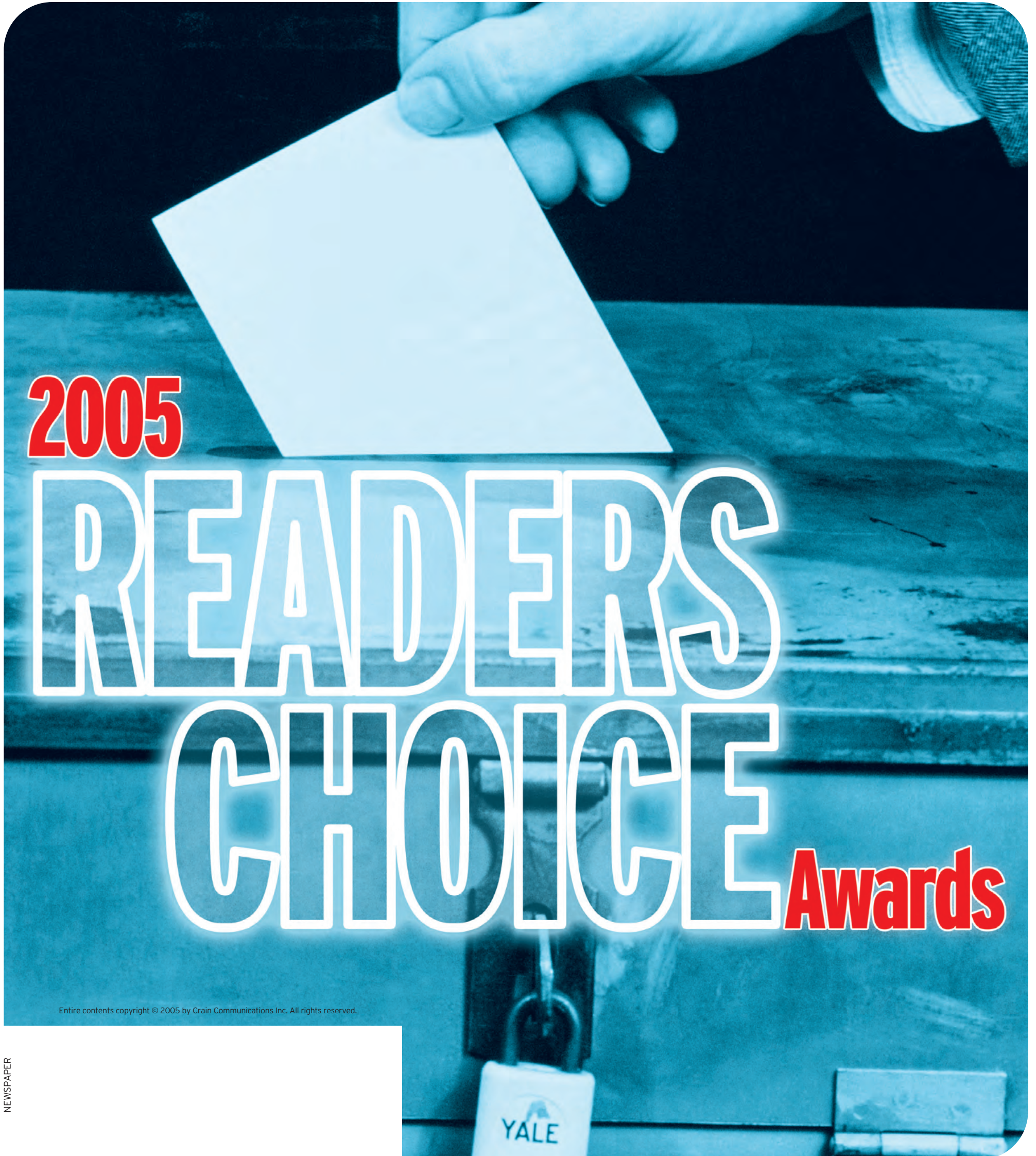


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2005

READERS CHOICE Awards

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NEWSPAPER

Business Insurance

October 10, 2005

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Late News

Senate delays debate on pension reforms

Unable to quickly resolve a controversy over a key provision in legislation to stiffen pension funding rules, the Senate recessed Friday for a week-long break, with a new effort expected to resolve the controversy when legislators return Oct. 17. The problem arose when Sens. Barbara Mikulski, D-Md., and Mike DeWine, R-Ohio, objected to a provision that would require employers that lose investment-grade credit ratings on their debt to accelerate contributions to their pension plans. Instead, the lawmakers want the Senate to pass an amendment to the broader bill that would have the effect of accelerating contributions only when plans become less than 60% funded.

Quanta suspends lines as Best reviews ratings

Quanta Capital Holdings Ltd. said it will stop writing new business for now in its technical risk property and property reinsurance lines of business, pending the outcome of an internal analysis. The announcement came in response to A.M. Best Co.'s decision to place the A- financial strength ratings of Quanta Reinsurance Ltd. and its subsidiaries and of Quanta Europe Ltd. under review with negative implications. That followed Quanta's announcement it would have estimated losses of up to \$58 million from hurricanes Katrina and Rita.

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Inside



EX-EXEC EYED

SEC may charge former Gen Re Chief Ferguson.

PAGE 3

COST CONTROL

Study finds health cover cost hikes slowing.

PAGE 3

AFTER THE STORMS

Hurricanes bring flood of capital

Billions added; more likely

By **RUPAL PAREKH**

Capital-raising initiatives by insurers and reinsurers—prompted by massive losses from hurricanes Katrina and Rita—have already generated more than \$4 billion, and companies are expected to tap the capital markets for billions more in the near term.

But while existing players are replenishing their capital, analysts don't expect to see much money going to startups, noting that there is little need in the market for new companies at the moment.

Katrina alone is expected to sock the property/casualty industry with anywhere between \$34 billion and \$60 billion in insured losses, surpassing the totals from other major catastrophes, such as the Sept. 11, 2001, terrorist attacks and Hurricane Andrew in 1992. And Hurricane Rita, which followed just weeks after Katrina, is expected to add as much as \$7 billion to third-quarter cat losses.

Faced with the costliest insured disaster in U.S. history, "the industry's definitely looking to replace

capacity," said Mark Puccia, managing director at Standard & Poor's Corp. in New York.

Insurers and reinsurers are turning to the capital markets for funds that will compensate for the catastrophe losses "and a little bit more," Mr. Puccia noted. "The No. 1 driver has been to replenish capital loss," and "to a lesser extent, companies are looking to position themselves for 2006."

Anticipating a hardening rate

HOTELS REBUILD

Mold, loss of tourists challenge industry.

PAGE 44

KATRINA RITA

environment following the storms, many insurers and reinsurers also want to boost capital to take advantage of those opportunities, observers say.

"When insurance companies raise money, they raise it with the intention that there's going to be adequate returns," noted Peter C.

See **CAPITAL** / page 44

UnumProvident pact alters 'total disability'

By **ROBERTO CENICEROS**

SACRAMENTO, Calif.—California's recent settlement with disability insurer UnumProvident Corp. over its claims-handling practices could hinder employers' efforts to make use of modified-duty programs and may raise rates for the coverage, some observers contend.

Of particular concern, they say, is a new definition of "total disability" that UnumProvident has agreed to use in its policies—and the California Department of Insurance's stated plan to require all disability insurers in the state to adopt the same language.

Others, though—including the Insurance Department—disagree

that the settlement will pose significant problems for California employers.

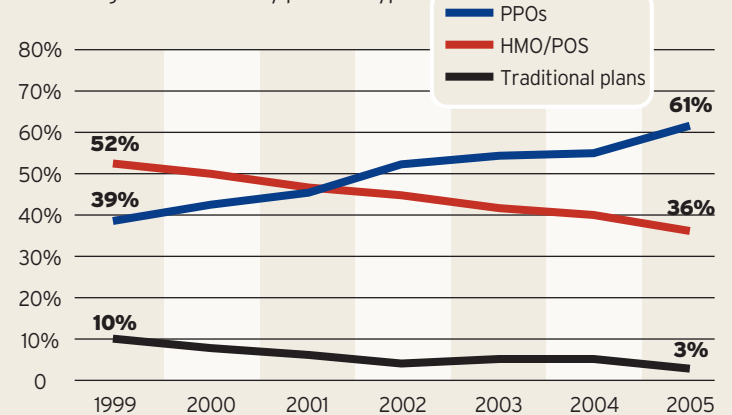
The department's settlement with the Chattanooga, Tenn.-based insurer stems from an investigation into UnumProvident's handling of claims.

UnumProvident last fall reached a \$15 million settlement with 48 other states over similar claims-handling allegations (*BI*, Nov. 22, 2004). But California Insurance Commissioner John Garamendi did not participate in that settlement, opting to pursue his own suit. While the other states only identified areas of concern with UnumProvident's claims-handling

See **UNUM** / page 42

Membership shift

Percentage of enrollees by product type



Source: Kaiser Family Foundation 2005 Employer Health Benefits Survey

Enrollment changes seen as undermining NCQA quality effort

By **JOANNE WOJCIK**

The continued erosion of the managed care marketplace demonstrated by the findings of the National Committee on Quality Assurance's latest "State of Health Care Quality" report has some industry observers wondering whether the organization's work is still relevant. Still others question whether anyone is really paying attention to the findings of an organization that sets standards for health maintenance organizations at a time when the nation is clearly moving toward a consumer-driven marketplace where cost is being weighed more heavily than quality.

But NCQA supporters still believe in the organization's mission and are optimistic that it will continue to have a place in the new world of health care consumerism.

Because of enrollment shifts toward preferred provider organizations and high-deductible health care plans, the NCQA report released last week reflects the performance of health plans that cover only 64.5 million people—4.5 million fewer than last year. This rep-

resents just 21.5% of the insured population, compared with 25% last year.

And though the 289 commercial health plans—all HMOs and point-of-service plans—improved on 18 of 22 clinical measures used by the Washington-based NCQA, the overall decline in enrollment in those plans demonstrates that quality is not driving purchasing decisions, observers say. They say it's time for the NCQA, which was created in the heyday of managed care and has focused primarily on HMOs, to redirect its efforts toward measuring the quality of the plans where enrollment is growing, particularly PPOs and high-deductible health plans.

"We've got to create a system of evaluation for PPOs, where the growth trends are," said Andrew Webber, president of the National Business Coalition on Health in Washington. "I still believe that HMOs should be a very viable option for employers, particularly because of focus on total health care management, the fact that we do have good ratings and assessment

See **NCQA** / page 41



SPOTLIGHT

READERS WEIGH IN

BI's readers make their picks for who's tops among industry companies.

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Inside

Swiss Re contests WTC coverage claims

Insurer says Port Authority cannot claim separate coverage for Twin Towers. **Page 4**

Insurer can't avoid liability for credit risk: Court

Appeals panel says insurer waived fraud defense in student loan coverage. **Page 4**

Alignment of events gives TRIA backers opportunity

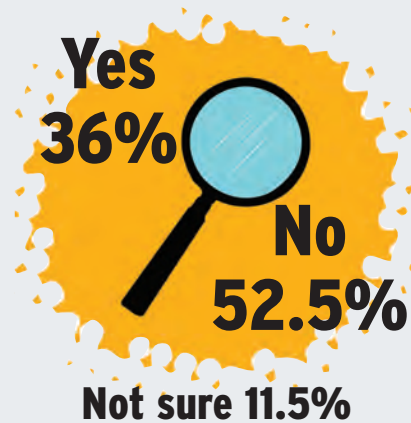
Series of factors could help supporters of terror backstop, an editorial says. **Page 8**

FERMA seeks transparency pledge from brokers

European risk managers want intermediaries to agree to disclosure. **Page 37**

Online poll - [10/3 - 10/7]

Is the insurance industry over the worst of its problems with regard to industry investigations/prosecutions?



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REPORTING ON CORPORATE RISK AND EMPLOYEE BENEFIT MANAGEMENT NEWS

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Ferguson served with 'Wells' notice

Former General Re CEO investigated in finite insurance probe

STAMFORD, Conn.—Securities regulators have notified Ronald E. Ferguson, former chief executive officer of General Re Corp., that he may face civil charges arising from an ongoing investigation of nontraditional insurance products.

Gen Re parent Berkshire Hathaway Inc. disclosed last week that Mr. Ferguson has been served with a 'Wells' notice by the Securities and Exchange Commission, making him the latest of several current or former Gen Re officials to receive such notices. The notices warn of possible civil charges and give recipients an opportunity to respond.

The SEC is investigating finite insurance products generally and has focused in particular on a \$500 million retrocessional loss portfolio deal between Gen Re and American International Group Inc. in 2000. The transaction, which bolstered AIG's reported loss re-

serves, was launched after former AIG CEO Maurice R. Greenberg contacted Mr. Ferguson and was designed to produce a "specific, and false, accounting effect" on AIG's books, the SEC has charged in a separate action against two former Gen Re executives.



Mr. Ferguson

AIG earlier this year conceded that the deal did not transfer risk and re-

stated its results to account for the deal as a deposit rather than as reinsurance.

The notice to Mr. Ferguson follows similar notices last month to current Gen Re CEO Joseph P. Brandon; Robert Graham, the reinsurer's senior vp and assistant general counsel; and Christopher Garand, a retired senior vp.

Two other former Gen Re officials—John Houldsworth, former CEO of the reinsurer's Cologne Re Dublin unit, and Richard Napier, a former senior vp—pleaded guilty to criminal conspiracy charges related to the investigation earlier this year.

Mr. Ferguson retired as Gen Re's CEO in 2001. He continued to provide consulting services to the reinsurer until last May, when Gen Re terminated the arrangement, Berkshire reported.

—By Douglas McLeod

Health care premium hikes may slow further next year as employers modify plan offerings

By JERRY GEISEL

There is more evidence that the long run of double-digit annual increases in the cost of group health care coverage is over.

Next year, costs are projected to rise by an average of 9.9% to \$8,046 per employee, according to an analysis by Hewitt Associates Inc.

But the actual cost increase may be a good deal less than what is projected. Hewitt's projection is based on a survey of budgets that employers have set and the health insurance premium increases they have received through the end of September. The actual increases, though, could be lower if, for example, employers drop their most expensive health care plans or, in the case of self-funded employers, if greater cost-shifting to employees reduces utilization.

Indeed, a similar analysis Hewitt conducted a year ago projected that 2005 health care plan cost increases, which do not reflect co-payments or coinsurance for medical, hospital and prescription drug coverage, would average 11.3%.

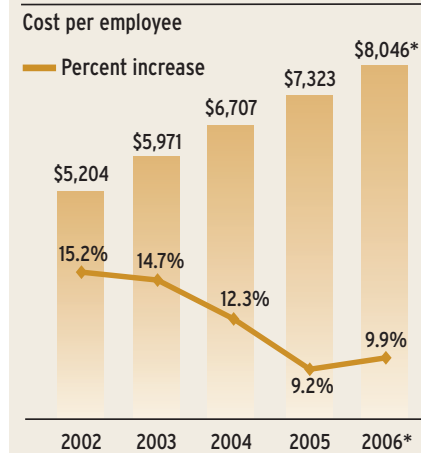
In fact, 2005 cost increases ultimately averaged 9.2%, and David Stacey, a senior health care consultant with Lincolnshire, Ill.-based Hewitt, says that by the time dust settles, the average 2006 cost increase could be in the 8.5% range.

In 2005, average costs, which reflect employer and employee premium contributions, for coverage through health maintenance organizations increased the most, rising by an average of 10.3% to \$7,048 per employee; preferred provider organization costs rose by an average of 8.5% to \$7,374 per employee; and point-of-service plans climbed an average of 8.2% to \$7,849 per employee.

The Hewitt survey, based on information the benefit consultant and outsourcing giant collected from 400 major employers offering health care coverage to more than 18 million employees and dependents, is the latest finding that health cost increases are easing.

The Office of Personnel Management, which administers the federal government's health insurance program—the nation's largest with more than 8 million participants—recently said premium hikes next year

Group health coverage costs rise



* Projected
Source: Hewitt Associates Inc.

will average 6.6%, the lowest increase in nine years. Additionally, surveys from other con-

See HEALTH CARE / page 42

Employers try 'managed competition'

Companies offer multiple plans, insurers in effort to provide more choice to employees

By JOANNE WOJCIK

A revised "managed competition" approach to providing health care coverage is starting to take root in some parts of the country.

Under the managed competition model, employers offer employees a choice of multiple plan options from several different health insurers. Employers make a "defined contribution" that is equivalent to the premium for the basic plan, and employees have the option of using their own money to buy up to any of the other, more expensive plans.

In theory, because employees would likely make their purchasing decisions based on price, quality and convenience, it would force the insurers to compete for their business.

Three California plan administrators—Or-



ange-based CaliforniaChoice, San Mateo-based Benu Inc. and Torrance-based Keenan & Associates—have launched their own initiatives based on the managed competition concept on the West Coast.

"You've got to get competition to the employee-member level. Our argument today is if you've got a single carrier, there's no com-

petition," said Jeff Close, president and chief executive officer of Benu, which began offering a multicarrier platform to midsize employers in Washington and Oregon in 2003 and recently set up shop in the mid-Atlantic market.

Benu launched its program in the Northwest with three insurers: Oakland, Calif.-based Kaiser Permanente, Seattle-based Group Health Cooperative of Washington, and Bloomfield, Conn.-based CIGNA Healthcare. In the mid-Atlantic, only Kaiser and CIGNA will be participating, but the company is negotiating with a third carrier.

It has been difficult for many employers, especially those in the middle market, to offer

See COMPETITION / page 40

Swiss Re contests WTC claim

Port Authority not covered separately from Silverstein policy, suit says

By DOUGLAS MCLEOD

NEW YORK—Swiss Reinsurance Co. is asking a federal court to rule that property insurance it bound for the Port Authority of New York and New Jersey in 2001 does not cover losses from the destruction of World Trade Center buildings leased to Silverstein Properties.

