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to enhance disclosure / 3**

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buy Rx from Canada / 4**

Business Insurance

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\$4



PHOTOS: ZUMA PRESS

Late News

Hub scraps plan to buy Near North

Three weeks after announcing it had signed a "proposal to purchase" substantially all of the brokerage operation assets of Near North National Group, Chicago-based Hub International Ltd. said that it has terminated negotiations with the struggling broker. "Although we had strong interest in this acquisition, we were unable to negotiate terms that match our investment discipline and suit our structural objectives," said Martin P. Hughes, Hub's chairman and chief executive officer, in a statement. The deal's unraveling comes on the heels of private equity investment firm Frontenac Co. L.L.C.'s attempted purchase of Near North's brokerage operations, which also fell through last month. Although neither side would comment on why the Frontenac deal unraveled, it was widely speculated that large departures of key executives and clients and the legal issues associated with Near North and its owner, Michael Segal, played a part.

Florida imposes med mal caps

Medical malpractice awards in Florida will be capped and insurance rates lowered under legislation that passed last week during a special session of the state's Legislature. The bill caps noneconomic damages at \$500,000 in most cases. In cases involving wrongful death or a permanent vegetative state, and in cases in which a judge decides the \$500,000 cap would result in a "manifest injustice," claimants may recover up to \$1 million against medical providers and as much as \$1.5 million from nonpractitioner defendants.

Court sticks employer with tab for comp injury

An employer is liable, under the Longshore and Harbor Workers' Compensation Act, for knee surgery performed on a man who scheduled the operation before working just one day for the employer, a federal appeals court ruled. Court records in *Metropolitan Stevedore Co. vs. Crescent Wharf & Warehouse Co.* also indicate that over 30 years

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Cutting a wide swath through Canada and the United States, last week's blackout dimmed New York's skyline, stalled streetcars in Toronto, and left tens of millions of people, like this hotel employee in Cleveland, in the dark.

Blackout shuts down cities

Risk managers cope with massive outage

Cause of power failure may determine cover

By MICHAEL BRADFORD

Now that the power is on again, losses from the massive blackout that struck portions of the United States and Canada are coming to light.

The power failure that authorities say probably began in Ohio and swept through the northeastern United States and into Canada just after 4 p.m. Eastern Standard Time on Aug. 14 shut down many businesses and caused disruptions to commerce across both nations. In the first full week after the history-

making blackout, companies are assessing their losses and checking insurance contract language.

The outage left an estimated 50 million people without power in what apparently began as a series of line failures and plant shutdowns in Ohio, which set off a chain reaction of problems across the affected area. Major cities affected by the outage included Detroit, New York, Cleveland and Toronto. Because the blackout occurred late on a weekday, millions of workers were stranded as transit systems were ei-

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By JOANNE WOJCIK

Though small commercial property insurance policies typically exclude coverage for damage from power outages such as the massive blackout experienced last week, large commercial policies could be triggered, coverage experts say.

The availability of coverage will depend on the cause of the blackout, the extent of damage and whether businesses with the coverage meet duration-based deductibles, they say.

But all that could change if ter-

rorism is ultimately determined to be the cause of the power failure, which left an estimated 50 million people without power in the Midwest, northeastern United States, and southeastern Canada, experts point out.

The New York-based Insurance Information Institute released a statement shortly after the blackout saying it expects insured losses to be moderate because most commercial policies exclude damage from power failures. It compared the current situation to the 1977 New York

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Spotlight

ASIAN MARKET REPORT

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Regulators urge changes in rating agency workings

By MEG FLETCHER

NEW YORK—The U.S. Securities and Exchange Commission should continue to authorize rating agencies to operate, but the agencies should function with “greater transparency and disclosure,” according to state insurance regulators.

Responding to the SEC’s ongoing broad review of commission-appointed rating agencies, state insurance regulators added that the elimination of such ratings “would cause significant turmoil” to the National Assn. of Insurance Commissioners as well as to other federal and state legislators.

The NAIC’s Rating Agency Working Group stated in a recent com-



Mr. Serio

ment letter that the NAIC’s Securities Valuation Office, which makes credit quality assessments and valuations of state-regulated insurers’ securities, currently relies heavily on the ratings issued by the rating agencies. Specifically, the SVO gives insurers “filing exceptions” for securities that a commission-appointed rating agency considers to be

“the highest quality” or “of high quality.” Those ratings equate to the top two of six categories in the SVO’s credit quality risk assessment framework.

The five-member NAIC working group, which is chaired by New York Insurance Superintendent Gregory V. Serio, sent a 14-page letter late last month to the SEC in response to the SEC’s “Concept Release: Rating Agencies and Use of Credit Ratings under the Federal Securities Law.”

The SEC document, which included 56 questions for discussion, emphasized the breadth of its review by saying that it would consider analyzing the impact of elimi-

See NAIC/page 16

Most risk pools thriving, but challenges lie ahead

By JOANNE WOJCIK

PARK CITY, Utah—Although public entity pools are in better shape financially than the overall insurance industry, that could change if they are forced to dip into surplus because of higher retentions and to bolster reserves for rising workers compensation claims.

The balance could be further upset if many large members, particularly cities and counties in dire financial straits, withdraw from the pools for budgetary reasons, suggested several pool administrators who attended the 13th Conference for Risk Retention Pools, held Aug. 3-6 in Park City, Utah.

Fortunately, because of the overall hard market, the pools have been growing, both by gaining new members and by increasing premi-

ums. And they’ve pretty much got a captive audience, because fewer insurers are willing to take on public entity risks today.



The pools could help themselves by tapping the new offshore reinsurers and by considering some alternative risk financing techniques, such as finite risk, when traditional reinsurance or excess coverage isn’t available, some experts say.

According to data derived from several sources, risk retention pools represent about \$8 billion in annual premiums, or 4% of the total commercial insurance market, estimates Michael Kaddatz, managing director of ARM Tech in Irvine, Calif., who co-chaired the conference.

And since the insurance market has hardened, pools’ growth has outpaced that of the overall commercial insurance market, he said.

For example, the Risk Retention Reporter estimates that risk retention groups’ premiums grew by 31% between 2001 and 2002, whereas the overall commercial insurance market grew by 17%.

Mr. Kaddatz found public sector pools experienced similar growth. He estimates public entity pools’ premiums have increased, on aver-

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MANAGED CARE FIRST-HALF RESULTS

Major managed care organizations’ first-half 2003 net income, in millions.

Company	Net income
UnitedHealth Group	\$842.0
Kaiser Permanente	607.0
Aetna Inc.	468.4
WellPoint Health Networks Inc.	417.5
Anthem Inc.	369.0
Oxford Health Plans Inc.	145.4
PacifiCare Health Systems Inc.	143.8
Health Net Inc.	142.8
CIGNA Corp.	135.0
Coventry Health Care Inc.	112.9
Humana Inc.	100.5

Source: Company reports

Higher rates, lower costs fuel managed care profits

More rate hikes seen for 2004

By JUDY GREENWALD

Many managed care companies are seeing stellar results, and that success is not coming entirely from raising prices.

Although hefty rate increases continued in the first half, lower-than-expected medical costs also fueled profits at many managed care companies. Many observers caution, though, against viewing the lower cost trends as anything but a short-term phenomenon that may reflect the economy.

Furthermore, some observers believe that managed care companies’ profit margins may have reached their peak and that there may be greater price competition next year.

But clearly, employers will continue to face at least some rate hikes in the short run, say analysts. “I don’t see a significant break in the next 12 months,” said John Ward, chief executive officer of the Cincinnati-based Ward Group.

But Douglas L. Meyer, senior director at Fitch Inc. in Chicago, said, “the benefits of the reduced cost trends should be more re-

flected in the premium prices in 2004.”

Managed care companies’ second-quarter results generally were strong, say observers.

It was “another blow-out quarter across the board,” with “phenomenal” profit margins, said Michael LeConey, a health care analyst with Sky Capital in New York.

“It’s been another good quarter,” which was “kind of expected, based on the way pricing was up,” said Richard Shaw, an analyst with Oldwick, N.J.-based A.M. Best Co.

“On balance, the quarter came through as a strong quarter for the segment,” Mr. Ward said. “Pricing discipline remains strong in the segment, and, based on the slight improvement in medical loss ratios, it appears that the pricing discipline is outpacing medical cost inflation, which is helping the medical loss ratio for the segment.”

Medical cost trends, which were increasing by 8% annually, have slowed to 4%-6%, depending on the part of the country,

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Due to the recent power outage, your issue of *Business Insurance* may have been delayed in the post office.

Inside Business Insurance

Deutsche Bank, insurers dispute 9/11 coverage

Deutsche Bank A.G. is suing two of its insurers over claims related to the Sept. 11, 2001, terrorist attacks. **Page 4**

TRIA brings changes for captive insurers

The Terrorism Risk Insurance Act has created both challenges and opportunities for captives. **Page 6**

Health care tax credit program holds promise

Broadening a federal health care tax credit program could go a long way toward reducing the number of uninsured Americans. **Page 8**

Aussie employers seek federal comp system

Employers in Australia are calling for creation of a single, federal workers compensation system. **Page 13**



Tanker leaking oil off Pakistan’s coast

A single-hulled tanker that broke up off Pakistan’s coast earlier this month has spilled more than a million gallons of oil. **Page 13**

Online

- The **Datebook** calendar lists upcoming industry seminars and meetings and allows you to add info on your own event.
- Searchable **directories** of all the listings of industry vendors found in *BI’s* Market Sourcebook.
- New **Opinion Poll** for readers: Do you think the unemployed should be given federal tax credits to offset the cost of health insurance premiums they pay?

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REPORTING ON CORPORATE RISK AND EMPLOYEE BENEFIT MANAGEMENT NEWS.

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Springfield, Mass., ends copays for employees City looks to Canada in war on drug costs

By MICHAEL PRINCE

SPRINGFIELD, Mass.—Some employers seeking new ways to battle escalating prescription drug costs are looking north of the border.



PHOTO: JESSICA RINALDI/GETTY IMAGES

Springfield, Mass., Mayor Michael Albano sits with his diabetic son, Mikey, and his son's supply of Canadian prescription drugs. Springfield will pay the full cost of prescription medications its employees purchase in Canada.

The announcement last month by the city of Springfield, Mass., that it will pay the full cost of drugs purchased from Canada by members of its health plan could mark the first trickle of a possible surge of similar moves by self-insured employers.

However, uncertainties about the legality of drug importation are so far hindering widespread adoption of the practice.

Years of rising prescription drug costs have driven employers to seek a solution outside the U.S. drug market, said Christopher Collins, insurance program director for Springfield.

"It's like the Boston tea party—enough is enough," Mr. Collins said.

Such moves demonstrate the growing frustration among employers over rising drug costs, said John Erb, senior manager at Deloitte & Touche L.L.P. in Miami. The decision to purchase drugs from Canada also escalates the conflict between drug sellers and drug buyers, he said. "The gloves are off. This is a nasty battle."

Changing plan designs, such as introducing tiered copayment systems, has not done enough to stem rising costs, so employers are willing to take "a more confrontational step," Mr. Erb said.

Mr. Collins said prescription drug expenses currently account for about 30% of Springfield's health care spending. The city's health plan covers 20,000 employees, dependents and retirees.

Although Springfield is the first city in the state to announce an importation program, at least five other Massachusetts cities are considering such an approach, said state Rep. Stephen Buoniconti, D-West Springfield.

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Vermont Captive Insurance Assn. Annual Conference

Captives can benefit from financial ratings

By RODD ZOLKOS

BURLINGTON, Vt.—The independent, objective assessment that comes with obtaining a financial strength rating can provide a variety of benefits to a captive insurance company.

In some cases, a rating might address a captive's specific business concerns. In addition, having a rating may offer more-general benefits, such as allowing the company to market a group captive program or aiding in the purchase of reinsurance.

Speaking as part of a panel examining issues surrounding rating captives at the Vermont Captive Insurance Assn.'s annual conference earlier this month, Carol Pierce of A.M. Best Co. said a company's small size isn't a barrier to a high rating from Best.

"It's just there are some dynamics of smaller companies that preclude a lot of them from getting there," said Ms. Pierce, an assistant vp at Oldwick, N.J.-based Best.

In evaluating an insurance company rating, Best looks at balance sheet strength, operating performance and the company's business profile.

In looking at balance sheet strength,

Best considers the insurer's capitalization or leverage, its capital structure and parent company, the quality and appropriateness of its reinsurance program, the adequacy of loss reserves, the quality and diversification of the company's assets and its liquidity.

"Balance sheet strength really is the foundation," Ms. Pierce said. "It carries the greatest weight at all rating levels."

In terms of operating performance, "basically, we're looking for profitability," Ms. Pierce said. "In captives, we don't expect to see operating profit; we expect to see something closer to break even, and the investments are going to produce profit."

In studying a company's profitability, Best looks for consistency over time, Ms. Pierce said. When the company starts seeing profit volatility from year to year, "it really precludes companies from getting to higher rating levels," she said.

In evaluating a company's business profile, Best looks at market risk, the company's competitive market position, revenue composition, spread of risk, event risk and the company's management, Ms. Pierce said.

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Vermont Captive Insurance Assn. Annual Conference

Sarbanes-Oxley may set governance standards

By RODD ZOLKOS

BURLINGTON, Vt.—The broad corporate governance reforms enacted by Congress last year will have an impact on captive insurers owned by publicly traded companies and those owned by private firms, according to several captive experts.

Although the reforms enacted in the 2002 Sarbanes-Oxley Act only apply directly to publicly traded companies, the measure could become the benchmark for all corporate governance standards, they said.

"Even though Sarbanes-Oxley might not apply to you, a lot of organizations are seeing it as a good road map for what should apply internally," said Ed Koral, senior manager at Deloitte & Touche L.L.P. in New York, who moderated a panel on Sarbanes-Oxley and corporate governance earlier this month at the Vermont Captive Insurance Assn.'s annual conference in Burlington.

"It may well be that Sarbanes-Oxley becomes the best practice for all companies," added panelist Marcy Waterfall, senior vp at Marsh Management Services Inc. in Burlington.

There are aspects of the corporate governance requirements that could apply to

captive financial reporting, Mr. Koral said. But, in terms of financial reporting requirements, "there aren't that many differences between how you run a captive now and how you run it under Sarbanes-Oxley. Before you got shame, now you get fines and jail time," she quipped.

"There's a good chance that if you have a captive it does affect you in some way," Ms. Waterfall said.

The principal reforms under the Sarbanes-Oxley Act are the creation of an accounting oversight board, more stringent auditor independence requirements, corporate governance and responsibility standards, increased financial disclosure requirements, provisions aimed at eliminating conflicts of interest and criminal penalties for fraudulent financial reporting.

"I certainly have been feeling a change in environment," since the passage of Sarbanes-Oxley, Ms. Waterfall said. "I guess the first area where we're feeling it is in the audit area. Auditors always did need to be independent, but the act strengthens that."

Another panelist, Patricia Teufel, principal at KPMG L.L.P. in Hartford, Conn., noted that Sarbanes-Oxley sets out a list of

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Deutsche Bank sues insurers over 9/11 loss

By DOUGLAS McLEOD

NEW YORK—Deutsche Bank A.G. has gone to court to force two insurers to pay their shares of a total-loss claim on an office building heavily damaged in the Sept. 11, 2001, terrorist attacks.

The bank filed suit in a New York state court last week against Allianz Insurance Co. and two units of AXA S.A. The insurers have continued to dispute the bank's \$1.9 billion total-loss claim even after the building's two other insurers—Chubb Corp. and Zurich American Insurance Co.—negotiated settlements for their shares of the loss.

The 41-story Deutsche Bank building—adjacent to the World Trade Center site and empty since the Sept. 11 attack—suffered a 15-story gash in its facade and 1,700 broken windows during the collapse of the WTC's south tower.

In addition, the bank says that the storm of dust and ash created by the twin towers' destruction, along with the ignition of a 20,000-gallon diesel fuel tank in the bank building's basement, heavily contaminated the building with asbestos and other

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Deutsche Bank claims its New York building was a total loss from the Sept. 11, 2001, terrorist attacks.

Vermont Captive Insurance Assn. Annual Conference

TRIA offers opportunities for captives

By RODD ZOLKOS

BURLINGTON, Vt.—The federal Terrorism Risk Insurance Act raises a number of issues for captive insurance companies and their parents but provides some opportunities as well, according to several captive experts.

"The TRIA program is a federal overlay on a state regulatory structure," said Robert Myers Jr., a partner in the insurance group at the Morris, Manning & Martin L.L.P. law firm in Washington. "And every time that happens...in our process of federalism there are always areas of friction."

Speaking as part of a panel on terrorism insurance coverage earlier this month at the annual conference of the Vermont Captive Insurance Assn. in Burlington, Mr. Myers noted that the U.S. Treasury, which administers TRIA, has very little experience with insurance regulation.

"As a result, there are a number

of issues, particularly from a captive perspective, that need to be filled out and fleshed out," he said.

Some key issues have to do with the definition of an insurer under the act, Mr. Myers said. While Treasury has determined that TRIA does apply to captives, "There are a multitude of risk pools that really don't fall under any of these definitions. Many of them are government risk pools," he said. "This is really a sleeping giant."

Sponsored captives and segregated-cell entities are another issue. "A sponsored captive is the entity that holds the license," Mr. Myers said. "Each individual cell goes through a process where it is permitted to become active after the department has signed off on it, but it doesn't get a license." The question is, if one cell in a sponsored captive is used to write terrorism coverage, how would the other cells in the entity be affected under TRIA?

Leonard D. Crouse, deputy com-

missioner of captive insurance in the Vermont Department of Banking, Insurance, Securities and Health Care Administration, said that "eight or nine" Vermont-domiciled captives have approached state regulators about writing terrorism insurance. "They are major captives, probably some of our largest corporations," he said.

"Like anything else we do here in Vermont that affects federal government, we try to work closely with federal agencies to make sure we comply with whatever they want us to do," Mr. Crouse said.

Derick White, Vermont's director of captive insurance, said many captives are interested in reworking their business plans so they can cover terrorism risk.

From a captive owner's perspective, Nick Parillo, vp of operations at the MollyAnna Co. in Canton, Mass., said combining traditional terrorism insurance with captive coverage could be a good move for

many companies. "A combination like that could make a lot of sense if, in fact, you're in the right business and you don't have to pay a trillion dollars for it," he said.

The potential for recovering a significant portion of a terrorism loss through TRIA makes a strong argument for using a captive to provide terrorism coverage, Mr. Parillo said. "When you put things in that kind of perspective, the question is, why wouldn't you offer terrorism insurance through your captive insurance company, especially if you don't buy commercial insurance?" he said.

Jeffrey S. Bragg, executive director of the Terrorism Risk Insurance Program in the Treasury Department, said his agency aims to create a virtual insurance company, outsourcing claims and audit functions.

"We intend that claims made under the program will be processed and paid in a manner highly consistent with what you currently expe-

rience with the domestic reinsurance industry," Mr. Bragg said.

But, while TRIA's goal is to mirror the traditional reinsurance industry in terms of service and payment, there may be difficulties in determining whether an act qualifies for coverage, Mr. Bragg said. "Some of the events are going to be easy to determine and some are going to be more difficult. I think that's going to create more of a problem than anything else," he said.

Mr. Bragg suggested that to a large extent, federal officials would look to what is covered under primary policies in determining whether certain types of terrorist attacks are covered. Asked about coverage for cyberterrorism, for example, he said his agency hasn't given much thought to the issue, "But my guess is we would follow the same rules as nuclear, chemical and biological: If it's covered under your primary policy and an act of terrorism causes a loss, then my guess is we'd want to cover that."

