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in HMO spending / 4**

Business Insurance

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\$4

Terror bill opportunity fading Disagreement on punitive damages holding up compromise

By MARK A. HOFMANN

WASHINGTON—Even if negotiators manage to resolve differences over how punitive damages should be addressed under terrorism insurance legislation, Congress' ability to approve such a measure before it adjourns remains an open question.

Still, insurance industry proponents of the bill refuse to throw in the towel, holding out hope that the 107th Congress could yet approve a compromise measure that would have the federal government act as a backstop to private insurers in the event of a future terrorist attack.

Both houses have passed their own versions of

terrorism insurance legislation, but they differ significantly, particularly in regard to what sorts of liability property owners found negligent in the wake of a terrorist attack should face. The House bill, passed last November, provided a number of protections while the Senate bill, passed in June, had little to say on liability limitations.

According to several sources close to the negotiations between Senate Majority Leader Tom Daschle, D-S.D., and administration and congressional Republican leaders, the sticking point last week remained punitive damages. As of early last Friday morning, after negotiators finished a second round of talks in less than 24 hours, partici-

pants had failed to resolve two major remaining issues involving punitive damages.

One sticking point was the evidentiary standard that would have to be met before a property owner could be required pay punitive damages. The other was whether a judge or a jury would decide whether punitive damages could be awarded.

The talks played out against the backdrop of congressional debate over President Bush's power to initiate military action against Iraq. That debate, which dominated Capitol Hill through most of last week, pushed the terrorism insurance issue farther away from center stage.

See **TERRORISM**/page 30

Health care cost hikes continuing

By JERRY GEISEL

Employers should brace for even bigger health care cost increases in 2003 than this year's budget-breaking rate hikes.

This year, group health care plan costs rose 13.7% to an average of \$5,456 per employee, according to a new analysis by benefit consultant Hewitt Associates Inc. of Lincolnshire, Ill. Health maintenance organization costs increased the most, rising 14.9% to an average of \$5,157 per employee. Preferred provider organization costs climbed 13.8% to \$5,545 and point-of-service plan costs jumped 12.4% to \$5,639.

Based on budgets that employers have set and the health care premium increases they have received through the end of September, Hewitt projects that next year's overall increase will average 15.4%, bringing the average cost per employee to \$6,295. Rate increases will average 16% for HMOs and about 15% for both POS plans and PPOs, Hewitt estimates.

While the actual 2003 increases could be a bit smaller, such as if greater cost-shifting to employees reduces utilization, they are likely to outstrip the increases seen in recent years.

See **HEWITT**/page 30



Markets growing as interest snowballs Busy season in forecast for weather risk hedges

By RODD ZOLKOS

With the winter season approaching, the market for weather risk transfer products is continuing to grow, despite the recent departure of some key players.

While the collapse of Enron Corp. led some participants—Enron, most notably, and more recently Aquila Re Ltd.—to exit the weather risk market, new players have stepped in to take their place. Aquila's departure late this summer was part of a broader company decision to exit the

energy-trading market.

"There's been a whole sea change in who's participating," said Lynda R. Clemmons, president and chief operating officer of Element Re Capital Products Inc. in Stamford, Conn. "There's still plenty of capacity."

Companies who have entered or stepped up their presence in the market recently include large banks, Atlanta-based energy company Mirant Corp. and Swiss Reinsurance Co., Ms. Clemmons noted. "You've got some really solid

See **WEATHER**/page 28

Late News

Exxon Mobil dismissed from asbestos trial

Union Carbide Corp. is the last remaining defendant in an asbestos liability trial in a West Virginia court after the trial judges dismissed numerous claims against Exxon Mobil Corp. and the oil giant settled other claims this week. With no objection from the plaintiffs, the court dismissed from the litigation all claims involving an Exxon Mobil product designed to caulk pipes and boilers. In addition, plaintiffs voluntarily dropped 2,600 claims related to a high-heat pipe-patching product that Exxon Mobil also manufactured. The case originally involved 125 defendants and more than 8,000 claimants.

Montpelier Re IPO raises \$190 million

Montpelier Re Holdings Ltd. raised \$190.5 million in an initial public offering last week, making it the first of the reinsurers that were created in Bermuda last year to obtain a stock exchange listing. Net proceeds from the offering after expenses will likely be \$174.6 million, a Montpelier Re statement said. The shares were offered at \$20. At the close of trading Friday, the shares stood at \$24.

Gerling may exit reinsurance lines

German insurer Gerling Konzern Allgemeine Versicherungs A.G. will exit some property/casualty reinsurance lines if it has not found a buyer for that business by the end of this week. A spokesman for Gerling said that if the company has not found a buyer for parts of the nonlife operations of reinsurance unit Gerling Konzern Globale Ruckversicherungs A.G. by Oct. 18, the group would not accept new business in certain property/casualty reinsurance lines. He declined to say which lines Gerling may exit.

See **LATE NEWS**/next page

Spotlight
TOP OF THE CLASS:
INSURANCE & RISK
MANAGEMENT EDUCATION

Begins on page 9



Special Take-Out Section

2002 GUIDE
TO RISK MANAGEMENT
and
INSURANCE SCHOOLS

Inside

HMO enrollees unaware of use of premiums

HMO enrollees don't have a good understanding of how their premium dollars are used, a survey reveals. **Page 4**

Down with the old, get down with the new

Paul Winston has some fresh thoughts for insurers that are finding it difficult to relate to customers. **Page 6**

Tax law provision a welcome change

Congress should be applauded for cutting taxes for low-income employees who make pretax contributions to benefit plans, this week's editorial says. **Page 8**

E.U. scrutinizing regulation of Lloyd's

The European Union is examining whether U.K. regulation of Lloyd's of London in accordance with E.U. directives. **Page 25**

Insurers face uphill battle

Myron M. Picoult looks at the factors hindering P/C insurers' return to health. **Page 29**

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

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CONTINUED FROM PAGE ONE

Terror risk securitization impossible: Executive

Risk-linked securities are not currently an appropriate tool for providing terrorism insurance capacity, a reinsurance executive told a House of Representatives subcommittee last week. At this point, "terrorism risk cannot be quantified," said Dan Ozizmir, senior managing director and head of trading at Swiss Re Financial Products in Armonk, N.Y. "We believe the only solution to this important and difficult problem is passage of a government backstop."