In a declaratory judgment action similar to one filed in June by Lloyd's of London underwriters, Swiss Re also seeks a ruling that the Sept. 11, 2001, terrorist attack on the WTC's twin towers represented a single occurrence rather than two.

The litigation between the Port Authority and its insurers follows a

legal fight between the same insurers and Silverstein, which signed a 99-year lease on the twin towers and several other WTC buildings shortly before the terrorists struck.

Silverstein had placed coverage with a \$3.55 billion limit on its WTC interests, naming the Port Authority as an additional insured. After the attack, Silverstein argued that the twin towers' destruction represented two occurrences, entitling it to a \$7 billion payout. Juries in a two-stage trial, however, found that most of Silverstein's insurers—including Swiss Re and Lloyd's—were liable for only one limit and that only a few of the others were liable for two. The verdicts are being

appealed.

The Port Authority, meanwhile, had placed a separate program in 2001 with a \$1.5 billion blanket limit covering its far-flung New York-area properties, including at least some at the WTC.

Earlier this year, it notified insurers that the Silverstein verdicts meant there would be a shortfall in insurance proceeds needed to rebuild on the WTC site and that the Port Authority would look to its own insurers to make up the difference, court records show. The Port Authority also said it would seek two policy limits for two occur-

See WTC / page 43

Judges named for risk management award for 2006

RMOY nominations still being accepted

CHICAGO—Nine independent judges from all sectors of the risk management and insurance profession will select the 2006 Risk Manager of the Year and Risk Management Honor Roll.

Nominations for the awards are being accepted until Nov. 18, 2005. The award-winning risk managers will be announced next April during a special awards luncheon in Honolulu.

Risk managers anywhere in the world are eligible to enter the competition. A nominee need not handle risk management responsibilities full time, but he or she must be a full-time employee of the organization whose program he or she directs.

The 2006 Risk Manager of the Year will be the 29th person to receive this honor. *Business Insurance* created the Risk Manager of the Year competition in 1977, on its 10th anniversary of publication, to recognize outstanding risk management practices. The first award was presented in 1978. *BI* created the Risk Management Honor Roll in 1981 to recognize outstanding achievements in risk management

in employment categories not represented by the Risk Manager of the Year.

The winners will be profiled in the April 24 issue of *Business Insurance* and honored at an awards luncheon in Honolulu, coinciding with, but independent from, the Risk & Insurance Management Society Inc.'s Annual Conference and Exhibition.

Nine independent professionals will judge this year's entries. Honorees are chosen based on the judges' opinions of each nominee's program as detailed in the nomination forms.

This year's panel comprises the 2005 Risk Manager of the Year, the 2005 Risk Management Honor Roll members, two insurer executives, two brokerage executives, a risk management consultant and an insurance educator.

Judges for the 2006 awards are:

- Kevin W. Conboy, president and chief executive officer of broker Acordia Inc. in Chicago, representing large brokers.

- Steven A. Coombs, president of

See RMOY / page 35

Shuttle disaster forced NASA to enhance safety programs

By MEG FLETCHER



PHOTO: NASA

ORLANDO, Fla.—The Columbia space shuttle disaster in 2003 spurred the National Aeronautics and Space Administration to enhance its administration and implementation of safety and loss control programs, which can provide lessons that can benefit all companies, a top NASA executive said.

"Moving forward, armed with a new network of multiple safety checks, we believe we are better equipped to execute our program activities safely," said Frederick D. Gregory, NASA's deputy administrator.

Mr. Gregory, a former research test pilot and astronaut, currently serves as the agency's deputy administrator and chief operating officer. The NASA official, who recently announced his plans to retire, spoke last month at the 27th World Congress on Safety and Health at Work, held in conjunction with the National Safety Council's 93rd an-

More coverage on page 32

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Insurer waived fraud defense in credit risk policies: Court

By DOUGLAS MCLEOD

PHILADELPHIA—Royal Indemnity Co. cannot raise fraud charges to avoid \$380 million in potential losses under credit risk policies backing defaulted student loans produced by a bankrupt lender, a federal appeals court has ruled.

Affirming a lower court order, a three-judge panel of the 3rd U.S. Circuit Court of Appeals found last week that Charlotte, N.C.-based Royal waived its fraud defense in policies it issued to two banks to cover student loans originated by the now-defunct Student Finance Corp. of New Castle, Del.

The appeals panel returned the dispute to the trial court, though, to determine how much of the banks' claimed losses are covered under the policies.

SFC, which was forced into bankruptcy liquidation in 2002, originated or acquired vocational student loans, many to students at truck-driving schools. The company was financed by Wells Fargo Bank Minnesota N.A. and Wilmington Trust Co. Wells Fargo raised \$450 million for SFC between 1999 and 2002 by securitizing and selling SFC's loans, while Wilmington Trust loaned SFC \$75 million.

To secure the financing, SFC arranged for Royal to issue credit risk policies to the two banks guaranteeing repayment of the student loans. Royal issued eight policies to Wells Fargo and two to Wilmington Trust.

SFC, though, was engaged in a "spectacular fraud," misrepresenting the creditworthiness and employment history of student bor-

rowers and conspiring to alter or forge loan documents, Royal has alleged. SFC also concealed default rates of up to 80% on blocks of its business by paying down older loans with proceeds of newer ones, the insurer has charged.

After SFC collapsed in 2002, Royal sought to rescind its policies covering the two banks. Wells Fargo and MBIA Insurance Corp.—which had issued supplemental guarantee policies to Wells Fargo—then sued Royal in federal court in Wilmington, Del., to enforce the coverage.

The federal trial court found that the 10 policies Royal issued to Wells Fargo and Wilmington Trust clearly waived any defense that SFC had fraudulently induced the insurer to provide coverage. The 3rd Circuit

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2006 RMOY judges



Mr. Conboy



Mr. Coombs



Mr. Cubbin



Mr. Gorski



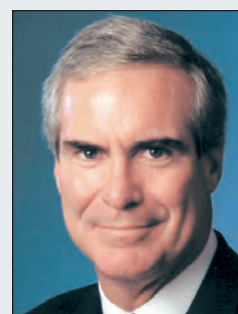
Mr. Hinton



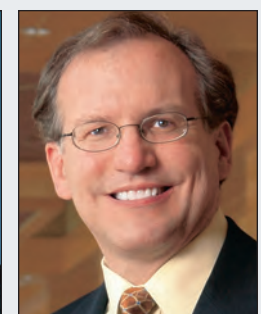
Mr. Maguire



Mr. O'Connell



Mr. O'Hara



Mr. Wood

Wrench in the works?



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PAUL WINSTON

Editorial Director

Fred Flintstone between a rock and a hard place

Look! Up in the sky! It's a bird! It's a plane! It's...a superhero with too much life insurance?

That was the conclusion of the Life and Health Insurance Foundation for Education, which conducted a recent survey to assess the public's perception of life insurance needs. The survey asked people to assess which popular superheroes and cartoon characters had the greatest need for life insurance.

The result: People believe that Batman and Spiderman have a much greater need for coverage than Fred Flintstone and Marge Simpson.

Despite the frequency with which the Caped Crusader and the Wallcrawler put themselves in harm's way, the survey results indicate that many people are woefully misguided, according to the trade group.

Instead of focusing on the dangerous perils the superheroes face, we should instead look to the role of their alter egos, in which case we would see a wealthy playboy and an unmarried freelance photographer—one with more money than he needs and the other with too little to protect.

Contrast that with the quintessential family guy, Fred Flintstone, whose untimely passing would leave a wife, child and pet dinosaur facing financial ruin with little to sustain them but the good graces of the Rubbles. Or Marge Simpson, whose death would take the fun out of dysfunctional for the Simpson family, with no financial resources to hire a nanny or au pair to help poor Homer raise his children and keep Bart out of reform school.

The foundation's president, David Woods, critiqued each of the survey results:

Spider sense: 28% said Spiderman needed life insurance the most. "Peter Parker probably needs the life insurance to ensure that if his superpowers ever failed, his aunt could stay in their home and be cared for," Mr. Woods noted.

KaPOW! 18% chose Batman. "Unmarried and quite wealthy, Batman doesn't have anyone who depends on him financially and therefore probably doesn't need life insurance."

Yabbdabbadoo! 16% said quarry worker Fred Flintstone needed coverage the most. "Fred, the primary breadwinner of the Flintstone family, has a pressing need for life insurance to ensure

that Wilma and Pebbles could maintain their standard of living if he were no longer able to provide for them."

Expelliarmus! 15% picked teen wizard Harry Potter. "A full-time student with no siblings or parents who might be affected financially by his premature death, Harry Potter doesn't need life insurance."

D'OH! 11% chose Marge Simpson. "Not all family contributions are money. Stay-at-home parents like Marge perform many household services that would be expensive to replace, and consequently have a significant need for life insurance."

Huh? 18% said none of the above, or did not answer.

I think as long as we're going to give this question serious consideration, we have to acknowledge that all of the superheroes would have a hard time buying a life policy from an A-rated insurer in the first place and, even if they could, their beneficiaries could have a tough time with the claim.

Your average skydiving exclusion, for example, pretty much guarantees that Bruce Wayne's extracurricular activities would run afoul of any underwriter and failure to disclose those activities could raise some difficult questions later that likely would void coverage.

And I don't recall the last life insurance application I filled out, but I think that even if "Have you, or a member of your family ever been bitten by a radioactive spider?" is not on the form, that would be sure to come up in the mandatory blood test.

These obstacles, though puny compared with challenges from the Riddler or the Green Goblin, probably mean their only choice would be to purchase the scant coverage afforded by one of those no-questions-asked term-life policies from an insurer that advertises on late-night cable TV.

A more interesting question to me than their life insurance needs is what kind of personal liability insurance or umbrella coverage could these superheroes purchase? Is such coverage affordable or even available for superheroes today?

Sadly, I think that was answered by the fate of Mr. Incredible, who as you know, was forced to hang up his super suit, sidelined by a force more powerful than Bomb Voyage: soaring liability exposures and skyrocketing premiums.

Editorial Director Paul Winston's commentary appears fortnightly. He can be reached at pwinston@businessinsurance.com

Editorial

Alignment of events present opportunity for TRIA backers

A CONVERGENCE OF unrelated factors presents advocates of extending some form of federal terrorism insurance backstop with an opportunity they're unlikely to see again before the current program expires.

Whether they'll be able to take advantage of that opportunity will probably determine whether a federal terrorism insurance backstop—even one that is drastically pared back—will be in place when the current program authorized by the Terrorism Risk Insurance Act ends Dec. 31.

The first factor is the aftermath of Hurricane Katrina. The destruction caused by the storm underscored the vulnerability of the economy to an event of which there was considerable forewarning. There will be no such forewarning of a catastrophic terrorist attack; no television graphics will show terrorists moving inexorably toward their target in the same way graphics illustrated Katrina's path to New Orleans and the Gulf Coast.

The federal government will spend tens of billions of dollars for hurricane relief and reconstruction. Proponents of a continued terrorism insurance backstop can point to the fact that, unlike government outlays for hurricane relief, government outlays for a terrorist attack would be repaid over time. It's far better to have a plan in place and never use it than risk having the federal Treasury take an-

other huge hit if terrorists should strike.

A second factor is a political one. House Majority Leader Tom DeLay, R-Texas, made no secret of his antipathy toward extending TRIA and blocked an effort to do so last year. But Rep. DeLay, at least temporarily bereft of his leadership position, has other matters to deal with now. Even the temporary removal of a formidable legislative roadblock should help spur backstop advocates to move, and move swiftly.

A third factor is a temporal one, and one that could work either way in the effort to retain a backstop. That's the fact that the legislative calendar continues to shrink, even though congressional leaders long ago gave up any notion of adjourning early this month as they had planned pre-Katrina. But neither the House Financial Services Committee nor the Senate Banking Committee has voted yet on legislation that would extend or replace TRIA. The shrinking calendar must give new urgency to the effort to persuade them to do so.

TRIA will expire in less than three months. While it remains highly unlikely that the backstop will be extended in its present form, the opportunity definitely exists to have a reasonable replacement in place by Dec. 31. This may be the last, best opportunity its proponents will receive, and they must make the most of it or face a very uncertain future.

Pension reform requires balance

REP. JOHN BOEHNER had it exactly right when he said balance must be the foundation of pension funding reform legislation.

If the rules are too tough, the Ohio Republican and chairman of the House Education & Workforce Committee warned recently, employers will stop offering defined benefit plans.

But if the rules end up being too loose, he said, the Pension Benefit Guaranty Corp., the deficit-ridden federal agency that insures pension benefits, will end up with more big losses. And that could mean a taxpayer-funded bailout or a huge hike in the rather modest premiums employers now pay the PBGC, the latter of which would accelerate the exodus of employers from the defined benefit plan system.

As Congress now is working to pass reform legislation, legislators need to be reminded of this need for balance. In some areas, they do have it right. For example, there is a welcome consensus among legislators that employers need to fund pension plan liabilities faster and

that employers with underfunded plans shouldn't be allowed to improve benefits until they put more money into their plans.

Other aspects of the reform drive, though, fail the balance test. For example, much as we favor tougher funding requirements, the Senate approach—now under attack—which would require companies whose credit ratings slip below investment grade to sharply accelerate plan contributions, seems onerous and counterproductive. Very healthy companies, especially those in cyclical industries with soundly funded pension plans, can temporarily lose their investment grade credit ratings. At a time when they could least afford it, making such companies funnel a lot more money into their pension plans seems poor policy to us.

We hope legislators resolve these and other controversies in a balanced way. With many employers already are checking out of the defined benefit plan system, it could be the last chance to get it right.

Schillerstrom



Write Us

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Letters

Marsh cites strong response to its compensation fund offer

To the editor: In response to your Oct. 3, 2005, article entitled "Marsh Offers Bring Divided Response," we wish to clarify certain points:

Marsh received an excellent response from policyholders eligible to participate in the Compensation Fund. In particular, more than 90% of our largest policyholders have elected voluntarily to participate in the settlement. In dollar terms, more than 88% of the Fund has been claimed.

Of those policyholders that did not respond, over 90 percent received offers of less than \$1,000.

The settlement offers do not represent the return of contingent commissions. Contin-

gent commissions were used solely as a mechanism for allocating the settlement funds to eligible policyholders. This method of allocation eliminated the need for any policyholder to demonstrate that it suffered any actual harm or injury. It is important to note that contingent commissions are not illegal. Indeed, a number of brokers in the United States and elsewhere are still receiving contingent commissions today.

We are extremely gratified by the response of our clients and the recent endorsement of the settlement by numerous state insurance commissioners.

Brian M. Storms
Chairman and Chief Executive Officer
Marsh Inc.
New York

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Spotlight

2005 READERS CHOICE AWARDS

BI's readers choose who's the best among industry companies

This summer, *Business Insurance* invited its readers to vote on which companies they believe are currently the best in the industry.

On the heels of a year in which regulators and attorneys general investigated the insurance industry's practices, we thought it would be a good idea to let readers have a say about the industry companies with which they do business. *BI's* inaugural Readers Choice Awards are intended as an opportunity for readers to voice their choices.

We asked readers to tell us who they think the leaders are in terms of service, value, quality and innovation in 11 different industry categories. In this issue, we are proud to present profiles of the winners in the 2005 Readers Choice Awards.

While we recognize that every company has a special strength in a given area, we wanted to offer readers a chance to identify the companies with the strongest combination of service, quality, value and innovation. For an explanation of how the confidential balloting worked, see the story below.

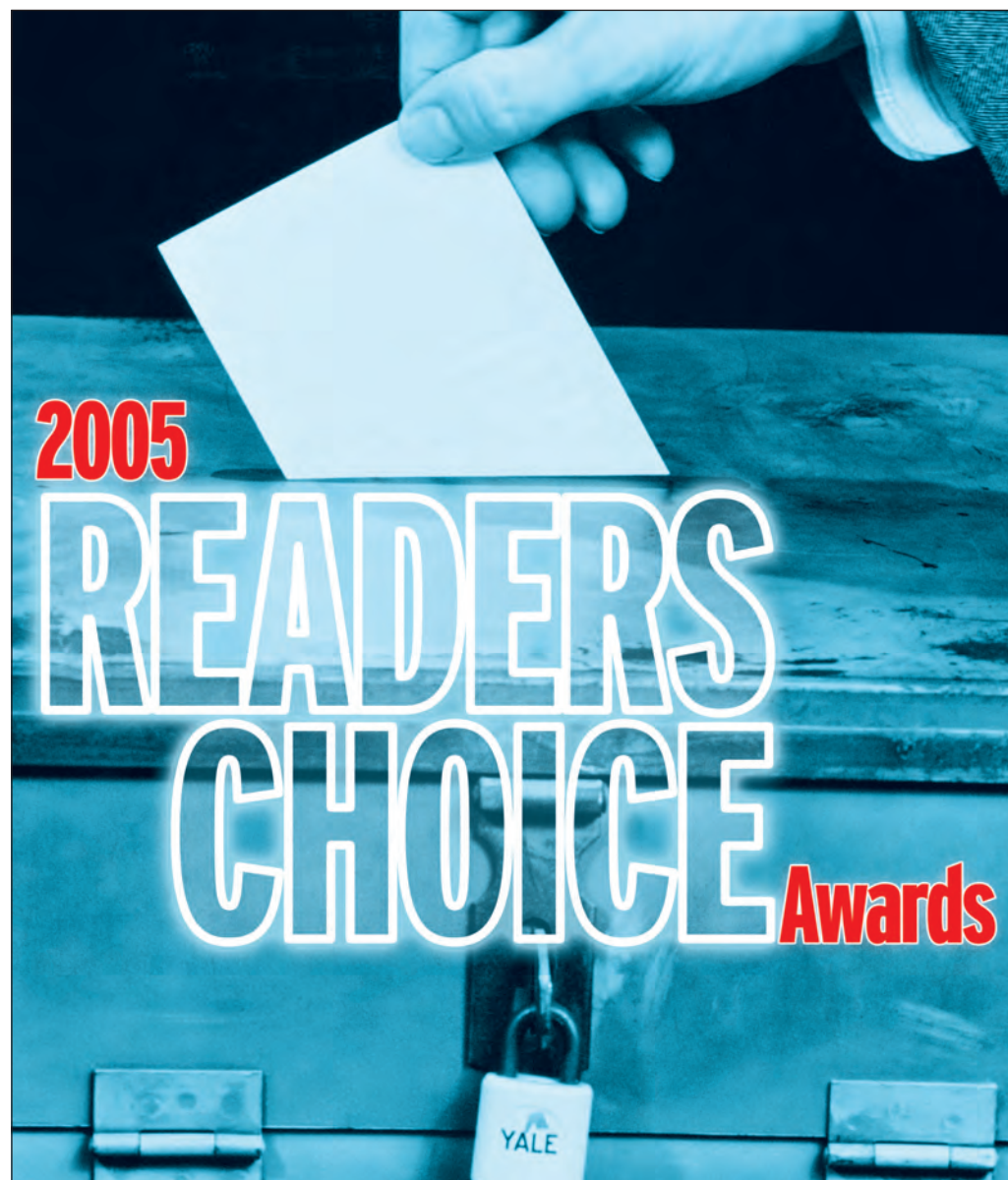
After all the votes were tallied, we made several discoveries, including:

Biggest doesn't necessarily mean best. Some of the winning companies are the largest or among the largest in their respective categories, while others are quite a bit smaller than their peers.