Thomas M. Jones, a partner with the McDermott, Will & Emery law firm in Chicago, moderated the session.

Ratings: Benefits for captives

Continued from page 4

In rating a single-parent captive, "we look at the creditworthiness of the parent company," Ms. Pierce said. The rating agency also considers the parent's support for the captive and how the captive fits into the parent company's overall risk management program.

While Best considers the parent company in determining the captive's rating, the parent's rating doesn't necessarily place limits on that of the captive, Ms. Pierce said. "We have not imposed glass ceilings based on parent company ratings," she said.

And, she said, events at the parent company may not trigger rating actions on the captive. "It depends on how material those events are to the captive and the rating it has,"

Ms. Pierce said.

Paul Buckley, senior risk officer of Tyco International Ltd., said that when he was with Murray Hill, N.J.-based Lucent Technologies Inc., the company sought a rating for its captive to address concerns over whether it would be affected by the parent company's financial problems.

To maintain the credibility of the captive program, the company wanted an independent analysis that would affirm the captive's independence from its parent's problems and confirm that it was shielded from a potential Lucent bankruptcy, Mr. Buckley said.

Mark Wilson, chief financial officer and treasurer for Housing Authority Insurance Group in Cheshire, Conn., said a rating gives

a captive "an instant transparency and a credibility on the marketing side."

"It also helps in the negotiation of pricing and terms, especially with fronting companies and with reinsurers," he said.

In addition, a rating can demonstrate to the Internal Revenue Service that the captive is serving a legitimate insurance function, Mr. Buckley said. "If you're using your captive as an IRS tool, that's another piece that you put on the plus side when you have your captive rated, because A.M. Best doesn't rate anything but insurance companies," he said.

Tim Kolojay, a principal and consulting actuary with Insurance Industry Consultants L.L.C. in Atlanta, moderated the session.

Governance: Captives affected

Continued from page 4

transactions that are prohibited for auditors. The prohibitions are based on three principles: that an auditor cannot function in the role of management, an auditor cannot audit his or her own work and an auditor cannot serve in an advocacy role for his or her client.

Those prohibitions could have an impact on captives that use actuaries that are associated with their auditors, she said.

"An actuary that is not associated with your firm's auditor continues to be not at all restricted in terms of the services they provide to you," Ms. Teufel said. "If, in fact, your actuary is associated with your auditor, that is clearly a prohibited service."

"I think we can also prepare for a more extensive audit process," Ms. Waterfall added. And, "With all the new restrictions on what these

firms can do, audit fees are no longer a giveaway that comes with the whole package," suggesting that audit fees will be going up, she said.

Requirements that chief executive officers and chief financial officers certify that financial statements accurately reflect the company's financial condition and internal control requirements will bring more corporate scrutiny to captives, Ms. Waterfall said.

"You know this has your CFO's attention," she said. "This is an area where we are seeing a lot of activity with captives." In many organizations, a captive insurance company will no longer be "a little outpost off to the side," Ms. Waterfall said. CFOs will likely be more involved with the captive, and companies will want to have their captive examined by their internal auditors.

Ms. Waterfall suggested that risk managers determine how their

companies' intend to incorporate their captives in their overall Sarbanes-Oxley plans. She added that they should take an active role in their captives, insisting on regular, meaningful financial reports; documenting and reviewing key processes such as underwriting, claims, financial reporting and regulatory compliance; and meeting regularly with captive service providers.

Risk managers also should insist on active participation from captive board members, Ms. Waterfall said. "This is an area that as a captive manager I think is sometimes lacking in captive boards," she said, saying she sometimes sees a sense of "doing the minimum" and no-show directors.

"Many aspects of Sarbanes-Oxley are not really new," Ms. Waterfall said. "If you think about it, they're good corporate governance practices."

Formations in Vermont on record pace in 2003

BURLINGTON, Vt.—The Vermont Captive Insurance Assn.'s annual conference drew more than 1,000 attendees from 40 states and eight countries to Burlington, Vt., Aug. 5-7.

The meeting came with the state on pace for another record year of captive formations, having licensed 41 new captives this year at the time of the meeting, with 11 applications pending.

"I anticipate that we'll probably surpass that 70 record that we had last year," said Leonard D. Crouse, deputy commissioner of captive insurance in the Vermont Department of Banking, Insurance, Securities and Health Care Administration.

The creation of Mr. Crouse's new position of deputy commissioner for captive insurance, along with the captive section's elevation to a division within BISHCA, was a significant captive industry development this year, said Vermont Gov. Jim Douglas.

"Because this is such a large and important part of the financial services industry, it seemed to me and the Legislature that it deserved its own division," the governor said.

This year's captive insurance legislation also revised Vermont's captive premium tax structure.

Molly Lambert, president of the

VCIA, cited the organization's success in raising funds for its planned International Center for Captive Insurance Education, a collaborative effort with the University of Vermont. With a goal of raising \$400,000, she said during the conference that the VCIA had already raised \$91,000.

During this year's conference, the VCIA also presented various annual honors. The Captive Crusader Award, presented by the VCIA staff to the member who has best demonstrated support of the organization, was given to John Alberici, senior vp of Alberici Group Inc. in St. Louis and senior vp of Contractors Casualty Co., the Vermont captive of Alberici Corp.

The organization bestowed an honorary membership on Vermont Rep. Kathleen Keenan, while the VCIA's Industry Service Award, selected by the VCIA's board in recognition of a member for support to the captive insurance industry, was presented to W. Scott Frazier, executive director-North America for Aon Insurance Managers (USA) Inc.

Next year's VCIA conference is scheduled for Aug. 10-12 in Burlington. For more information, visit the VCIA's Web site at www.vcia.com or call 802-658-8242.

Paul Winston



Editor Paul Winston's weekly column will return in the Aug. 25 issue

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Editorial

Health coverage tax credit has potential

WHAT IS THE best way to ensure that all Americans have access to health insurance coverage?

While we don't have the answer to that question, we do believe that an approach now being taken for those who have lost their jobs or pension plan coverage offers great potential.

Under a 2002 law, those who have lost their jobs due to foreign competition and those age 55 through 64 whose pension plans have been taken over by the Pension Benefit Guaranty Corp. are eligible for a special health insurance tax credit.

This credit can be used to pay 65% of the premium of any qualified health plan. Such plans include CO-

BRA, plans sold by commercial insurers that are approved by state regulators and meet certain criteria, and plans offered through state high-risk pools.

The appeal of the credit—known as the health coverage tax credit—is that it is advance refundable. That means that a beneficiary pays only 35% of the premium up front to the government, which would pay the health plan the rest of the premium.

The cost to the federal government of the program—\$1.6 billion over five years—is not insignificant given the relatively small number of people, about 200,000, who are expected to be eligible initially.

But that cost of the tax credit is offset by several factors. To the extent

that more people will have health insurance, there will be a reduction in the amount of uncompensated care hospitals provide. That should mean less cost-shifting to patients covered under group plans. Less cost-shifting should slow increases in tax-deductible health care premiums and—in the case of self-funded employers—claims costs. Ultimately, that could mean an increase in employers' taxable income, offsetting at least some of the cost to the government of the tax credit.

Additionally, to the extent that individuals have health insurance, they are more likely to have health care conditions treated sooner and not wait until the conditions require more extensive and expensive treat-

ment or rely on hospital emergency rooms for primary care.

The big unknown, of course, is whether a large proportion of eligible individuals will take advantage of the tax credit and purchase health insurance. Some early indications, though, are promising: about 50% of those who attended HCTC registration sessions in Maine and Pennsylvania signed up for the coverage.

If that percentage holds steady, extending eligibility for a health care tax credit to other groups, such as to the unemployed, could go a long way in making a significant dent in the number of uninsured, with benefits being reaped by those individuals as well as by employers through a reduction in cost-shifting.

Drug plan is wake-up call

HOW LONG CAN it go on? We are referring to the growing number of Americans who are getting prescription drugs filled in Canadian pharmacies and saving anywhere from 20% to 70% compared to what they would pay in the United States.

As we report on page 4, the savings are such that one employer, the city of Springfield, Mass., is waiving copayments for employees and retirees who have their prescriptions filled through a Canadian company called CanaRx Services.

Why the big cost difference between the United States and Canada? The answer is the Canadian government imposes price controls on prescription drugs, while the United States does not, leaving it to purchasers—increasingly private pre-

scription drug benefit managers—to negotiate prices.

Why do the pharmaceutical giants agree to price controls in Canada, as well as in other countries, which limit their profits? Simply put, the manufacturers are unwilling to give up those markets, so they will accept lower profits abroad knowing that they reap huge profits in the United States.

Such a system works to everyone's benefit, except U.S. consumers, who surely pay the highest prescription drug costs in the world. Looking for a better deal, individuals and now some employers are tapping the Canadian option, with a multitude of pharmacies across the border only too willing to assist in the trade.

Ultimately, we think prescription drug manufacturers, alarmed at the

threat to their profit base, are going to take action. The most obvious step is for companies to limit their supplies to the Canadian market.

But will that solve the manufacturers' problem? Consumers could just as easily have prescriptions filled in other countries where drug costs are controlled by the government. Certainly, advances in technology would easily permit that.

We do not know how this will all play out. We do know that the actions taken by consumers in the United States should serve as a wake-up call to drug manufacturers that the high prices they are charging for their products are alienating their most important market, and they had better do something to bring those prices under control or else that market will slip away.

Letters to the Editor

Letter writer misses point of RIMS' quality efforts

To the editor: Henry Good's suggestion in his letter to the editor (*BI*, Aug. 4) that *Business Insurance* maintain a list of risk managers changing brokers for quality reasons is interesting, but it misses the point of RIMS' quality improvement process. That is, to drive a focused dialogue and measurement protocol between buyers and sellers that more represents a meeting of minds about performance and outcomes. While the risk of moving a relationship because of performance failure is and must always be present, the important issue is each party helping the other get better over time as a result of better communication and understanding of expectations. Having said that, RIMS would be pleased to have *BI* facilitate the collection of any evidence that performance outcomes are being affected by quality considerations.

Chris Mandel

Assistant Vp
Enterprise Risk Management
USAA Group
San Antonio
Chief Risk Officer
Risk & Insurance Management
Society Inc.

Why do businesses fear concealed-carry law?

To the editor: I just read the article "Minnesota Gun Statute Triggers Liability Fears" in the June 30 issue. Why is there a fear of businesses? Really? It would appear that politics may be a factor. Could the perceived concern be an issue created for political purposes?

If an objective review of the impact of legalized concealed weapons/handguns in other jurisdictions is done, one finds that crime actually goes down after the enactment of such laws. The basis,

See LETTERS/page 15

Schillerstrom



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Spotlight

Asian Market Report

Spotlight Editor: Michael Bradford

Employers preparing for threats in Indonesia

Focus on security

By MICHAEL BRADFORD

Multinational companies and gathering spots for Westerners in Indonesia are seen as the main targets of terrorism in the country and are on guard against further attacks.

The car bombing of the JW Marriott hotel in downtown Jakarta earlier this month was aimed at U.S. interests, authorities have said. In addition, the bombing of a Bali nightclub last year killed 202 people, many of them Australians and tourists from other countries. Those incidents have forced organizations that employ or host Westerners to take a close look at their security procedures.

The Bali bombing caused multinationals to realize they need to protect their assets not only in the capital of Jakarta "but also in the outer regions," said Nick Duder, president director of PT. Hill Konsultan Indonesia in Jakarta.

Since the bombing and the Sept. 11, 2001, terrorist attacks in the United States, multinationals have been implementing contingency plans that can be managed from their offices in Jakarta to cover all their operations in the country, he explained.

In general, multinational companies are far better prepared for security breaches than are local companies, Mr. Duder noted. "Domestic companies are still behind the curve when it comes to security and protecting their assets. Many do not have the budgets needed to implement such measures, and many see the prime targets being foreign icons and not local companies."

Several companies based in the United States and other Western nations, from mining interests to fast-food restaurants, have operations in Indonesia, and "any of them can be considered possible targets," Mr. Duder suggested.

He said many multinationals in Indonesia are better prepared for the threat of terrorist attacks or civil unrest than are their counterparts in other Asian countries, because such risks have long been present in

See **INDONESIA**/page 12

Industry bullish on Asia as market barriers lower

By MEG FLETCHER

Although progress is being made in opening Asian insurance markets to nonlocal insurers and brokers, those insurance providers still face some barriers that restrict their ability to operate in the Pacific Rim.

The impediments, though, have not dimmed producer and insurer hopes about the Asian market.

"This region is the most significant for long-term growth," said Dave Snyder, assistant general counsel with the Washington-based American Insurance Assn.

From around the world, companies attracted by lower operating costs are setting up plants and helping local economies to develop. In the process, the purchasing power of the region's people and businesses is growing, prompting a need for insurance products.

In 2002, "trade expansion was strong in Asia, buoyed by China's

continuing strength," according to most recent annual report from the World Trade Organization. Last year saw a rebound in international trade—including commercial services—from a contraction in 2001, the report notes.

In addition, the Assn. of Southeast Asian Nations reports, "Despite the still-fragile recovery of world output growth, the ASEAN economies are estimated to have grown by 4.4% in 2002 from 3% growth a year before." The organization's member nations are: Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam.

Given such growth, U.S. insurers and producers see the Asian market as a key area. All but the largest insurance providers typically first seek to meet the needs of U.S.-based clients that are setting up operations in Asian nations. Secondarily,

U.S.-based insurers and brokers also hope to compete for market share with local and international companies doing business in those Asian nations.

According to insurance industry representatives, the most recent example of the gains U.S. companies have made in promoting commerce and providing more equal access is found in the recently approved Free Trade Agreement between the United States and Singapore. It goes into effect Jan. 1, 2004.

One of the agreement's provisions eases the introduction of commercial lines products by allowing an insurer to sell them in Singapore without the prior approval of a local regulator. Instead, the regulator is given a specific period of time in which to review the product, or it is deemed to be approved, according to Brad Smith, managing director of international relations for the

See **MARKET**/next page

Few buyers in Japan purchase quake cover

Prediction tough

By MICHAEL BRADFORD

Japanese property owners without earthquake insurance are gambling in a high-stakes game.

The uninsured are playing against odds that some say give a major earthquake a pretty good chance of striking the island nation within the next 10 years. According to some scenarios, economic losses from a powerful temblor could reach hundreds of billions of dollars.

Insurance coverage for earthquake damage is a hit-or-miss proposition in Japan, with most homeowners and domestic companies going without it. Foreign multinationals, which generally come to the country with a stricter risk management philosophy, are more likely to carry the insurance.

Pinning down when a big quake might hit Tokyo is not easy. Estimating the damage it could cause, though, is not as problematic.

"It is very difficult to make predictions for earthquakes," said Jayanta Guin, vp of research and modeling at AIR Worldwide Corp., a Boston-based catastrophe modeling company. And there is disagreement among scientists as to whether it is possible to predict quakes at all, he noted.

Some of those that do believe quakes can be forecast put the probability of a large earthquake along the Tokai Gap—a coastal region in central Japan—at 10% over the next 10 years, Mr. Guin said. That percentage, "in terms of earthquake terminology, is significant," he emphasized. "People are very worried about that."

An earthquake along the Tokai Gap that is comparable in size to the quake with a magnitude of 6.9 that struck Kobe, Japan, in 1995 could cause economic losses greater than the \$100 billion from the Kobe quake, Mr. Guin said. "The potential for losses is very high" along the gap, which is "very densely urbanized and populated," he noted. The region lies around 100 miles west of Tokyo.

See **JAPAN**/page 11

AIG exec discusses challenges, opportunities in Asian insurance markets

page 10

OPIC's vp of insurance considers the market for political risk cover in Asia

page 11

AIG exec counsels patience in opening new markets

Charles Bouloux is president of the Pacific Rim region of American International Underwriters, a unit of American International Group Inc. For several years, he ran AIG's operations in India, and, for the past two years, he has worked in China. Associate Editor Michael



Prince recently interviewed Mr. Bouloux about his impressions of the Asian market.

Q: How did AIG get started in Asia?

A: AIG is actually a Chinese company. That's how it started (in 1919 in Shanghai). It then went to America. But Asia has always been its founding region. Hong Kong was its second office, and it celebrated its 70th anniversary last year.

Q: What are some of the challenges of operating in China?

A: The normal challenge of any country that's opening up: the domestic market wants to protect itself from the threat of foreign insurers. Wherever I've been involved in a market opening up, that is always the major problem. It's perceptions rather than reality, of course, because these companies have substantial infrastructure, which is more than amortized. It's not that

easy to walk in and just throw dollars into a country and hope someday you get returns. The perceived threat is much worse than the real threat.

Q: What parts of Asia are U.S. insurers focusing on?

A: A lot of American companies, including ourselves, cover the major countries where we are legally allowed to do business.

Q: Which ones are you not allowed to operate in?

A: Vietnam at the moment—it's still closed to us. China in some places is still closed to us, as well as Cambodia and Laos.

Q: Looking at U.S. companies with operations overseas, what are hurdles they can expect to face when opening or expanding operations in Asia?

A: The dangers are looking at the laws. If you're talking about Singapore or Hong Kong, you have a fixed structure in which to do business. In a lot of the other places, the recourse you have in doing business is limited. So while it may be financially attractive to go somewhere, you have to be careful of the fact that what is being said to you may not turn out to be right and your recourse to redress that is limited.

Q: What about cultural issues? What advice along those lines can you provide to com-

panies going into Asia?

A: Patience. The Asians believe in change by incremental degree. For example, when I got to Asia, I asked, why would China want to be in the World Trade Organization when, with a quarter of the world's population, you have your own WTO inside your own country? What I found out was that the leaders in China can get change only incrementally, and so by joining the WTO and by having rules and regulations that they have to get to (reach), they can force the pace of change in the bureaucracy and in the country. They couldn't do it in a closed environment by themselves, because that is countercultural. If you're running a company, the same applies. They want us foreigners to change it for them. But, of course, there is a limit to how far that will go.

Q: What are some of the significant trends you have seen in Asia in the past year?

A: The hardening market was probably the most significant event in Asia. They had not experienced that before. Asians don't like to tell bad news, so they will do anything they possibly can to avoid telling bad news. And if you have a hardening market that is coming, they're inclined not to tell the client until the last minute. So it was a real problem in the marketplace, going and explaining to your client that you suddenly had to increase the premium on a risk that had no losses. That is difficult to explain in their environment, especially seeing

they had been used to receiving reductions consistently over the last 10 years.

Q: What lines do you see as being fruitful over there?

A: Financial lines will be an area we will grow in, D&O, fidelity type of insurance. There are some good opportunities for us there.

Q: What is the focus of your clientele, Asian companies or U.S. and European companies with operations in Asia?

A: It's a combination. In China, we've had to stick with foreign investments, and that will be the case until the end of this year, because that's the law.

Q: What happens after the end of this year?

A: The market opens up to us for Chinese business. And basically, in the rest of the region, it's very much a mixture of local and foreign. In some places, we've been able to develop the local market very well.

Q: Having been in India, and now being in China, what are some of the differences you see between the two countries?

A: I think there are more opportunities for recourse in India than in China. In China they don't have the framework because they haven't had to. India, because it comes from the British judicial system, had this framework. Whether it works or not is another issue. But the fact is, they

have a framework, whereas in China they haven't really had that type of commercial court framework.

Q: Do you bring in personnel from other countries or try to develop talent locally?