Aetna expects to post operating profit for 2002

Aetna Inc. said it expects improved results for both the third quarter and the full year. For all of 2002, the Hartford, Conn.-based health insurer expects to report operating earnings of \$2.20 to \$2.25 per share, or \$327.6 million to \$335.0 million, based on Aetna's 148.9 million weighted average common shares outstanding as of June 30. Aetna expects third-quarter 2002 operating earnings to be about 70 cents per share, or \$104.2 million.

Brown & Brown reports nine-month gains

Buoyed by acquisitions, Brown & Brown Inc. reported a 25.1% increase in total corporate revenues for the first nine months of 2002, to \$336.6 million. Commission and fee revenue increased 26.6%, to \$334.9 million,

Late News

in the nine-month period, while investment and other revenue declined 62.7%, to \$1.7 million. Net income was up 58.5%, to \$61.7 million.

E.U. to end aviation insurance aid Oct. 31

The European Union will withdraw approval for state insurance programs for airlines on Oct. 31, the European Commission announced. After Oct. 31, member states will have to apply for permission to



provide aid to airlines, and each case will be judged on its own merits, the commission said.

The European Commission said sufficient and affordable cover is now available in the commercial market. The state-backed plans stemmed capacity shortages after the Sept. 11, 2001, terrorist attacks.

Marine losses may add to push for rate hikes

London marine underwriters maintain that recent ship losses will increase pressure for rate increases. The Joint Hull Committee, which represents marine underwriters from various insurers and Lloyd's of London, said that recent hull claims could be as high as \$750 million. The effect of these losses will be more pressure on rates for hull business.

House expected to pass 401(k) changes

The House of Representatives this week is expected to vote on and pass legislation that would accelerate scheduled increases in maximum 401(k) salary deferral and catch-up contribution limits. Under the measure, employees next year could defer up to \$15,000 to their 401(k) plans. Under current law, the maximum deferral limit is set to rise

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To get breaking news as it occurs, visit *Business Insurance's* free online Daily News, at www.businessinsurance.com. Sign up for your daily e-mail of breaking news. All the material in the Late News column, as well as other content in this week's issue, is generated from daily news postings that appeared on the *BI* Web site in the previous week.

Online this week:

• 2002 Guide to Risk Management and Insurance Schools, plus other **searchable directories**.

• Vote in *BI's* **Online Poll**: Are you more likely to pursue continuing education in a hard market?

• New **commentary** from Mark Hofmann and Paul Winston joins other regular columnists.

• **Online forum** allows readers to exchange ideas and information on risk management and benefits.

American Society for Healthcare Risk Management 2002 Annual Conference & Exhibition

Reporting errors poses risks

By ROBERTO CENICEROS

SEATTLE—Deciding whether to report medical errors to regulators and the public poses a dilemma for hospital risk managers.

But risk managers can take steps to improve the outcome of disclosure, a risk manager and an attorney told the American Society for Healthcare Risk Management.

Some states mandate the disclosure of medical errors. Elsewhere, the legal requirements fall into a gray area that lets hospitals determine which errors to report and

how much information to reveal, they said.

Reporting errors can expose a hospital to increased financial risk including the possibility of lawsuits.

Reporting can also result in unflattering media attention, additional investigations by regulators and internal conflict among hospital staff, the speakers said at ASHRM's annual conference, held Sept. 29 through Oct. 2 in Seattle.

Choosing to report errors eliminates potential allegations of a cover-up that can bolster a plaintiff's claim for damages, said Jeff Driver,

chief risk officer for Beth Israel Deaconess Medical Center in Boston.

Error reporting also may lead to a decline in mistakes, although that outcome is not backed up by data, said Daniel P. Groszkruger, an attorney at DiCaro, Coppo & Popcke in Carlsbad, Calif., who represents physicians.

Voluntarily reporting errors can also help a hospital regain the trust of community members who might see it as willing to disclose its mistakes. It is often the right thing to do, Mr. Driver said.

See **ERRORS**/page 27

to \$12,000 in 2003, up from this year's maximum of \$11,000, and increase in \$1,000 annual increments until reaching \$15,000 in 2006.

Blues plan to offer PPO quality incentives

Blue Cross of California is expanding its incentive-based quality-improvement project to include physicians who participate in its PPOs. Under a one-year pilot program, Blue Cross will use a physician scorecard to evaluate 15,000 doctors under PPO contracts. The Blues plan will pay bonuses linked to doctors' performance with regard to various quality-improvement measures. Blue Cross of California last year announced it would pay quality-linked bonuses to doctors under HMO contracts.

Briefly noted

At a meeting last week, 95% of voting shareholders in **Zurich Financial Services Group** gave their support to a planned share issue to raise \$2.5 billion....Prescription benefit manager **AdvancePCS** is acquiring disease management company Accordant Health Services in a cash deal valued at nearly \$100 million....**Steven J. Bensinger**, former executive vp and chief financial officer of Combined Specialty Group Inc., the underwriting operations of Chicago-based Aon Corp., has joined New York-based American International Group Inc. as vp and treasurer. He succeeds Carol A. McFate, who was promoted to senior vp at AIG Trading Inc....Stanley Adam Galanski, president and chief operating officer of **Navigators Group Inc.**, will assume the additional position of chief executive officer on Jan. 1. Terence N. Deeks, the current CEO, will stay on as chairman.