Even a difficult year can end on a positive note. For example, Marsh & McLennan Cos. Inc., the world's largest insurance broker, came under a harsh spotlight as the first broker New York Attorney General Eliot Spitzer investigated. MMC settled charges of bid-rigging and steering business, announced major changes to its business practices and then focused on moving forward. That approach apparently resonated with many *BI* readers, who chose Marsh as the best overall retail broker. Interestingly, another MMC unit, Mercer Human Resource Consulting, was named best overall benefit consultant.

To learn more about the companies our readers chose this year, see the profiles beginning on page 12.

Business Insurance intends to make the reader awards an annual feature and hopes you'll exercise your right to vote in the 2006 Readers Choice Awards.



How the winners won

Confidential balloting was Web-enabled

Winners of the 2005 *Business Insurance* Readers Choice Awards were selected through confidential balloting by subscribers of the magazine.

From July 18 until Sept. 7 of this year, *BI* invited all its subscribers to cast their votes either online at www.businessinsurance.com or by submitting a paper ballot printed from the site. Readers cast votes for companies in 11 different insurance industry categories: best overall commercial lines retail insurance broker, best overall commercial property/casualty insurer, best employee benefit consultant, best managed health care organization, best property/casualty reinsurer, best reinsurance intermediary, best surplus lines insurer, best insurance wholesaler, best risk management consultant, best employee assistance program provider and best

third-party claims administrator. Companies receiving the highest number of votes were declared the winners in each category.

Business Insurance provided an alphabetical list of the 10 largest companies in each category. In most cases, they represented the rankings published throughout the past 12 months in the magazine. A disclaimer on the ballot indicated that the lists did not imply an endorsement by *Business Insurance* but were included solely for readers' convenience.

The ballots included a write-in option so that readers could vote for nonlisted companies.

Business Insurance intends to make the Readers Choice Awards an annual feature and invites subscribers to vote in the 2006 awards.

2005 Winners

PROPERTY/CASUALTY INSURER

Chubb Corp. / 12

MANAGED CARE ORGANIZATION

UnitedHealth Group Inc. / 14

SURPLUS LINES INSURER

Lexington Insurance Co. / 15

PROPERTY/CASUALTY REINSURER

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RETAIL INSURANCE BROKER

Marsh & McLennan Cos. Inc. / 18

EMPLOYEE BENEFIT CONSULTANT

Mercer Human Resource Consulting / 20

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THIRD-PARTY CLAIMS ADMINISTRATOR

Sedgwick Claims Management Inc. / 26

EAP PROVIDER

CIGNA Behavioral Health Inc. / 28

Next spotlight: Reinsurance Trends and issues - October 24, 2005


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PROPERTY/CASUALTY INSURER



"We believe you have to wrap the product with outstanding service."

Thomas F. Motamed
Vice chairman and COO

CHUBB CORP.

2004 NET WRITTEN PREMIUMS: \$12.05 billion

EMPLOYEES: 11,800

Creativity, attention to each client's needs sets Chubb apart

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The foundations of Chubb Corp. were laid by Thomas Caldecot Chubb, who, with the help of his son Percy, launched a marine insurance business in New York in 1882. With roughly \$100,000 to fund the venture, the insurer began by underwriting ship and cargo risks.

Today, Chubb Corp.—which serves as the holding company for a family of businesses known as the Chubb Group of Insurance Cos.—ranks as one of the largest commercial property/casualty insurers in the world, with a recorded \$13.2 billion in revenues in 2004. Headquartered in Warren, N.J., the company operates in some 120 offices in nearly 30 countries spanning Asia, Australia, Europe, Latin America and North America.

Despite the insurer's tremendous growth, Chubb's success still is underpinned by its founding principles, senior executives say. Producers and customers want to do business with a company that maintains high-level standards, and "we have a very strong set of core values at Chubb, which we pride ourselves on," said Thomas F. Motamed, Chubb's vice chairman and chief operating officer.

Those values are "honesty, integrity, empathy and fairness," Mr. Motamed said.

Through a network of 8,000 independent agents and brokers, Chubb provides products and services in three core areas: commercial, specialty and personal insurance. The bulk of its business—an estimated 75%—however, is made up of standard commercial lines and specialty commercial lines coverage in areas such as directors and officers liability, errors and omissions, and employment practices liability.

"Tailoring the products to what the customers need" is key, Mr. Motamed said, and Chubb is focused on understanding each client's unique risks. "We'd like to think of ourselves as good listeners and solution providers," he said.

In addition, "We are extremely innovative in our products, as well as entering new industry segments," Mr. Motamed noted.

But a sound insurance policy alone is not enough to satisfy customer needs, according to Chubb. "We believe you have to wrap the product with outstanding service," Mr. Motamed said.

Moreover, in a time of heightened regulatory scrutiny of the insurance industry, "financial strength is something that customers are asking much more about," Mr. Motamed said. The insurer attributes a quality balance sheet, reserve strength and high ratings from industry rating agencies as among the reasons why clients repeatedly turn to Chubb.

Looking ahead, Chubb plans to continue to "be a consistent market for our consumers," said Mr. Motamed.

"We have a strategy that is working for us," and "we're going to stick to our strategy, and keep trying to do it better."

—By Rupal Parekh

"After our first choice to process our BI claim gave us months of 'profound' analysis but little else, we called Dempsey, Myers. Three months later, our claim was settled. Now that's profound."

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UnitedHealth Group Inc. has spent billions of dollars in recent years in an effort to bring simplicity and order to the U.S. health care system.

And while the hoped-for end result of health care transactions is a personal patient-provider relationship that leads to a positive outcome, it is a massive investment in technology, \$2.5 billion since 1998, that is enabling this managed care company to achieve its aims.

"We have used technology to address the most important needs of the customer," a spokesman for the company said.

Employers appear to be satisfied. UnitedHealth was named best managed care organization in *Business Insurance's* 2005 Readers Choice Awards.

Technology allows UnitedHealth "to apply a data-driven approach" to provide plan members information about the cost and effectiveness of different treatment options, as well as help them find the highest-quality providers, the spokesman said. A senior executive at UnitedHealth was not available to comment for this story.

As part of its technology-driven

approach, UnitedHealth has a program that identifies physicians and hospitals that meet evidenced-based standards of quality and efficiency of care. UnitedHealth does this by analyzing claims data and medical records from its network of 45,000 physicians and thousands of hospitals, and comparing that information to the standards.

Much of the data and analysis available to customers and providers is produced through its Ingenix unit. One of Ingenix's func-

tions is to provide software for data-sharing among physicians and for hospital benchmarking.

To benefit from the data, consumers also need choice. After acquiring several health plans over the past few years and the pending merger with Cypress, Calif.-based PacifiCare Health Systems Inc., UnitedHealth Group has significantly grown its physician and hospital network, the spokesman said.

Size also brings the company the leverage to negotiate.

But the innovation that crystallizes UnitedHealth Group's drive to simplify the health care system, the spokesman said, is the introduction of electronic identification cards for members of Uniprise, the benefits management unit of UnitedHealth that serves large employer groups. Uniprise partners with MasterCard to provide cards that store eligibility and co-payment information and that function as a debit card for medical expenses.

—By Roseanne White Geisel

**UNITEDHEALTH
GROUP INC.**

**2004
REVENUES: \$37.22 billion**

EMPLOYEES: 44,000



1. 2004 MetLife User Satisfaction Study, 2. www.webaward.org, Sept. 2003. www.ambest.com, Oct. 2004. Auto and Homeowners Insurance underwritten by Metropolitan Property and Casualty Insurance Co. and Affiliates, Warwick, RI. ©2005 MetLife is a registered trademark of Metropolitan Life Insurance Company, NY, NY 10166. PEANUTS © UPS, Inc. LD507JTR0ex0071507/MLIC-LD

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"Our greatest strength is to be in markets when others aren't."

Kevin Kelley
Chairman and CEO

LEXINGTON INSURANCE CO.

2004 NONADMITTED PREMIUMS WRITTEN: \$4.90 billion

EMPLOYEES: 404

SURPLUS LINES INSURER

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Lexington Insurance Co. isn't only the nation's largest surplus lines insurance company, it's also one of the few companies that write stand-alone coverage for terrorism risks.

It is that willingness to take on difficult risks that has helped the Boston-based insurer flourish for more than three decades as the main surplus lines unit of American International Group Inc. Lexington celebrated its 35th year with AIG in 2004 and this year it has been named best overall surplus lines insurer in the *Business Insurance* 2005 Readers Choice Awards. *BI* readers chose Lexing-

ton on the basis of overall service, value, quality and innovation.

Lexington writes a diverse book of commercial and personal property/casualty business, offering coverage for a wide variety of industries and risk classes. More than three-quarters of the \$6.47 billion in gross premiums written the company reported for last year came from nonadmitted business, and Lexington offers

both primary and excess coverage for many lines.

"Our greatest strength is to be in

markets when others aren't," such as following a major catastrophic event, said Kevin Kelley, chairman and chief executive officer of Lexington. He noted that's particularly true now, following Hurricane Katrina, which devastated New Orleans and the Gulf Coast in late August.

With an array of coverages, it's hard to point to one line of coverage as a core business for Lexington. "Property business is probably our largest, followed closely by casualty, health care and programs," Mr. Kelley said.

"Everything we do has an element of high risk to it. That's why being part of AIG and having a stand-alone balance sheet" that is top rated are important, he said.

Lexington stepped forward after Congress enacted the Terrorism Risk Insurance Act in 2001 to offer stand-alone terrorism coverage that was not available under TRIA. "We wrote well over \$100 million of premium" after TRIA, Mr. Kelley said.

Earlier this year, Lexington anticipated a need that now seems prophetic. The company unveiled a tax interruption insurance product for municipalities of 50,000 and smaller, to assist governments that face loss of tax revenue due to covered perils.

"We were probably a little ahead of the market on that," Mr. Kelley said. But after hurricanes Katrina and Rita, "municipalities are seeing the consequences of having a major loss. That kind of policy will be very relevant going forward," he said.

Mr. Kelley pointed to changing market conditions as a significant challenge for Lexington and the industry generally in the next year. "Katrina is a major event. We're beginning to see the impact on pricing already," he said. Reinsurers will be looking to address property catastrophe coverage issues, he said. While TRIA's fate remains uncertain, Lexington's CEO believes Katrina "is going to change the dynamics of the catastrophe reinsurance market and terrorism is going to be an element of that."

—By Regis Coccia



A moment of silence

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"We have made a concerted effort to do business on a direct basis, so we have a better understanding of what our clients' needs are."

Franklin Montross
President and chief underwriter, Gen Re

BERKSHIRE HATHAWAY/GENERAL RE

2004 NET WRITTEN PREMIUMS: \$10.58 billion

EMPLOYEES: 3,200

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Berkshire Hathaway/General Re Group's range of reinsurance coverages range from high layer catastrophe

reinsurance to facultative coverage.

And the reinsurer approaches the market in several different ways.

But one of its main unit's dedication to its role as a direct reinsurer is a key element in its success, says its president and chief underwriter.

"Many of our competitors have basically tried to do both, broker and direct," said Franklin Montross IV. But while Stamford, Conn.-based Gen Re

does have a broker platform in London, the Faraday Group, for the rest of its global operations "we have made a concerted effort to do business on a direct basis, so we have a better understanding of what our clients' needs are and hopefully deliver a more customized reinsurance product for them."

This specialized approach has helped make Berkshire Hathaway/Gen Re the winner in the reinsurer category in the 2005 *Business Insurance* Readers

Choice Awards.



The Gen Re unit has 16 domestic and 27 foreign locations and annual revenues of

about \$6.5 billion. About two-thirds of its business is domestic. About two-thirds is also property/casualty, with the remaining life business.

Another factor in Gen Re's success is that "we try to operate what we refer to as an underwriting business model, where we're very focused on exposure and underwriting issues," said Mr. Montross. "We think that is important," not only from Gen Re's perspective, but because more importantly, "we can benefit the clients by sharing expertise and knowledge with them on various lines of business."

As part of this, "We try to set ourselves apart with research and publications on timely topics," said Mr. Montross. "We spend a lot of time trying to develop appropriate analytical tools that will be helpful to understand the business, and help our clients differentiate their underwriting results and their products in the marketplace."

Mr. Montross said this involves stepping back and looking at business not just at the transactional level, "but also at the portfolio level, in terms of understanding potential aggregations of risk" and the correlations between different classes of business.

Gen Re also takes particular pride in its claims operations. "We like to think that we have a very knowledgeable group of claims executives who are there to help and advise" on the more difficult, as well as more esoteric, claims that come along, said Mr. Montross.

The service Gen Re provides in this area includes an annual claims review, looking at claims "both from an operations and case-reserving perspective, and sharing that input with our clients," he said.

Mr. Montross—who declined to discuss Gen Re's role in the insurance industry investigations being conducted by New York Attorney General Eliot Spitzer and others—said one of the issues Gen Re is facing is the "very, very low" barriers to entry into the reinsurance business. "That just creates a challenge of staying disciplined with respect to understanding one's underwriting philosophy and standards," he said.

—By Judy Greenwald



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"I don't think anybody in the world has anywhere near the expertise that we have."

Brian M. Storms,
Chairman and CEO, Marsh Inc.

MARSH & McLENNAN COS. INC.

2004 BROKERAGE REVENUES: \$10.37 billion
EMPLOYEES: 58,500

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Unparalleled expertise and strong client relationships are what helped Marsh & McLennan Cos. Inc. to not only emerge from its recent troubles

intact, but also to preserve its standing as the world's leading insurance broker, its senior executives say. MMC was voted the best retail insurance broker in the *Business Insurance* 2005 Readers Choice Awards.

Even as the brokerage grappled with extensive management changes and an overhaul of its compensation practices amid industry probes—as well as with an \$850 million settlement to

end one investigation—MMC's Marsh Inc. unit continued to grow its business. In 2004, MMC recorded total brokerage revenues of \$10.37 billion, an 8.3% jump over the prior-year period, while revenues from risk and insurance services rose 7.6% to \$7.39 billion.

"It's almost remarkable when you think about what the headlines looked like a year ago, and what peo-

ple were predicting as the dire outcome for this organization, and then you look at our retention rates and our

rate of business and the financial well-being of this organization today," said Brian M. Storms, Marsh's new chairman and chief executive officer. Mr. Storms, who formerly headed MMC's Mercer Human Resource Consulting unit, was tapped last month to lead the brokerage, succeeding Michael G. Cherkasky, who remains president and CEO of MMC.

Mr. Storms attributes much of Marsh's success to the talent of its 58,500 employees.

"I don't think anybody in the world has anywhere near the expertise that we have," he said. Being the world's largest broker has enabled the company to "retain and attract the very, very best people in the industry," he said. "I think that's one of the qualities that really distinguishes us from our competitors."

Marsh's vast global footprint also gives it an edge in the marketplace, said President William A. Malloy. New York-based Marsh provides insurance brokerage, risk management and risk consulting services to clients in more than 100 countries, including mid-sized firms and multinationals.

Customers also benefit from a deeper, more comprehensive level of service at Marsh, Mr. Storms said, due to the capabilities and resources provided by MMC's other companies, including security consultant Kroll Inc., Mercer HR Consulting and reinsurance broker Guy Carpenter & Co. Inc. "It's very hard for companies to come into the market and match that," he said.

Going forward, Marsh is optimistic about keeping and building business, its top executives say, and it is committed to restoring client trust through transparency. As the industry adopts new transparency requirements, "we intend to continue to take a leadership position and look for ways in 2006 to make that a big differentiation" between Marsh and its peers, Mr. Storms said.

"Marsh had a challenging year," and "it would be foolish to think that competitors and other firms out there aren't trying to take advantage of what they thought was a weakened company," Mr. Storms said. But "we're going to defend our business rigorously, as well as our client relationships."

—By Rupal Parekh



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EMPLOYEES: 15,700

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ance readers responding to the magazine's Readers Choice Awards competition, it also is the best.

That recognition, said Michael Caulfield, president of New York-based Mercer, is the result of the convergence of several factors.

With offices in nearly 150 cities in 41 countries, Mercer has an ability to provide consulting services with a global reach that is without parallel in the industry, Mr. Caulfield said.