A: In starting up, there is no talent in the country, so generally speaking we have to bring it in from other places to get it going. But the goal very much is to develop and train our staff. In India and in China, we have substantial investments. And all throughout Southeast Asia we have substantial training programs in position. Economically, it's cost efficient to be able to have locals rather than to constantly fly in Americans and Europeans to give us the skill set.

Q: Is it difficult finding local talent with the necessary skills?

A: Generally speaking, there is a high level of education in Asia. So, yes, you can pick the people up, but you're still at ground zero with the skill set, so it's a long process.

Q: Do you see the local insurance companies developing expertise?

A: That has happened. Hanging onto our staff becomes an issue. The local companies see our employees we have trained as an opportunity for them to improve their methods and make a quantum leap forward by hiring them. I think it's fair to say that in a lot of places other companies have done that.

Market: Asia seen as growth area

Continued from previous page

Washington-based American Council of Life Insurers.

Another accord provision allows for free movement of personnel to and from Singapore, so U.S. companies can bring in expert managerial or technical assistance as needed, said the AIA's Mr. Snyder.

Historically, "the Singapore insurance market is open, with no restrictions on foreign ownership and no rating tariffs," according to a 2002 report from London-based Axco Insurance Information Services Ltd. "It is international in nature, with approximately 75% of direct insurers and all but one reinsurer foreign-owned," the report said.

That market also is noteworthy because it is moving toward a risk-based capital approach in evaluating an insurer's capitalization requirement, rather than requiring a flat amount, said Charles Bouloux, president of the Pacific Rim region of American International Underwriters, a member company of New York-based American International Group Inc. U.S. regulators also use that more sophisticated approach to an insurer's financial stability.

Such improvements are among the reasons that some insurers consider Singapore one of the best mar-

kets in which to do business, said Kathleen Ellis, senior vp for the multinational risk group and global branch of Warren, N.J.-based Chubb Corp.

Ms. Ellis said that, in addition to Singapore, she also favors the business climates in Hong Kong and the Philippines, although she acknowledges that China and Japan may prove to be more profitable in the long run. Chubb began doing business in Asia in the 1970s and now draws a majority of its premium volume there from commercial lines coverages, including property and specialty liability lines.

Life and nonlife insurers generally are most eager to enter markets that meet some important criteria, she said. These include high-growth opportunities as well as a stable government and currency. Also, improving economic conditions also are important, as is an emphasis on technology, Ms. Ellis said.

Finally, insurers also consider it important that "the market be open to outside investment," she said.

Rules regarding ownership rights also are important in determining its attractiveness to brokers, said Coletta Kemper, vp-industrial affairs for the Council of Insurance Agents & Brokers in Washington.

For example, India's law limiting foreign ownership of an insurance entity to 26% dampens the enthusiasm of some insurance providers to operate there. So, too, does the fact that broker licensing regulations have been approved only by the nation's lawmakers, which is not as firm a commitment as if they were part of a General Agreement on Trade in Services treaty, Ms. Kemper said. U.S. insurance industry negotiators hope eventually to have India adopt that measure as part of a treaty.

India garners praise from several insurance sources, though, because of the increasing transparency in its rulemaking process. For example, the Insurance Regulatory Authority of India posts proposed rules on its Web site, irdaonline.org, and seeks public comment before they are adopted.

In addition, insurance providers also favor India because of its large English-speaking population as well as its British-based court system, which helps ensure the effective resolution of disputes.

India's open approach to rulemaking contrasts with that of China, which typically issues regulations without seeking comment, according to insurance industry repre-

sentatives.

The market in China, though, is undergoing massive change as it phases in important treaty commitments to open and liberalize its insurance rules in keeping with its accession to the WTO in December 2001. For example, broker eligibility requirements are gradually easing in the areas of mandatory assets, percentage of foreign ownership and geographical restrictions (*BI*, Feb. 4, 2002).

Throughout Asian countries, some large U.S.-based brokers have been successful in obtaining licenses and are establishing separate offices, Ms. Kemper said. Meanwhile, small and medium-size brokers often set up correspondent relationships with local brokerage operations to help U.S. clients protect their Asian operations, she said.

From a broker's perspective, Ms. Kemper said, the major Asian markets are China, Hong Kong, Japan, Taiwan and, lastly, India.

In addition, the ACLI's Mr. Smith said that Vietnam "is growing very rapidly," primarily because "there are a lot of manufacturing investments there."

Chubb's Ms. Ellis, though, said Southeast Asian countries such as Indonesia, Malaysia and Thailand all face problems, including the lack of adequate infrastructure as well as geopolitical risks. Meanwhile, Taiwan's popularity has waned follow-

ing the slump in the technology industry, she said.

Typical clients with Asian operations seek to buy a full range of property and liability coverages, though limits may vary with the degree of exposure they face in each country, industry spokesmen say. Coverages being purchased in Asia include directors and officers, fidelity and bankers blanket bonds, said AIG's Mr. Bouloux. There may also be an increased need for political risk insurance, Mr. Snyder said.

Protecting clients' Asian business risks can require new products, too.

For example, Aon Trade Credit, a unit of Chicago-based broker Aon Corp., is offering a product geared to companies that engage in "off-shore business process outsourcing," such as a customer service center in India or the Philippines.

If political upheaval shuts down a business process outsourcing operation, the product will help protect the parent company from the extra expense required to restart BPO operations onshore, according to a recent Aon white paper on managing political risks.

The very fact that such BPO coverage is sold to protect a company's Asian exposures demonstrates the increased sophistication of the marketplace, Mr. Bouloux said. Two or three years ago, such financial risk management was "a novel idea," he said.

INSURER TOPICS

A MONTHLY EDITORIAL SECTION SENT EXCLUSIVELY TO INSURERS AND REINSURERS

Marketing Strategies



Tapping into the full potential of branding

Industry just now understanding the benefits of a strong brand campaign

By SALLY ROBERTS

While some policyholders may have found that it pays to get MetLife, and others found themselves in good hands with Allstate, the insurance industry, in general, has not embraced the full potential of branding, some marketing consultants contend.

Part of the reason for that, they say, is that many industry companies do not see brand image as delivering any return on investment.

Stamford, Conn.-based Corporate Branding L.L.C., for one, is looking to change that perception. Using information from its proprietary database of financial, advertising spending and brand image

information, the consulting firm has determined what it believes to be the amount of market capitalization attributable purely to the corporate brand of 1,000 companies in 40 different industries.

According to CoreBrand's research, which it conducts quarterly, the average brand equity as a percentage of market capitalization for the 1,000 companies in its database was 6.2% in the first quarter of 2003, which translates into \$1.37 billion per company. The 20 insurers and brokers that make up its insurance industry sector, on the other hand, averaged 4.4% in the first quarter, translating into \$580 million.

According to James Gregory, CoreBrand's chief executive officer, one of the reasons insurers and intermediaries are not building their brands as much as other companies is that the insurance industry is driven more by financial elements than by marketing.

"They think the financial aspects are the only thing that drives the organization," Mr. Gregory said.

"Generally, they do not see a whole lot of value" to branding.

One of CoreBrand's goals is to educate senior-level executives about the value of branding and how it could be worth billions of dollars to their companies.

"Frankly, most executives don't understand that," Mr. Gregory said. "They think of spending money on (public relations) and advertising really as an expense with no return on investment. Through very careful, long-term quantitative research, we have proven otherwise."

Other marketing experts agree that the industry, in general, is not tapping into its full branding potential.

"There are forces at play that inhibit carriers' deep understanding of their

brands," said Peter van Aartrijk Jr., managing director of The van Aartrijk Group L.L.C., a Springfield, Va.-based marketing communications firm. "Many company senior executives are waist-deep in insurance process, missing the big picture of what their brand is, or could be, and how to leverage it."

"With the exception of a handful of insurers, such as Progressive, MetLife and AFLAC, most insurance companies lack brand warriors—people at various levels who lead the charge internally to stay true to the promise of their brand," Mr. van Aartrijk said. "The No. 1 brand warrior must be the CEO, and, again, the industry simply lacks brand leadership there."

"A brand is a promise to customers; it's what I expect when I come to you," said Kimberly Paterson, president of Creative

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**Generation Y presenting
a marketing challenge / 10D**

**Mass torts changing
insurer/policyholder relationship / 10F**

INSURER TOPICS

Branding: Industry is slow to understand the benefits

Continued from previous page

Insurance Marketing in Belmar, N.J. "It's like Campbell's Soup. I know what I'm going to get when I open that can. Whether I think it's 'Mmm...good' or not is questionable."

A certain amount of that brand understanding has "fallen by the wayside" in the insurance industry, Ms. Paterson said. Part of the reason is the constant change in management, shift in corporate direction and turnover of employees in the industry today. "Because of that...there are fewer and fewer companies out there...that have that deeply ingrained corporate culture," she said.

"Companies are basically interchangeable today," Ms. Paterson said. "And that's not a result of the consumer; it's a result of something that has been let go."

Jeff Scott, president of integrated account services for Campbell-Ewald, an advertising agency in Warren, Mich., has a different take on the situation.

"I think, on the P/C side, they've done a wonderful job of branding," he said. "Look at the longevity of State Farm and Allstate...Farmers...MetLife, and look at upstarts like GEICO and Progressive, and I think you see an industry that has embraced branding to sometimes wonderful effects."

"We're not dealing with durable goods," Mr. Scott said. "We're not dealing with telephone service. We're dealing with branding that's really being driven by the culture of the companies and what they believe they can deliver to the marketplace from a service perspective that really differentiates them."

Experts agree that there are companies within the insurance industry that do understand the

benefits of a strong branding campaign.

Columbus, Ga.-based AFLAC Inc., with its well-known television ad spots featuring a duck that squawks the company's name, is one insurer that recently has "built a brand from nothing," Mr. Gregory noted.

"Think about it—what do they sell? They sell supplemental insurance. AFLAC and supplemental insurance, those are the two things you remember about that. I can't imagine ever being interested in supplemental insurance, but I know what it is now, and if I were to ever buy it, it would be through AFLAC," Mr. Gregory said.

Furthermore, on AFLAC's Web site, people can purchase a plush AFLAC duck, with all of the proceeds going to the AFLAC Cancer Center.

"Talk about self-funding a charitable contribution," Mr. Gregory said. "It's just brilliant."

Not surprisingly, according to CoreBrand's research, AFLAC's brand equity as a percent of its market capitalization has increased to 7.0%, or \$1.2 billion, in the first quarter of 2003, up from 5.9%, or \$740 million, in the first quarter of 2002.

Newark, N.J.-based Prudential Financial Inc. is another recognizable insurance brand.

"We're one of a handful of American brands that has been around under the same name for well over a century," noted Michael Hines, senior vp-global marketing and communications.

While Prudential's logo, an image of the Rock of Gibraltar, still connotes strength, trust and endurance, the insurer's message has shifted over the years.

"In general, in branding, the most important thing is that you remain relevant," Mr. Hines said. "So the message has evolved over

time. Today, we are growing and protecting people's wealth, which is, in essence, what Prudential attempts to do for people."

According to CoreBrand's research, Prudential's brand equity as a percent of market capitalization was 14.2%, or \$2.3 billion, in the first quarter of 2003.

The Hartford Financial Services

'It's about looking at all aspects of how you do business as a company and asking, "How can we take every touch point with our customers and use it to reinforce the brand?"'

Kimberly Paterson
Creative Insurance Marketing

Group Inc.—with its well-known stag logo that dates back nearly 200 years—is another insurer that sees the benefits of branding.

"Nine out of 10 people nationally know the Hartford name, and when folks think of the Hartford name, they think of strength, stability and heritage," said Michael Johnson, vp-brand management and advertising with the Hartford, Conn.-based insurer. "These are some of the key strengths our distributor partners look for when looking to select insurance carriers."

"We see our brand as a very core part of what we are and what we sell," Mr. Johnson said.

"Our business units are tasked with driving profitable growth, and we think about our brand as something that contributes to our business units being able to achieve their long-term goals," added Ann Glover, group senior vp of corporate relations.

According to CoreBrand's research, The Hartford's brand represented 10.3% of its first-quarter market capitalization, or just over \$1.0 billion.

Although many in the insurance industry understand how to come up with a corporate identity, logo and tag line, many stop there and have not found a way to build their brand into their business operations, said Ms. Paterson of Creative Insurance Marketing.

"It's about looking at all aspects of how you do business as a company and asking, 'How can we take every touch point with our customers and use it to reinforce the brand?' That's where the power (of branding) really lies," she said.

Until the industry understands the second piece, "we're tapping into only a fraction of what the potential is here," she said, referring to the return on investment from branding.

It is that potential that the Alexandria, Va.-based Independent Insurance Agents & Brokers of America is looking to tap into with its "Trusted Choice" branding initiative.

Spurred by member concerns that direct writers were sending a message to consumers that agents were unnecessary, the IIBA launched its Trusted Choice branding campaign at the beginning of 2000, explained Larry Acord, vp-consumer marketing for the IIBA and executive director of Trusted Choice.

Research into its brand revealed that consumers did not recognize the Big I logo, and that the three things that were particularly important to customers were customized insurance solutions; a choice in solutions; and advocacy, particularly in the area of claims, Mr. Acord said.

"So that's where...we came up with Trusted Choice. We serve you first," he said.

A little more than 3,000 independent agencies have joined the marketing program, which ran 20 national commercials a day on top-rated cable and television programs in June, Mr. Acord said. The branding effort is funded by help from 25 insurers, in addition to membership dues.

Trusted Choice agencies sign a "Pledge of Performance," agreeing to, among other things, provide service to customers 24 hours a day, seven days a week; return telephone calls and e-mails promptly; and guide customers through the claims process for prompt, fair resolutions of claims.

Mr. Acord said, though, that, as an association, it is challenging to make sure the Trusted Choice brand permeates every individual agency's business operations and that consumers have a consistent experience with each agency.

"It's a little easier to have a McDonald's, where you say everybody is going to flip a burger the same way and the consumer is going to have a consistent experience," Mr. Acord said. "The strength of independent agents is their independence."

So the Pledge of Performance is more of a general guideline, he said. "We can't go out and say every agent must answer the phone in three rings. The agencies within their own communities want to set their own standards," he said.

Mr. Acord pointed out, though, that he and Mr. van Aartrijk are in the process of finishing an agency workbook on brand management, which will be available at the IIBA's upcoming national conference in September.

"This will be an A-to-Z instructional guide for agents to develop a brand and, hopefully, through that, they will be delivering consistent experiences to customers," Mr. Acord said.

IMCA/LCA Annual Meeting

Out with the jargon and in with the 'plain English'

By RODD ZOLKOS

Insurance marketers should avoid the use of industry jargon in their materials, two communications experts said.

Jargon is exclusive, hides meaning and makes readers work harder to understand what's been written. Not only that, "if you don't have the right market or the right people who know what you're talking about, it's infuriating," said Janice M. Child, manager of field communications and event planning at Farm Bureau Insurance Group in Lansing, Mich.

Along with Karen P. Holmes, president of Corporate & Marketing Communications Inc. in Atlanta, Ms. Child discussed the advantages of avoiding jargon in marketing materials and ways of doing so at the annual conference of the Life Communicators Assn. and the Insurance Marketing Communications Assn. in June in

Chicago.

"We use these words very often in meetings," Ms. Holmes said. "The real danger is, then it gets in your head and then you start using it with real people."

"A lot of times, jargon is hidden," Ms. Holmes said. "One place is the word 'product.' To a consumer, 'product' means something they can go to Target and buy off a shelf."

Words such as "synergy" or "prioritize" are other common jargon culprits, she noted.

Insurance policy riders also are often full of jargon, she said, and could be improved by defining terms and providing explanations of what benefits the riders provide.

Ms. Child suggested one way to avoid jargon in marketing materials is to focus on the reader, not the product. And she suggested writing the materials in "plain English" with glossaries, graphics and analogies. "We can all do that

because we use plain English in our regular lives," she said.

She also told the audience they should concentrate on the materials' readability, striving for short sentences and eliminating superfluous information and irrelevant or redundant sentences.

Reading material aloud can give the writer a sense of its readability, Ms. Child said. Another option is to have someone else read it.

"If at all possible, get somebody who doesn't love you to read your stuff," she said. "Get somebody who doesn't know anything about insurance to read your stuff."

Marketing materials also should look inviting to the reader, with short paragraphs and ample white space, Ms. Child said. "Spend some time thinking about the look of the book," she said.

And once something is written, writers should be willing to revise to make the material more precise and eliminate clutter, she said.

"Just because it's on the page doesn't mean it's gold. You can still work on something."

Ms. Holmes stressed that it's important to relate to readers and anticipate their objections, speaking to those concerns in the marketing material.

Other effective strategies in improving marketing materials include using stories to illustrate points and displaying ideas graphically, she said. "A lot of time, if you're a writer, you don't think about putting it into visual terms."

It's also important to make materials clear, truthful, correct and lively, she said.

"Always think about writing in terms of the benefits," Ms. Holmes said. "And to do this, you have to get into the customer's shoes." When talking about features or benefits in marketing materials, it's important to answer the "So what?" or "Why?" she said.

Interviewing subject-matter

experts also can help marketing material writers present information more effectively, said Ms. Child. And she told the audience not to worry about appearing stupid. "If I appear stupid and they answer the questions, then I appear bright when I write the material."

Dealing with compliance and legal issues can be challenging when trying to eliminate jargon from marketing materials, Ms. Holmes conceded, calling them "the nemesis of all communications people everywhere."

"I would always fight the fight to make your communications really communicate," she said. "And if this sounds too strong for you, go to (the legal department) and negotiate." It's important for marketers to clarify who has the final word in marketing materials, compliance or marketing, she added.

INSURER TOPICS

IMCA/LCA Annual Meeting

Marketing to Generation Y requires new approach

By **RODD ZOLKOS**

To market effectively to Generation Y, the generation of young people now in their late teens, companies must recognize significant differences between that group and Baby Boomers and even Generation X, according to one marketing expert.

"There's an absolutely fundamental set of rules to remember about this group, because they are going to be incredibly important going forward," said Jeffrey Scott, president-integrated account services at Campbell-Ewald Co. in Warren, Mich.

"You have to understand that they are going to be exposed to your communications through their parents, and you have a tremendous opportunity to connect with them," he said.

Speaking in June at the annual meeting of the Life Communicators Assn. and the Insurance Marketing Communications Assn., Mr. Scott drew on research of Generation Y his company did for the U.S. Navy.

The group in question comprises 78 million U.S. teens aged 12 to 19, a group "larger than the baby boom," Mr. Scott said. And it's a group with significant economic clout, having spent \$172 billion in 2001.

"The truth is, it's really, really easy to misunderstand what these people are like," Mr. Scott said. "Don't think you can motivate them by looking back at your own

childhood."

Members of Generation Y have different cultural, political and sociological touch points than either baby boomers or Gen Xers, he said. And, until recently, their lives have been spent in the single greatest uninterrupted economic boom in U.S. history.

In fact, the generation has much in common with the so-called "Greatest Generation" of World War II, Mr. Scott said.

Campbell-Ewald has developed 10 "youth truths" related to marketing to Generation Y.

- Members of Generation Y have high ideals and want to do something important. "They want to stand for something, and they absolutely believe in the power of collective action," Mr. Scott said. "As a marketer, you have to understand this. They're looking for you to do the right thing as a company."

- Generation Y is patriotic. In fact, 68% of those surveyed in Campbell-Ewald's work for the Navy say they would be willing to make personal sacrifices for the country. As a marketer, "It's important to know that you can celebrate American culture in all of its forms," Mr. Scott said.

- The group values education. "This generation loves the notion of education, and they want the best and most education they can

obtain," Mr. Scott said. A company marketing to the group can play to that characteristic by feeding them information and helping them feel smarter about the decisions they're making. "Fundamental to this, too, is the Web," Mr. Scott said.

