

Among Fortune 1000 companies that sponsor defined benefit plans

Year	Total number of pension plan sponsors	Number of frozen or terminated plans	Percentage of pension plan sponsors with frozen or terminated plans
2004	627	71	11%
2003	633	45	7%
2002	624	39	6%
2001	638	34	5%

Source: Watson Wyatt Worldwide

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Captives: Comment sought on cell deals, loanbacks, 'homogeneity'

Continued from page 1

good idea," said Brady Young, president and chief executive officer of Strategic Risk Solutions, a captive consulting and management company in Waltham, Mass.

"The IRS is trying to understand captive industry innovations before they make a definitive announcement. That is a good turn of events," said Tom Jones, a partner with the law firm of McDermott, Will & Emery in Chicago.

In the area of cell captive taxation, in particular, "there is nothing on point in the context of property/casualty insurance," said Richard Irvine, a partner in the Bermuda office of PricewaterhouseCoopers L.L.P.

Similarly, there are a lot of differing opinions on loanbacks and the potential impact on taxation, said Charles Lee, a managing principal in the Dallas office of the Tillinghast unit of Towers Perrin.

While welcoming guidance and the opportunity—an unusual one—to provide input before rules are issued, experts aren't certain, in at least the area of homogeneity of risk, about the types of situations

the IRS may have concerns about.

One possible situation, experts say, could be one where a captive, writing, for example, workers compensation risks for its parent, also

"I would encourage people not to overreact. Let's wait until the IRS comes out with something definitive."

Charles Lee
Tillinghast

provides a different line of coverage for an organization unrelated to its parent.

Alternatively, some speculate, the homogeneity issue could have relevance, depending on whether and how the IRS rules in the captive benefits funding arena.

A handful of companies—responding to more flexible Labor Department guidance—in recent

years have broadened their captives, which had been funding a range of property/casualty risks, to cover employee benefit risks.

One motivation—though not the major one—for doing this is to increase the likelihood of the captive parent being able to take a tax deduction for the property/casualty premiums paid to the captive. The reasoning for this goes back to a 1992 IRS ruling in which the service said providing coverage for employees' life insurance risks would be considered unrelated business.

With courts ruling that parents can deduct property/casualty premiums paid to the captives if their captives do a reasonable amount of unrelated business, putting benefits into the captive would increase the chances that the property/casualty premiums would be considered, if challenged by the IRS, to be tax-deductible, according to this reasoning.

Potentially, some type of homogeneity requirement could wipe out the tax advantages associated with captive employee benefit funding arrangements.

Still, no one knows if that is the direction the IRS could be going in.

"I would encourage people not to overreact. Let's wait until the IRS comes out with something definitive," said Tillinghast's Mr. Lee.

The IRS is asking that comments be submitted to: CC:PA:LDP:PR (Notice 2005-49), Room 5203, Internal Revenue Service, P.O. Box 7604, Ben Franklin Station, Washington, D.C. 20044. The deadline for comments is Oct. 3.

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Late News

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about 475 hospitals and about 57,000 physicians and other health care providers, an Aetna spokesman said.

GE unveils broad restructuring plan

General Electric Co. announced a corporate reorganization that includes putting its insurance

operations into a newly created GE Commercial Financial Services business unit. The unit, one of six created in the realignment, will be headed by Vice Chairman Michael A. Neal and will also encompass the company's commercial finance operations. In a statement, GE said Mr. Neal, who is president and chief executive officer of GE Commercial Finance, would "continue our strategic process in insurance." A spokesman for GE Insurance Solutions declined to elaborate other than to say that GE has previously

indicated that it is seeking to reduce its insurance holdings.

N.Y. bill would mandate online drug price info

New York's Legislature passed a bill that would require pharmacies in the state to post weekly the prices of their 150 most commonly prescribed drugs on the state Department of Health's Web site. The measure, A5403, which would take effect next year, is designed to help consumers to compare prescription drug prices.

Currently, New York pharmacies must produce an updated weekly prescription drug price list and make copies available to consumers who request one in person.

Vermont governor vetoes health cover mandate

Vermont's Republican Gov. Jim Douglas has vetoed legislation that would have used payroll and personal income taxes to establish a



Gov. Douglas

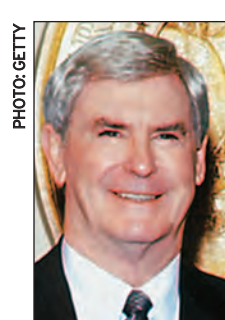
state-run program to provide health insurance for the uninsured. The legislation, H. 524, called for a program that would have provided

some coverage to all uninsured Vermonters by July 2006, gradually adding preventive and primary care for all residents the following year, hospital care for all in 2008 and comprehensive benefits for all residents by July 2009.