**More conference coverage
on pages 27-28**

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dm

Termination during asset sale violated ERISA, court rules

Benefits cut deemed a bias

By SALLY ROBERTS

SAN FRANCISCO—An employer that terminated the medical benefits of an employee on extended disability leave as part of an asset sale violated the Employment Retirement Income Security Act, an appeals court has ruled.

In reversing and remanding a lower court's decision, a three-judge panel of the 9th U.S. Circuit Court of Appeals ruled in *Denice Lessard vs. Applied Risk Management et al.* that the 1999 asset sale agreement between Professional Risk Management and Applied Risk Management Inc. discriminated against employees on disability and medical leave, thereby violating Section 510 of ERISA. Section 510 prohibits any action that might cut off or interfere with a participant's ability to

collect present or future benefits or that punish a participant for exercising his or her rights under an employee benefit plan.

A 9th Circuit panel ruled that an employer discriminated against employees on disability and medical leave.

As part of the agreement in which PRM, a health care risk management services provider, acquired ARM's assets, ARM's self-funded group health plan was terminated, and all active ARM employees' coverage was transferred to PRM's plan with no interruption. To be eligible for the transfer, though, an employ-

ee had to be actively employed by ARM on the day of the sale or on nonmedical, nonextended leave from active employment. Once any of the exempted employees returned to work, however, he or she would be given a position with PRM, including full medical benefits.

ARM was an Oakland, Calif.-based workers compensation third-party administrator. Denice Lessard, a workers comp analyst for ARM who had been on workers compensation-related leave since an October 1996 spinal injury, was one of six ARM employees who were not "actively employed" on the day of the sale to PRM. While Ms. Lessard understood that she could become an employee of PRM and receive medical benefits once she was re-

See ERISA/page 31

2002 Liberty Mutual Risk Management Forum

Casino risk manager's gamble pays off in building program

By JOANNE WOJCIK

LAS VEGAS—When Susan Waters took on the job of risk manager for the Venetian Hotel Resort Casino project in Las Vegas, she saw it as "the opportunity of a lifetime."

"I knew it was up to me, and I knew I was up to it," she said. "I would be coming on board almost a full year before the property opened. I wouldn't have to fix anything. I could do it my way."

"I just wanted to create the best insurance and risk management program that any hotel and casino had ever seen," she told a group of risk managers attending the 2002 Liberty Mutual Risk Management Forum, held Sept. 29 to Oct. 1 in Las Vegas.

But the challenges associated with building a risk management

program from scratch were enormous, she soon found, and her "dream come true" turned almost nightmarish.

"When I got there, I found I had no office. I had no computer. I had no phone. And, best of all, I had no

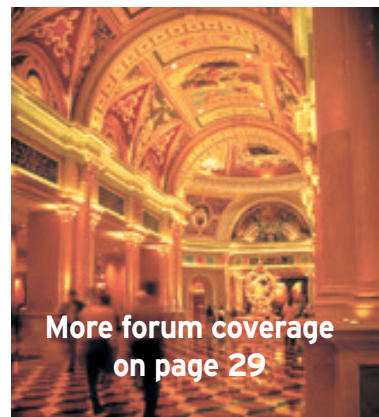
staff," recalled Ms. Waters, who now is president of her own Las Vegas-based risk management consulting business, Asset Protection Services Group Inc. She continues to serve as a risk management consultant to the Venetian.

Furthermore, construction was taking place 24 hours a day, seven days a week, "and it seemed like there were endless days of handling construction-related problems" before the Venetian opened in 1999, she said.

The owner of the property, whom Ms. Waters described as "an entrepreneur in every sense of the word," also saddled her with the responsibility for managing the risks of all of his other business ventures.

And the Venetian itself faced a diverse array of risks, Ms. Waters

See CASINO/page 29



More forum coverage on page 29

Panel rejects partiality ruling against arbiter

By DAVE LENCKUS

CHICAGO—Attorneys applauded a federal appeals court's Oct. 11 decision in a high-profile reinsurance coverage dispute for providing guidance—if not a bright-line test—on what constitutes partiality in arbitrations.

The guidance came in a unanimous ruling by a three-judge panel of the 7th U.S. Circuit Court of Appeals that reinstated an arbitration award for

The appellate panel's decision is 'very important' because it provides guidance for arbiters and umpires.

Elliott M. Kroll
London Fischer L.L.P.

Brighton, England-based reinsurer Sphere Drake Insurance Ltd. against Chicago-based All American Life Insurance Co. The underlying dispute stems from the personal accident coverage debacle wending through the reinsurance industry.

The 7th Circuit ruling overturns what was the first federal court ruling to set aside an arbitration award because of evident partiality by a litigant-appointed arbiter on a tripartite panel. The lower court faulted the arbiter who Sphere Drake appointed to the panel for not fully disclosing the nature of legal work he performed for a Sphere Drake subsidiary years earlier in an unrelated matter.

Arbitrators complained that the lower court's ruling threatened the arbitration process by making what is designed to be an ironclad dispute resolution much

easier to overturn (*BI*, June 3).

Attorney David Raim, a partner with Chadbourne & Parke L.L.P. in Washington, said the 7th Circuit panel's decision is "very significant," because it sets "certain standards for what the grounds are for vacating an award" for partiality by litigant-appointed arbiters.

Attorney Elliott M. Kroll characterized the appellate panel's decision as "very important," because it provides guidance for arbiters and umpires and distinguishes between prudent disclosure and evident partiality.