"We can provide services where the clients reside," he said.

At the same time, Mercer's size allows it to offer a depth and breadth of services that is unmatched by its competitors, Mr. Caulfield said.

"We are in so many benefit areas and can provide so many different services. Clients can look to us for a variety of solutions. That is what helps to distinguish us," he said.

Mercer's range of services not only includes consulting in such traditional areas as defined benefit, defined contribution, communi-

cations and health care plan consulting, but also in many services—such as advice on running call centers—that go beyond traditional benefit plan consulting.

Additionally, Mercer has been able to attract top consulting talent, lured by an intellectually rich work environment, he said.

While much of Mercer's growth has been organic, a series of major and well-timed acquisitions over the past two decades has helped solidify Mercer's position as the world's largest consultant.

For example, in the 1980s, the acquisitions in the United States of such major consultants as A.S. Hansen Inc. and Meidinger Inc. not only increased Mercer's expertise in a number of consulting areas, but also provided new sources of consulting talent.

In the late 1990s, parent company Marsh & McLennan Cos. Inc.'s purchase of Sedgwick Group P.L.C. propelled Mercer, through the folding of Sedgwick's benefit consulting unit into Mercer, to the top position in the United Kingdom and Ireland and added to its lead as the largest benefit consultant in Australia. MMC's acquisition of Johnson & Higgins and its benefit consulting unit, A. Foster & Higgins & Co. Inc., also added to Mercer's heft, especially in the health care consulting arena.

More recently, Mercer's acquisition last year of Houston-based Synhrgy HR Technologies Inc. enabled Mercer to become a major player in the rapidly growing HR outsourcing field. Since that acquisition, Mercer, through its Mercer HR Services unit, has acquired several dozen outsourcing clients.

Looking ahead, Mr. Caulfield notes that size alone will not be enough to enable Mercer or any other consultant to succeed in what is a very competitive field.

What clients are looking for, Mr. Caulfield said, is creativity. "If you do what everyone does, clients will just go to the low-cost provider. The challenge is to provide creative and cost-effective solutions," he said.

—By Jerry Geisel

Defining Success



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Newly independent Swett plans to maintain tradition of service

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While wholesale broker Swett & Crawford Group plans to grow following its acquisition by investors, it will maintain a 90-year tradition of serving clients by adding value and teamwork to its services, a top executive says.

Those characteristics are among the reasons the largest wholesale broker, as ranked by *Business Insurance*, also won the Readers Choice Award in its category, he believes.

The Woodland Hills, Calif.-based wholesale broker generated a BI-estimated \$246.1 million in gross revenues last year. Dave Hartoch, chairman and chief executive officer, said Swett & Crawford specializes in property, casualty, transportation, professional liability and energy risks. In addition, separate units underwrite long-term care facilities, managed care and earthquake risks.

One of Swett & Crawford's greatest assets is its employees, he said.

Among the ways employees add value for clients is "we generally pre-underwrite risks so we can send a client's applications to the most appropriate markets," he said.

Also, "we leverage experience within the company," because employees actively participate in the brokerage's online bulletin board, which it calls its "Knowledge Network." So, a broker in Boise, Idaho, for example, who posts an online query seeking the best markets for a new manufacturing client can expect a prompt response from other brokers who have dealt with that type of risk, Mr. Hartoch said.

In addition, employees are committed to "a team approach" and will fly in to one of its 40 brokerage offices to help out as needed, he said.

Swett & Crawford currently has about 780 wholesale employees, down from 850 in 2004 and 950 in 2003, Mr. Hartoch said. That decline stems from a hiring freeze imposed by its Aon Corp. parent as well as uncertainty surrounding Aon's plans to sell the wholesale brokerage, he said.

That situation is expected to change with the completion of its sale to an investor group led by private equity investment firm Hicks, Muse, Tate & Furst Inc., Mr. Hartoch said. The wholesaler expects to expand its brokerage and underwriting functions through new hires and acquisitions. He said it also expects to

expand into regions where it lacks offices.

As an independent entity, "the opportunities are endless," Mr. Hartoch said. The company's sale to investors will take it out from under the cloud of perceived conflicts of interest arising from major brokerages like Aon owning wholesale and retail operations, observers say.

About 25% of Swett & Crawford's current business comes from Aon, but that is relationship-driven and the wholesale brokerage "does not anticipate losing much of it," Mr. Hartoch said. In addition, retail brokers competing with Aon are more likely to use an independent wholesaler like the new Swett & Crawford, observers have said.

—By Meg Fletcher



"We generally pre-underwrite risks so we can send a client's applications to the most appropriate markets."

Dave Hartoch
Chairman and CEO

SWETT & CRAWFORD GROUP

2004 GROSS REVENUES : \$246.1 million

EMPLOYEES: 780





"What really differentiates us...has to be the quality of our people and the passion they have for our clients."

Grahame Millwater
Chairman

WILLIS RE

2004 REVENUES: \$1.01 billion

EMPLOYEES: 1,159

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Team atmosphere helps keep Willis Re ahead of the game

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A strong team-oriented culture combined with leadership from a group of long-term executives are the key strengths of Willis Re, according to its senior executive.

The London-based brokerage, which was voted best reinsurance intermediary in *Business Insurance's* 2005 Readers Choice Awards, has created an atmosphere that helps it retain staff and promote the integration of skills and services, said Grahame Millwater, chairman of Willis Re, which is a unit of Willis Holdings Ltd.

"What really differentiates us...has to be the quality of our people and the passion they have for our clients, the integrated way we offer our skills and services, reflecting the real team orientation of our resources globally and the consistency and continuity of our offering. We not only lose very few clients, but we have continuity of our own people," he said.

Willis Re offers similar products and services as its major rivals, he said, but "it is the quality and way they are delivered that makes the real difference. We orient our delivery around what we call the Client Advocate, whose role is to marry our vast reservoir of tools, skills and resources to the particular objectives and issues a client is facing. Sounds easy, but in reality it is very hard to achieve this globally and I think we are closer to this than any of our rivals."



Like its rivals, Willis Re faces some significant challenges, as do its clients, Mr. Millwater said. But all of the challenges are "manageable," he said.

The single biggest challenge facing the reinsurance market "is the future turmoil and likely market changes" following hurricanes Katrina and Rita, Mr. Millwater said.

He said, "these will be difficult and stressful times for both our clients and our associates advising them. During this time, we must ensure our professionals are constantly communicating with our clients and amongst themselves to identify issues and solutions."

"It is at times like this that I believe the excellent teamwork and communication at Willis Re come to the fore."

Mr. Millwater said that Willis Re had grown "very quickly" over the past five to 10 years through high organic growth rates that have been "helped enormously by the very high retention rates of existing clients—we lose very little business."

He said, "The benefit of organic growth rather than acquisition is that we have not suffered from the internal disruption and the clash of cultures that are a byproduct of mergers and acquisitions."

Looking to the future, Mr. Millwater said, "there are more sources of risk, greater values at risk, and more alternative ways of insurance companies protecting themselves against these risks than ever before. This environment provides a professional adviser and intermediary with a perfect environment in which to add value and thrive."

—By Barbara Cockburn



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"If five of my consultants do the same kind of process, it will look the same and have the same focus on details."

Eric Threath,
Executive vp

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The guiding principle of McNary Risk Management Consulting is that the road to perfection is paved with consistency of service and process.

That principle has been internal-

ized by everyone in McNary Inc.'s Risk Management Consulting Services division over the past year as part of a rigorous program to ensure that all of its consultants and analysts have the tools to put that doctrine into action.

Eric Threath, executive vp, said the consulting firm has made an "unwavering commitment" that clients can be certain of the quality and consis-

tency of both service and process from any McNary team member with whom they deal. "If five of my consultants do the same kind of process, it will look the same and have the same focus on details," Mr. Threath said. "That is hugely powerful for us and for our clients."

To ensure that every consultant and analyst knows how to apply the service philosophy to the actual work

done for individual clients, Mr. Threath gave them a measuring rod of five elements, which the firm prefers

not to disclose. A survey conducted late last year asked whether the firm met or exceeded the client's expectations on several aspects of service. Between 96% and 98% of the 200 respondents said the firm met or exceeded expectations on each item.

Rather than staying satisfied with those marks, the firm developed a methodology to get closer to perfect scores. "You can't get close if you don't stay focused on the goal," he said.

Business Insurance readers chose McNary as best risk management consulting firm in its 2005 Readers Choice Awards.

Another important tool that McNary consultants and analysts have been given over the past year is training and certification in Six Sigma, a quality measurement approach and methodology for meeting standards of excellence and value.

Sam L. Boone III, chief operating officer of McNary Inc., said that while Six Sigma is key to client service, "the real beauty of Six Sigma, to me, is on the inside." The approach gives consultants and analysts a method to understand the whole spectrum of the division's service goals and processes, Mr. Boone said.

This is another vital tool that helps the staff feel they are "a step ahead," said Mr. Boone, who hired Mr. Threath last year to provide the service leadership.

The Six Sigma approach enabled McNary to launch its enterprise risk management consulting services this summer. McNary developed a proprietary methodology called Roadmap that "helps our clients jump-start into ERM," Mr. Threath said.

Under the Roadmap program, a preliminary analysis digs into two risk areas and consultants help the client correlate the ERM plan with the company's strategic plan. After that, the client is guided through ERM in phases.

Among the challenges that Mr. Threath sees for McNary is continuing to stay in touch with the needs of their clients and the marketplace, and helping clients see the need to take a broad and holistic view of risk.

—Roseanne White Geisel



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"Our industry is very competitive. To be a leader you have to do almost everything right all the time."

David North
President and CEO

SEDGWICK CLAIMS MANAGEMENT SERVICES

2004 REVENUES: \$322.8 million
EMPLOYEES: 4,250

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Sedgwick Claims Management Services Inc.'s top executive credits its commitment to employees and the creation of a responsive workplace for its designation as the best third-

party administrator in *BI's* Readers Choice Award poll.

"Our industry is very competitive. To be a leader you have to do almost everything right all the time," said David A. North, president and chief executive officer of the Memphis, Tenn.-based TPA.

Sedgwick CMS, which reported \$290.5 million in 2004 revenues from self-insured clients, ranked second in *Business Insurance's* latest

ranking of TPAs. The company specializes in handling various types of claims, including workers compensation, general liability, disability and auto.

The company's philosophy is to take care of its 4,250 employees—including 2,858 claims staff at year-end 2004—so they can take care of clients and those clients can then provide the revenues that will take care of the company, Mr. North said.

Sedgwick

CMS demonstrates its commitment to its employees in several ways, including providing extensive training opportunities.



For example, new claims handlers participate in a six-month "Sedgwick University" program, which includes six-weeks of classroom study. They then are sent for 4½ months to a Sedgwick CMS office for more training, including mentoring by a more experienced staff member.

"We've had incredible results" from the training program, Mr. North said. In fact, new college graduates who participated in the program have proven themselves to be so adept at understanding the intricacies of California's workers compensation system that some clients specifically ask for them, he said.

In addition, more experienced employees are offered other online and classroom-based training opportunities at various levels, he added.

In addition to specialized training Sedgwick CMS offers benefits customized to reflect its workforce. 73% of its employees are women, 51% of whom are single, Mr. North said. Those statistics help direct the type and kind of benefits the company offers. For example, a middle-aged, single mother with school-aged children may favor flex time, while a young, single worker may prefer good relocation benefits.

The company also strives to create a workplace that values employees opinions. The fact that 97% of employees fill out an annual questionnaire reviewing Sedgwick CMS's operations shows that they know that management is listening, he said.

Sedgwick CMS also gives employees opportunities to act on their views. For example, the company's response to hurricane relief efforts included one of the Memphis offices canceling its Christmas party and donating the cost to hurricane relief. Also, the company donated 250 person-days for volunteer service.

Sedgwick CMS's challenge for the future is to continuously improve on its already high-level of commitment in people and services to support them, Mr. North said.

—By Meg Fletcher

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"We see this service as one that extends into the workplace and provides needed resources for people to cope with really any kind of issue."

Keith Dixon,
President and CEO

CIGNA BEHAVIORAL HEALTH INC.

2004 REVENUES: \$468 million

EMPLOYEES: Salaried employees 950
Contracted professionals 17,962

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CIGNA Behavioral Health Inc. offers a broad range of employee assistance program services from drug and alcohol abuse assessment and

treatment to stress management, smoking cessation and nutrition services to supervisor training. But when you ask President and Chief Executive Officer Keith Dixon what makes the EAP stand out from its competition, he'll say it has nothing to do with selling those services.

"We don't have fixed ideas about what an employee assistance pro-

gram is or what it potentially could become," Mr. Dixon said. "We see this service as one that extends into the workplace and provides needed resources for people to cope with really any kind of issue."

What that does, Mr. Dixon said, is "it sets us up as really good listeners. So when we're out in the field and we're talking to an employer, I think we listen better than anyone else in the industry, because we don't have fixed ideas about it. We're trying to understand what

the employer is trying to accomplish. What are the pressures they are facing in their particular business? What

kind of workforce do they have? What is going on in that workforce? What are the pressure points in the workforce? And then, what we do is we develop a customized solution on what we hear rather than on what we have."

"I think that's been refreshing to a lot of employers who are used to being pitched products," Mr. Dixon added. "We don't pitch products, we pitch solutions."

When it comes to providing solutions to clients in the future, Mr. Dixon said he has his eyes focused on the consumer driven health care movement.

While setting up a health reimbursement account or health savings account "is probably a good idea," when "you throw this on the individual consumer or family...it's a daunting and overwhelming challenge," he said.

"What's interesting from our point of view is employees really trust their employee assistance program for information about a broad variety of issues in their lives. And we're very good at talking to people about scary and personally embarrassing or difficult issues or putting people at ease when they're confused about something."

"I think what a lot of employers are thinking about is 'how can we leverage our employee assistance program to provide more general navigation...through the health care system?'"

"If an employee assistance program is going to provide a general navigational aide...to help people...through the health care system in an age of consumerism, we've obviously got to gear up for that challenge because that's not a role an employee assistance program has generally played," he said.

"Our biggest challenge is how do we position the employee assistance field to play a significant role in an age of consumerism. I think that's daunting and exciting at the same time. And I think that's where this field is going," he said.

—By Sally Roberts



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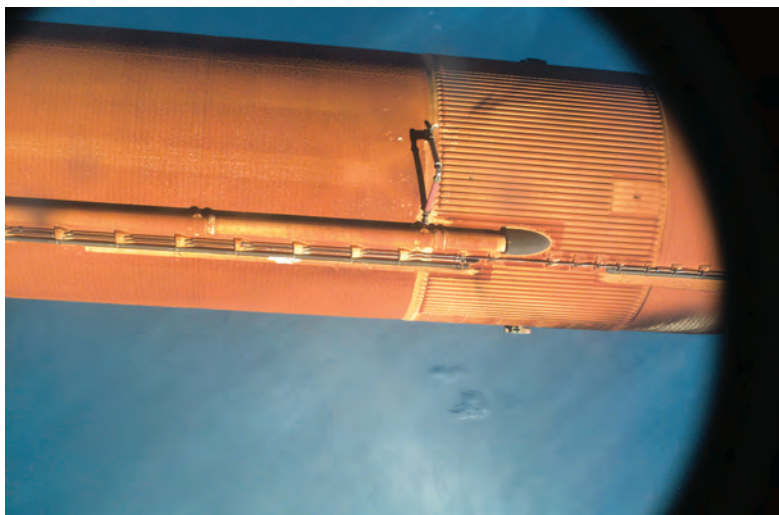
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The external fuel tank of the space shuttle Discovery shows a section of foam that has separated from the tank. Foam separation was blamed for the destruction of the shuttle Columbia during re-entry in 2003.

NASA: Shuttle disaster spurs safety program

Continued from page 4

nual congress and expo in Orlando, Fla.

NASA is now intensifying its efforts to further reduce damaging foam losses from the shuttle's external tank. The foam problem, which was determined to be a proximate cause of the Columbia's destruction during re-entry, re-emerged this summer during the Discovery mission, though that craft was able to land safely.

NASA and industries generally can benefit from enhanced contingency planning and regular rehearsals of what to do in dire situations, Mr. Gregory said during

his presentation.

NASA updates its contingency plan before every shuttle launch, which includes considering variables such as weather conditions. Also, "in our initial return-to-flight missions, we will only launch during daylight hours, so as to get the best possible imagery of the shuttle during liftoff," he said. That will help experts identify any problems as early as possible.

Another important benefit of practicing contingency planning is that "we have found that in our time of crisis, the ability to lean on the tools of our planning enabled us to respond appropriately at a

very difficult emotional time" for NASA's close-knit astronaut community, he said.

Despite the shock of losing Columbia's seven-member crew, Mr. Gregory said he quickly deployed casualty assistance officers to help surviving family members, and he ordered debris recovery from the Texas site. Armed with that material and experts' technical reviews, "the independent Columbia Accident Investigation Board was able to describe how the accident was caused by a combination of hardware, process and human failures," he said.

NASA accepted the board's findings and took steps "to raise the safety bar even higher" by instituting recommendations that address both the proximate and root causes, so the agency will operate "safer, stronger and smarter," Mr. Gregory said.

"We are never going to achieve our bold exploration objectives by sticking our head in the sand."

Frederick D. Gregory
National Aeronautics
and Space Administration

For example, NASA established another independent group headed by two former astronauts to review the progress of NASA's actions toward safely resuming shuttle flights. Some members of that group were supportive, while others have been critical of NASA's work, he said.

"We welcome this criticism," he said, because we know "we are never going to achieve our bold exploration objectives by sticking our head in the sand."

Now, all employees—regardless of their position or degree of experience—are encouraged to speak out, whether openly or anonymously, if they have any safety concerns about operations, he said.