But, he cautioned, "If you're going to begin to offer them information that helps them feel smarter, you can't lie to them, because they're adept researchers

Continued on next page

INSURER TOPICS

Continued from previous page through their use of the Web."

- Members of Gen Y have a strong moral compass—they admire honesty and integrity. "Why does this matter for a marketer? ...Bottom line is, these kids want total integrity."

- "If you stand for something that is contrary to their moral compass, or they think is phony...they're not going to buy it," he said.

- They are incredibly optimistic. "This is a generation that believes that you can have it all, that everything is possible," Mr. Scott said. "The world is not a zero-sum game for them. It's not win or lose."

"The point for marketers is that

you should proceed full tilt with optimism, not doom and gloom," he said.

- Gen Yers "are determined to get there fast," Mr. Scott said. "They're not going to wait around."

- "This generation's expectations are incredibly high, and they think they're going to get there incredibly fast," he said. He cited the Navy's "Accelerate Your Life" marketing theme as one that has successfully played to this characteristic. "The implication for marketers is really to feed the need for speed," Mr. Scott said.

- Diversity rules. "This is a generation that is absolutely colorblind," Mr. Scott said. "The

marketing implication is, really embrace diversity, just like they do. What they want to see is their world in your advertising."

- Generation Y also is "tech savvy," Mr. Scott said. "Teens use the Web for information; they also use it to connect with people." "It's not a miracle for them," he said. "What the 'Next Greatest Generation' doesn't get is why everybody hasn't embraced" technology, he added.

- Members of Generation Y know they're being marketed to. "You can never forget that this generation absolutely knows that they're your marketing target."

The group is "the most media-saturated generation in the history

of the country," he noted, and "they want you to know that they know that you're marketing to them. And they don't mind. They're not bothered about the artifice that surrounds popular culture."

"The marketing implication here is to be transparent," Mr. Scott said. "Be honest that you're trying to sell them something." It's also important that companies marketing to the generation not pretend to be part of the group by using its jargon and attitude, he said.

- Members of Generation Y are kids, Mr. Scott said. "They're not miniature adults. So part of the game here is simply to have fun."

"The rule here is really to entertain them," Mr. Scott said. Marketers can be successful in reaching the generation by putting on events. Above all, he said, "Don't be dull."

IMCA/LCA Annual Meeting

IMCA awards recognize outstanding marketing

By **RODD ZOLKOS**

The Insurance Marketing Communications Assn. presented a variety of annual awards at its 2003 conference in Chicago, held jointly with the Life Communicators Assn.

The IMCA also presented its annual Golden Torch Award at the June gathering. The award, which honors an individual who has helped "light the way for others" within the insurance industry, was presented this year to Gay Silberg, a founding principal of the Los Angeles-based Graham Silberg Sugarman Inc. advertising agency and consulting firm. In accepting the award, Ms.

Silberg said, "Good companies get to be better companies when they use communications and marketing effectively."

The IMCA's SAMMY award, the group's Special Award from Members, went this year to Farmers Insurance Group. This was the second straight year that Farmers has received the honor.

The SAMMY, selected by the vote of company and associate members attending the IMCA's annual meeting, is presented to the one entry in the organization's Showcase Awards program deemed to make the greatest contribution toward raising the level of insurance marketing communications.

The year's IMCA Showcase Awards and their winners include:

Personal lines sales promotions to producers/agents: best of show, to Fireman's Fund Insurance Co.; awards of excellence, to MetLife Auto & Home and Foremost Insurance Co.

Personal lines sales promotion to consumers: best of show, to Fireman's Fund; awards of excellence, to Liberty Regional Agency Markets, Farmers Insurance and American Family Insurance.

Commercial lines sales promotion to producers/agents: best of show, to Harleysville Insurance Cos.; awards of excellence, to Zurich North America, S.H. Smith & Co. Inc. and

See **AWARDS**/next page

Marketing conference draws 225 to Chicago

This year's annual conference of the Insurance Marketing Communications Assn., held jointly with the Life Communicators Assn., drew approximately 225 attendees to Chicago June 21 to 24.



The theme of this year's conference was "Make Your Communications Soar," and the program included sessions on measuring the return on communications programs, writing for the Internet and enhancing creativity.

For information on next year's conference, visit IMCA's Web site, www.imcanet.com.



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INSURER TOPICS

Awards: Outstanding efforts honored

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The Hartford Financial Services Group Inc.

Commercial lines sales promotion to business customers: best of show, to Fireman's Fund; awards of excellence, to The St. Paul Cos. Inc., ProMutual Group and Utica Insurance Co.

Personal lines print advertising to consumers: best of show, to Fireman's Fund.

Commercial lines print advertising to business consumers: best of show, to Marsh Inc.; award of excellence, to Marsh.

Personal or commercial lines print advertising to producers/agents: best of show, to Swett & Crawford Group; awards of excellence, to Venture Programs Inc. and Foremost Insurance.

Corporate image print advertising to producers/agents or consumers: best of show, to XL Capital Ltd.; award of excellence, to Allstate Insurance Co.

Radio advertising: best of show, to Nationwide Insurance Group; award of excellence, to Allstate.

Television advertising: best of show, to Country Cos. Insurance and Financial Services; awards of excellence, to Nationwide and The St. Paul.

In-house advertising: best of show, to Accident Fund Insurance

Co.; award of excellence, to Universal Underwriters Insurance Co.

Audiovisual communications: best of show, to Farmers Insurance; awards of excellence, to Country Cos., XL Capital and ProMutual.

Total communications campaigns: best of show, to Missouri Employers Mutual Insurance; awards of excellence, to XL Capital, The Hartford and Zurich North America.

Total marketing communications campaign budget under \$1 million: best of show, to The Hartford; award of excellence, Workers Compensation Fund.

Public relations: best of show, to The Hartford; award of excellence, to Foremost Insurance.

Company news publications for employees: best of show, to Harleysville Insurance; award of excellence, to Farmers Insurance.

Other employee communications: best of show, to Workers Compensation Fund; award of excellence, to Missouri Employers Mutual.

Annual reports: best of show, to Factory Mutual Insurance Co., which does business as FM Global; awards of excellence, to Harleysville Insurance, EMC Insurance Cos. and ProMutual Group.

Event communications: best of show, to Allstate; award of excellence, to Farmers Insurance.

Producer/agent publications: best of show, to The Hartford; award of excellence, to Harleysville Insurance.

Creative development under \$1,000: best of show, to Workers Compensation Fund; awards of excellence, to Fireman's Fund, Liberty Regional Agency Markets and ProMutual.

Special communications campaigns, external and internal: best of show, to XL Capital; awards of excellence, to Farmers Insurance, ProMutual, Allstate and Utica Insurance.

Marketing on the Internet: best of show, to The St. Paul; award of excellence, to XL Capital.

The best idea never produced: best of show, to Allstate; awards of excellence, to Liberty Regional Agency Markets and Allstate.

Associate member media kits: best of show, to Risk & Insurance.

Associate member direct mail campaign for advertisers: best of show, to Porter & Associates.

Your best design: best of show, to Foremost Insurance.

Cause-related marketing: best of show, to Zurich North America; award of excellence, to Allstate Insurance.

Relationship between insurer, policyholder changed by mass torts

By Andrew S. Boris

One of the benchmarks of the insurance industry has been the special relationship that exists between an insurer and a policyholder. Whether it is the consumer who purchases a simple automobile insurance policy or the Fortune 500 company that acquires a vast array of insurance products, insurance professionals and the courts have always viewed the insured/insurer relationship as a special undertaking.

Attendant to that relationship is the understanding that only a policyholder is typically entitled to submit claims to the insurance company. However, traditional views of the insurer/policyholder relationship are being challenged in the mass tort context.

Recent litigation and legislative

activity with respect to pollution insurance claims highlights an instance where the relationship was challenged. About 10 years ago, the Minnesota Legislature passed the Minnesota Landfill Cleanup Act, permitting the state to take control of the investigation and cleanup of contaminated landfills.

Unlike cleanup initiatives utilized by other states or the federal system, the individual parties responsible for the

contamination at the Minnesota sites would not be called upon to address the contamination. Instead, the state took responsibility for the pollution remediation. In turn, the act allowed the state to directly pursue any insurance issued to the responsible parties that may provide coverage for the investigation and cleanup of the sites.

This direct-action statute was

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Perspective



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INSURER TOPICS

Perspective: Insurer/policyholder relationship challenged

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unique in its structure. Significant litigation has ensued between insurers and the state of Minnesota concerning the applicability and constitutionality of the act. In fact, a Minnesota trial court found the act was constitutional, but the court also found its applicability to the selected underlying sites was not proper because the statute of limitations had expired.

On May 21, 2002, the Minnesota Appellate Court reversed the trial court and found that the trial court had applied the wrong standard in determining if the statute of limitations had expired. Thus, the act was alive and well. Significantly, the court affirmed the trial court's determination that the act was constitutional.

In the asbestos arena, new cases also highlight the erosion of the insurer/policyholder relationship. For example, in October 2002, individuals with default judgments entered against a bankrupt policyholder joined with the policyholder in pursuing coverage from the policyholder's insurance companies. They sought enforcement of the default judgments and declaratory relief for past and future asbestos bodily injury claims that may be advanced against the policyholder.

Contending that the insurers had improperly denied coverage for the default judgment claims, the individual plaintiffs maintained that the insurers breached their duty of good faith and fair dealing.

While many jurisdictions give underlying claimants limited rights with respect to coverage potentially available and require that they be named as parties to a coverage lawsuit, this matter highlighted the increasing pressure that insurers face as the policyholder and underlying claimants joined forces to seek coverage.

A growing trend in the asbestos arena also involves underlying plaintiffs seeking damages directly from insurers. With the increase in bankruptcies among historic asbestos manufacturers and distributors, and the concurrent need to identify second- and third-tier defendants, underlying asbestos plaintiffs are seeking defendants with untapped deep pockets.

While certain insurers have long been named as defendants in asbestos actions for allegedly failing to disclose information concerning the health hazards of asbestos, an increasing trend is for other insurers to be named as direct defendants.

For example, two cases filed in West Virginia state court last year alleged trade practice violations in connection with the handling of underlying asbestos personal injury

With the increase in bankruptcies among historic asbestos manufacturers and distributors...underlying asbestos plaintiffs are seeking defendants with untapped deep pockets.

claims. In both suits, it was alleged that the insurer defendants were aware of the harm of asbestos as early as the 1930s. Further, the plaintiffs in those cases maintained that as a result of the defendant insurers' unfair claims settlement practices, the plaintiffs suffered financial losses as demonstrated by settling for undervalued amounts, participation in protracted litigation and payment delays.

Lawsuits being filed against insurers are not confined to cases that espouse theories of unfair trade practices. Others relate to different theories of liability. These theories include "negligent

performance of undertakings," "independent conspiracy" and "concert of action." They have been directed at insurance companies that issued liability and workers compensation policies to corporations that subsequently became defendants in asbestos litigation.

Operating under the theory that these insurers possessed knowledge of the health hazards associated with asbestos, the plaintiffs maintained that they suffered personal harm as the result of the insurers' failure to disclose or act upon the knowledge that they possessed. Nonetheless, the cases again demonstrate an increased recognition that the insurer/policyholder relationship can be ignored in favor of direct pursuit of money from insurers.

These legislative and courtroom developments have far-reaching effects for the insurance industry. With the state of Minnesota's success in bypassing the traditional insurer/policyholder relationship and gaining access to insurance funds, there is some question as to whether other legislatures may enact similar legislation. However, legislatures may be inclined to go further and enact laws that bypass the relationship for the recovery of funds to address a variety of issues:

environmental, mold or some undefined exposure that will develop in the future.

The pressing issue is the potential enactment of federal legislation that establishes a system of recovery for those exposed to asbestos. While the specifics of such a federal program for asbestos remain unclear, it does appear that the traditional notions of insurance recovery would not be included for a claimant to be compensated.

Although insurers have always been exposed to being named as direct defendants, new efforts to include them as direct defendants in the mass tort context should be vigorously fought. Insurers need to both analyze policy language and gather evidence to support the constitutional challenges of tomorrow with respect to overreaching legislative intrusions on the insurer/policyholder relationship.

Andrew S. Boris is a partner in the Chicago office of the law firm of Tressler, Soderstrom, Maloney & Priess. His practice focuses on litigation of complex insurance coverage matters throughout the country, including general coverage, reinsurance, bad faith, asbestos, toxic tort and environmental cases.

Agencies turn to incentives to help control costs

82% offer managers performance-based compensation

By YVONNE TEEMS

In an effort to control expenses, more insurance agencies are shifting compensation for managers from fixed pay to variable pay, said Suzy Hammett, vp of the Business Management Group.

Of the 400 agencies and brokerage firms surveyed for BMG's recently released 2003-2004 Non-Producer Compensation & Benefits Survey, 82% of agencies offer incentive plans to managers. This compares to 47% offering incentive plans in 1999, said Ms. Hammett.

The survey compares compensation of managers and nonproducers by revenue ranges—which included companies with revenues between \$5 million and \$10 million and agencies with revenues above \$10 million—and other criteria. It also includes details about 32 positions at agencies and brokerage firms.

"They're tying their rewards to how (employees) contribute to the agency's profit and growth," Ms. Hammett said.

This plan is a win-win situation for both employees and employers, Ms. Hammett said. The results of the company's profit and growth determine the amount of money employees receive. With the fixed-cost plan, employees receive a certain salary regardless of profit and growth. With the variable pay plan, employers are not obligated to pay more to employees if no

profit is made. With incentives, employees can earn more than they would under a fixed-cost plan if the company's profits are strong.

If profits are higher, "more dollars are available that can be awarded based on the recognition of how they've contributed to growth," Ms. Hammett said.

According to the survey, 83% of agencies that have revenues between \$5 million and \$10 million offer bonus or incentive plans to managers. Of those agencies, 68% use performance criteria for the plan and 32% use discretionary criteria.

For agencies whose revenues are more than \$10 million, 92% offer bonus or incentive plans to managers; 81% of those agencies use performance criteria for their plans, and 19% use discretionary criteria.

According to the survey, for agencies with revenues between \$5 million and \$10 million, the mean salary for the chief operating officer is \$127,895; for sales managers, \$121,544; for commercial lines managers, \$75,137; for personal lines managers, \$50,915; for personal lines customer service representatives, \$33,293; and for commercial lines CSRs, \$40,670.

For agencies whose revenues are more than \$10 million, the mean salary for the chief operating officer is \$147,016; for sales managers, \$133,053; for commercial lines managers, \$67,264; for personal lines managers, \$59,393; for

personal lines CSRs, \$33,598; and for commercial lines CSRs, \$40,356.

For nonmanagers, the percentage of agencies offering variable pay plans has remained steady over the years; it is at 74% this year, Ms. Hammett said.

According to the survey, 81% of

If profits are higher, 'more dollars are available that can be awarded based on the recognition of how (employees have) contributed to growth.'

*Suzy Hammett
Business Management Group*

agencies offer bonus or incentive plans to nonmanagers in agencies within the lower revenue range. For agencies in the higher revenue range, 72% offer bonus or incentive plans to nonmanagers.

Account executives at the smaller agencies earn a mean of \$65,092. Those at larger agencies earn a mean of \$70,318.

Even though many industries are suffering from unemployment due to the poor economy, agencies are growing, Ms. Hammett said. A shortage of employees for agency support and service staffs is prompting agencies to shift "their emphasis to training existing staff rather than paying outside talent

high salaries," Ms. Hammett said. Hiring new, experienced employees is not the best option, she said, because few of these individuals are available for hire and those who are available request high salaries.

For all companies, the costs of benefits are increasing dramatically, Ms. Hammett said. The cost of health care coverage is expected to rise to 25% of wages in less than five years, so employers are now asking employees to contribute more to premiums.

For agencies with revenues in the lower bracket, employees contribute 20% of the total premium for individual employee medical coverage, 30% for individual dental, 52% for full family medical and 55% for full family dental. For agencies with revenues above \$10 million, employees contribute 25% of the total premium for employee medical, 25% for employee dental, 48% for full family medical and 65% for full family dental.

More agencies are following the same trends in other industries, adding flex time and telecommuting to benefits packages, Ms. Hammett said. Of the smaller agencies surveyed, 31% offer telecommuting and 56% offer flex hours. In the larger agencies, 22% offer telecommuting and 61% offer flex hours.

In other benefits, 39% of the smaller agencies offer a profit sharing plan, 92% offer 401(k) plans, 31% offer other retirement

or pension plans, 14% offer an employee stock ownership program and 44% offer an employee assistance program.

For agencies with revenues of \$10 million or more, 33% offer a profit sharing plan, 100% offer 401(k) plans, 39% offer other retirement or pension plans, 11% offer an employee stock ownership program and 50% offer an employee assistance program.

Copies of the survey are available for \$99, plus shipping, from BMG, a subsidiary of The Hartford Financial Services Group of Hartford, Conn. For more information, contact BMG at 800-772-0208 or visit www.bmgconsulting.com.

Insurer Topics

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August 18, 2003

OPIC's political risk cover aids Asian development

Federal agency exec discusses the current situation for U.S. businesses in the region

U.S. investors involved in business projects in Asia can obtain long-term insurance coverage from a source close to home: the Overseas Private Investment Corp. Washington-based OPIC is a self-sustaining federal agency that provides invest-



ment services—including political risk insurance with limits of up to \$250 million—to U.S. businesses operating in

about 150 designated developing countries. Senior Editor Mark A. Hofmann recently spoke with Michael T. Lempres, OPIC's vp-insurance, about OPIC's Asian operations. Mr. Lempres previously served as executive vp of the San Francisco-based Pacific Exchange Inc. and as an attorney in private practice, as well as holding several positions in the U.S. Department of Justice under President George H.W. Bush.

Q: In which countries in Asia does OPIC currently have the most insurance in force?

A: Afghanistan is a big country for us. We're a federal entity, and we take part of our priorities from

foreign policy priorities set by the president. Obviously, with the U.S. involvement in Afghanistan recently, it has become a priority for us to go in and help that nation rebuild the best we can by encouraging U.S. investment.

We have the largest exposure in Indonesia right now and the Philippines. That's historic, realizing we write very long-tenor contracts. What happens is, because our tenors are so long, today's headlines don't necessarily reflect themselves in terms of if you look at our entire book. What will happen is, 10 years from now, today's headlines will reflect themselves, because the contracts we write today will still be in force. So, historically, we've been most active in the Philippines and Indonesia. We've also gotten heavily involved in India, historically, although we currently are in a bit of dispute with the Indian government over a particular claim, and we are not actively writing insurance contracts today in India.

We're precluded by law from writing in China.

Q: Where in Asia do most of the political risk insurance claims occur? From what actions do they stem?

A: Claims are spread—there's not one country we're getting most of the claims from. The most typical type of claim we have today is an expropriation claim, but it's not the old-fashioned expropriation where a gunboat goes out and seizes an asset. It's what we call "creeping expropriation," which are discriminatory regulatory policies that are targeted to an asset. It's more a death by 1,000 cuts than it is a beheading, as it might have been in the old days.

Q: What would be an example of this?

A: For example, if there's a U.S. company providing power and the government (in a developing country) begins to put in regulations as to what could be charged for power. They're not seizing the assets, but they're rendering the assets economically not viable by way of a legislative or regulatory approach. And if that's done in a way that's discriminatory—if it applies primarily to one asset or if, in fact, there's only one power provider in the country—then it's clear what they're doing can be an act of expropriation.