"I think it's a well-reasoned decision," said Mr. Kroll, a partner at London Fischer L.L.P. in New York.

An arbitration panel ruled 2-1 in July 2001 that six Sphere Drake reinsurance contracts with All American were void because a reinsurance intermediary that All American acknowledged was not authorized to represent the insurer placed the coverage.

The insurer sought to overturn that ruling by arguing that the reinsurer's appointed arbiter, attorney Ronald A. Jacks, intentionally deceived the insurer by not disclosing legal work he had performed for the reinsurer from 1992 through 1997 in an unrelated matter.

Mr. Jacks disclosed prior to the arbitration that he and his former law firm represented only Sphere Drake subsidiary Sphere Drake (Bermuda) Ltd. during the 1990s. That disclosure did not prompt All American to question Mr. Jacks' impartiality.

At the district court level, Sphere Drake elaborated that while only its Bermuda subsidiary had retained Mr. Jacks and his firm, some of that legal

See ARBITRATION/page 6



A fire that caused extensive damage to the nearly finished cruise ship Diamond Princess is expected to result in a large insured loss.

Claim from cruise ship fire could exceed \$400 million

By EDWIN UNSWORTH

LONDON—A fire aboard a nearly completed luxury cruise liner that is under construction in Nagasaki, Japan, could cost the ship's insurers more than \$400 million, insurance market sources say.

The fire caused extensive damage to the Diamond Princess, which was being built for London-based P&O Princess Cruises P.L.C. at the Mitsubishi Heavy Industries

shipyard. Construction was 80% complete, and insurers last week were still determining the scope of the loss.

P&O said in a statement that the Diamond Princess, which would have been one of the largest Pacific Ocean liners, was scheduled to begin service in June 2003.

The cruise ship's hull is insured for \$500 million, according to sources in the London market. In addition, there is \$60 million in

coverage for delay of construction, as well as \$75 million for non-delivery.

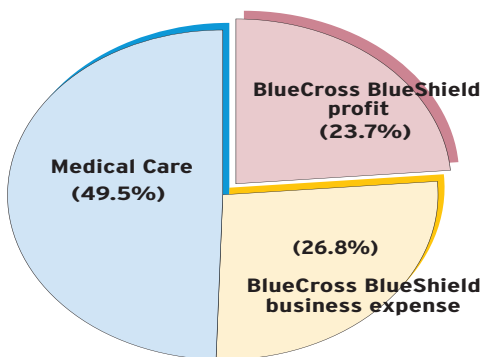
The first \$170 million to \$180 million of the claim will fall on the Japanese Shipbuilders Risk Pool, the source said. Coverage above that level was placed mainly with syndicates at Lloyd's of London, including those managed by Wellington Underwriting P.L.C., ACE Global Markets and XL Brockbank Ltd.

PHOTO: KYODO

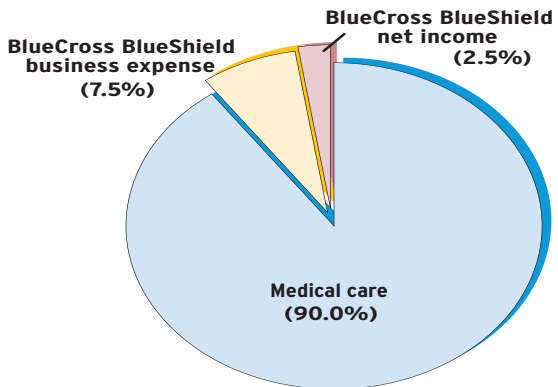
DIFFERENCES ON HEALTH CARE DOLLARS

Blue Cross & Blue Shield HMO members surveyed on how health insurance premiums are spent

Perception



Reality



Source: Zogby International

Perception, reality differ on HMO outlay

By JERRY GEISEL

A survey of health maintenance organization plan enrollees found a huge difference between participants' perceptions of where premium dollars go and how the funds actually are used.

Research organization Zogby International of Utica, N.Y., surveyed more than 800 enrollees in several Blue Cross & Blue Shield HMO plans in upstate New York for Excellus Inc., the plans' parent.

Respondents said they think that, on average, nearly half of the premium dollar is spent on medical care, while just over a quarter goes to their insurer's business expenses and nearly a quarter is profit.

The reality for Excellus, though, is much different. The company says that 90% of the premium dollar goes for medical care, while 7.5% is used for business expenses and about 2.5% is net income.

This gap in understanding has broad ramifications for health care policy, said David Klein, president

'Until consumers gain a higher level of understanding...of how their health care dollars are being spent...our ability to address the issue of access and affordability will be compromised.'

Scott Serota
Blue Cross & Blue Shield Assn.

and chief operating officer of Rochester, N.Y.-based Excellus.

"This tells us if we are to secure more public support for cost-containment initiatives, the public has to understand how premium dollars are being used, Mr. Klein said.

"Until consumers gain a higher level of understanding and appreciation about how their health care dollars are being spent and their role as purchasers of health care, our ability to fully address the issue of access and affordability will be compromised," Scott Serota, president and chief executive officer of the Blue Cross & Blue Shield Assn. in Chicago, said in a statement.

Respondents, who were enrolled in HMOs offered by Blue Cross Blue Shield of the Rochester Area, Blue Cross & Blue Shield of Central New York and Blue Cross Blue Shield of Utica-Watertown, were also polled on how they think health care costs are distributed. The survey found that respondents had a much more accurate sense of that issue.

On average, respondents said they think that 32.8% pays for physician services, 30.1% goes for hospital services, 24.6% is for prescription drugs and 12.5% is for other health services.

In fact, at the Excellus plans, 42% of money spent on health care goes to hospital services, 34% is for physician services, 18% is used to purchase prescription drugs and 6% is for other health care services.