In addition, NASA has increased its overall assessment, handling and reporting of risks, near misses and accidents in its various occupational and industrial worksites. It also gave greater authority to technical experts to authorize deviations from requirements, he said.

NASA also looked outside the agency for help in improving its safety performance. Its leaders met with executives from other industries to share best practices, and all NASA centers are pursuing the Occupational Safety and Health Administration's Voluntary Protection Program's highest level of compliance, he said.

"Still, we know the shuttle system is inherently not as safe as we'd like it to be," Mr. Gregory said. "That's why we will retire the shuttles by 2010 and build a new crew exploration vehicle that will have many new safety features, such as a crew-escape capability...that will significantly reduce the risk of future human space flight."

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Addressing stress key to reducing absence

By MEG FLETCHER

ORLANDO, Fla.—Job-related stress is emerging as a major health hazard in global workplaces, according to several experts at a recent international safety congress.

To stem the tide of related illnesses and injuries, they recommend that employers take a holistic approach to diminishing psychosocial issues, which includes involving workers in identifying problems and developing solutions.

"Work-related stress has only recently been recognized as one of the major causes of some of the most costly time-robbing health problems for business," including cardiovascular and musculoskeletal disorders, obesity, depression and violence, according to a statement by the Itasca, Ill.-based National Safety Council.

Specifically, about one-third of the 40.2 million workdays lost annually due to illness and injury result from stress, anxiety and depression, said the NSC, which was one of three co-sponsors of the recent 17th World Congress on Safety and Health at Work in Orlando, Fla.

Several factors contribute to workplace stress, including work overload, lack of recognition of work ef-

forts from co-workers and supervisors, poor relations with supervisors, low levels of participation in decision-making and insufficient communication, according to the NSC.

Workforce changes resulting from globalization, including the growing use of temporary workers and workforce migration within and among countries, also are contributing to workplace stress, said Marc De Greef, managing director of Brussels, Belgium-based Prevent, an Institute for Occupational Safety and Health, which provides consulting services.

And in Japan, the number of workplace stress-related suicides is increasing, according to Dr. Mitsuo Ueno, medical advisor to the Tokyo-based Institute of Occupational Safety and Health for the All-Japan Prefectural and Municipal Workers' Union. Contributing to workers' stress are several factors, including the amount of work employees face, staff/wage reductions and interpersonal relationships, he said.

Mr. De Greef encouraged managers to use a "participative risk assessment," in which workers help analyze their workplace operations and recommend changes—the best

Continued on next page



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Continued from previous page

of which managers should adopt.

While it is not easy to get middle-management support for psychosocial-type programs, companies can benefit from more holistic, basic programs that encourage healthy lifestyles, such as smoking cessation

“Work-related stress has only recently been recognized as one of the major causes of some of the most costly time-robbing health problems for business.”

National Safety Council

and weight loss programs, said Steven Finkey, corporate director of safety for Kansas City, Mo.-based PAR Electrical Contractors Inc.

In Canada, there has emerged “a sustainable approach to creating healthy workplaces which involves three areas of focus: creating a safe and healthy physical work environment, a healthy psychosocial workplace culture and support for healthy lifestyles,” said Joan Burton, manager-health strategy for the Toronto-based Industrial Accident Prevention Assn.

One large Canadian company avoided problems at a call center north of Toronto through a strong “performance management process, which rewards and compensates managers based on employee, customer and shareholder satisfaction,” Ms. Burton said. The call center avoided its industry’s high attrition rates through its “strong feedback culture, regularly getting input from employees on many issues through ad hoc ‘team huddles,’ sporadic focus groups or an annual employee survey,” said Ms. Burton. She reviewed the company’s program as part of an analysis of companies that had been recognized for having healthy workplaces.

The panel was moderated by Dr. Manuel Anton, a consultant with the Pan American Health Organization in Washington.

More than 3,000 attend world safety congress

ORLANDO, Fla.—More than 3,000 people from 110 countries on six continents attended the 17th World Congress on Safety and Health at Work, which was held Sept. 18-22 in Orlando, Fla.

The triennial congress was jointly hosted by the National Safety Council—which held its 93rd

annual congress and expo in conjunction with the meeting—the United Nations’ International Labor Organization and the International Social Security Assn.

Attendees heard more than 600 abstracts from researchers as part of dozens of educational and technical sessions. They also viewed

films and posters that reflected the congress’ theme of “Prevention in a Globalized World—Success through Partnerships.”

In addition, the European Agency for Safety and Health at Work in Bilbao, Spain, announced a new Web site—www.osha.eu.int—which is available in 20 languages to disseminate occupational safety

and health information from the United States, Australia, Canada, Japan and Korea, as well as to promote the exchange of information.

The next World Congress on Safety and Health at Work will be held in Seoul, South Korea, in 2008.

—By Meg Fletcher

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PRODUCTS & SERVICES

AIG policy will cover IBNR risks of insolvent insurers

NEW YORK—AIG Excess Casualty is offering coverage for risks previously covered by insurers that are now insolvent.

The claims made excess casualty coverage is called xslnResponse and will be available as an endorsement to the American International Group Inc. unit's excess casualty commercial umbrella liability policy.

The policy will cover incurred-but-not-reported claims that arise under insurance policies underwritten by now insolvent insurers since 1990, said Chris Maleno, president of AIG Excess Casualty in New York.

The claims have to meet two criteria in order to qualify for coverage, Mr. Maleno said: the claims have to be covered by the original policy and they have to be covered by the existing AIG excess policy. So, for example, if a policyholder did not purchase products liability coverage under the original policy, the xslnResponse endorsement would not respond to products liability claims even if the current AIG excess policy includes products coverage, he explained.

The coverage is available with limits of up to \$50 million.

For more information contact

Richard Tallo at 212-458-6104 or richard.tallo@aig.com.

Betterley issues study of private companies market

STERLING, Mass.—Betterley Risk Consultants has published a report on the liability insurance market for private companies.

This annual report, "Private Company Management Liability Insurance Market Survey 2005," evaluates core liability coverages, including directors and officers, and fiduciary and employment practices. It also examines policies offered by 18 carriers and wholesalers, as well as provides information about rate and retention trends.

For more information, contact Sterling, Mass.-based Betterley at 877-422-3366. To order this report, visit www.betterley.com/ordering_information.html.

Beazley launches EPL policy

FARMINGTON, Conn.—Beazley Insurance Co. Inc. is now offering an employment practices liability policy for midsize businesses.

The EPL policy provides coverage for punitive and multiplied damages, as well as coverage for violation of the Family Medical

Leave Act. It is available to companies with up to 10,000 employees and will be offered in the admitted market. The policy's available limits are up to \$10 million.

For more information, contact Carrie Brodzinski, EPL product manager, at 860-677-3750 or visit the company's Web site at www.beazley.com.

ACE USA expands coverage for business travelers

PHILADELPHIA—ACE USA has added a product offering protection for the occasional international business traveler.

Philadelphia-based ACE USA's International Advantage Express policy is targeted at those companies with employees that travel outside of the United States on a short-term basis. The policy provides coverage for foreign travel liability, foreign travel property, accidental death and dismemberment, and medical expenses, among other things. It also includes personal assistance services to help with legal, medical and personal emergencies for employees traveling overseas.

To obtain more information, contact Alfred Bergbauer, senior vp, at 302-476-6612 or visit the product Web site at www.aceadvantage.com.

Chubb develops policy for bankers professional liability

WARREN, N.J.—Chubb Corp. has unveiled an error and omissions policy for large financial institutions.

The bankers professional liability insurance policy, BPL for Financial Institutions, offers several endorsements, including a securities broker dealer endorsement, which covers misleading sales practices and documents, improper advice and failure to execute trades properly; and an insurance agents or insurance brokerage endorsement, which covers conflicts of interest, improper coverage advice and errors in placing insurance.

Warren, N.J.-based Chubb's BPL for Financial Institutions policy is targeted at institutions with more than \$3 billion in total assets. On a primary program, the company has \$15 million in capacity.

For more information, visit www.chubb.com.

Asparity enhances suite of health plan tools

DURHAM, N.C.—Asparity Decision Solutions, a provider of employee benefit decision support applications, has enhanced its suite of

online decision support tools for employees.

The latest addition is a tax savings calculator, which will be available nationwide in January 2006. By accounting for their eligible medical, dental, vision and dependent care expenses, the tax savings calculator can help employees determine the appropriate health savings account or flexible savings account contributions and compare the tax savings of each.

The suite consists of six online tools that focus on employee health plan selection. They intend to simplify the process of choosing health insurance by offering objective information. For more information, contact Andrea Boyles, vp-sales, at 619-296-6151, or visit the Durham, N.C.-based company's Web site at www.asparity.com.

We'd like to report on new risk management and employee benefit products and services offered by your company. Send information about your new offerings to: Carrie A. Peinado, Business Insurance, 360 N. Michigan Ave., Chicago, Ill. 60601-3806; telephone: 312-649-5313; fax: 312-649-7801; e-mail: cpeinado@businessinsurance.com.

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* The Survey of Cedant Perceptions about Reinsurance and Reinsurers is conducted every two years by the Flaspöhler Research Group to measure North American property and casualty reinsurance buyers' views on reinsurers. The 2005 Survey was Flaspöhler's 7th biennial survey of the United States market.



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Criteria for the RMOY judging

Ten criteria will be used to score the nominations for *Business Insurance's* annual Risk Manager of the Year Award and the Risk Management Honor Roll.

The panel of independent judges scores each nominated candidate on a scale of 1 to 10, according to how well he or she:

- Established and implemented an effective risk management program within the organization.

- Tackled and solved one or more major problems for his or her organization.

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

- Creatively and effectively uses the insurance markets to structure an insurance program that serves the needs of the organization (specifically addressing the types of policies purchased and manuscripted policies, if any).

- Established a workable intelligence system inside and outside the organization, culminating in a flow of information about events and activities that affect the organization's risk management and insurance coverages. (How the risk manager secures information from other departments in his or her organization and the use of risk management information systems are addressed in this criterion.)

- Skillfully performs the functions of management in the overall organization and within the risk management/insurance department. The functions include planning, organizing, directing and controlling.

- Achieves the most effective risk management program at the optimum cost over the long term.

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

- Exhibits an attitude and performs activities fostering the advancement of the risk management profession (such as professional activities, speaking engagements, teaching and related activities).

- Develops in his or her career (as exhibited by job history, including current job description, education, honors and memberships).

Judges: Nine professionals will select the Risk Manager of the Year

Continued from page 4

Risk Resources Inc., a consulting firm based in Elmhurst, Ill., representing risk management consultants.

- Robert S. Cubbin, president and CEO of broker Meadowbrook Insurance Group Inc. in Southfield, Mich., representing mid-sized brokers.

- Al Gorski, manager of risk management for the Orange County Transportation Authority in Orange, Calif., and a member of the 2005 Risk Management Honor Roll.

- James D. Hinton, vp-risk and insurance for HCA Inc. in Nashville,

Tenn., and the 2005 Risk Manager of the Year.

- Alan J. Maguire, president and CEO of AEGIS Insurance Services Inc. in Jersey City, N.J., representing mutual insurers.

- John J. O'Connell, the C.V. Starr Professor of International Risk Management at Thunderbird, The American Graduate School of International Management in Glendale, Ariz., representing educators.

- Brian O'Hara, president and CEO of XL Capital Ltd. of Hamilton, Bermuda, representing stock insurers.

- Bradley R. Wood, senior vp of

risk management for Marriott International Inc. in Bethesda, Md., and a member of the 2005 Risk Management Honor Roll.

Judges will evaluate each entry based on 10 criteria (see related story). The nominee with the highest total score will be named Risk Manager of the Year; the remaining individuals will be placed into one of four categories not represented by the RMOY:

- Corporations with sales exceeding \$300 million.

- Corporations with sales of less than \$300 million.

- Government entities, including

public entity pools.

- Tax-exempt or nonprofit entities.

The highest-scoring individual in each field not represented by the RMOY will be considered for the 2006 Risk Management Honor Roll.

To obtain a nomination form or for more information, please contact Karen Tucker, executive assistant of *Business Insurance*, at ktucker@businessinsurance.com or 312-649-5319.

Nomination forms and instructions also are available online at www.businessinsurance.com/rmoy.



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COMMENTARY

Senior Editor Dave Lenckus

Dam safety issues demand close look

The catastrophe that struck New Orleans should prompt all risk managers across the country to ask themselves a question: Like the levees in the Big Easy, are there other parts of the nation's infrastructure that are in such disrepair that they could be perilous to nearby communities?

The short answer is yes, and ironically, the risk is flooding. The problem is that many of the nation's approximately 100,000 dams need serious repairs, and many people have no clue that their communities could be at risk, according to experts. Compounding the problem is that in an extraordinarily high percentage of situations, there are no emergency response plans in place for alerting communities at risk if dams do fail.

Of course, short answers rarely provide the clearest picture, so the problem needs some perspective.

Among the nation's dams, 10,000 are classified as high-hazard risks, according to Lori C. Spragens, executive director of the Assn. of State Dam Safety Officials in Lexington, Ky.

The high-hazard classification does not mean those dams are at risk of failing imminently. It does mean that if they do fail, the resulting flooding could claim at least one human life.

Of the remaining 90,000 dams, failures would cause only property damage in some cases and relatively no damage in other cases where the dams stand in uninhabited and uncultivated areas, Ms. Spragens said.

In addition, federal and state officials as well as the private owners of dams—and 58% of the nation's dams are privately owned—are keenly aware of the issue, according to Donald Bruce, an executive with an engineering firm that has been involved in refurbishing 150 dams over the past 10 years. Officials and dam owners are working on repairing dams, and federal funding is being directed at publicly owned dams on a priority basis, says Mr. Bruce, president of Geo Systems L.P. of Pittsburgh.

Still, 10,000 high-hazard dams is a huge number of structures that could pose a flooding risk.

And although the structural integrity problem is being addressed, even Mr. Bruce acknowledges that unexpected complications could develop at a dam that would quickly make it more perilous than ex-

perts originally thought.

Plus, even if a dam failure by itself would not create terrible problems, it could trigger a series of dam failures that might, the ASDSO's Ms. Spragens noted.

For risk managers, an equally troubling problem was highlighted in the results of an ASDSO survey. The survey, completed Sept. 30, revealed that the owners and operators of 4,113 high-hazard dams—or more than 41% of the dams in that category—have not crafted required emergency action plans for dealing with a structural failure.

That means if a high-hazard dam fails, four times out of 10 the operators would have no organized system of contacting officials of the communities in peril. No point person designated to make the emergency calls. No hotline number to any community officials or emergency management personnel to warn them.

And, perhaps worst of all, many communities do not even know they are at risk, according to Ms. Spragens. Often, she says, community zoning officials have approved developments in areas that the officials did not know would be flooded if a nearby dam were to fail.

Indeed, she noted, California is the only state that requires that property buyers be alerted if they are contemplating purchasing property in what Ms. Spragens calls a "dam inundation area."

What this all means is that risk managers, if they haven't already, should do some checking to determine the flood risk their organizations could face from a dam failure.

A good place to start is at the ASDSO's Web site, www.dam.safety.org. A map on the home page allows visitors to click on any state to gather information such as the number of dams in that state and the contact information for the local dam safety officer. State safety officers would be the best sources for information on a community's potential risk for flooding after a dam failure, according to Ms. Spragens.

Dam safety officers also might be able to disclose which high-hazard dams have completed their emergency action plans.

But risk managers should know better than to count on those plans to provide any measure of protection. After all, New Orleans and Louisiana had plans for evacuating the city ahead of a hurricane.

Senior Editor Dave Lenckus can be reached at dlenckus@businessinsurance.com.

Program offers cover to part-timers

WASHINGTON—National Health Access, a nationally coordinated effort by the HR Policy Assn. to provide access to health insurance coverage to approximately 1.25 million uninsured workers and their dependents, officially launched last week at several large U.S. employers.

Avon Products Inc., IBM Corp., Sears Holding Corp., General Electric Co., EMC Corp. and Federal-Mogul Corp. are participating in the first wave to begin offering six National Health Access program choices over the next few months to part-time employees and independent contractors who

are not eligible to participate in corporate-sponsored group health plans.

The program includes a choice of six coverage options ranging from a health care and prescription discount card costing less than \$5 a month to a health maintenance organization option for \$400 a month. Participants also will be offered a high-deductible plan with a health savings account option (*BI*, Jan. 31).

Minneapolis-based UnitedHealth Group Inc.'s Uniprise division will be the primary provider of four national health plans, all of which will be written on a group basis, with

rates set by age and geography and providing guaranteed issue, meaning no physical exam or medical history will be required to obtain coverage.

CIGNA Healthcare of Bloomfield, Conn., and Humana Inc. of Nashville, Tenn., will provide more targeted, regional plans, including the HMO, which will be individually underwritten. Lincolnshire, Ill.-based Hewitt Associates Inc. is administering the program.

For more information about National Health Access, visit the HR Policy Assn. Web site at www.hrpoli-cy.org.

—By Joanne Wojcik

Leavitt fires exec over false quotes

CEDAR CITY, Utah—The Leavitt Group dismissed a managing co-owner in its Albuquerque, N.M. office last month for falsifying quotes on the renewals of nearly two dozen current and former clients over a six-year period, the brokerage said last week.

An internal investigation found that Ken Woodley, managing co-owner of the Leavitt Group of Albuquerque, either made up or inflated comparison quotes to contrast with a recommended legitimate insurance quote, the Cedar City, Utah broker said.

The falsified quotes, which were higher in cost than the legitimate recommended quotes, affected 20 current and former clients associated with seven Native American tribes or pueblos, the brokerage said.

Leavitt Group of Albuquerque

specializes in selling insurance to New Mexico-based Native American tribes, pueblos and related enterprises.

The misrepresentations "harmed clients by creating a false appearance of competition and service, and by unfairly guiding client choice," Mike Chidester, the Leavitt Group's general counsel, said in a statement.