Q: For which Asian countries is OPIC seeing the greatest in-

terest for political risk coverage?

A: We've seen interest from U.S. companies doing business in a wide variety of countries over there, in particular Afghanistan. We're seeing quite a lot of activity in terms of inquiries.

Q: What sorts of projects are you insuring in Afghanistan?

A: Right now, it's basic services. We have a hotel project over there, we have construction equipment that we've covered. The economy there isn't ready yet for the kind of major U.S. investments to come in.

I've got to tell you one story about what we're doing in Afghanistan; it's probably my favorite. It's, I believe, the smallest contract ever written by OPIC: It's a \$37,000 insurance coverage for, in my view, a very important \$37,000. It covers a piece of equipment that makes adobe bricks. You stick dirt in on one end and the brick comes out of the other end. The bricks are being used...to build schools in Afghanistan—specifically, it's going to be used to build schools for girls, which presents, in the current environment in Afghanistan, a high political risk. We're proud we're involved—it's a little money, but it makes a big difference.

Q: Which Asian nations currently pose the greatest risk to U.S. businesses, in terms of political violence?

A: I'm not sure that's an easy answer. I think it depends on where a company's going to be investing. They're going to be making their decisions about investment taking into account things like political violence.

Our view of the world is a little different from the New York Times' view—we insure people who feel comfortable enough about a country that they're going in.

But having said that, events in Indonesia over the last little while have obviously indicated that there's political violence there. Afghanistan is still a place that is not settled. We are preparing to get involved in Iraq.

Q: Do any particular types of U.S. business appear to be frequent targets for political violence in Asia, and why?

A: I still think the most common type of political violence is not directed specifically at a country, but there is civil strife or unrest in an area and there is a business that happens to be located in that area.

See OPIC/next page

Japan: Little earthquake coverage bought

Continued from page 9

When historical data is considered, Tokyo appears to be overdue for a major quake.

Andres Mendez, principal scientist with Aon Impact Forecasting, a Chicago-based unit of Aon Corp., pointed out that the last big earthquake to hit Tokyo was in 1923. Historically, the region is hit by a major quake about every 70 years, he noted.

Mr. Mendez warned, though, that "prediction" is a very uncomfortable word, and scientists can only hypothesize about the probability of when a quake will strike. "It's only overdue in the sense that it has in the past (happened) on the order of around every 70 years," he said of a large quake striking Tokyo. "Does that mean it will happen tomorrow or in the next 10 years? It's just not known."

The September 1923 earthquake in Tokyo and Yokohama, which later was computed to be of a magnitude of 8.3, killed an estimated 200,000 people; the January 1995 quake in Kobe killed nearly 5,300.

An earthquake with a magnitude of 7.5 or greater would cause a major catastrophe in Tokyo, Mr. Mendez said. Estimates have put economic losses from such a quake at \$900 billion to more than \$1 trillion, he said.

Despite the threat, many Japanese residents and business owners have grown used to the prospect of earth movement and opt not to purchase expensive in-

urance that would cover damage from such events.

"The Tokai quake has been in the press, but like people in California, the Japanese are used to living with earthquakes," said James Vickers, London-based managing director of Willis Re, the reinsurance arm of Willis Group Ltd. "I don't think there's anything hugely worrying in the public at the moment."

That doesn't mean, though, that the Japanese are ignoring the risk.

"There's an awareness of earthquake that far surpasses the awareness you will find in California," said Andrew Carrier, active underwriter with the Kiln Syndicate, a Lloyd's of London underwriter. Schools and businesses have regular earthquake drills in Japan, and many workers keep emergency supplies at their offices. "The levels of awareness and training are very high," Mr. Carrier said.

But while awareness may be high among the locals, only a small percentage bothers to buy coverage to protect against quake damage.

Probably 5% or less of the value of property owned by Japanese companies is covered for earthquake losses, according to Yuji Takahashi, representative director of GE ERC Services Japan Co. Ltd. in Tokyo. And, he noted, capacity is limited for those who can purchase the coverage.

Earthquake insurance in Japan is written as an extension of fire insur-

ance, and industry sources say policyholders can generally find limits for the quake portion of the coverage in amounts equal to 30% to 60% of the fire limits.

Foreign multinationals from the United States, Europe and other nations, though, are much more likely to carry earthquake coverage and at higher limits, sources say. Those companies generally buy coverage on the global market from underwriters outside of Japan.

Multinationals buying coverage outside the country "can have full coverage and generally do," said Mr. Carrier.

Most local companies carry no earthquake coverage partly because they don't have the same philosophy of loss control as large multinationals, Mr. Vickers pointed out.

"Essentially, what you've got in Japan, for the domestic companies, is no particular sense of risk management that says, 'We've got to protect our assets.' They don't worry about what the banks think or what their shareholders think," Mr. Vickers said. And the banks that lend money to local companies "don't seem to care," he said.

"Then, there is another set of people—the foreign companies in Japan. They have a completely different attitude. They want to buy all they can, and they are buying it mostly from global companies," Mr. Vickers said.

Companies that buy earthquake coverage will find that the price has risen during a constricting market-

place over the past few years. Mr. Takahashi said coverage prices have risen around 30% since early 2000, which he said is driven by rising rates in the global reinsurance market. Insurers have been "pushing through reasonable rate increases over the last two to three years," said Mr. Vickers of Willis Re.

In terms of preparedness, Japanese property owners are much like those anywhere—some will be ready and others will not, according to Edward J. Radzinski, worldwide property manager for Chubb Commercial Insurance in Whitehouse Station, N.J. "Property owners run the gamut anywhere in the world," he said.

There are ways Japanese companies can prepare, to an extent, for earthquakes.

"The insured can do a number of things" to protect property from quake damage, Mr. Radzinski pointed out. "Buildings can be designed and constructed to withstand earthquakes and typhoons," he explained, and companies can develop disaster recovery plans to make sure business continues if property is damaged.

In Tokyo, building codes have been revised over the years to call for stricter designs that will make them resistant to earth movement. But while those codes are considered some of the world's best, sources say there remain scores of older, wooden buildings that would collapse in a big quake.

Tokyo "would obviously fare bet-

ter than in 1923" if a major earthquake struck, Mr. Carrier said. But, he added, there still are so many wooden buildings that damage would be extensive. In addition, he said, there are "lots of narrow streets, and accessibility for fire brigades would be a hell of a headache."

Parts of Japan worry not only about damage from ground movement but also about the possibility of a tsunami that could occur as the result of a large offshore earthquake.

"It's also a big threat," said Mr. Guin of AIR. Tsunamis have caused significant damage in the past, he noted.

Mr. Vickers pointed out that the tsunami risk is more localized than the threat of earthquakes. The earth's offshore shelving has to be steep enough to cause movement significant to produce a large wave, he explained. Steep shelving can be identified, which means shoreline areas in the path of a potential wave also are identifiable.

Japanese property owners, already subject to damage from unsteady ground and large waves, face other potentially catastrophic natural perils. Typhoons are a danger, particularly for the warm-water southern islands, Mr. Guin pointed out.

The storms cause "a lot of problems with flooding," he said, which is worsened because typhoons usually form during the monsoon season.

And if those vulnerabilities aren't enough to keep property owners worried, the country also is riddled with volcanoes.

Between the Lines

Compiled by Joanne Wojcik



Art imitates life

Is truth really stranger than fiction? Maybe it depends on how close a writer is to his subject.

A film about insurance fraud written and directed by the son of a former risk manager is getting rave reviews after being showcased last month at Denver's Museum of Contemporary Art.



Internal insurance fraud is the subject of Jamin Winans' "Blanston."

"Blanston," a 29-minute film by Jamin Winans, follows the unraveling of a scheme by four employees of an insurance company to swindle their employer out of millions of dollars by adding a make-believe claimant to a real accident.

"I would be more than happy to be associated with Jamin's film, though I had very little to do with it directly," said Mr. Winans' father, Brent Winans, the former risk manager for Denver-based mining and exploration company Concord-Nuexco. The elder Mr. Winans' career also includes positions at State Farm Mutual Insurance Co., former broker Frank B. Hall, captive manager RISCAP and the National Council on Compensation Insurance.

But the younger Mr. Winans says it's unlikely he would have come up with the idea "had I not been around it during my whole childhood. My father worked in the insurance industry for my entire life, and I do think that had a big influence."

Mr. Winans also said that he wanted his creation to depict a scam different from the typical movie scenarios involving bank heists and drug deals.

For more information about the film, visit www.doubleedgefilms.com.

Fax checking

The National Assn. of Professional Insurance Agents is fighting for the right to fax.

The Washington-based organization claims that new rules by the Federal Communications Commission would bar associations from sending unsolicited faxes to members without first obtaining the permission of each recipient. Such a restriction would eliminate an exception in previous FCC rules that had allowed businesses, including trade associations, to communicate by fax with individuals "with whom they have a pre-existing business relationship," asserts Pat Borowski, senior vp of the Washington-based trade association.



"In its infinite wisdom, the FCC is attempting to declare that people who join an association do not have an existing business relationship with that association," she said. "They've obliterated the concept of 'existing business relationship' and they are contorting the old rule defining what constitutes unsolicited materials or advertising," thus barring such correspondence as continuing education course schedules.

The PIA has not yet asked its members what they think about the new rules. But they, too, may be up in arms when they learn that the rules also may prohibit them from sending unsolicited faxes to customers, Ms. Borowski says.

Gentlemen, advertise your engines!

Demonstrating its willingness to take some risks, the Detroit office of broker Marsh Inc. sponsored the Biagi Bros. Racing car, NASCAR/Busch Series Car No. 4, in the Aug. 16 Cabela's 250 race at Michigan International Speedway in Irish Hills.

"It's a risky business," said Len Turowski, partner in the Biagi Bros. Racing car. "Having the world's leading risk experts involved in the world's most exciting auto racing is special for us."

But the sponsorship was more promotional than testimonial in nature, according to Greg Stanbury, leader of Marsh's Midwest Region Central Partnership. However, he did admit to having more than just a passing interest in the nation's fastest-growing spectator sport.

"Not only does it bring us into a new theater of marketing services, but it allows us to participate in something we truly enjoy—NASCAR racing," said Mr. Stanbury.

Tips and feedback from readers are welcomed. Please send information to wojcik@crain.com.

OPIC: Covering risks abroad

Continued from page 11

It's not targeted necessarily, but it's affected by the violence going on around it.

The other category is highly visible U.S. brand names—consumer-oriented companies that are very visible and tend to stand for America, or are widely perceived to stand for America.

Q: Is expropriation of foreign assets frequent?

A: Given the total amount of investment that goes on in Asia, it's a rare event. We have paid eight expropriation claims in Asia totaling \$263 million since the (1971) creation of OPIC. It's not a frequent event by any stretch of the imagination, but when it happens, it can be

substantial.

We've gone through waves where each of our three basic forms of political risk insurance has been active. In the '70s, expropriation was the most active. In the '80s, currency inconvertibility became a real issue. In the '90s, it shifted back to political violence and a little tinge of creeping expropriation, which is probably where we are now.

Q: How does OPIC assess the political risks in Southeast Asia? For example, how does OPIC distinguish between risks in, say, Vietnam and Laos?

A: We are project-focused, so when we underwrite, we under-

write a project. We consider the country risks, but it's all informed by what kind of project it is. We have individual officers who are expert in whichever country it is. We maintain a standing analysis of each country. Having said that, it changes dramatically depending on what kind of project. If, for example, there's an oil project offshore that's going to be paid in U.S. dollars, the political risk to that project is different from an urban-centered manufacturing facility. Although country risks are the background against which we draw up our contracts, we really are project-specific. There tends to be greater similarity between types of projects within Southeast Asia than there are within one country.

Indonesia: Preparing for threats

Continued from page 9

Indonesia. There are few companies that "do not have some sort of crisis management and contingency planning in place," Mr. Duder remarked.

The capital often is the scene of protests and demonstrations over political policies or changes in government leaders. In other parts of the country, Western workers have been injured and harassed by Indonesians angered over foreign companies' business practices.

Given this history, many multinationals subscribe to daily risk information services, and embassies are active in providing the companies with travel advisories and other advice, Mr. Duder said.

And, in response to increased terrorist activity, many multinationals have made changes to their expatriate workforce in Indonesia.

Mr. Duder said many companies have limited the number of expats sent to the country and, in some cases, are sending only single workers, as spouses and children could become targets. Also, expats in Jakarta are moving from stand-alone housing in areas such as Kemang, a district in Jakarta where

large numbers of Western workers traditionally have lived, he noted. Some multinationals, he said, are spreading their workers across the city into various apartment buildings.

Some companies are providing security escorts for executives and are assessing hotel security in the city for visiting employees, Mr. Duder said.

"Hotels have realized that, to attract guests, they have to also have in place enhanced security measures, although, again, it seems many hotels lack any significant budget to really implement effective measures with professionally trained staff," Mr. Duder said.

In the wake of the Marriott bombing, security procedures at the hotel are under review, according to Bradley R. Wood, vp-risk management at Marriott International Inc. in Bethesda, Md. The Jakarta hotel is owned by a local company, and Marriott International provides management services.

"Security is always a priority at our hotels around the world," Mr. Wood noted, without elaborating on what procedures were in place or

might be changed at the Jakarta facility. He said the hotel is expected to open within a month of the bombing, which killed 10 and heavily damaged the building's lower floors.

Mr. Duder said hotels in Jakarta moved quickly to step up security at their facilities, and many have contacted Hill & Associates for advice. Some hotels formed a kind of "perimeter security," with police and military personnel stationed outside the buildings, he pointed out.

Despite widespread awareness of the heightened terror threat, some security concerns remain in Jakarta.

Most key buildings screen vehicles and pedestrians, although in many cases such efforts are little more than cosmetic, Mr. Duder said. While such moves may serve as a deterrent to some, "for any professional, they would be simple to evade," he stated.

Security staff at many buildings are not adequately trained, and while some companies have invested in metal-detection equipment, Mr. Duder pointed out, "again, it is questionable" as to how well trained the users are.

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August 18, 2003

International

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Insurers critical of accounting rules

IASB proposal raises concerns about balance sheet complications

By SARAH VEYSEY

LONDON—Some European insurers and accountants are wary of proposed accounting standards for publicly traded insurers in the European Union, fearing complications related to insurers' balance sheets.

In addition, they note that the proposals by the London-based International Accounting Standards Board could, ultimately, affect the coverages available to E.U. buyers.

The IASB's proposed standards aim to increase transparency of insurers' financial reports and to improve disclosure. The IASB said the proposals, which would take effect in two phases, are needed because current standards for so-called fair-value accounting do not cover insurance contracts.

Under the proposed changes, insurers would be required to report

assets on a fair-value basis from 2005. Liabilities, however, would continue to be reported on an amortized basis under national accounting standards until 2007, when they, too, would be measured at fair value. Under fair-value accounting, assets and liabilities are recorded at their current market value.

The proposals' two-phase implementation has drawn fire from accounting and insurer groups.

Earlier this month, the European Financial Reporting Advisory Group warned that the two-phase implementation of the new standards could cause confusion and lead to volatility in insurers' accounts.

Any delay in the implementation of fair-value reporting for liabilities could lead to insurers regarding "phase one" of the standards as

long term and expect exemption from "phase two," the group warned in an open letter to Sir David Tweedie, chairman of the IASB. The EFRAG said that a delay in implementation of the second phase of the proposals could lead to a mismatch between assets and liabilities on insurers' balance sheets, and urged the IASB to move to implement phase two before the current 2007 deadline.

Insurer groups are also concerned about the potential "mismatch" in accounts that this two-stage approach could cause.

The Comité Européen des Assureurs, while welcoming a move to international accounting standards and the IASB's efforts to provide insurers with guidelines, "deplores the risk of mismatch," according to a spokeswoman for the Paris-based organization.

The CEA maintains the two-phase approach could lead to "serious inconsistencies between the measurement of assets and liabilities."

In a statement, the CEA said that, "as a consequence, artificial volatility, either in equity or in income, might arise during phase one. ... This volatility could mislead those who make use of insurers' financial statements."

The package of proposals published by the IASB includes some other far-reaching changes to the way European insurers report their accounts, experts say.

One such change is the prohibition of catastrophe and equalization reserve provisions—which many European insurers currently use.

Kevin Stephenson, director of

See ACCOUNTING/page 15

World Updates

APRA to collect claims data

The Australian Prudential Regulation Authority is consulting with the country's insurers and other relevant bodies on the collection of policy and claims data for public liability and professional indemnity insurance. The Australian government, as well as state and territory treasurers, had agreed that appropriate premiums for these classes of insurance could not be determined due to a lack of comprehensive data on claims costs. A lack of data was also identified as inhibiting the development of insurance products for these sectors. Data collection is expected to begin in the second quarter of 2004.

IUA sees growth in London market

The London company market has seen considerable premium growth over the past few years, according to research by the International Underwriting Assn. Over the last three years, total marine, aviation and transport premiums—excluding excess-of-loss reinsurance business—have risen steadily from £742.7 million (\$1.20 billion) in 2000 to £1.06 billion (\$1.60 billion) in 2001 and £1.12 billion (\$1.63 billion) in 2002. According to the London-based IUA, loss ratios for those lines now stand at 70.4% for 2000, 28.3% for 2001 and 9.8% for 2002.

Investments, bank unit cut Allianz profits

Losses from investments and banking operations contributed to a 93.5% drop in Allianz A.G. Holding's first-half profits to 102 million euros (\$117.3 million). Allianz posted net income of 622 million euros (\$715.3 million) for the second quarter of 2003 but said its six-month profits were held down by a first-quarter net loss of 520 million euros (\$566.8 million). That result stemmed mainly from losses of 2.30 billion euros (\$2.51 billion) from investments and the company's Dresdner Bank unit. Premiums for the half increased 6.3% to 44.8 billion euros (\$51.52 billion).

AXA profits drop on investment losses

AXA S.A.'s net income dropped by 75.0% in the first half to 209 million euros (\$240.4 million). Paris-based AXA blamed the decline mainly on a 1.1 billion euro (\$1.27 billion) charge related to investment losses. AXA said the weak U.S. dollar also contributed to the drop in profits. AXA recorded consolidated revenues of 37.5 billion euros (\$43.13 billion) for the first half, up 3.5%, due in part to rate increases.



PHOTO: REUTERS

Tanker spilling oil off Pakistan's coast

KARACHI, Pakistan—A Maltese-flagged oil tanker has broken in two off the coast of Pakistan and is suspected to have leaked at least 1.5 million gallons of oil.

The single-hulled tanker, Tasman Spirit, was carrying more than 19.7 million gallons of light crude oil when it ran aground close to Karachi, Pakistan, on July 27.

Salvage experts transferred almost 5.9 million gallons of oil

from the Japanese-built tanker before it broke up on Aug. 14. Workers are now trying to separate the two halves of the ship to reduce the risk of explosion, according to sources.

The tanker, built in 1979, is insured with the American Protection & Indemnity Club, a member of the International Group of Protection & Indemnity Clubs, London market sources said.

—By Sarah Veysey

Australian employers push for creation of federal workers compensation system

By MICHAEL BRADFORD

CANBERRA, Australia—Employers in Australia are pushing for creation of a national system that would bring consistency to workers compensation regulation.

Dismayed with the patchwork of regulatory approaches across the country's states and territories, Australian businesses are hoping a project by the Productivity Commission will produce enough evidence of the benefits of a federal system to convince lawmakers that it's time to bring uniformity to workers comp regulations and benefits.

The commission, which is a government advisory board, is in the midst of a yearlong examination of the feasibility of establishing a national workers comp regulatory framework. It also is considering federal rules governing occupational health and safety and is exploring whether some uniformity

should be established regarding the acceptability of self-insurance for workers comp risks over all states and territories.