Mr. Klein attributed enrollees' good understanding of the distribution of health care expenditures to the detailed explanation-of-benefits documents they receive for claims they submit.

Free single copies of the survey are available from Geoff Taylor at 585-231-6888, or by e-mail at geoff.taylor@excellus.com.

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Arbitration: Court is reversed

Continued from page 3

work involved protecting the parent company's interests.

After reviewing Mr. Jacks' billing records, U.S. District Court Judge Rebecca R. Pallmeyer sided with All American and overturned the arbitration panel's award in a May 17 opinion that lambasted Mr. Jacks.

Judge Pallmeyer in July agreed to stay her order overturning the arbitration, pending an expedited appeal of the order.

In reversing the lower court, the 7th Circuit panel noted that Mr. Jacks' past relationship with Sphere Drake would not have barred him from hearing the dispute in court as a federal judge. Mr. Jacks last performed legal work for Sphere Drake more than two years earlier, and neither he nor his firm had represented or provided expert testimony for the reinsurer in the personal accident coverage dispute, Judge Frank Easterbrook explained.

"Arbitration differs from adjudication, among many other ways, because the 'appearance of partiality' ground of disqualification for

judges does not apply to arbitrators; only evident partiality, not appearances or risks, spoils an award," Judge Easterbrook wrote.

The appellate panel also rejected All American's argument that Mr.

While complete disclosure by arbiters may be prudent, 'it is not essential to impartial judicial service.'

Judge Frank Easterbrook

Jacks' alleged inadequate disclosure alone spoiled the arbitration award under the standard that the U.S. Supreme Court established in its 1968 ruling in *Commonwealth Coatings Corp. vs. Continental Casualty Co.*

The high court did not hold "that disclosure is compulsory for its own sake, and its absence fatal even if the arbitrator meets judicial standards of impartiality," Judge Easterbrook wrote. Instead, the Supreme Court ruled that "the sort of financial entanglements" that would dis-

qualify a federal judge in a case also could "cause problems" for a neutral umpire in an arbitration unless the umpire disclosed the situation to the litigants at the outset.

But, the Supreme Court did not "so much as hint" that litigant-appointed arbiters are governed by "the norms" under which umpires must operate, Judge Easterbrook wrote.

While complete disclosure by arbiters may be prudent, it "is not thought essential to impartial judicial service," Judge Easterbrook wrote. He further noted that full disclosure by Mr. Jacks "would not have disclosed even a risk of partiality."

All American has not decided whether to ask either the panel or the full 7th Circuit for a rehearing, said attorney Andrew S. Amer of Simpson, Thacher & Bartlett in New York. He said the insurer also could challenge the arbitration award on other grounds in a lower court.

Sphere Drake Insurance Ltd. vs. All American Life Insurance Co., 7th U.S. Circuit Court of Appeals; No.02-2458.

Deadline nears for November directories

Business Insurance will publish its online directories of policyholder-owned facilities and rent-a-captives in conjunction with its Nov. 18 issue. That issue will feature a Spotlight report on the Bermuda Market and charts of the largest policyholder-owned facilities and rent-a-captive managers.

The online directories will be available to subscribers on www.businessinsurance.com and will be included in *BI's* 2002/2003

Market SourceBook, which will be published Dec. 23 as a special printed compilation of all of *BI's* directories and rankings.

To be listed in the policyholder-owned facilities and rent-a-captives directories, companies must provide coverage directly to captive insurers or self-insured policyholders or corporations other than insurance companies. Participants must also provide us with 2001 written premium, assets and capi-

tal and surplus volumes.

The directories are published as an editorial service; there is no charge for companies to be included. If your company meets the requirement for inclusion for either of these directories and has not yet received the questionnaire, please contact Directory Editor Kevin Edison at 312-649-5279. The extended deadline for inclusion in these directories is Nov. 1.

Paul Winston

Kicking flava into the industry

Yo! Word reached Winstonia earlier this month about an internal memo at CNN's Headline News urging the wider use of "hip hop" phrases and current slang in an effort to expand its younger audience.

"In an effort to be sure we are as cutting-edge as possible with our on-screen persona, please refer to this slang dictionary when looking for just the right phrase," reads the memo, according to a report by New York's Daily News. "Please use this guide to help all you homeys and honeys add a new flava to your tickers and dekos," the memo said, referring to the on-screen headlines the network uses to tease news stories.

The Daily News cited such hip hop phrases as "jimmy hat" meaning condom, "fly" for attractive, and "ill," meaning bad (as in not good), among others in the supplied slang dictionary.

The network was the butt of many editorial commentaries after the memo was leaked, most likely by some disgruntled employee who wondered what was wrong with plain English for delivering the news of the day. In its defense, a network executive explained that the memo was part of an effort to deliver the news in what he called "the lingo of our people." Or, looked at from a business perspective, in the language of its advertisers.

Advertisers covet the 18-to-35 age group for their products, so the network is trying to do a better job of relating to these youthful eyeballs than, say, MTV News. While I'm pretty certain other age groups also spend money on consumer goods, this strategy is nothing new in the TV or advertising industry.

In Winstonia, we can think of another business that is having a hard time relating to its customers and trying to do a better job of getting its message across. Perhaps the answer to the insurance industry's problem of communicating with its buyers is that it needs to come correct, to borrow a phrase, and insert a little hip hop lingo in its communications. Word.