The misrepresentations were brought to light Sept. 15 by a former Leavitt Group of Albuquerque client who was advising the brokerage's parent company, Leavitt Group Enterprises, of irregularities in a past renewal quote presented by Mr. Woodley, the brokerage said. An internal investigation confirmed the misconduct had occurred with respect to the former client and also with respect to additional past and

present clients.

The Leavitt Group reported the misrepresentations to the New Mexico Insurance Department, on Sept. 26, it said, and will deliver a full report to the department by Oct. 11.

"We have sought to swiftly determine what happened, tell clients and regulators what happened, apologize, set things right and put and retain in place people who will serve clients fairly in the future," Dane Leavitt, chief executive officer of the Leavitt Group, said in the statement. "It will take some time to resolve these breaches of trust—but we will."

The Leavitt Group ranked as the 20th largest brokerage of U.S. business in 2005 based on \$94.7 million in 2004 brokerage revenue.

—By Sally Roberts

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FERMA seeks broker transparency pledge

Citing client needs, differing business models, many brokers show reluctance to sign on

By SARAH VEYSEY

LISBON, Portugal—The Federation of European Risk Management Assns. will keep working to garner support for its international broker disclosure charter, despite some reluctance by brokers to sign on to the plan in its current form, according to FERMA's outgoing president.

The main requirements of the charter are that brokers receiving quotes from insurers on risk managers' business should tell the buyer of any commission arrangements they have with those insurers; that such disclosure should happen at every renewal of the business; and that brokers should detail to buyers any commission arrangements on

reinsurance business directly related to their original risk.

The charter would apply to brokers placing business for FERMA members, typically large corporate buyers.

even to remove contingent commission arrangements, Mr. Van Santen said, but is simply meant to give greater transparency to buyers.

Despite the initial reluctance from broker groups, Mr. Van Santen

said. But the association, which represents 47 broker groups throughout Europe, said it was unable to sign the charter on behalf of some of its smaller members, he said.

BIPAR did not feel it was appropriate to sign the charter because it represents hundreds of brokers and intermediaries with many different business models operating in many different markets, said Nic De Maesschlack, the deputy director of BIPAR in Brussels. Therefore, it is difficult for the association to sign a charter on behalf of all its member companies, he said.

In addition, he said, BIPAR believes that agreements over trans-



Complete conference coverage in the Oct. 17 issue

Thierry Van Santen, executive vp in the corporate risk management department of Paris-based Groupe Danone and immediate past-president of FERMA, said that work on the charter began earlier this year. The charter is not intended to impose business models on brokers, or

said that the association is hopeful that brokers eventually will agree to the charter's terms.

FERMA recently approached the Brussels, Belgium-based European Federation of Insurance Intermediaries, or BIPAR, to ask if they would sign the charter, Mr. Van Santen

See CHARTER / page 39

Canadian employers face rising mental health claims

By GLORIA GONZALEZ

Canadian employers are concerned about the cost of health-related absences, but most have not taken active steps to address the issue, according to a new study.

Rising mental health claims, primarily related to stress, depression and anxiety disorders, were the top health and productivity-related concern for Canadian organizations, listed by 56% of participants in the 2005 Watson Wyatt Staying@Work survey. However, only 31% of survey participants indicated that they are likely to implement

tions, listed by 54% of participants.

Despite growing concern about the costs related to employee absenteeism, though, most employers have not taken steps to measure those costs or investigate the root causes of disability claims, the survey found.

Only 35% of companies measure short-term benefit costs per employee, and, again, only 35% track costs per employee for long-term disability benefits, the study says.

Meanwhile, just 36% of organizations said they track the reasons behind long-term disability claims, and only 38% said they do so for short-term disability claims. Many companies do not have the systems in place to gather this information or simply fail to question employees who take shorter absences about the reasons they are taking time off from work, Ms. Ducharme said. "They don't look at the big picture," she said.

Employers can take several steps to address the issue of absenteeism, including training managers to help them identify employees who are having difficulties at work, identifying what the organization's risk factors are and challenging management practices that can cause employees to be more stressed and/or less productive, said Ms. Ducharme.

"Presenteeism"—when employees are at work but their productivity is affected by personal issues—has also emerged as a new and growing concern, with 28% of respondents citing it as an issue but only 16% saying they plan to do something about it within the next year or two, she said. Part of the problem is that employers do not know how to measure the impact of presenteeism, said Ms. Ducharme.

The Watson Wyatt "2005 Staying@Work" survey collected responses from 94 midsize and large Canadian organizations. For more information, visit www.watsonwyatt.com/canada.

Employer concerns

Top health and productivity-related concerns for Canadian employers

Rising mental health claims	56%
Aging workforce	54%
Employee engagement	48%

Source: Watson Wyatt Worldwide

programs to address the issue of rising mental health claims over the next one to two years.

"Organizations simply don't know what to do with mental health claims," said Claudine Ducharme, a Montreal-based consultant with Watson Wyatt Worldwide's health care and disability management practice.

The social stigma involved with mental health issues is a contributing factor to the inaction of companies, she said. Only 5% of organizations have any plans to deal with the social stigma of mental illness, which may keep sufferers from coming forward and prevent organizations from improving results, the survey found.

The aging of the workforce, which has contributed to an increase in long-term disability claims, was the second leading health and productivity-related concern for Canadian organiza-

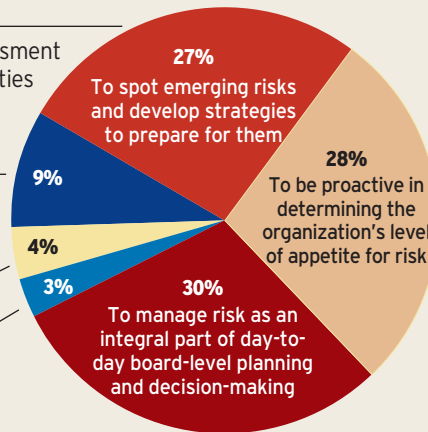
Embracing risk

Executives differ in their assessment of boards' primary responsibilities regarding risk management.

To sanction or reject risk assessments conducted at lower levels of the organization

To respond to risks as they arise

Other



Source: Economist Intelligence Unit, 2005

Many executives ignore advantages of applying risk management: Study

By BARBARA COCKBURN

Risk management in companies around the world is driven "grudgingly" by a need to meet regulatory demands rather than a desire to realize the full benefits risk management can bring, according to a report.

"Taking Risk on Board," released last week by Lloyd's of London and the Economist Intelligence Unit, a London-based business analyst, found that senior executives are failing to identify and manage emerging risks such as cybercrime and terrorism. In addition, executives could do more to consider a wider range of risks.

The research was conducted in May and surveyed 112 board members of companies from North America, Western Europe, Asia-Pacific, Latin America, Eastern Europe and Africa and the Middle East. About two-thirds of respondents were chief executives or chief financial officers.

The report said that while there is evidence that company boards are assessing a wider range of threats, such as risks posed by regulation,

disruption to business continuity and financial instability, 40% of boards now spend 10% of their time on risk and only 13% of boards spend more than 20% of their time on risk.

David Foreman, chief underwriting officer at Lloyd's insurer Wellington, said it was a "welcome trend" that companies are spending some time on risk management but noted the report's finding that one in three firms had suffered "significant damage as a result of their failure to manage risk."

He added the research shows that "boards of directors didn't seem to be incorporating the modern range of risks into their decision-making. Most were focusing on governance and regulatory risk, and it surprised us that they weren't taking much note of the impact of weather on businesses and the threat of terrorism."

The adoption of risk management standards across companies is not as thorough as it needs to be, said the report. Nearly 60% of organizations have regular dialogue

See RISK / next page

Updates

Aon to eliminate 750 jobs in U.K.

Aon Corp. will cut 750 jobs in its U.K. operations over the next two years, the broker announced. The cuts, which represent 11% of Aon UK's total workforce, are part of a restructuring of Aon's insurance brokerage and risk management operations in the United Kingdom, the company said. Most of the job cuts will be in the specialty and risk services divisions and corporate services, though Aon Consulting, its human resources and pensions consulting business, and its reinsurance division also will be affected, the company said.

Companies fined over Hatfield crash

Engineering firm Balfour Beatty P.L.C. and rail track operator Network Rail have been fined a total of £13.5 million (\$23.8 million) over the fatal Hatfield rail crash in October 2000. A U.K. criminal court judge fined Balfour Beatty £10 million (\$17.6 million) and Network Rail £3.5 million (\$6.2 million) for breaches of safety regulations related to the crash, which killed four and injured more than 100. Network Rail, formerly Railtrack P.L.C., was found guilty last month of breaching health and safety regulations. Balfour Beatty Rail Infrastructure Services faced similar charges and last month changed its plea to guilty after corporate manslaughter charges against the company and individual manslaughter charges against five executives were dismissed.

QBE renames European unit

QBE European Operations announced last week it had changed the name of QBE International Insurance Ltd. to QBE Insurance (Europe) Ltd. The London-based company last year recorded gross written premiums of £596 million (\$1.14 billion).

APRA disqualifies former HIH exec

The Australian Prudential Regulation Authority has disqualified Geoffrey Cohen, former chairman of the board of failed insurer HIH Insurance Ltd., from being or acting as a director or senior manager of a general insurance company. In a statement, APRA said Mr. Cohen had, on "a number of occasions," failed to ensure that "all relevant matters and materials were properly brought before the HIH board, and that the audit committee was independent." APRA, Australia's insurance regulator, also said Mr. Cohen had failed to disclose a potential conflict of interest arising from a consulting arrangement he had with an auditing firm.

Risk: Business leaders should embed risk management within their organizations

Continued from previous page

with managers of business units on risk management, but only one-quarter set regular risk targets for managers, and less than one-third provide risk management training.

The report said that, "surprisingly," less than one-third of boards feel that technical risk management skills and qualifications are important or train their staff in these skills, and just 18% of board members have received training in how to implement risk management.

But almost half of board members had training on corporate governance, "suggesting that companies undervalue the benefits of specialist risk management expertise," the report said.

Julian James, Lloyd's director of worldwide markets, said this indicates a "failure to embed risk management within organizations and is symptomatic of a culture where risk management is 'someone else's job.'"

He added that "today's business

"Risk management can be a liberating experience that generates reward."

Peter Berring
AIRMIC

leaders know that the likelihood of a costly risk management failure is high, this research shows that busi-

nesses should be doing more to recognize and prepare for the potentially crippling risks they face."

Mr. Foreman said "this research shows that risk management in firms is still being driven almost begrudgingly by a need to meet regulatory demands rather than the benefits it can bring."

He warned that until boards tackle these issues, risk management "is likely to be seen by senior management as a constraint on their business rather than the

source of competitiveness that it should be."

Peter Berring, chairman of the Assn. of Insurance and Risk Managers, said: "A key message we need to get across is that risk management can be a liberating experience that generates reward. Too often it is wrongly associated with risk avoidance when, practiced correctly, it is about understanding and then working with risk."

The report is available at www.lloyds.com/takingriskonboard.

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Charter: Brokers say disclosure document needs revision before they will sign

Continued from page 37

parency should take place between individual companies, not between associations.

At a broker panel arranged by the International Federation of Risk & Insurance Management Assns. Inc. at FERMA's biennial conference in Lisbon, Portugal, last week, representatives of leading brokers were asked about their reaction to the charter.

Richard Bucknall, vice chairman and chief operating officer of London-based Willis Group Holdings

Ltd., said he believes the charter does not go as far as Willis' own so-called "Client Bill of Rights," published late last year. For example, he said, Willis pledges not just to disclose any contingent commission arrangements—as the FERMA charter requires—but abolishes all contingent commission agreements. Also, the Willis document applies to large clients, such as FERMA members who would be covered by the proposed charter, and also to smaller clients.

Nonetheless, Mr. Bucknall said,

Willis is considering the charter and has several questions it wishes to put to FERMA. He said he could not comment further at this stage.

Gregory C. Case, president and CEO of Aon Corp., said the Chicago-based broker supports the concept of such a charter, but had reservations about the current wording and would consider signing a revised version of the charter.

The charter is not currently publicly available, noted Mr. Van Santen, because the wording has not

been finalized.

Bruce Carnegie-Brown, president and chief executive officer of the Europe/Middle East region of New York-based Marsh Inc., said he, too, believes the concept of the charter is a good one but that "it is not a perfect document yet." He said the broker also had some reservations about the wording of the charter, but he said that if those issues can be resolved, Marsh will sign.

John Percy-Davis, chairman of broker network EOS Risq and execu-

tive chairman of Alexander Forbes International Risk Services Ltd. in London, said that "the principles of the charter are fundamentally correct." But he said EOS Risq would not sign on the grounds that it was "inequitable" that the charter would only apply to larger buyers.

Maurizio Castelli, who moderated and spoke at the panel session, said FERMA realizes that some refinement of the wording of the charter might be needed before large brokers would sign on to the pledge.

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UNITED STATES BANKRUPTCY COURT SOUTHERN DISTRICT OF NEW YORK

In re: Petition of Hermanus Johannes Touw, on behalf of DAP HOLDING N.V., et al. Debtors in a Foreign Proceeding. An Ancillary Case Under Section 304 of the Bankruptcy Code Case No.: 05-18816 Jointly Administered Foreign Proceeding.

NOTICE OF FILING OF PETITIONS PURSUANT TO 11 U.S.C. § 304 AND HEARING ON APPLICATION FOR PERMANENT INJUNCTION IN SUPPORT OF SCHEMES OF ARRANGEMENT

PLEASE TAKE NOTICE that on September 27, 2005, Hermanus Johannes Touw (the "Petitioner") filed petitions pursuant to section 304 of title 11 of the United States Code (collectively, the "Petitions") and an application for permanent injunctive relief (the "Application") with the United States Bankruptcy Court for the Southern District of New York (the "Bankruptcy Court") with respect to the following companies:

DAP Holding N.V.; Achmea Schadeverzekeringen N.V.; AEGON Schadeverzekering N.V.; Allianz Nederland Schadeverzekering N.V.; AMEV Schadeverzekering N.V.; Atradius Credit Insurance N.V.; AXA Schade N.V.; Delta Lloyd Schadeverzekering N.V.; Fortis Corporate Insurance N.V.; GENERALI Schadeverzekering Maatschappij N.V.; Goudse Schadeverzekeringen N.V.; N.V. Maatschappij van Assurantie, Discontering en Beleening der Stad Rotterdam Anno 1720; N.V. Nationale Borg-Maatschappij; Nationale-Nederlanden Internationale Schadeverzekering N.V.; Nationale-Nederlanden Schadeverzekering Maatschappij N.V.; N.V. Noordhollandsche Van 1816 Algemene Verzekeringmaatschappij; Vereenigde Assurantiebedrijven "Nederland" N.V.; and N.V. Verzekering Maatschappij de Noord-en Zuid-Hollandsche Lloyd.

PLEASE TAKE FURTHER NOTICE that on October 27, 2005 at 11:00 a.m., Petitioner, as the foreign representative of the Scheme Companies, will appear by his attorneys before the Honorable Allan L. Gropper, United States Bankruptcy Judge, at the United States Bankruptcy Court for the Southern District of New York, Alexander Hamilton Custom House, One Bowling Green, New York, New York, 10004, and request that the relief requested in the Petitions and the Application be granted and a permanent injunction order be entered enjoining and restraining parties from taking any action in contravention of the schemes of arrangement, dated August 5, 2005, proposed by the Scheme Companies pursuant to section 425 of the Companies Act 1985 of Great Britain. A complete description of the relief sought by the Petitioner is contained in the Application.

PLEASE TAKE FURTHER NOTICE that copies of the joint summons, each of the Petitions and the Application are available on the Bankruptcy Court's website at <http://www.nysb.uscourts.gov> (a PACER login and a password are required to retrieve a document) or upon written request to the Petitioner's counsel (including by facsimile or email) addressed to:

Cadwalader, Wickersham & Taft LLP
One World Financial Center, New York, New York 10281
Facsimile: (212) 504-6666
Attention: Santina Uribe, santina.uribe@cwvt.com

PLEASE TAKE FURTHER NOTICE that motions, answers or objections, if any, in response to the joint summons, the Petitions and the Application must be made in writing describing the basis therefor and shall be filed with the Court electronically in accordance with General Order M-182 by registered users of the Court's electronic case filing system, and by all other parties in interest, on a 3.5 inch disc, preferably in Portable Document Format (PDF), Word Perfect or any other Windows-based word processing format, with hard copy to the Chambers of the Honorable Allan L. Gropper, United States Bankruptcy Judge, and served upon Cadwalader, Wickersham & Taft LLP, One World Financial Center, New York, New York 10281 (Attn: Gregory M. Petrick), counsel to the Petitioner, so as to be received on or before October 25, 2005 at 5:00 p.m. New York time. If you fail to respond in accordance with the foregoing procedures, the relief sought by the Petitioner may be granted.

Dated: New York, New York, October 4, 2005
CADWALADER, WICKERSHAM & TAFT LLP, Attorneys for the Petitioner, Gregory M. Petrick (GP 2175), Ingrid Bagby (IB 3844), David Neiman (DN 0371), One World Financial Center, New York, New York 10281, Tel: (212) 504-6000, Fax: (212) 504-6666

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Competition: Employers offer multiple health plans, insurers in drive for choice

Continued from page 3

their employees the choice of more than one insurer because of cost and the potential for adverse selection occurring against the carrier that attracts less healthy employees, Mr. Close said.

To counter this, Benu uses postenrollment risk adjustment. The insurers charge premiums as if they were to underwrite an entire group, even if they only get a portion of them. Then, nine months later, Benu reviews the claims history and then reallocates the premiums accordingly.

"If you want to go into a defined contribution environment where

an employee has a set amount of money and now they have to make rational, economic decisions about what plan to buy, you can only do that if the products and the prices presented are transparent, and if the prices presented are based on the true underlying value of the product," Mr. Close said.