The commission said in a statement outlining its efforts that the "lack of a nationally consistent approach appears to have imposed significant compliance costs on business and may have led to inequities for injured workers."

Ideally, the commission stated, a national framework would involve a "cooperative approach" between the Commonwealth and state governments "while still leaving primary responsibility" with the states.

Brad Greer, president of the Assn. of Risk & Insurance Managers of Australasia Ltd., said a national system would make life easier and less expensive for employers. The cost of complying "with the various schemes is onerous," he said.

As part of its work, the Productivity Commission called for written



testimony from employers and others regarding the feasibility of national frameworks for workers comp and workplace health and safety programs. More than 140 submissions by businesses, insurers, brokers, attorneys and others had been received by the Aug. 15 deadline.

An interim report on the commission's findings is due at the end of next month, and a final report to the government is expected in March 2004.

In submissions to the commission, employers were clear about their regard for current workers comp regulation and the need for a national program.

Sing Tel Optus Pty. Ltd., a telecommunications company in North Sydney, stated that the current multijurisdictional arrangements are "cumbersome and inefficient" because, among other things, they are costly and do not allow employers to "choose the arrangements that best suit their employees and their business needs."

Mr. Greer of ARIMA pointed out that each state and territory has a different system and level of benefits. The statutory programs are run by the state and territorial governments with "varying degrees of involvement by private insurers and brokers, and varying levels of financial success. The Queensland scheme, for example, is fully fund-

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 COUNTY DEPARTMENT, CHANCERY DIVISION

IN THE MATTER OF THE LIQUIDATION OF LEGION INDEMNITY COMPANY)
) 02 CH 06695

LEGAL NOTICE

NOTICE OF CLAIM FILING DEADLINE AND PROCEDURES

PLEASE TAKE NOTICE, that on April 9, 2003, the Circuit Court of Cook County, Illinois, entered an Order of Liquidation with a Finding of Insolvency ("Order of Liquidation") against Legion Indemnity Company ("Legion Indemnity"). J. Anthony Clark, Director of Insurance of the State of Illinois, is the statutory and court-affirmed Liquidator of Legion Indemnity (the "Liquidator").

TAKE FURTHER NOTICE, that pursuant to the Order of Liquidation, all rights and liabilities of Legion Indemnity and its policyholders, creditors and stockholders, and all other persons interested in its property or assets, are fixed as of April 9, 2003, unless otherwise provided in subsequent orders of the Court.

TAKE FURTHER NOTICE, that on June 12, 2003, the Circuit Court of Cook County, Illinois, entered an Order Providing for the Filing of Claims and the Setting of Claim Filing Deadlines ("Claim Filing Order"). Pursuant to the Claim Filing Order, all persons, companies or entities who have, or may have claims against Legion Indemnity, its property or assets, or against a Legion Indemnity insured or policyholder, shall have the right to present and file with the Liquidator proper proofs of claim on or before October 11, 2004 at 4:30 p.m. (C.D.T.).

TAKE FURTHER NOTICE, that any insured under an insurance policy issued by Legion Indemnity shall have the right to present and file with the Liquidator a proper proof of claim setting forth a contingent claim on or before October 11, 2004 at 4:30 p.m. (C.D.T.). No contingent claim shall be allowed for purposes of participating in any distribution of estate assets that may be made at the fourth priority level, 215 ILCS 5/205(1)(d), unless such claim has been liquidated and the insured claimant has presented and filed evidence of payment of such claim to the Liquidator on or before April 10, 2006 at 4:30 p.m. (C.D.T.). Any contingent claim for which a proper proof of claim is filed on or before October 11, 2004 at 4:30 p.m. (C.D.T.), but which is not liquidated on or before April 10, 2006 (C.D.T.), may be estimated pursuant to 215 ILCS 5/209(4)(b) for purposes of participating in any distribution of estate assets that may be made at the fifth priority level, 215 ILCS 5/205(1)(e), unless otherwise directed by the Court.

TAKE FURTHER NOTICE, that the form and required contents of all proofs of claim are described in 215 ILCS 5/209. Proofs of claim, along with supporting documents, if any, are to be filed with, and may be obtained from, the Liquidator of Legion Indemnity, c/o the Office of the Special Deputy Receiver, located at 222 Merchandise Mart Plaza, Suite 1450, Chicago, Illinois 60654, or by internet at www.osdchi.com. A proof of claim shall be deemed "filed" with the Liquidator upon the Liquidator's receipt thereof. The Liquidator reserves the right to require such additional information with respect to any claim filed with him as he may deem necessary. The Liquidator further reserves any and all defenses available to Legion Indemnity upon all filed claims. All proofs of claim must be duly sworn to before an officer authorized to take oaths.

THE LAST DATE FOR THE FILING OF PROOFS OF CLAIM WITH THE LIQUIDATOR IS SET FORTH ABOVE. NO PERSONS, COMPANIES OR ENTITIES HAVING OR CLAIMING TO HAVE ANY CLAIM AGAINST LEGION INDEMNITY, ITS PROPERTY OR ASSETS, OR AGAINST A LEGION INDEMNITY INSURED OR POLICYHOLDER, SHALL PARTICIPATE IN ANY DISTRIBUTION OF THE ASSETS OF THE COMPANY UNLESS SUCH CLAIMS ARE PROPERLY FILED WITH THE LIQUIDATOR ON OR BEFORE OCTOBER 11, 2004 AT 4:30 P.M. (C.D.T.)

[Please note: The above claim filing deadlines apply to claims against Legion Indemnity only. The deadlines do not apply to claims against either Legion Insurance Company or Villanova Insurance Company. For information concerning either Legion Insurance Company or Villanova Insurance Company, please contact the Pennsylvania Department of Insurance]

Cathleen M. Travis
 Special Deputy Receiver

HELP WANTED

VICE PRESIDENT RISK MANAGEMENT SERVICES
 LWCC, a private mutual workers' compensation insurance company that offers competitive salaries and benefits, as well as the challenge of being part of a progressive organization, currently has an excellent opportunity for a Vice President of Risk Management Services. The individual will provide overall strategic direction and leadership to the risk management division which includes claims, recovery, SIU, and occupational medicine units.
Education & Experience:
 • Four year college degree is required; a masters degree or CPCU is preferred.
 • 15 years combined experience in commercial line claims service, workers compensation claims, and loss prevention, with at least 7 years workers' compensation.
 • 5+ years of senior level management experience is essential.
 • Experience in a home office claims environment would be a plus.
 • Knowledge of USL&H and Jones Act claims is also required.
 • Hands-on skills in managed care in a workers compensation environment.
 • Must have litigation management experience, subrogation and special fund management.
 If these qualifications match yours, please submit your resume to:
Sandra Easterly, Louisiana Workers' Compensation Corp.
 2237 S. Acadian Thruway, Baton Rouge, LA 70808
 E-Mail: seasterl@lwcc.com • Fax: (225) 231-0613 EOE

HELP WANTED

LEGAL NOTICE

NOTICE OF SANCTION OF SOLVENT SCHEME OF ARRANGEMENT
 IN THE HIGH COURT OF JUSTICE (IN ENGLAND AND WALES)
 CHANCERY DIVISION
 COMPANIES COURT
 No 861 of 2003
 IN THE MATTER OF
LA METROPOLE S.A.
 (only in relation to its business written by Travelers Corporation (UK) Limited between 1983 and 1985, and subsequently transferred to La Metropole S.A. pursuant to section 51C of the Insurance Companies Act 1982)
 and IN THE MATTER OF THE COMPANIES ACT 1985

NOTICE IS HEREBY GIVEN that, by an Order dated 29 July 2003 made in the High Court of Justice in England and Wales in the matter of La Metropole S.A. (the "Company"), the scheme of arrangement proposed (the "Scheme") to be made between the Company and its Scheme Creditors (as defined in the Scheme) pursuant to section 425 of the Companies Act 1985, which was voted on and unanimously approved by Scheme Creditors during the meeting held on 21 July 2003, was sanctioned. A copy of the Scheme was lodged with the registrar of companies on 31 July 2003, and the Scheme became effective on that date.

It is requested that Scheme Creditors submit completed Claim Forms by 31 October 2003. Returned Claim Forms must reach PricewaterhouseCoopers on or before this date.

Should you have any questions regarding this Notice, please address them to Baljit Goraya at:
 PricewaterhouseCoopers LLP, Plumtree Court, London EC4A 4HT, United Kingdom
 Telephone: +44 (0) 20 7804 5339
 Facsimile: +44 (0) 20 7212 6316

LEGAL NOTICE

NOTICE OF SANCTION OF SCHEME OF ARRANGEMENT
 IN THE HIGH COURT OF JUSTICE
 CHANCERY DIVISION
 COMPANIES COURT
 No 2506 of 2003
 No 2507 of 2003
 IN THE MATTER OF
ENGLISH & AMERICAN GROUP PLC
ENGLISH & AMERICAN INSURANCE HOLDINGS PLC
 and IN THE MATTER OF THE COMPANIES ACT 1985

NOTICE IS HEREBY GIVEN that, by an Order dated 30 July 2003 made in the High Court of Justice in England and Wales in the above matters, the schemes of arrangement between English & American Group Plc and English & American Insurance Holdings Plc (the "Companies") and their respective Scheme Creditors (as defined in such schemes of arrangement) pursuant to section 425 of the Companies Act 1985 (the "Schemes"), which were voted on and unanimously approved by Scheme Creditors at meetings held on 21 July 2003, were sanctioned. Office copies of the orders sanctioning the Schemes were lodged with the registrar of companies on 6 August 2003, and the Schemes became effective on that date.

Non-ILU Creditors (as defined in the Schemes) of either of the Companies wishing to submit a claim must, if applicable, complete or amend the Non-ILU Claim Form sent to them and in any event sign and return the form in accordance with the instructions accompanying it and the provisions of the Schemes, such form to be received by 23:59 on the Final Claims Submission Date, being 3 September 2003. Failure to do so will result in the Non-ILU Creditor concerned not being entitled to claim in or receive payment under the relevant scheme of arrangement. Non-ILU Creditors who have not already received a Non-ILU Claim Form should write to Deirdre Won at the address set out below to request one.

Should you have any questions regarding this Notice, please address them to Deirdre Won on +44 (0) 20 7212 6086 or Baljit Goraya on +44 (0) 20 7804 5339 at:
 PricewaterhouseCoopers LLP, Plumtree Court, London EC4A 4HT, United Kingdom
 Telephone: +44 (0) 20 7583 5000
 Facsimile: +44 (0) 20 7212 6316

LEGAL NOTICE

NOTICE OF SANCTION OF SCHEME OF ARRANGEMENT
 IN THE HIGH COURT OF JUSTICE
 CHANCERY DIVISION
 COMPANIES COURT
 No 2506 of 2003
 No 2507 of 2003
 IN THE MATTER OF
ENGLISH & AMERICAN GROUP PLC
ENGLISH & AMERICAN INSURANCE HOLDINGS PLC
 and IN THE MATTER OF THE COMPANIES ACT 1985

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REQUEST FOR PROPOSALS

RFP FOR PROPERTY INSURANCE
 The Town of Hempstead, Long Island, New York seeks a one to three year all peril policy for property and contents coverage for all Town facilities. The latest appraisal value for the property to be insured is \$180 million.
 RFP packages will only be sent to insurance companies licensed in New York with a Best rating of no lower than "A" and a financial size category of 10. Qualified brokers representing carriers of this rating and size may also apply.
 Written requests only for an RFP package should be addressed no later than September 10th, 2003 to:
 Property Insurance RFP
 Attn: Norman Murray
 Town's Attorney's Office
 1 Washington Street
 Hempstead, New York 11550

REQUEST FOR PROPOSALS

ADVISORY NOTICE

To All Creditors of Pan Atlantic Insurance Company Limited in Provisional Liquidation: As of January 13, 2000, all of Pan Atlantic's title to reinsurance recoverables, with the exception of claims against Lloyds Syndicates/Equitas Limited (the "Assigned Recoverables") were assigned to PAICO Receivables, LLC ("PRLLC"). All amounts due from reinsurers to Pan Atlantic in respect of the Assigned Recoverables are the property of PRLLC.
 If you have claims against the Pan Atlantic estate, please note that the Scheme of Arrangement that was sanctioned by the High Court on July 22, 2003 calls for filing of claims on a gross basis (no netting of offsets). All claims must be submitted with the Scheme Officers on or before September 18, 2003 as provided for in the Scheme. The obligation, if any, of PRLLC to accept offset of amounts due a reinsurer by PAICO against amounts due on the Assigned Recoverables, may depend on various facts and circumstances. **Please be advised that PRLLC does not intend to accept offset of any amount against any of the Assigned Recoverables for any claim not timely filed and accepted by the Pan Atlantic Scheme Officers.**
 PAICO RECEIVABLES, LLC
 c/o Joseph F. Scognamiglio, Quantum Consulting, Inc.
 150 Joralemon Street, Suite 6B, Brooklyn, NY 11201-4309
 Tel: (212) 369-5432, Fax: (212) 369-7794

ADVISORY NOTICE

LEGAL NOTICE

NOTICE OF SANCTION OF SCHEME OF ARRANGEMENT
 IN THE HIGH COURT OF JUSTICE
 CHANCERY DIVISION
 COMPANIES COURT
 No 2506 of 2003
 No 2507 of 2003
 IN THE MATTER OF
ENGLISH & AMERICAN GROUP PLC
ENGLISH & AMERICAN INSURANCE HOLDINGS PLC
 and IN THE MATTER OF THE COMPANIES ACT 1985

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 PricewaterhouseCoopers LLP, Plumtree Court, London EC4A 4HT, United Kingdom
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LEGAL NOTICE

NOTICE OF SANCTION OF SCHEME OF ARRANGEMENT
 IN THE HIGH COURT OF JUSTICE
 CHANCERY DIVISION
 COMPANIES COURT
 No 2506 of 2003
 No 2507 of 2003
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ENGLISH & AMERICAN GROUP PLC
ENGLISH & AMERICAN INSURANCE HOLDINGS PLC
 and IN THE MATTER OF THE COMPANIES ACT 1985

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Publishing September 1

Reinsurance: International Markets
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Accounting: Insurers critical of proposed changes

Continued from page 13

technical activities at the IASB, said the change was necessary because catastrophe and equalization reserves don't meet a proper definition of a liability in the organization's view.

But this change could be problematic for insurers that cover catastrophic risks, such as earthquakes, floods or an event on the scale of Sept. 11, 2001—"things which happen but don't happen every year," according to Robin Oakes, senior partner at accounting firm Mazars in London.

Insurers tend to keep such reserves to smooth out results when such large catastrophes do occur, Mr. Oakes noted.

Under the catastrophe reserving process, a portion of profits earned in claim-free years is sometimes added to reserves to cover catastrophe losses in future years. This enables insurers to meet the cost of large claims without exhausting the company's capital, he explained.

Such reserves can build up on a tax-free or tax-deferred basis in some E.U. countries.

The IASB has objected to this practice because it means that, at the point when insurers are drawing up their accounts, they are pro-

If financial statements become more transparent under new standards, 'the cost of capital should decline for the insurance industry.'

Mark Freedman
Ernst & Young L.L.P.

viding for a liability that doesn't actually exist at the time, he explained.

While there are other ways that insurers could hold onto profits to cover future losses, such as within shareholder funds, this would likely be unpopular with investors, he

noted.

The IASB standards also would require that liabilities remain on the balance sheet until they are expired, discharged or cancelled.

This could also prove problematic for insurers, according to Mr. Oakes.

For long-tail liability risks, such as asbestosis or other industrial diseases, it might be difficult for insurers to correctly identify when they are "off the hook" and that liability has expired, he noted.

This may be further complicated by a proposed requirement that liabilities must be presented on the balance sheet without being offset against related reinsurance assets, experts note.

"A good insurer would be looking to match his assets and the life of his assets with the potential life of his liabilities, but you are not allowed to offset one against the other," said Mr. Oakes.

Insurers in the United States may also be affected by the changes, ac-

ording to Mark Freedman, a partner at Ernst & Young L.L.P. in New York.

"U.S. insurers with European parents must convert to International Accounting Standards in order to list in Europe," he noted. "If a company wishes to also list in the U.S., it must also prepare U.S. generally accepted accounting principles financials."

Mr. Freedman also noted that there is a general agreement in place between the U.S. Financial Accounting Standards Board and the IASB for U.S. and international standards to converge at some point in the future.

"In all likelihood, for insurance, this will occur a few years after the standards have settled in Europe, but it will likely happen," he noted. "This potential domino effect in the U.S. requires companies to put International Accounting Standards on the radar screen."

Insurance buyers would also see the effects of the new accounting

standards, according to experts.

The need to comply with the new accounting rules could start to drive the commercial terms of insurance contracts, according to Mr. Oakes.

"Insurers and insurance brokers and intermediaries are particularly creative," he noted. The new rules, though, could mean that they are looking both at solving buyers' needs and conforming to accounting standards.

"That is not necessarily the wrong way to handle it, so long as the accounting rules don't drive the insurers and their advisers to a commercial solution that isn't as efficient, or effective, or more complex," Mr. Oakes noted.

A more uniform way of accounting for insurance contracts could eventually lead to price cuts for buyers, according to Mr. Freedman.

"Assuming financial statements become more transparent under a common set of standards, the cost of capital should decline for the insurance industry," he said. "This should translate into premium rate reductions."

Interested parties have until Oct. 31 to submit comments on the proposals to the IASB. The text of the proposals is available at www.iasb.org.uk.

Comp: Aussie buyers want federal system

Continued from page 13

ed," he said, "while the New South Wales scheme has massive unfunded liabilities."

Optus argues in its submission that inefficiencies in the regulatory systems have led to unfunded liabilities that states and territories are trying to make up by increasing charges to employers, further driving up comp costs.

Opposition to a national system comes from some attorneys, who say workers' rights and benefits could be compromised if there were a single regulatory system.

The concern about funding disparities is "not a reason for a national scheme to be adopted," according to the Australian Plaintiffs Lawyers Assn. statement.

APLA fears that reducing the reg-

ulatory framework to a single system "will invariably result in the lowest common denominator being adopted, to the significant detriment of workers across Australia," the group argues.

The attorney group suggested that states should cooperate "to adopt key lessons from successful schemes and implement them in not so successful schemes."

Some employers say regulatory inefficiencies in the poorly run systems are so burdensome that they are offsetting smart work practices.

Paul L. Trower, national sales manager and rehab coordinator with BDS Pty. Ltd., a manufacturer in Queensland, complained in testimony to the commission that "any benefits from 'working smarter,' implementing 'best practice proce-

dures,' etc., are creamed by compliance costs, registration fees, license fees, work cover premiums and a plethora of other governmental instituted fees and charges."

Costs and restrictions are particularly onerous in West Australia, according to Mr. Trower. There, the company is unable to negotiate rates or have its broker arrange coverage, he said. In addition, it is forced to pay the premium asked by a government-designated insurer or essentially be told, "Do not do business in the state," he said.

Insurers and brokers are among those calling for national systems.

The Insurance Council of Australia pointed out in its testimony that, like employers, insurers that operate across multiple workers compensation systems also face var-

ious regulatory regimes, benefits structures and reporting requirements. A national framework would lower the cost of regulation and "provide consistent protection for all policyholders and third-party claimants, regardless of the underwriting arrangements for a particular scheme," the insurer group stated.

Among the problems with the current system cited by The National Insurance Brokers Assn. of Australia are a lack of incentives for insurers and employers to implement best practices and a stifling of innovation by heavy regulation. In addition, "Many employers have a very limited understanding of how the schemes work or of their responsibilities within the schemes," the group said in testimony.