As part of its ongoing efforts to serve the insurance community, Winstonia has prepared a hip hop glossary of terms that can be applied to various insurance scenarios at renewals this year. At the least, insurance buyers who watch Headline News will appreciate the effort and know what brokers and insurers are talking about:

being down with it: Meaning in agreement with something; as in: "Are you down with your rate increases?"

come correct: Meaning to do something properly, as in: "During the soft market, our underwriting was all screwed up and now we come correct."

crib: Meaning home or home office, as in: "I'd like to give you a break on your renewal, but I have to check with my crib."

def: Meaning really good, as in: "That's a def quote; in this market you can't do any better. Word."

dis: Meaning to insult or show disrespect, as in "I don't mean to dis you with these renewal quotes, but we have to come correct in our

underwriting and offset our losses."

fly: Meaning attractive, as in "If you increase your retention, you'll have a fly premium."

homeboy/homegirl/homey: Meaning good friend, as in: "Because you're my homey, I can cut you a break on your premiums this year."

ill: Meaning bad or negative, as in:

"Investment returns are illin' right now, so we have to rely on underwriting for our ends."

phat: Meaning really good, as in: "Because of your phat loss experience, I think we can maintain the same rate increase as last year."

step off: Meaning to avoid confrontation, as in: "You better step off that claim, if you want your policy renewed."

step to: Meaning to seek confrontation, as in: "Are you stepping to me? I'll have our lawyer get in touch with your lawyer."

tripping: Meaning a misstep, as in: "The rating agencies were tripping when they downgraded us."

wack: Meaning crazy, as in: "I think those are wack earnings reports, considering the need for reserve additions."

word: Meaning the truth, as in: "That's the best we can do. Word."

Hopefully this glossary will assure better communication and understanding at renewal season, just as it helps CNN Headline News to better convey what's happening in Iraq, Maryland and nation's weather. At the very least, it will help you speak the lingo of your kids, as we are trying to do in Winstonia. Word.

Editor Paul Winston can be reached at pwinston@crain.com



Paul Winston

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Editorial

Tax change offers benefits

WE BELATEDLY APPLAUD federal legislators for making a small but welcome and logical change in tax law that will cut taxes for low-income employees who make pretax contributions to benefit plans.

As we reported last week, the little-known change was included in tax legislation—the Economic Growth and Tax Relief Reconciliation Act—that Congress passed last year. The provision was largely overlooked, however, until recently.

Under the EGTRRA change, employees' pretax benefit contributions, such as a 401(k) plan salary deferral or a contribution to a health care or dependent care flexible spending account, will be excluded when calculating income to determine whether employees are eligible for a special low-wage tax break known as the earned income tax credit.

Generally, the lower the employee's income, the bigger his or her tax credit will be. So, the more an employee makes in benefit pretax contributions, the larger the amount of the EIC.

The tax savings can be significant. For example, a married employee with two children who earns \$30,000 and contributes \$3,000 to a dependent care

FSA would be entitled to a tax credit of \$1,512. Before the change, the employees' FSA contributions were included as income, so the tax credit would have been only \$880.

Certainly, common sense helped drive the change in law. If benefit pretax contributions are not included in calculating employees' taxable income, there is no reason that they should be included to determine income for the earned income credit. We're glad Congress saw the logic of that.

While the tax savings can be very significant and important for low-income employees—generally, those making up to \$34,000 a year—the EIC, as well as how benefit plan contributions now fit into the equation, is meaningless unless employees know about it.

We doubt that the tax change has been on the radar screen of many employers, and certainly few employees. With recent publicity about the EIC change, though, we hope more employers now are aware of the change and communicate to their employees how contributing to benefit plans can help cut their taxes.

That is a message, we think, most employers would like to deliver and most employees would like to receive.

Health care cost control

THE LATEST ROUND of health care cost surveys, while depressing in what they report, should not be interpreted as evidence that the battle to control costs has been lost.

According to the surveys, employers can expect health care cost increases next year in the range of 15% to 17%.

Unfortunately, next year's cost increases are not an anomaly: They continue the trend of double-digit increases, which began several years ago.

There are many reasons that costs continue to rise at such a clip, not the least of which is the enormous

leverage that providers, due to consolidation, now enjoy in negotiating with health plans. That's a reversal of the early and mid-1990s, when the balance of power favored managed care plans.

But it would be incorrect to place all the blame for the inflationary surge on providers. Employers and plans must bear fault, too. For too long, employers believed managed care plans could control costs through their dealings with providers.

The result of that belief was that group plans imposed miniscule cost-sharing requirements on services delivered through networks.

The upshot was that enrollees lacked an economic incentive to use medical services carefully.

Finally, in the face of soaring costs, that has begun to change. Employers are beginning to change designs—such as by introducing so-called consumer-driven plans, in which enrollees are more exposed to costs—which should lead to more judicious use of services.

In addition, employers are boosting copayments for brand-name drugs, giving enrollees an incentive to use lower-cost generics.

Plenty more can and should be done, and the new surveys underscore the need for action.

Schillerstrom



Letters to the Editor

Putting finger on risks facing school districts

To the editor: I read with great interest the two excellent articles by Judy Greenwald in the Sept. 30 issue concerning schools, "Litigation Against School Districts Grows" and "School Districts Must Address Unique Liabilities."

The American Academy of Pediatrics and American Public Health Assn. in January published the second edition of "Caring for Our Children—National Health and Safety Performance Standards: Guidelines for Out-of-Home Child Care Programs." One of the new standards relates to prevention of finger-pinch injuries. While these standards are directed at child care, it could well be interpreted to apply to any situation where a child is in somebody's care, such as a school, family-style restaurant, etc. This might be a particularly serious problem where there is pre- and/or after-school care at a school.

To allow an injury to happen may indicate lack of supervision and, therefore, negligence on the part of the establishment involved. The answer is, as we all know, to prevent injuries before they happen.

We are aware of at least three school districts where there have been recent finger-pinch injuries at the hinge side of doors, each of which involved amputations, so there must be many, many more that we don't know about. One case has been settled out of court for many thousands of dollars; the others, we believe, are still pending.