HRH faces suits from shareholders

Hilb Rogal & Hobbs Co. faces two shareholder lawsuits over the drop in its stock price following its revelation last month that a brokerage employee may have received or made illegal payments while placing professional liability insurance. New York-based Goodkind Labaton Rudoff & Sucharow L.L.P. and Washington-based Finkelstein, Thompson & Loughran filed the lawsuits, which seek class action status, in federal court. The complaints charge that the brokerage and several current and former executives violated securities laws by issuing false and misleading financial statements.

Nevada gives RRGs fee, tax relief



Gov. Guinn

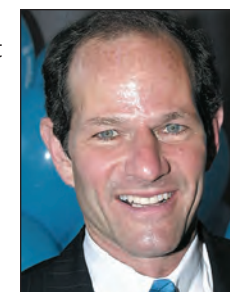
Nevada Gov. Kenny Guinn has signed into law legislation that slashes fees and premium taxes paid by risk retention groups operating in

the state. Registration and annual fees paid by out-of-state RRGs that provide coverage to Nevada policyholder-owners were cut to \$250 from \$2,450. In addition, the measure reduces to 2% from 3.5% the premium tax that out-of-state RRGs pay on coverage written for Nevada policyholders. The law also allows the formation of sponsored or protected cell captives. Nevada, which is one of the nation's fastest-growing captive domiciles, currently has 42 captives, including 12 RRGs.

Spitzer subpoenas Hartford again

The Hartford Financial Services

Group Inc. last week said that it recently received an additional subpoena from New York Attorney General Eliot



Mr. Spitzer

Spitzer's office regarding the insurer's broker compensation arrangements in connection with the sale of group annuity products. The company previously disclosed that it had received subpoenas from Mr. Spitzer and Connecticut Attorney General Richard Blumenthal requesting information relating to the company's group annuity products.

Briefly noted

J. Hyatt Brown, chairman and chief executive officer of Brown & Brown Inc., is expected to be off the job until later this summer after undergoing heart bypass surgery last week. The Daytona Beach, Fla.-based brokerage said the operation is not expected to prevent him from continuing to serve as its top executive....**American International Group Inc.** said that, under new corporate governance guidelines approved by its board, the insurer's chairman and at least two-thirds of its directors will be independent....**Integro Ltd.** has named Michael D. Fisher, a veteran of Marsh Inc., to head its Bermuda office. Mr. Fisher was most recently managing director and president of Marsh Global Markets (Bermuda) Ltd. Mr. Fisher is one of several former Marsh executives to join Integro in recent weeks. Three former Marsh executives founded Integro in April.

ERC seeks to deny coverage for paper's circulation overstatement lawsuits

CHICAGO—A liability insurer for the Chicago Sun-Times is denying any responsibility to pay claims or defense costs related to the newspaper's circulation overstatements, according to the declaratory judgment action the insurer filed in Cook County Circuit Court in Chicago earlier this week.

The coverage concerns a "communications liability insurance policy for multimedia" that Overland Park, Kan.-based Employers Reinsurance

Corp. wrote annually from June 30, 1995, through Aug. 31, 1999. The lawsuit names as

defendants Hollinger International Inc. and several of its subsidiaries, including the Sun-Times, as well as several individuals.

The newspaper's circulation overstatements came to light in June 2004 when the Sun-Times began an internal review, according to legal documents that quoted

Hollinger's 10-K filings with the U.S. Securities and Exchange Commission. The newspaper reported that average single-copy circulation was overstated by about 50,000 weekday copies and 17,000 Sunday copies, according to those filings.

The company took pre-tax charges of at least \$27 million to cover the estimated cost of restitution and settlement of related lawsuits by advertisers. Many advertisers have filed lawsuits, both individually and in class actions, alleging that their advertisements did not receive the exposure the newspaper promised, according to the 10-K filings.

The Sun-Times could not be reached for comment.

—By Meg Fletcher



The Chicago Sun-Times is a facing lawsuits over misrepresenting circulation.

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Percentage change of BI Stock Index vs. key indicators

BI Stock Index	
2496.13	-1.28
Dow Jones	
10297.84	-3.06
S&P 500	
1191.57	-2.09

Largest gains

NYMagic Inc.	9.59%
American Safety Insurance	8.47%
Tower Group Inc.	4.98%
USI Holdings Corp.	4.58%
WellChoice Inc.	4.49%

Largest losses

Harleysville Group	-9.03%
Vesta Insurance Co.	-7.33%
Arthur J. Gallagher & Co.	-5.12%
RLI Corp.	-4.85%
Cincinnati Financial Corp.	-4.49%

Weekly change by market segment

Brokers	-0.34%
Insurers/Reinsurers	-0.79%
Managed Care Organizations	0.39%

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

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CONFERENCE 2005

At BusinessInsurance.com

New Online Poll: Will the RAND Corp.'s new report on terrorism insurance have make extension of the Terrorism Risk Insurance Act more likely?

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