"You can only do that if you have a set of business rules that determine how they set their pricing and a risk adjustment process to make sure that they get paid fairly," he said.

Frontier Management, a Durham, Ore.-based operator of retirement homes and assisted living

facilities in six western states, began offering Benu's program this year to save money and to offer its 135 management employees more choice, according to Matthew Dunham, chief operating officer.

Previously, Frontier offered its management employees and their dependents coverage through a single carrier, he said.

"There was definitely an opportunity to improve the monthly premium amount as far as having it reduced, but at the same time it allowed us to have a two-plan option that provided a lot more choice and selection opportunities,

which we did not have in the past," he said.

"The idea of choice is still very important to the average employee," and "for a small and midsize employer to offer big company benefits that allows them to make HMO, PPO, POS kinds of elections is going to be a positive," said Joe Martingale, a consultant at Watson Wyatt Worldwide in New York.

"A lot of employers do not want to be held captive to just one insurer."

**Henry Loubet
Keenan & Associates**

The use of risk adjustment also makes participation more palatable to insurers, according to Tom Curtin, vp-marketing at Kaiser Permanente of the Mid-Atlantic, which is one of the choices Benu offers in the Northwest and the mid-Atlantic alongside CIGNA Healthcare.

"The impact of adverse selection is diminished," he said. "Payment is adjusted based on demographics, utilization, etc."

CaliforniaChoice was launched by CHOICE Administrators, a subsidiary of Word & Brown Insurance Administrators Inc., a third-party administrator subsidiary of broker Word & Brown, about 10 years ago shortly after passage of small group reform legislation in California.

"We build a proposal that shows all the carriers and plan designs for California," which might include two HMOs, five PPOs, and one health savings account, which was added this year, explained Ron Goldstein, president of CHOICE Administrators. Currently, seven insurers participate: Blue Shield of California; Health Net; Kaiser Permanente; Sharp Health Plan; Universal Care; Universal Care/ChampionHealth; and Western Health Advantage.

Because pricing is set by state-mandated rate bands in California's small group market, the plans compete based on plan design rather than on price, though pricing does vary based on geography and other factors.

"We are not price-driven," Mr. Goldstein said. "What we're driven by is pure choice and defined contribution."

And Mr. Goldstein has found that, contrary to what many employers expect, employees are willing to spend more for richer health benefits when they are given that choice.

Though Benu's product offers fewer carrier choices than does CaliforniaChoice, it offers several plan options. For example, while Kaiser may offer its traditional HMO product, CIGNA would offer its PPO, and both are planning to introduce HSA products for 2006.

It is because of this limited menu that CIGNA agreed to participate, according to Matt Manders, president of CIGNA Healthcare's middle market segment in Bloomfield, Conn.

"The choice of Kaiser was critical for us because it's a very different organization that draws a different type of interest and therefore we thought it would be more complementary vs. redundant," he said. "You have customers that a portion of them would want to select a national carrier with broader band width and different business model and portions that would be very attracted to a Kaiser-type model."

Mr. Close said he intentionally opted not to pit similar-type carriers against one another, even though that is one precept of managed competition.

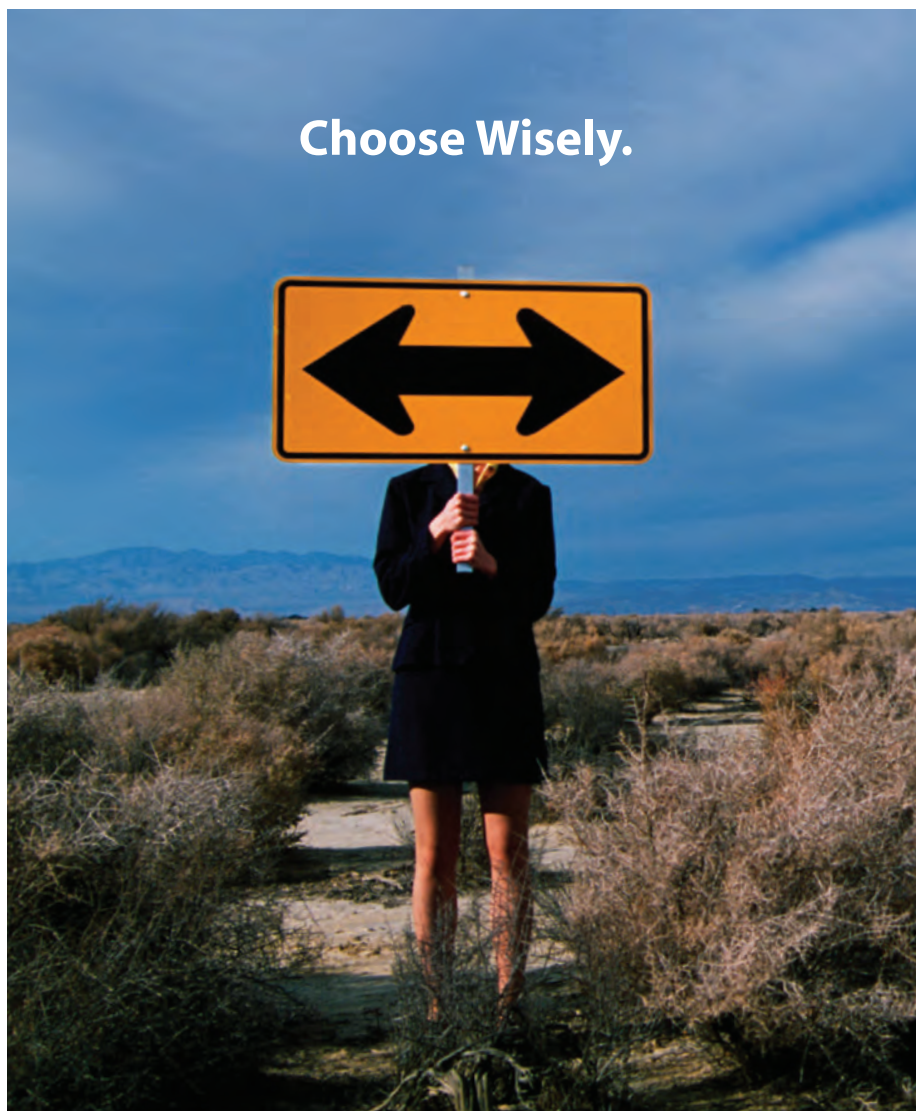
Keenan's managed competition-style product, called "CAPEP," is being marketed to California public employers, including school districts, cities, counties, community colleges and other local agencies throughout the state. CAPEP provides a choice of three insurers—Kaiser, PacifiCare and WellPoint—and applies post-enrollment risk adjustment like Benu. It also emphasizes the use of defined contribution.

"A lot of employers do not want to be held captive to just one insurer," said Henry Loubet, chief strategy officer at Keenan in Oakland. "In California, most employers offer Kaiser in addition to another carrier. As a result, the carriers build in a fudge factor. This would be eliminated. We believe the health plans will give more appropriate quotes because the risk they get is not based on projection."

Alain Enthoven, a nationally recognized economics expert and a professor emeritus at Stanford University's Graduate School of Business, considered to be "the father of managed competition," was instrumental in shaping the CAPEP program and serves on Keenan's advisory board.

"We need 1,000 of these organizations out there. Most Americans do not have a choice of health plans," he said.

However, he believes employers must adopt the defined contribution strategy, paying only for the lowest-cost plan and giving employees the option of buying up to more expensive plans with their own money, for managed competition to really take hold.



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NCQA: Enrollment changes seen as undermining organization's quality effort

Continued from page 1

tools for those types of plans so you know better what you're buying. But clearly the trend is in a different direction."

Though the NCQA does collect data on PPOs, it does not have sufficient information on them to publish as robust a report as the one published last week on HMOs and POS plans.

"Our goal is to create more demand for a broader accountability framework. There's no reason why we couldn't have this kind of data on PPOs," said NCQA President Margaret O'Kane.

But in the meantime, she acknowledged that the NCQA is working to keep up with the evolving marketplace.

"We're in the process of examining our products and trying to figure out what kind of adjustments we need to make to make sure we're not behind what the market is doing," she said.

"It's almost like, to be at the playing table you have to be accredited, but it doesn't help the plans land business."

Ray Brusca
The Black & Decker Corp.

The NCQA needs to reinvent itself if it is to stay relevant in the evolving paradigm of health care, according to Brian Klepper, president of the Center for Practical Health Reform in Atlantic Beach, Fla.

"There are a lot of ways to skin cats. I think that an organization that has as its mission to enhance the quality of the enterprise has to figure out how that can best be done and to make a compelling argument to its markets that this is in their interest," he said.

Some question the need for the NCQA's efforts at all when so few health insurance buyers are using the organization's ratings when they make plan purchasing decisions.

"I'm not sure whether the various accreditation programs have had any impact in terms of the purchasing decisions by purchasers. We may say it has, but our actions speak otherwise. If we followed what we said, the enrollment in those plans wouldn't be going down," said Ray Brusca, vp-benefits at The Black & Decker Corp. in Towson, Md.

He also questioned the significance of NCQA accreditation, given that virtually every health plan today has it.

"It's almost like, to be at the playing table you have to be accredited, but it doesn't help the plans land business. I still think employers by and large are motivated by cost," he said.

Ms. O'Kane expressed her disappointment in employers' decision-making.

"The employers were for a time aligned behind the HMO strategy, and now I think they're much more fragmented in terms of their goals. I think there's a subset of employers that have given up on the idea that health care is ever going to be working rationally, and they're just trying to limit their outlays.

"I don't say that with any contempt for the people, because we have some real serious issues to reform in this health care system if we're going to manage cost," she said.

"I think that many of the employers have given up, and where they're headed is kind of 'defined contribution' and 'you're on your own.' We think that's a mistake, and many employers will wind up paying a price for that," Ms. O'Kane said.

"If people wind up—especially low-paid workers—with high-deductible plans, they may not get the services they need to keep them healthy. To attempt to save money without a longer-term strategy, we could wind up shooting ourselves in the foot," she said.

But some say the kind of work the NCQA is doing is vital to con-

sumers in the new health care market; it's just that the organization needs to focus more on PPO networks and individual providers and less on HMOs.

"Health care is at a crossroads, evolving toward a consumer-driven system," said Dr. Phil Polakoff, national practice leader for clinical consulting and lifetime health strategy at Buck Consultants Inc. in San Francisco.

"Studies show that consumers are willing to shoulder more of the cost for their health care, but in return they will also have higher expectations with regard to their own health and health care outcomes,"

he said.

"Quality and information about quality and effectiveness of care will only become increasingly important as the industry shifts more toward consumer-focused health care plans," he said.

Helen Darling, president of the National Business Group on Health in Washington, agrees that such information is vital in the current health care landscape.

"There has never been a more important time to have objective, trustworthy sources of information about health care providers and treatment options," Ms. Darling said.

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Unum: Insurer agrees to change in 'total disability' definition

Continued from page 1

practices, California regulators said they uncovered 25 state law violations.

Thousands of claimants in California are to be notified about a reassessment of claims denied between Jan. 1, 1997, and Sept. 30, 2005.

In settling with California, the insurer did not admit any wrongdoing, but it did agree to pay an \$8 million fine and to improve its practices. In addition, UnumProvident must immediately implement a new definition of "total disability" in its policies, even for those currently in force.

Disability defined

According to the settlement agreement, UnumProvident will define an insured as experiencing "total disability" if he or she is "unable to perform with reasonable continuity the substantial and material acts necessary to pursue his or her usual occupation in the usual and customary way or to engage with reasonable continuity in another occupation in which he or she could reasonably be expected to perform satisfactorily in light of his or her age, education, training, experience, station in life, physical and mental capacity."

That definition raises serious concerns for employers, some critics contend, especially because the Insurance Department has said that Mr. Garamendi will seek to require all long-term disability insurers in California to use that same definition of "total disability" and to comply with other conditions in the settlement with UnumProvident. Currently, the definition varies among policies and insurers.

The DOI has called a Nov. 17 meeting with insurers to discuss the changes. In a Oct. 3, letter advising insurers of the meeting, the department outlines several changes. For example, the letter says it is no longer permissible for insurers to

UnumProvident settles

In a settlement agreement between UnumProvident Corp. and the California Department of Insurance over alleged claims-handling violations, the disability insurer will pay \$8 million and agreed to several changes.

- Adopt a newly required definition of "total disability."
- Rehabilitation provisions in California contracts will be voluntary.
- Elimination of policy language allowing the insurance company to determine eligibility for benefits and to interpret policy language.
- Social Security offsets will only be applied to benefits actually received, not estimates of benefits due.
- Policy language regarding pre-existing conditions will be interpreted more liberally, no longer excluding conditions contributed to by the pre-existing condition.
- Survivor benefits, when applicable, will have no age limit on surviving children; if there are no eligible survivors, benefits are paid to the estate.

Source: Court papers

provide employers with workstation modification funds, as all benefits must be paid directly to the insured.

The new definition of "total disability" will hamper California employers' attempts to direct employees filing disability claims into modified- or light-duty positions, said Karen Ignagni, president and chief executive officer of Washington-based America's Health Insurance Plans, an insurer trade group.

Under the new definition, claimants can collect total disability benefits unless they are able to re-

turn to the same job or one that is very similar to the one they held before filing a claim, Ms. Ignagni said.

For example, injured drivers for a package delivery service would therefore have less incentive to participate in a light- or modified-duty program that put them to work on less strenuous, administrative tasks, as they could instead opt to continue collecting total disability benefits.

"This would really turn back the clock on decades of progress," Ms. Ignagni said. "It's an about-face in return-to-work efforts."

Indeed, participating in return-to-work programs will become much more optional for employees than it was before, said Tim Prichard, a principal and employee benefits consultant at Bridge-Street Consulting Group in San Francisco.

But John Garner, CEO of Garner Consulting in Pasadena, Calif., and the national legislative and government affairs advisor for the San Diego-based Disability Management Employer Coalition, said the impact may not be so severe for employers.

Long-term disability insurers and employers typically do not place people with high skill levels in significantly less skill-intensive return-to-work jobs. Consequently, the number of cases affected by the "total disability" definition may not be large.

The settlement requires UnumProvident to make several other changes to its policies (see box).

The DOI is merely requiring insurers to provide benefits that are already being paid for and acting to protect workers, a DOI spokesman said. And employers will still be able to train employers for alternative positions, he added.

Cost impact

But costs will increase not only because wider benefits will have to be offered, but also because without return-to-work incentives, insurers

will have to reserve for more costly claims, Mr. Prichard said. To provide for the wider benefits called for in the agreement, UnumProvident has alerted industry analysts that it will have to raise rates by 5% to 10%, a company spokeswoman said.

But it is uncertain whether the changes ultimately will have a profound impact on prices, said Ken Drummer, a vp in San Francisco for Woodruff-Sawyer & Co., a risk management and benefits broker and consultant. Because the definition of disability varies among policies, any cost increases would depend on how much other insurers will have to change their current practices.

But "when we get down in the weeds with employers and they are trying to control costs, one of the things we look at is, what does the contract call for, what is the definition of 'disability,'" Mr. Drummer said. Some employers—such as those in high-tech industries—typically pay for all or part of the cost of long-term disability policies, he explained. Others, such as those in retail or food service, may offer the coverage but require employees to pay all or most of the cost if they elect the cover.

Ms. Ignagni said AHIP will conduct a study over the next few weeks to determine by how much the changes will impact pricing.

Health care: Premium increases continue to slow

Continued from page 3

sultants recently projected that 2006 increases will be in the 7.5% range.

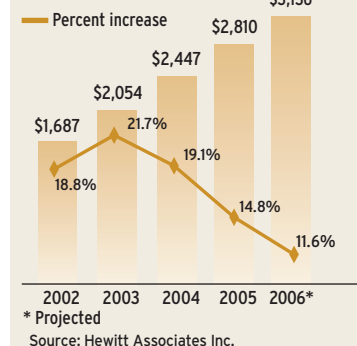
Several factors are responsible for the easing of health care cost increases, said Hewitt's Mr. Stacey. One factor is the expansion of disease management and wellness programs. While the designs of such programs vary, employers often provide financial incentives for employees to take action, such as participating in health-risk assessments intended to improve employees' health and ultimately reduce the use of costly health care services.

At the same time, rate increases that the federal Medicare program has provided to hospitals and physicians have been sufficiently high of late to reduce the need for medical providers to cost-shift to patients covered under employer-sponsored plans, Mr. Stacey said.

Additionally, more employers are

Employees' coverage costs

Costs include employee premium contributions and out of pocket expenses.



introducing—at least as one option—lower-cost high-deductible health insurance plans linked to health savings accounts or health reimbursement arrangements, he said.

Next year, as many as 25% of em-

ployers will be offering some type of consumer-driven health care plan, up from only 5% a few years ago, Mr. Stacey said. Advocates say such plans help to restrain costs by giving employees a financial incentive—the ability to build up balances in an HRA or HSA—to use health care services more carefully.

HSA- and HRA-linked high-deductible plans will become mainstream health care plans in the coming years, he said.

Other changes down the road could further help restrain cost increases, most notably the growing public availability of provider cost and quality information.

"We do see this as a tool that will be important to individuals," Mr. Stacey said.

A summary of the Hewitt survey is available at www.hewitt.com.

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17. I certify that all information furnished on this form is true and complete. I understand that anyone who furnishes false or misleading information on this form or who omits material or information requested on the form may be subject to criminal sanctions (including fines and imprisonment) and/or civil sanctions (including civil penalties).

Martin J. Ross III, Publisher
9-29-05

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WTC : Swiss Re contests Port Authority claims

Continued from page 4

rences in the loss. Insurers had already paid the agency \$950 million as of last spring, and the Port Authority said it would claim an additional \$2.1 billion.