As the National Safety Council avers, most accidents are not accidents at all—they are preventable.

The insurance industry, in many instances, very easily could take a more proactive position in injury and violence prevention, not just for purely financial reasons but as a public service. If they would partner more with their customers instead of increasing premiums and deductibles, or even canceling after a loss, schools and other places would be better places to work, either as a student or as a teacher.

Naturally, these measures cost money in the short term, but in the long term the benefits could be astronomical.

Tony Cross
President
Fingersafe USA Inc.
Savannah, Ga.

Letters to the Editor

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October 14, 2002

Spotlight

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Top of the Class

Spotlight Editors:

Mark A. Hofmann and Joanne Wojcik

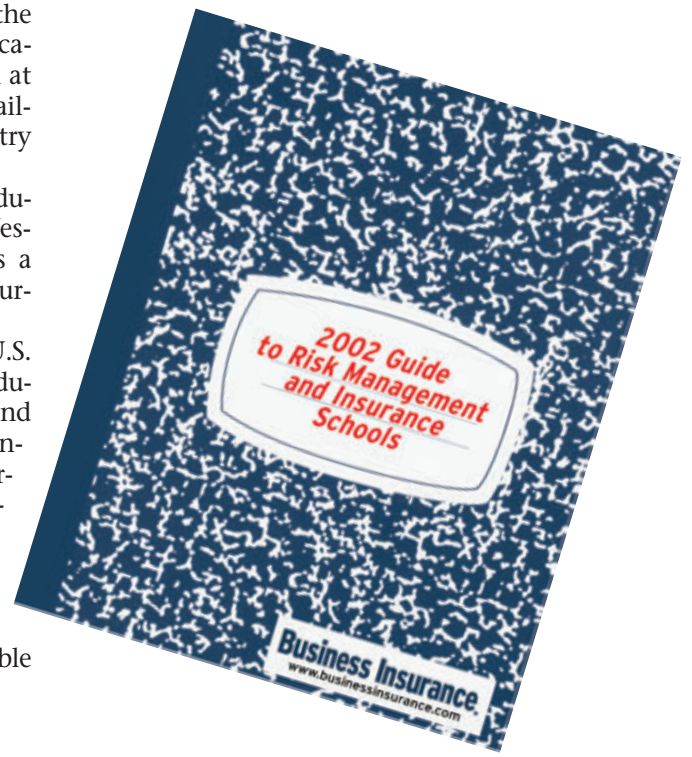
Insurance/
Risk Management
EducationGrowth of academic programs
prompts education directory

The Spotlight report in this issue, "Top of the Class: Insurance/Risk Management Education," represents *Business Insurance's* look at educational and professional programs available to risk managers and insurance industry employees.

In addition to articles on topics such as educational initiatives, scholarships and professional designations, this report includes a "2002 Guide to Risk Management and Insurance Schools."

This guide lists more than three dozen U.S. colleges and universities offering undergraduate degree programs in risk management and insurance. A list of institutions that offer concentrations in risk management and insurance as part of other degrees, such as finance, also appears.

The guide to risk management and insurance schools is available to *Business Insurance* subscribers both as a special printed take-out section as well as a searchable database on www.businessinsurance.com.

Risk, insurance topics
getting major attention

By SALLY ROBERTS

Risk management and insurance education has come a long way in this country since Solomon Huebner started the first academic program for insurance education at the University of Pennsylvania's Wharton School in 1913.

Although the exact numbers are unknown, insurance educators estimate that as many as 60 U.S. colleges and universities offer undergraduate degrees in risk management and insurance, while many others offer coursework in those disciplines.

And although early insurance education focused on life insurance, current students of risk management and insurance take courses on a broad range of topics. These include courses on mathematical risk management, enterprise risk management, financial risk management, commercial property insurance, commercial casualty insurance, financial planning and life and health insurance.

According to preliminary results from a best-practices study being conducted by Mary Ann Boose, associate professor of the insurance

and risk management program at Indiana State University in Terre Haute, Ind., there currently are about 1,500 students who have declared risk management/insurance as a major.

And many educators say that enrollment in their risk manage-

Some of the growth in enrollment 'has to do with Sept. 11....We're hearing more and more about risk and how companies are dealing with it.'

Tim Query
Illinois Wesleyan University

ment/insurance programs—and industry demand for students coming out of them—is on the rise.

Enrollment at Illinois Wesleyan University in Bloomington, Ill., for example, is up 5% over last year, according to Tim Query, assistant professor of risk management and insurance. Furthermore, the number of freshmen who have decided to major or minor in risk management

and insurance has tripled over the last year. "Typically, we get only one or two freshmen who want to come into the program," he said.

Georgia State University in Atlanta has seen its undergraduate enrollment in risk management and insurance increase by 6% to 7% each year over the past five years, according to Lorilee A. Schneider, assistant professor and undergraduate program adviser in the department of risk management. "But this year, we probably increased by 15% to 20%," she said.

Educators speculate that growing enrollment stems from an increased awareness of risk overall and an abundance of jobs in insurance and risk management.

"I think that some of (the growth in enrollment) has to do with Sept. 11," Mr. Query said. In the wake of the terrorist attacks, "we're hearing more and more about risk and how companies are dealing with it. I just think there is a better understanding of what risk is than a few years ago."

"Risk management has gotten much more media attention in the last year to two years than it did in

See EDUCATION/page 16

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Professional designations
can prove helpful in advancing
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reviews lessons learned
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to host international forum
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2002 Guide to Risk Management
and Insurance Schools
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Continuing education key to coping with changes

Advanced degrees, professional designations also seen as helpful to advancement for risk managers

By JOANNE WOJCIK

"The more I learn, the more I realize I don't know. The more I realize I don't know, the more I want to learn."