Products & Services

Stormwater specialists predict flooding risks

DURHAM, N.C.—A service provided by The John R. McAdams Co. is helping local governments, developers and insurers get a head start on flood preparations.

McAdams Co., a Durham, N.C., land development design firm, has stormwater specialists who can predict the likelihood that a stream, river or lake will overflow during heavy rain and determine which areas will be affected by flooding.

The specialists use historical rainfall data, Doppler radar technology and modeling of waterways to determine how much rain will fall and where problems could arise. Municipalities can use the information to allocate resources to an area expected to be affected by floodwaters, and insurers can alert clients before a

storm arrives that flooding is expected in their areas.

More information on the service is available from Amos Clark at 919-361-5000.

Book advises on security needs

ALEXANDRIA, Va.—A new book helps upper management understand whether their companies' security functions are working properly.

"Measuring Security Performance and Productivity," by Richard B. Cole, argues that complacency has led some companies to neglect proper testing of their security procedures. Worse, many companies don't hold those in charge of security accountable for the system's state of readiness, according to the book.

The book provides measurement

tools and techniques for aligning security program goals with corporate goals.

The book is published by ASIS International. ASIS members can purchase the book for \$40; nonmembers pay \$52. Orders can be placed at www.asisonline.org/store/search.xml or by calling 703-519-6200.

Group dental coverage available in New York

WHITE PLAINS, N.Y.—The Standard Life Insurance Co. of New York has introduced group dental cover for New York policyholders.

The coverage allows employers to select from a range of dental plan designs, including a preferred provider organization, an indemnity plan, a Section 125 voluntary plan and an option that gives employees the ability to choose levels of coverage. Each plan design allows employers to customize coverage.

The plans are available to

employers with 10 or more employees. More information is available at www.standard-ny.com or 800-378-8361.

Certificate tracking service upgraded

SAN DIEGO—ConfirmNet Corp.'s insurance certificate tracking service now allows recipients of those documents to request, validate, track, organize, store and provide reporting through a secure Web interface.

The updated version of TrackCertsNow was recently released by San Diego-based ConfirmNet. It is designed to provide risk managers with the complete status of all insurance certificates and instantly retrieve stored certificates. Among its features are automatic notification before certificates expire and issuance of noncompliance letters.

More information is available at www.confirmnet.com or at 800-669-8600.

Letters to the Editor

Continued from page 8

as actually stated by one convict incarcerated after a carjacking/robbery at the Miami airport a few years ago, was that robbery of persons in rental cars was safer because airline passengers would not be carrying a handgun, while local residents of Florida might be.

In fact, a recent statistic I noticed only about a week ago was that on average, crime rates dropped over 20% following enactment of concealed weapons laws. Conversely, in places where the reverse has been done (e.g. United Kingdom and Australia's ban on almost all guns) crime has dramatically increased.

Crime is, of course, the real underlying liability concern of businesses: If a crime occurs on their premises leading to injury or damage to the public or an employee, could a claim be made against them, even if baseless? Certainly. However, if crime goes down when concealed weapons carry laws are enacted, then why would business liability concerns be raised?

That leads to the question of why the concern is raised—is there really a risk concern, or is it a manufactured concern created for purposes of influencing political actions?

Personally, this made me again think about some factors which contributed to the great "asbestos in schools" issue in the 1980s, which led to many insurance claims and expenditures by school boards.

William S. "Sandy" Rodgers
Senior Vp and Consultant
Property Resource Group-Claims
Willis Risk Solutions
Nashville, Tenn.

Pools: Increasing premiums, gaining members

Continued from page 3

age, by about 30% between 2002 and 2003.

The greater growth rate may be attributable to many of these risks exiting the standard market, according to Mr. Kaddatz.

"There you can see a transfer of premium from what was in the commercial marketplace to the risk retention groups," he said.

Many pool administrators attending the ARM Tech conference concurred with Mr. Kaddatz' assessment of the state of the pool market.

Rancho Cordova, Calif.-based CSAC Excess Insurance Authority's writings grew 28% in 2003 after a 25% spurt in 2002, according to Michael Fleming, general manager. The facility expanded in July 2001 to include public entity risks other than counties.

Most of the growth stemmed from "changes that our counties were going through. There were other agencies that were very closely connected with the counties that the counties wanted us to solve their insurance needs for, but, technically, we couldn't because they weren't counties," Mr. Fleming explained.

"But we were also looking for growth because we had 53 out of the 58 counties in the state, so our potential growth was limited," he added.

Among the 38 entities that joined were schools, cities, special districts and even some other public entity pools, according to Mr. Fleming.

Similarly, Wisconsin Counties Mutual Insurance Corp. in Madison, also formed to provide coverage for counties in the state, was already expanding to include other public entities when the market hardened, according to Vince Marchetti, a member of the pool's

board of directors.

Because of the added membership and prior conservative management, pools generally are in better financial shape than their commercial insurer counterparts, according to Mujtaba Dato, a consulting actuary at ARM Tech in Irvine who gave a presentation at the conference on risk retention pools' financial performance.

Applying the National Assn. of Insurance Commissioners' insurance regulatory international system—or "IRIS"—test to pools shows that while the commercial property/casualty industry had a 1.3:1 premium-to-surplus ratio in 2002, public entity pools had a 1:1 ratio, he said.

"The lower the ratio, the better able you are to absorb losses," he explained.

When applying yet another IRIS test, which compares reserves to surplus, pools fare even better, according to Mr. Dato. While a 1.8:1 reserve-to-surplus ratio is typical for the property/casualty industry, the reserve-to-surplus ratio for pools is only 1.48:1, he said.

But pools' financial strength could be tested in the years ahead as they assume higher self-insured retentions and shore up reserves, particularly for workers compensation claims in California, warned Steve Kahn, managing director of ARM Tech, and co-chair of the conference.

"The hard market has solved a lot of surplus problems for some pools, because it's been possible to pass on rate increases," he said.

But because pools are assuming larger self-insured retentions either to save money on reinsurance or excess coverage, or because the reinsurers are requiring higher attachment points, "obviously, you'd like to have more surplus, so if you get an unexpected hit or two you

have sufficient funding," he said.

In addition, many pools, particularly those that write workers compensation risks in California, are experiencing "huge upward development in reserves you've had for claims that have been incurred in

'The hard market has solved a lot of surplus problems for some pools because it's been possible to pass on rate increases.'

Steve Kahn
ARM Tech

past years," which can also deplete surplus, according to Mr. Kahn.

"So at the same time the reserve increases took away their surplus, they're getting hit with bigger SIRs and the need for more surplus," he said.

Daniel Howell, senior vp at Driver-Alliant Insurance Services in Newport Beach, Calif., said: "It seems like a million bucks ain't what it used to be. We are starting to see some really large hits: \$2 million, \$5 million, \$7 million claims, and workers comp claims that blow through \$1 million. These are really larger claims than we used to see."

The public sector financial crisis also could impact negatively on pools, especially if large members decide to leave the pool and go it alone for budgetary reasons, suggested Jim Smith, director of enterprise risk services at the Public Risk Institute in Houston.

"You could see a potential drain on your written premiums that could have a severe impact on your expenses that you still have in place to serve your existing membership. So, I would be real strategic in looking at what would happen if we lost the top 10% of our membership

that constitutes our largest written premium," he said.

In some cases, members may opt to take higher deductible levels to save premium dollars this year, which "also could drain the premium flow into the pool and create some financial pressures there," he added.

And even though some large public entities that had self-insured their liability and workers compensation risks are now approaching pools, it's less to obtain capacity than to tap pool service providers, according to Mr. Marchetti.

"We've got a 90,000 pound gorilla called Milwaukee County," he said. As such, "they've decided they would take a \$1 million deductible."

When Milwaukee County joined the pool, it was more interested in the pool's claims handling and legal services than in capacity, he explained. Previously, legal services were handled in-house by the county's legal department.

To better weather current market conditions, Mr. Howell recommended pools consider forming alliances with purchasing groups or other pools to obtain reinsurance or excess coverage at a better price than they might get by going solo.

Pools also might consider heading offshore to Bermuda to obtain reinsurance or excess coverage, he added.

"You ought to think about talking to someone in Bermuda at some point, not because it's a really wonderful place to visit, but because they have so much capacity down there now that's willing to write difficult risks like public entities," he said.

In some situations, pools with strong surplus may want to consider finite risk products.

"There's some real value there, especially for pools that have a lot of

capital base," Mr. Howell said. "If you've got that capacity or surplus, there are ways to use it other than giving dividends to members. Look at whether you can take on more risk in this hard market by using a finite risk product to protect your members equity."

Mr. Kaddatz agreed.

"We're in this state of the marketplace where they have to consider something other than vanilla," he said. "And finite risk is a reasonable thing to consider, usually for very low-probability but high-cost items."



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For further information, contact:

Lisa Ferrier,
Conference Coordinator
The Harrington Company
4248 Park Glen Road
Minneapolis, MN 55416
Phone: 952-928-4642
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NAIC: Transparency for rating agencies

Continued from page 3

rating as well as increasing the regulation of the credit rating agencies that are officially known as "nationally recognized statistical rating organizations," or NRSROs.

Thus far, the commission has officially designated four such rating organizations: Moody's Investors Service Inc.; Fitch Inc.; Standard & Poor's Corp.; and Dominion Bond Rating Service Ltd.

"Since 1975, the commission has relied on credit ratings from market-recognized credible rating agencies for distinguishing among grades of creditworthiness in various regulations under federal securities laws," the SEC said. The collapse of Enron has led congressional overseers and the SEC to take "a fresh look at the issue," the SEC explained.

In its response to the SEC's questions, the NAIC working group made recommendations about improving the transparency of the rating agency designation process, including requiring public announce-

ment of applications for NRSRO status and the seeking of public comment about the reliability of an applicant's ratings, according to a New York Insurance Department statement.

The working group also "emphasizes the need to implement additional disclosures to address conflicts of interest between the rating agency and the company being rated," the statement said. For example, regulators said that a rating agency designation should be contingent on an agreement by a rating agency not to offer consulting or other advisory services to the entities it rates, according to its letter.

Regulators also urged greater regulatory oversight of NRSRO rating agencies, which could include the SEC imposing specific requirements about the size and quality of staff and organizational structure, among other things.

In addition, "it is important to foster a more frank and open dialogue between the NAIC and

the rating agencies because regulators, consumers and insurers are directly affected by the actions of the rating agencies," according to Mr. Serio.

"The ultimate goal of this working group is to enhance the confidential information flow between state insurance commissioners and the rating agencies" in an effort to improve the activities of both the rating agencies and the regulators "to proactively monitor and assess insurance companies," the working group said in its letter.

Spokesmen for S&P and A.M. Best Co.—which has applied to become an NRSRO—both said that they agree with regulators on many points, including a desire for increased transparency in rating agencies' operations. They also agree that a rating agency needed to be nationally recognized for providing credible and reliable data.

S&P, though, is concerned that the SEC may adopt requirements and restrictions that could increase

reporting requirements and negatively impact their ability to offer services to its clients, said Steve Dreyer, S&P's managing director of insurance ratings. S&P's ability to offer fee-based ancillary services, such as analysis of risk factors, "makes us better at ratings," he said.

But the company is open "to making the market comfortable that we don't suffer from conflicts," he said, without discussing specifics.

In addition, S&P President Leo C. O'Neill said in his comment letter that adoption of "designation criteria" could create barriers to entry and eventually lead to "a governmental intrusion into the actual rating process—a result that could compromise the independence and the credibility of credit rating agencies," he said.

Mr. O'Neill added that such criteria could also infringe on the rating agencies' "well-established" rights under the First Amendment of the U.S. Constitution.

Managed care: Rate increases, lower costs fuel results

Continued from page 3

Mr. LeConey noted.

"The primary theme that we're seeing in terms of operating performance in the first half of 2003 has been the positive impact of the slowdown in cost trends, which has led to margin expansion for most players in the industry," Mr. Meyer said.

He pointed to lower hospital utilization as one factor, noting that increased co-pays and deductibles may be having a moderating effect on utilization. In addition, the industry is seeing the impact of generic drugs and "the movement of some of the more heavily utilized drugs to over-the-counter status," he said. More-restrictive benefit designs may be a factor as well, Mr. Meyer noted.

Diana Lee, a health care analyst with rating agency Moody's Investors Service in New York, said, "There's been some softening of volume trends on the provider side, and it's not clear whether some of that's being driven by the economy." She added that "it could be a utilization issue, but also it could be the fact that certain benefit packages, or benefit structures in the pharmaceutical area, are helping

the cost side of the equation."

However, she cautioned that "it may be a little too early to comment on this as a long-term trend."

'As amazing as it may sound, I think we're actually in for another good 12 months. I think the fundamentals in the industry are still robust, even this late in the premium cycle.'

*Sheryl Skolnick
Fulcrum Global Partners L.L.C.*

Best's Mr. Shaw said that although medical cost trends have been lower than expected, "I don't think that is something that will be consistent." The lower trends reflect the economy, with the current decline being "short-lived," he said. "We'll continue to see the medical trends that we've had over the last couple of years."

Observers say some companies are reporting a leveling off, or even a decline, in membership.

"I think there's some rumblings

that membership may be a little weaker than expected, although perhaps membership is being lost through some more competitive pricing" on the part of some privately held companies that are not reporting their membership data, said Shellie Stoddard, a director at rating agency Standard & Poor's Corp. in New York.

"We also may be feeling the layoffs," although because of COBRA coverage, there may be a lag of 18 months before the business comes off the books, said Ms. Stoddard.

"It's not a growing employer base at this point, so there is some concern that, in order to gain market share," health plans may conduct themselves "unreasonably and maybe even unprofitably," said Sheryl Skolnick, a managing director and health care analyst at New York-based Fulcrum Global Partners L.L.C. However, she added, there is no evidence of that so far.

"Overall, medical membership has been relatively flat," said Mr. Shaw. "Some larger companies are cutting back on their employees, while small companies are dropping their benefit plans because of the economy and the cost of providing the care."

But some health plans are also "a little more aggressively" trying to enroll people in limited-coverage plans, said Mr. Shaw. As a result, while some health maintenance organizations have lost some enrollment, there has been an increase in enrollment in these types of products, which are offered by preferred provider organizations and point-of-service plans. As these limited type products become more available, "I think you're going to see some of the people who have dropped health insurance pick it up again," Mr. Shaw said.

However Mr. Ward said membership is "somewhat of a mixed bag. Some companies have seen more serious erosion of their membership base; others have seen some slight improvements."

Meanwhile, this may be the year of peak profitability for the industry, say some observers. "I don't know if they've reached their full height, but they're close," Mr. Shaw said.

"For a variety of reasons, the margins cannot be maintained where they have been, with perhaps 2003 being the top," S&P's Ms. Stoddard said.

Mr. Meyer said margins "are being impacted this year by lower-than-expected cost trends, and I would not expect that to repeat the same way in 2004."

However, Mr. LeConey said, "while maybe margins have reached very high levels, they could always go higher."

Whatever happens in the long term, the outlook for the rest of this year and next is generally bright for managed care companies, analysts say.

"As amazing as it may sound, I think we're actually in for another good 12 months," said Ms. Skolnick of Fulcrum. "I think the fundamentals in the industry are still robust, even this late in the premium cycle."

"From our standpoint, there's probably going to be continued profitability on the part of the health plans," said Moody's Ms. Lee. "One of the things that we've been looking at over the last few years is a slowing of the premium rates because expectations are the employers would push back," she said. However, "I don't know that we have seen that to the extent that we had anticipated early on. It's still a wait-and-see" situation, she said.

Drugs: City takes advantage of lower costs in Canada

Continued from page 4

addition, Rep. Buoniconti is urging state officials to implement a program like Springfield's for all state health care plan participants, he said.

"You will see the ball rolling more and more," he said. "Everyone is looking to save money."

Under Springfield's importation program, the \$10 copayment employees pay for a prescription drug is waived if the employee buys the drugs through CanaRx Services Inc., a Windsor, Ontario-based company that sells drugs by mail from Canada.

To order drugs, plan members send CanaRx an application and prescription. The drugs are then mailed directly to the plan member, Mr. Collins explained.

Twice a week, CanaRx sends Springfield a list of the people who filled prescriptions, and the city pays CanaRx for the drugs purchased.

Because prescription drugs generally cost between 30% to 80% less in Canada, the city expects to save \$4 million through the program in this fiscal year alone, Mr. Collins said. In addition, employees will see immediate savings, as they no longer have a copayment, he said.

The program is generally used for maintenance drugs, which make up about 80% of the city's prescription drug costs, he said. "So you're attacking the biggest part of your biggest part," he said.

The program satisfies legal and safety concerns, Mr. Collins explained. The city of Springfield has no contractual arrangement with CanaRx, and it neither buys nor dis-

tributes the drugs.

"The employees believe they have the right to do this," he said. "We are required to reimburse the employees' costs," he said.

In addition, to allay employees' concerns about safety, the drugs are shipped in their original manufacturers' containers, he said.

"It comes direct, with the factory seal, to your door," he said.

Employers are looking at importation and are analyzing the advantages and concerns, said Sean Brandle, vp at The Segal Co. in New York.

Once a handful of employers follow Springfield's lead, many others will follow, predicts Elizabeth Wenner, president and chief executive officer of United Health Alliance, an organization in Bennington, Vt., that promotes drug imports from Canada.

"You can't look the other way when the savings are so huge," she said. "It's hard to put that kind of genie back in the bottle."

Most employers haven't adopted a drug importation program because of the legal uncertainty, observers say.

For example, Vermont is closely watching what happens with Springfield but won't implement a similar program until the federal laws clearly allow drug importation, said Cynthia LaWare, the state's commissioner of personnel in Montpelier.

"From our perspective, (importation) is not legal under current law," said Lisa Zeitel, a consultant with Mercer Human Resource Consulting in Norwalk, Conn.

"In the current legal environment, it is not something (prescrip-

tion benefit managers) feel they can do," Ms. Zeitel said, adding that she has seen no evidence that the Springfield approach is being

'You can't look the other way when the savings are so huge. It's hard to put that kind of genie back in the bottle.'

*Elizabeth Wenner
United Health Alliance*

broadly adopted by other employers.

But once the cloud of legal uncertainty lifts, importation "will explode," said Phil Lindsey, senior vp at SUNRx Co. a prescription benefit

manager in Cherry Hill, N.J. The PBM has 25 employers enrolled in its two-year old drug importation program, and employers "are clamoring to get into the market," he said.

Mr. Lindsey said that the company examined the applicable laws and concluded that its program is legal, he said.

To clarify the legal status of importation programs, the U.S. House of Representatives passed a bill on July 24 that allows people to import FDA-approved drugs from 25 countries, including Canada. The bill is currently pending in the Senate.

Importation's opponents cite safety concerns in arguing against the practice. In a letter to Congress opposing the bill, H.R. 2427, the Food and Drug Administration says

the bill "creates a wide channel for large volumes of unapproved drugs and other products to enter the United States that are potentially injurious to public health and pose a threat to the security of our nation's drug supply."

The Pharmaceutical Research & Manufacturers of America, the drug manufacturers' Washington-based trade association, has also cited safety concerns in opposing H.R. 2427.

The safety issue, however, is baseless, Ms. Wenner said. "Canada is not a third-world country," she said.

Mr. Lindsey also said the objections are unfounded.

"There is no safety issue," he said. "The public safety is not involved here as stated by politicians and the drug companies themselves."