In a lawsuit filed late last month in U.S. District Court in New York, Swiss Re argues that the WTC buildings leased to Silverstein are not covered under the Port Authority's program because Silverstein's separate

insurance named the Port Authority as an additional insured.

Swiss Re also maintains that the Port Authority has not suffered a loss on the Silverstein WTC buildings because Silverstein has continued to make the \$110 million annual rent payments required by the lease.

Even if the buildings were covered, Swiss Re also argues that the loss is a single occurrence entitling the Port Authority to one \$1.5 bil-

lion limit. Two Swiss Re units wrote a combined 26.1%, or \$348.4 million, of the limits in excess of a \$10 million primary layer.

Swiss Re's suit is similar to one filed in the same court in June by Lloyd's underwriters, which wrote \$527 million of the limit.

The Port Authority has denied Lloyd's contentions and has filed a motion to dismiss the Lloyd's complaint.

Ruling: Insurer waived fraud defense, court says

Continued from page 4

panel agreed in an Oct. 3 ruling.

The waiver language in the Royal policies varied but in its clearest form stated that the banks' right to receive payment for losses is "absolute, continuing, irrevocable and unconditional irrespective of...any fraud with respect to the student loans...or any other rights or defenses that may be available to the insurer to avoid its obligations under this policy," the panel noted.

The appeals court rejected Royal's contention that the waiver referred only to fraud by individual students and not by SFC itself.

The panel also found that the waivers are enforceable under Delaware law, which in some earlier cases had blocked enforcement of sweeping waivers to bar fraud claims.

While Royal maintained that its clauses were not specific enough

about the rights it was waiving to be enforceable, the appeals court found that specificity is not the deciding factor.

"The lack of specificity in Royal's waivers does not make them any less clear," the panel wrote. "When sophisticated parties include a broad but unambiguous anti-reliance clause in their agreement, (Delaware law) will likely indulge the assumption that they said what they meant and meant what they said."

The court also differentiated Royal's case from another in which a New York federal court allowed Liberty Mutual Insurance Co. to rescind a surety bond guaranteeing Enron Corp.'s performance under purported natural gas forward contracts with an affiliate.

Liberty Mutual was unaware when it issued the bond that the contracts were a sham concealing what was in essence a loan to En-

ron from JPMorgan Chase Bank, the 3rd Circuit panel noted.

Unlike Liberty Mutual, Royal hasn't questioned the nature of the transactions it covered, despite its allegations of fraud by SFC, the court found.

"A fairly obvious risk of this insurance decision is that SFC would misrepresent the quality of the loans," the court observed.

While deciding the waiver dispute, the appellate panel returned the case to the trial court on the question of how much of the banks' claims are compensable losses under the policies. Royal contends that some of the losses resulted from diversions of funds by SFC rather than from nonpayment by student borrowers, the risk covered by the policies.

Wells Fargo, however, counters that any alleged misappropriation by SFC is another form of fraud to which Royal has waived its defenses.

Late News

Continued from page 1

Lockheed to phase out defined benefit plan

Continuing a trend among major employers, Lockheed Martin Corp. is adding a second defined contribution plan and will phase out its defined benefit pension plan. The new plan offered by Bethesda, Md.-based Lockheed, the nation's largest defense contractor, will give participants the opportunity to direct company contributions into similar investment options that Lockheed now offers in its 401(k) plan. All salaried Lockheed employees hired in the United States as of Jan. 1, 2006, will be enrolled in the new plan. Lockheed is retaining its \$23 billion defined benefit plan, one of the nation's biggest, for existing employees.

ACE USA forms energy operation

The ACE USA subsidiary of Bermuda-based insurer ACE Ltd. has launched a new retail unit to provide property and casualty insurance for energy companies and related entities based in the United States. Among the coverages ACE Energy will underwrite are: onshore and offshore oil and gas facilities; power and utility generating facilities; inland marine, on a retail basis; high-challenge facilities, such as mining; and custom and excess casualty lines.

Lloyd's first-half profits up 21%

Lloyd's of London recorded a marketwide profit of £1.38 billion (\$2.47 billion) for the first half of 2005—up 21% over the prior-year period—in its first-ever publication of six-month results. The market's gross written premiums were £8.40 billion (\$15.04 billion) for the half, down 14.6%, which "reflects underwriting discipline, responding to an increasingly competitive rating environment in the first half of 2005," Lloyd's said in a statement. Investment income more than doubled to £657 million (\$1.18 billion).

PBGC takes over Huffey pension plan

The Pension Benefit Guaranty Corp. has taken over and terminated the pension plan sponsored by bankrupt Huffey Corp., the Miamisburg, Ohio-based bicycling and sporting goods

manufacturer. The PBGC's action came after a bankruptcy court ruled that Huffey satisfied the legal criteria for a distress termination. The Huffey plan, which has about 3,700 participants, is 47% funded with \$71.7 million in assets and \$152.4 in liabilities. The PBGC, which estimates that it will be liable for \$80 million of the \$80.7 million funding shortfall, expects to recover between \$7 million and \$9 million in bankruptcy court.

P/C industry profits rise 29% in first half

The U.S. property/casualty insurance industry's net income after taxes rose to a record \$30.93 billion in the first half of 2005, up 29.1% over the prior-year period, according to an analysis by the Insurance Services Office Inc. and the Property Casualty Insurers Assn. of America. The industry's consolidated surplus increased 4.7% to \$412.51 billion at June 30, compared with \$393.89 billion at the end of last year, while the aggregate combined ratio dropped to 92.7% from 94.3%, according to the analysis.

Briefly noted

Thomas Hampton has been named acting commissioner of the **District of Columbia's Department of Insurance, Securities and Banking**. Mr. Hampton, who has served in the department since 1988, replaces Larry Mirel, who recently left the department to join the Washington law office of Wiley Rein & Fielding L.L.P....**USA Risk Group** is expanding its Cayman Islands captive management services with the purchase of JLT Risk Solutions (Cayman) Ltd. The transaction is expected to be completed by Dec. 31, and the company will be renamed USA Risk Group (Cayman) Ltd....**Wilmington Trust Corp.** has opened a captive management office in Vermont. The Burlington office, Wilmington Trust SP Services (Vermont) Inc., adds to Wilmington Trust's captive management operations in Delaware, Nevada, South Carolina and the Cayman Islands....**Marsh Inc.** has been selected to provide insurance consulting and risk management services for the 2008 Summer Olympic Games in Beijing, the New York-based brokerage said Thursday. Marsh will provide the services in collaboration with a Chinese brokerage, China Sports Insurance Broker Co. Ltd.

BI Stock Index [10/3 - 10/7]

Up-to-the-minute data for all 85 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	2642.76	-1.16
Dow Jones	10292.31	-2.62
S&P 500	1195.90	-2.68

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

Largest gains

SCPIE Holdings Inc.	7.76%
NYMagic Inc.	4.15%
American Safety Insurance	3.42%
Zenith National Insurance	3.05%
Health Net Inc.	2.77%

Largest losses

Aspen Insurance	-22.00%
MBIA Insurance Group	-7.49%
Allmerica Financial Corp.	-5.71%
Harleysville Group	-5.71%
St. Paul Travelers Cos.	-5.35%

Weekly change by market segment

Brokers	-1.03%
Insurers/Reinsurers	-1.81%
Managed Care Organizations	-0.80%

Leadership in Specialty

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New Online Poll: Do you think the continuing consolidation among health care plan providers will be beneficial for employers?

Items in the Late News column originally appeared in BI's Daily News feature on www.businessinsurance.com. Visit the BI Web site to sign up to receive BI's Daily News by e-mail.

AFTER THE STORMS

Capital: Insurers, reinsurers raise capital after hurricanes, but few expect startups

Continued from page 1

Streit, an analyst with Williams Capital Group in New York. Price increases will be seen in the reinsurance sector, as well as certain primary lines, such as marine/energy and

catastrophe-exposed property lines, he said.

Several insurers and reinsurers in recent weeks have shored up their balance sheets by selling millions of dollars worth of shares and other securities (see box).

A desire to avoid downgrades from rating agencies concerned about capital shortfalls and liquidity issues from hurricane losses is another factor fueling the wave of capital-raising activity.

"The companies that I've seen get hit the hardest have been the ones raising money," said Mr. Streit. Such balance-sheet strengthening can help these insurers and reinsurers maintain ratings despite booking large catastrophe losses, he said.

Furthermore, in-

surers and reinsurers may be eager to quickly execute their capital-raising plans, as most are currently deciding which lines of business they will offer in 2006.

With the Property Casualty Insurers Assn. of America's conference coming up this month in Chicago, "companies would like to be prepared in advance" to talk about what lines they will be placing next year, Mr. Puccia said.

Still, the industry's capital-raising push is not expected to end any time soon. As companies continue to tally their losses, evaluate their capital adequacy and engage in discussions with ratings agencies, the industry will see a continuation of this trend, Mr. Streit of Williams Capital said.

"There's plenty more to come," Mr. Puccia said.

Some companies that have already raised funds in recent weeks already are planning additional moves.

For example, PXRE Group Ltd., which has already raised \$475 million through the sales of common and preference stock, has called a

special meeting of its shareholders in November to consider the authorization of an additional share issuance, while Everest Re Group Ltd. late last week filed to sell another \$76 million of various securities.

In total, insurers and reinsurers could raise an additional \$10 billion to \$15 billion in fresh capital before the end of the year, Banc of America Securities analysts predicted last week in a report.

Those doing so will be aided by recently eased Securities and Exchange Commission requirements for registering the sale of securities and stock. The agency's Division of Corporation Finance last week announced that it was working to speed the processing of filed requirements and reduce related paperwork for insurers. The SEC also will permit additional filings of up to 20% more than the original amount filed on a shelf registration statement, it said, through Dec. 1.

Although billions of dollars have already been raised and billions more are expected to flow into the market, observers don't expect to

see a wave of startup companies, such as the ones that followed Hurricane Andrew and the Sept. 11 attacks.

Despite the record losses for U.S. property and casualty insurers, Hurricane Katrina will attract little or no new capacity to the marketplace, largely due to the market's current level of capacity, said Jim Auden, senior director of Chicago-based Fitch Ratings.

"The market's not as bad as it was back then," said Mr. Auden, who estimates that the U.S. property/casualty industry overall has over \$400 billion in capital. "We don't see Katrina as being as big a market-moving event as 9-11 was...you haven't had as many market exits as you had back then."

"The industry probably has enough capacity to handle the amounts of business that are out there at this point," Mr. Streit said. "You're not going to see people throwing money at new startups."

S&P's Mr. Puccia, though, said, "I don't anticipate as many (startups) as we saw in 2001, but there will be some."

Capital ideas

Capital raised by insurance industry companies since Hurricane Katrina, in millions of dollars.

Company	Amount
ACE Ltd.	\$1,500
Aspen Insurance Holdings Ltd.	\$405*
Axis Capital Holdings Ltd.	\$250
Endurance Specialty Holdings Ltd.	\$400
Everest Re Group Ltd.	\$475
Fairfax Financial Holdings Ltd.	\$300
Montpelier Re Holdings Ltd.	\$620
Odyssey Re Holdings Corp.	\$102
Platinum Underwriters Holdings Ltd.	\$162
PXRE Group Ltd.	\$490
TOTAL	\$4,704

* Estimate based on Oct. 7 closing stock price
Source: Company announcements

Hotels start recovery efforts in wake of Katrina losses

By MICHAEL BRADFORD

NEW ORLEANS—Blown out windows, power outages and mold are some of the challenges that hotels in New Orleans face as they rebuild after suffering sometimes extensive damage due to Hurricane Katrina.

The wind damage and flooding caused by the Aug. 30 storm not only damaged buildings but shut down the city's tourism industry, a major revenue source in the area.

Katrina was selective in its destruction, heavily damaging some New Orleans hotels and leaving others intact but in the dark after wiping out power grids. But either way, the shuttered hotels have piled up property and business interruption losses over the past six weeks.

Hampering the hospitality industry's financial recovery is the cancellation through March 2006 of all meetings at the Ernest N. Morial Convention Center. New Orleans' convention business accounts for much of the income that flows to hotels and businesses in the central business district and the restaurants, bars, clubs and souvenir shops in the French Quarter.

One of the most severely damaged of the city's major hotels was the Hyatt Regency New Orleans.

The building had windows blown out by Katrina's winds that let rainwater into some parts of the structure. Damage to the hotel still is being assessed but the insurance claim is expected to exceed \$100 million, according to Peter Breitstone, whose Cedarhurst, N.Y. firm Breitstone & Co. Ltd. provides risk management services to the Hyatt's owner, Strategic Hotel Capital, a Chicago-based real estate investment trust.

The Hyatt has said it plans to re-

open in December 2006.

Kyle Bowman, an associate with PKF Consulting, a Houston-based hospitality industry consultant, said the effect of the storm on the hotels in the city varies widely. Some hotels have reopened in New Orleans, many others remain closed and others that were under construction that "will be the ones to watch." New properties will add around 8,500 rooms to the city if they are completed, he said, but it is unclear if construction will continue on all the damaged buildings.

Many hotels in the humid southern city were damaged by floodwaters that rushed into the city when levees were breached by Katrina's storm surge or rains that poured in through damaged roofs. Water and humidity provided the proper recipe to cook up one of a property owner's worst headaches: mold.

"I've been astounded by the amount of mold growth in a short time," said Al Draper, director of restoration for remedial services company LVI Services Inc. in New York. "It seems to be a lot more prolific than the quantity of mold we usually see after a hurricane, typhoon or other wind-driven event," in other parts of the world, he said. "It must be due to the humidity."

Hotels are tackling the mold problem in two ways, according to Mr. Draper.

Some locations are concerned that they have "got to get open and get some cash flow," he said, and those hotels are cleaning the mold with bleach or other disinfectants. "They are going to have problems down the road and a lot of these people know this."

Many of those hotels will wait until later to do a more thorough

job of repairing mold-damaged areas by breaking the work into phases so that a portion of the facility is always open, Mr. Draper said. "And that's fine if they make that decision with open eyes."

Others, though, are taking the position that they are "going to fix it right the first time with nobody in there," Mr. Draper said.

Cleaning up the mold can be done fairly quickly, Mr. Draper said. "We can usually do our work within a week or so, getting the mold out. But the next piece is putting the property back together."

At the Hyatt, where city leaders and National Guard troops camped in the immediate aftermath of the storm, mold has appeared, according to Mr. Breitstone. "Naturally, in any environment where there is water damage and no air conditioning, there is going to be mold," he said. "But we don't think it will be a significant issue in the loss."

The danger of mold growth created "a lot of initial concerns" at Marriott International Inc. properties, said Brad Wood, senior vp - risk management at the Bethesda, Md.-based hotel chain. "There was a lot of emphasis on attacking that head on."

Marriott focused on using generators to get power to its 15 hotels damaged by the storm to provide air conditioning that would keep mold from forming. "Fortunately, some of the properties in a few days had power restored and the mold issue has been less than we expected," said Mr. Wood.

Mold that appeared in some Marriott properties has been remediated, he said. Damage is covered under property insurance written by several insurers and is subject to var-

ious deductibles, Mr. Wood said.

Property damage at most of the Marriott locations will be under \$5 million, Mr. Wood said. "A couple were more significant."

At the Morial Convention Center, the cleanup focused on the parts of the facility that were heavily damaged by evacuees that stayed there while waiting for transportation out of the flooded city. A spokeswoman for the facility could not provide a damage estimate but said that property insurance led by Zurich Insurance Co. will cover storm damage, vandalism and business interruption losses.

Mr. Wood said a Marriott property across the street from the convention center was damaged by looters. Some of Katrina's victims broke into the hotel looking for beds to sleep in and "certainly looked for whatever they could find in terms of food and water. It was down to pure survival in that part of town."

Property coverage will pay for damage caused by looting and vandalism, he said.

Amid the damage, there were risk management lessons, Mr. Wood said.

Two Marriott properties had heating and air conditioning equipment ruined by flooding and is considering how to prevent such losses from occurring again. It's one of the considerations hotel risk managers must face, he said. "In areas susceptible to flooding, you may have to think of bringing those systems up to higher levels."

Such a move presents a dilemma that risk managers have to evaluate, Mr. Wood noted, because moving equipment from basements usually means it has to occupy space that

ordinarily would be for revenue-generating guest rooms.

Losses mounting

Hurricane Katrina resulted in insured property losses of around \$34.4 billion, making it the costliest catastrophe in the property/casualty industry's history, the Property Claim Services unit of the Insurance Services Office Inc. reported last week.

PCS notes that its estimate does not include claims for oil drilling platforms, among other risks. Meanwhile, several insurers and reinsurers last week estimated or revised their net exposure to Hurricane Katrina, and some offered estimates of losses from Hurricane Rita. They include:

- **ACE Ltd.:** \$550 million after tax from Katrina; \$100 million to \$150 million after tax from Rita.
- **Aspen Insurance Holdings Ltd.:** \$325 million to \$400 million after tax from Katrina; \$50 million to \$60 million from Rita.
- **Chubb Corp.:** \$390 million after tax from third-quarter catastrophes.
- **Fairfax Financial Holdings Ltd.:** \$233 million after tax from Katrina; \$42 million from Rita.
- **Goshawk Insurance Holdings P.L.C.:** \$60 million from Katrina; \$30 million from Rita.
- **Hiscox P.L.C.:** \$110 million from Katrina; \$70 million from Rita.
- **Partner Re Ltd.:** \$470 million to \$490 million pretax from Katrina; between \$30 million to \$35 million pretax from Rita.
- **Quanta Capital Holdings Ltd.:** \$40 million to \$50 million from Katrina; \$2 million to \$8 million from Rita.
- **Wellington Underwriting P.L.C.:** \$125 million pretax from Katrina; \$36 million from Rita.
- **Zurich Financial Services Group Inc.:** \$600 million after tax from Katrina.