Deutsche: Bank sues insurers

Continued from page 4

toxins. Months of exposure to the elements also caused widespread mold damage, the bank says.

Experts hired by the bank concluded after a 10-month, \$33 million study that the building could not safely be reoccupied and should be declared a total loss, the lawsuit says.

Participants on the \$1.72 billion property insurance program covering the building were Chubb's Federal Insurance Co., which wrote a 30% quota share; Zurich, which wrote 20% of the limit; Allianz, which provided 30%; and two AXA

units, which provided 20%.

Chubb and Zurich earlier this year settled for their shares of a negotiated \$1.05 billion total-loss claim, or \$315 million and \$210 million, respectively. Allianz and AXA maintain, however, that the building could be reoccupied after asbestos abatement and commercial cleaning and should not be treated as a total loss.

Allianz estimates that total loss to Deutsche Bank, including business interruption, at \$500 million to \$600 million, an Allianz spokeswoman said.

Deutsche Bank's lawsuit seeks

a court order that Allianz and AXA pay their shares of the cost of demolishing the building and replacing the bank's lost office space.

The Allianz spokeswoman, meanwhile, disputed claims that the insurance dispute is holding up demolition of the bank building and redevelopment of the devastated WTC site.

The bank "can bring it down if they want. That is not for Allianz to decide," she observed.

An AXA official referred questions to AXA representatives in Paris, who could not be reached.

Blackout: Businesses cope with massive power failure

Continued from page 1

ther halted or overburdened with passengers. In many cities, workers trudged through the streets to get home.

Power began returning to some areas several hours after the blackout began, and by the end of the weekend most electricity had been restored.

Insurance industry sources differ on potential losses from the blackout. While the New York-based Insurance Information Institute noted that most commercial policies exclude damage from power failures, some insurers contend that losses could be significant. The insurers say that coverage under the service interruption provision of property policies will be triggered. Insurers also point out that endorsements to standard policies and manuscript policies can be written to provide coverage for incidents such as blackouts (see story, page 1).

"The jury is still out, really, as to specifically what happened, and that could in many cases determine whether there is coverage," said William Oklesen, director-national claim advocacy for Aon Corp. in Chicago. "My sense right now is that we do have a recoverable service interruption-type situation."

The last severe outage affecting New York was the two-day 1977 blackout, which resulted in a \$2 million insured loss, according to the III, which also noted the widespread 1965 power failure in the Northeast produced only "minimal insured losses" (see related story).

Counting losses

Companies hit by last week's power failure, meanwhile, are tallying their losses.

Verizon Communications Inc. of New York notified its broker and outside plant equipment insurer within 24 hours of the blackout about a potential loss of backup batteries pressed into service to keep phone and data lines open for industrial park customers, noted Charles A. Yaunches, director of property risk management.

Dozens of such batteries, valued at about \$100 each, provide emergency backup power for each of the tens of thousands of remote terminals throughout the Verizon system, according to Mr. Yaunches.

When the batteries are pushed beyond their capacity, they self-destruct, he explained. During the 1998 ice storm in the Northeast, battery losses contributed significantly to the claim that exhausted Verizon's \$25 million outside plant equipment policy, which sat excess of a \$25 million self-insured retention.

Utility company clients of VeriClaim Inc. were waiting to hear why the blackout occurred before filing claims, said Robert Barnett, property operations manager for the Los Angeles-based claims adjusting company. "Nobody is pinpointing a cause," he said late last week, "and that is critical to any claim."

As for claims filed against utilities, "the central exposure is liability," said Marshall Nadel, practice leader for utilities at Aon Risk Services

in Dallas. But, in most states, the franchise agreements between the utilities and state, regional or municipal governments provide that the power companies are not liable for failure to supply unless they are grossly negligent.

Power grids are operated by independent systems operators, but their agreements with utility members generally have hold-harmless agreements.

Utility companies generally carry a first layer of insurance with Jersey City, N.J.-based AEGIS Insurance Services Inc. and excess coverage up to \$125 million through Barbados-domiciled Energy Insurance Mutual, Mr. Nadel said.

Mr. Barnett said he had spoken to London market underwriters earlier this week that had not yet received claims but were expecting some from the automotive industry.

The power failure in the Detroit area shut down the country's major automakers. Plants operated by General Motors Corp., Ford Motor Co. and DaimlerChrysler were forced to shut down.

A spokesman for Ford in Dearborn, Mich., said all facilities outside of Canada had power restored earlier this week. Canadian plants were expected to resume production more slowly because of requests to industry by the Ontario government to cut energy use to prevent further blackouts as electricity is restored.

Ford said more than half of its 44 plants in North America were shut down by the outage, as were numerous offices, and engineering and product-development facilities in southeastern Michigan. Other Ford facilities were affected by disruptions to supply lines.

The company said the timing of the blackout and quick response to the emergency by teams of employees prevented further disruptions and damage. Production losses are expected to be made up by the end of the year.

The spokesman said details on the economic and insured loss to the automaker were not yet known.

In addition, the blackout shuttered three small manufacturing plants in Michigan and two others in Canada for Tyco International Ltd. of Bermuda, according to Paul F. Buckley, senior director of risk management. While Tyco has business interruption coverage, Mr. Buckley said he doubts that losses will exceed Tyco's "substantial" retention.

Plans put into action

Some companies' contingency planning paid off during the blackout.

Hedge fund managers who planned for such events were able to continue trading last Friday, the day after the blackout began, at the Business Continuity Center operated by Richard Fleischman & Associates Inc. in Purchase, N.Y.

Manhattan-area fund managers used the facility to monitor and trade portfolios from the 20,000 square-foot facility that provides office space and replicates trading operations, Fleischman & Associates said in a statement. The managers also were able to track market data from news organizations that some competitors in other areas of the blackout were unable to assess.

Dan Hopwood, assistant director in business continuity planning for Aon Corp. in San Diego, said that because most organizations do not have formal business continuity plans in place, many employees on the East Coast were not equipped to handle the blackout.

The big lesson, he said, is "driving home again the understanding of the need to plan, regardless of the nature of the impact."

Dave Lenckus, Sally Roberts and Rodd Zolkos contributed to this report.

Then and now: This time there's less civil unrest

By GAVIN SOUTER

NEW YORK—The power outage that darkened New York City and much of the Northeast last week stands in marked contrast to the last time the city was hit with a widespread blackout.

Back in July 1977, the blackout was largely confined to New York; the 2003 outage covered a huge section of the United States and parts of Canada.

But while the 1977 event was more restricted in its geographical scope, the looting and arson that followed it far exceeded the disruption that followed this year's blackout.

In terms of insurance coverage, though, the two events have some similarities. In 1977, insurers said most policies did not cover losses from power outages. Today, insurers are also expecting that they will have to respond only to policies that have specially drafted wordings.

For New Yorkers, the most notable difference between the 1977 and 2003 power outages was the amount of civil unrest.

During the blackout of July 13-14, 1977, looting and arson were rampant, with 900 fires occurring over the two days; 55 buildings were destroyed. Most of the fires were attributed to arson.

And, with the lights out, gangs of people rioted in several areas of the city, smashing store windows and taking everything they could carry.

By contrast, the 2003 blackout saw 71 serious fires over the Aug. 14-16 blackout period. On average, the fire department would expect five to 10 fires over the period, a Fire Department spokesman said.

And of the 55 fires that were investigated

by fire marshals, only six are thought to be arson related and 34 are thought to have been caused by candles used by people during the blackout, he said.

Only minimal looting was reported this year.

In both 1977 and 2003, though, insurers said they did not expect to pay many claims to small businesses and personal lines policyholders, because claims stemming from power outages were, and are, largely excluded from standard policies. In 1977, insurance losses totaled about \$2 million, but economic losses associated with the civil unrest totaled about \$28 million, according to the Insurance Information Institute. Economic losses in general were measured in the billions of dollars.

In 1977, the looting-related losses did lead to claims on special coverages. For example, the Federal Crime Insurance Agency and the New York Property Insurance Underwriting Assn., which offered coverage for people and businesses in high-crime areas where insurance would otherwise be impossible to purchase, accepted claims for some of the businesses destroyed or damaged.

And some businesses had purchased special riders to cover power outage-related losses.

For example, Carvel Corp., which in 1977 had 180 ice cream shops in the area, suffered a loss of \$250,000, averaging a loss of about \$1,500 per shop. Some of the shop owners had insurance coverage of \$1,000 each for power failure under group coverage.

Many other businesses, though, had no special coverage and were left to take the losses themselves.

Coverage: Limited losses

Continued from page 1

blackout, which resulted in just \$2 million in insured losses (see related story), and the 1965 power failure in the northeast, which produced only "minimal insured losses."

The American Insurance Assn. concurred. "As of Friday, we were not expecting there to be high losses," a spokesman said.

Sherilyn Pastor, partner and head of the insurance coverage group at the McCarter & English L.L.P. law firm in Newark, N.J., said she expects insured losses will be limited by policy language that specifies a minimum duration for an event, often 24 hours. Policyholders that had power returned in less time, "even if they did sustain a loss, they're going to find they don't have coverage," she said.

"Probably where the claims will likely come from are companies that had perishable goods that are more likely to have shorter windows of time (specified in their policies) in terms of the interruption," Ms. Pastor suggested.

"The other thing that minimized the impact of the event is that it happened at the end of the business day," she said.

However, Wall Street investment research firm Fox-Pitt, Kelton estimates that insurers could shell out as much as \$3 billion for losses stemming from the outage.

While that is much smaller than the \$40 billion the industry paid in connection with the Sept. 11, 2001, terrorist attacks, it is almost as much as the \$3.7 billion in insured damage from Hurricane Georges in 1998.

Part of the reason for such disparate esti-

mates could be that many large commercial policyholders buy endorsements to cover service interruption risks, coverage experts point out.

Coverage may be found under the service interruption provision of all-risks commercial property insurance policies, and, in some cases, it is included in boiler and machinery policies, according to Roland Bonitati of Factory Mutual Insurance Co., which does business as FM Global.

And while service interruption coverage generally has a separate limit and deductible, and usually is triggered after a waiting period of between 24 and 72 hours, some policyholders may have time deductibles as short as four hours, said Mr. Bonitati, who is senior vp of marketing at the Johnston, R.I.-based insurer.

"It's the usual thing. The ISO-type policies have one version, the HPR companies like FM Global have another version, and the

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Late News

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the man had sought medical attention for a series of work-related knee problems while working for several previous employers. But under LHWCA, "the last responsible employer" can be held liable for the totality of an injured worker's disability even though the disability may be attributable to a series of injuries suffered while working for several employers, the 9th U.S. Circuit Court of Appeals ruled.

Chaucer plans to merge syndicates

Lloyd's of London managing agent Chaucer Syndicates Ltd. is merging syndicates 587 and 1096 into syndicate 1084 for the 2004 year of account. The combined syndicate 1084 is expected to have an underwriting capacity of £400 million (\$641.1 million) for 2004 and will concentrate on motor, marine and nonmarine business.



Kentucky hospitals form risk retention group

The Kentucky Hospital Assn. has formed a risk retention group in the state to provide general liability and professional malpractice insurance coverage to Kentucky hospitals. The move comes after regulators earlier this year seized Reciprocal of America, which had seen its surplus eroded by rising medical malpractice and workers compensation losses.

Several Kentucky hospitals were insured by ROA. Kentucky Hospital Insurance Co., a Risk Retention Group, offers limits of \$1 million per occurrence and \$3 million aggregate, with optional umbrella limits of up to \$10 million.

HMOs thriving in Orange County

Counter to the national trend away from tightly managed care, health maintenance organizations dominate the health care market in Orange County, Calif., according to a report by the Center for Studying Health System Change. The HMO market is strong there because plans have responded to physician complaints that reimbursement rates were too low, according to Paul B. Ginsburg, president of the Washington-based nonpartisan policy research organization. HMOs in Orange County also are providing management support to help

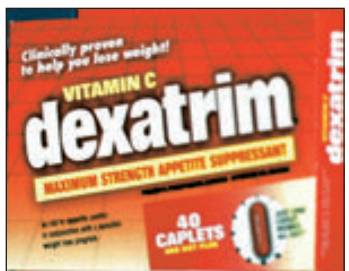


PHOTO: KRT

Chattem Inc., the maker of Dexatrim products, said it will fight its insurer's decision to rescind liability coverage.

stabilize the medical groups participating in their plans, Mr. Ginsburg said.

Diet pill maker fighting insurer's rescission bid

Chattem Inc. said it plans to fight its insurer's attempt to rescind product liability coverage that would help the consumer products maker defend lawsuits related to the use of phenylpropanolamine in its Dexatrim diet pills. The suits allege that the claimants were injured by using products containing phenylpropanolamine—or PPA—which

was an active ingredient in most Dexatrim products. Kemper Indemnity Insurance Co., which provides \$50 million in excess product liability coverage to Chattem, sued to rescind on the grounds that Chattem, in renewing its coverage, failed to disclose the preliminary result of a study that found PPA to be harmful.

Platinum posts first-half profit

Platinum Underwriters Holdings Ltd., the spinoff of The St. Paul Insurance Cos. Inc.'s reinsurance operations, reported profits of \$57.2 million for the first half of 2003. The reinsurer, which completed its initial public offering in November 2002, reported net premiums written of \$667.3 million for the first six months. The reinsurer wrote \$246.0 million in casualty premiums, \$220.1 million in finite risk premiums, and \$201.3 million in property premiums.

Lower Medicare rate may push private costs higher

Employers are expected to face higher health care costs if the Centers for Medicare and Medicaid Services decides to lower payments to physicians in 2004. CMS, the federal agency that maintains the Medicare program, plans to lower the reimbursement rate to physicians by 4.2% in 2004. "If Medicare cuts costs, (physicians) have to make it up somewhere else," said John Erb, senior manager at Deloitte & Touche L.L.P. in Miami. Employers with retiree health plans are likely to be hardest hit, said Rich Sinni, a partner with PricewaterhouseCoopers L.L.P. in New York. "That's where the impact will be," he said.

Gerling completes sale of credit insurer

Gerling Group has completed the sale of its credit insurer, Gerling NCM Credit & Finance A.G., as part of its restructuring efforts. Under the deal, originally announced in May, a group

of investors led by Swiss Reinsurance Co. will take over the Cologne, Germany-based credit insurer, which will be renamed Atradius. The ownership of Gerling NCM is now: Swiss Re, with a 47.50% stake; Deutsche Bank, 35.32%; German private bank Sal. Oppenheim, 7.00%; the Gerling pension trust, 7.14%; and Gerling, 3.04%. In a further development, Spanish insurer Compania Espanola de Seguros y Reaseguros de Credito y Cauccion S.A. of Madrid has agreed to buy 7% of Gerling NCM from the pension trust. And another Spanish insurer, Seguros Catalana Occidente S.A. de Seguros y Reaseguros of Barcelona, has agreed to buy the remaining 0.14% held by the pension trust and has an option to buy an additional 7.94% from Swiss Re.

Briefly noted

Illinois Gov. Rod Blagojevich has signed legislation, H.B. 3661, that requires insurers to notify commercial lines policyholders of nonrenewals at least 60 days before their policies expire and to provide proof of mailing nonrenewal notices. The new requirement is effective immediately, according to the Des Plaines, Ill.-based National Assn. of Independent Insurers....Standard & Poor's Corp. has changed its outlook on Chicago-based Aon Corp. to negative from stable, citing concerns about Aon's margins in its risk and insurance brokerage operations. S&P noted that the seasonal nature of renewals typically leads to stronger second-half results for Aon but expressed concern that the broker's operating performance might not meet expectations. Aon's 14.5% pretax margin for the first half lags its peers, S&P said.

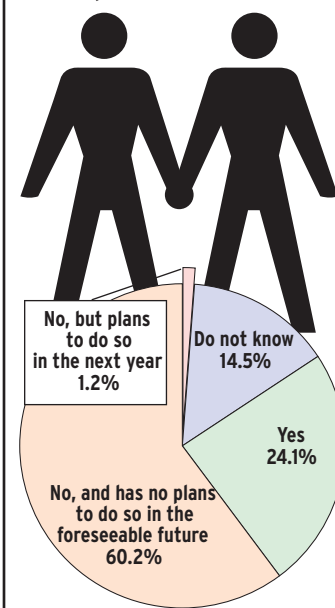
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Online Poll

[8/11 - 8/15]

Does your employer currently offer, or plan to offer, domestic partner benefits?



BI Stock Index

[8/11 - 8/15]

Up-to-the-minute data for all 87 companies that comprise the BI Stock Index can be found at www.businessinsurance.com

Percentage change of BI Stock Index vs. key indicators

BI Stock Index 0.28
1999.87

Dow Jones 1.42
9321.69

S&P 500 1.34
990.67

Largest gains

Baldwin & Lyons Inc.	11.36%
Clark Bardes Holdings	11.03%
Navigators Group	9.12%
Vesta Insurance Co.	6.78%
AXA-UAP Group	6.69%

Largest losses

Hilb Rogal & Hamilton	-4.98%
HCC Insurance Holdings	-3.88%
Ohio Casualty Corp.	-3.69%
CNA Financial Corp.	-3.50%
XL Capital Ltd.	-3.40%

Weekly change by market segment

Brokers	1.30%
Insurers/Reinsurers	0.55%
Managed Care Organizations	2.16%

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

Coverage: Some policies may respond

Continued from previous page

manuscripts have another version of service interruption. So it's pretty hard to generalize, and that is really key to companies understanding their losses from this thing and whether there's coverage," said John Dempsey, managing partner of Dempsey, Myers & Co. L.L.P. in Wilton, Conn., a forensic accounting firm that specializes in business interruption claims.

For example, under the standard commercial property insurance policy that most small businesses buy, any property damage or business interruption caused directly by the utility service interruption itself likely wouldn't be covered, according to Mr. Dempsey.

However, "if the power outage somehow causes a fire or another 'covered cause of loss,' the loss resulting from that peril is covered,"

Mr. Dempsey said.

Furthermore, "there is an endorsement that provides business interruption coverage for interruption of incoming utilities, but the triggering event must be a covered cause of loss that results in physical damage to the types of properties identified in the endorsement schedule," he said.

"The key distinction is whether the policy is triggered by 'physical damage' or 'accidental occurrence,'" he added. "The investigation presently under way will be critical in this analysis."

Authorities are still probing the precise cause of the blackout, but so far it has been isolated to faulty transmission lines in northern Ohio.

The ultimate determination of the power failure's cause will likely affect the availability of insurance

coverage, said Eric Goldberg, assistant general counsel to the American Insurance Assn. in Washington.

And even though authorities were quick to rule out terrorism initially, if it is found to be the cause of the event, that will likely eliminate coverage for many businesses that have service interruption endorsements, provided they did not purchase terrorism endorsements, he said.

But such a determination may very well increase coverage in some cases, since more commercial policyholders have coverage for terrorism than for service interruption.

While perhaps 10% to 15% of commercial insurance customers buy supplementary coverage for damage from power failures, 20% have purchased coverage for terrorism, according to Robert P. Hartwig, the chief economist for the III.

Even in situations where there's a specific exclusion for service interruption, other policy provisions, such as civil authority, ingress/egress and contingent business interruption may supply coverage, according to Dave Steuber, a partner and co-chairman of the insurance recovery practice at Howrey, Simon, Arnold & White in Los Angeles.

"There's more to these policies than meets the eye. We saw that with respect to 9/11, we saw that with respect to the earthquakes, we've seen that with respect to hurricanes, and the same thing applies here as well," he said.

"I think it's very important to look at the policies, look at the nature of your loss, and make a specific sort of individualized determination as to whether there is or is not coverage," Mr. Steuber said.