—Albert Einstein

Because risk management is a dynamic discipline that is always evolving, it is necessary for those who practice it to go back to school again and again just to keep up, industry professionals agree.

And risk managers who pursue advanced degrees in addition to professional designations will find it much easier to climb the corporate ladder, say the trailblazing risk managers who have made it into the boardroom.

"If you want to be a chief risk officer, you're going to need an advanced degree to get there, because you've got to sit at the table

with other people who have advanced degrees. And an (Associate in Risk Management designation) alone is not going to cut it," said



'If you want to be a chief risk officer, you're going to need an advanced degree to get there.'

Peggy Nakamura
Adventist Health

Peggy Nakamura, who was promoted in August to assistant vp, chief risk officer and associate counsel at Adventist Health in Roseville, Calif.

Ms. Nakamura, whose previous title was executive director of risk management/associate

counsel, earned both a master of business administration and a law degree while attending night school. She also was named to the 2001 *Business Insurance* Risk Management Honor Roll.

Still, the ARM designation offered by the Insurance Institute of America is fast becoming a prerequisite today even for entry-level jobs in risk management. And, in many cases, it is helpful to have the Chartered Property Casualty Underwriter designation as

well, educators say.

A professional designation "is not merely a resume ornament," said Jim Markham, senior vp, general counsel and director of curriculum at the American Institute for CPCU/Insurance Institute of America in Malvern, Pa.,

which administers both designation programs. "Having credentials and the knowledge that goes with those credentials will open doors and lead to opportunities for career advancement."

Such was the case for Pam Lukas, risk manager at Del Taco in Irvine, Calif.

"My boss, who was the risk manager for U.S. Rentals at the time, made it a job requirement that I get my ARM certification. He said it would be important to me for career growth. And it was my ARM, along with my work experience, that got me my job as a risk manager," she said. "So my old risk manager was right."

"I've always encouraged my associates to take these courses if they're going to stay in the field," said Ed Godwin, Ms. Lukas' former supervisor, who now serves as risk manager at Riverside Community College in Riverside, Calif. **See DESIGNATIONS/page 20**

Longtime risk management educator says integrity, ongoing learning vital

By MARK A. HOFMANN

For insurance education—like virtually every aspect of American life during past three decades—just about the only constant has been change.

But the "just about" qualifier is critical to Norman Baglini, president emeritus of the American Institute for CPCU/Insurance Institute of America. He points out that there is, indeed, one constant.

"Trust is a fundamental principle of insurance. Without trust, insurance can't work as it has in the past and as it should in the future," said Mr. Baglini, now a professor of risk management and insurance at Philadelphia's Temple University. Mr. Baglini joined Temple in 1998 after retiring as president of the Malvern, Pa.-based institutes. But his ties to the institutes remain strong, and he maintains an office there as president emeritus and as a life trustee.

And his advice to students—whether collegiate



Mr. Baglini

or those seeking a professional designation—underscores his belief in the central position that ethics hold in insurance education and the business itself.

Students should "continue to learn, unlearn and relearn effectively and independently...and more importantly, their reputation for integrity is their greatest asset. No matter whether they're on the brokerage side, risk management side or underwriting side, their reputation for integrity, honesty and promise-keeping is a critical factor for success," he said.

The 60-year-old Mr. Baglini, one of the best-known insurance educators of the past three decades, joined the AICPCU/IIA—a nonprofit risk management and insurance educational organization—as director of curriculum in 1973.

The institutes design the curriculum and administer the examinations required to attain such professional designations as the Chartered Property Casualty Underwriter.

See BAGLINI/page 12

Financial aid programs attracting students to risk management, insurance

Scholarships helping build talent base

By MICHAEL BRADFORD

It's still common to hear veterans of risk management and insurance say they never set out on that career path—it just turned out that way.

In the years ahead, however, there likely will be a growing number of risk managers who will say they not only planned their career track, but also that they had some help along the way from scholarship funds that encouraged their interest in the profession.

Students are finding there are several sources that can help them meet some of the financial burdens of school as they pursue risk management and insurance studies.

Perhaps the best-known scholarship fund is the Spencer Educational Foundation, which is administered by the Risk & Insurance Management Society Inc. The foundation, formed in 1979, awards scholarships of \$5,000 to undergraduate students and \$10,000 to graduate and doctoral students in insurance and risk

management.

"There is a need to attract very bright and capable people to our business," said Richard Hackenburg, chairman of the foundation. The scholarships are a way to do that, he added, as "some of the best and brightest will need help in attaining their educational goals."

Among the ways the foundation raises money is by direct solicitation of its members and past supporters and through special events at the annual RIMS conference such as a golf tournament, 5K run/walk, tennis tournament and benefit hockey game. In 2001, the foundation raised \$340,000 for scholarships.

The merit-based scholarships awarded by the Spencer Educational Foundation go to students who qualify based on a grade point average of 3.5 or higher and the extent of their involvement in extracurricular activities. Like other scholarship programs, the foundation advises colleges and universities that the

funds are available and the schools, in turn, make the awards known to potential applicants.

"We get far more applications than we can entertain," said Mr. Hackenburg.

The foundation has also created a Sept. 11 Memorial Scholarship Fund that will award scholarships to risk management and insurance students as a way to remember and honor those lost in the terrorist attacks. The program has set \$100,000 as its funding goal by Dec. 31 and has raised around \$57,000. The first scholarships under the program are planned for next year.

Other groups also are helping students fund their studies.

The Greater Valley Forge Chapter of the Chartered Property Casualty Underwriter Society is an example of how the CPCU-Loman Education Foundation works with chapters in awarding scholarships.

Like other chapters, the Greater Valley Forge Chapter also awards scholarships. **See SCHOLARSHIPS/page 14**



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Baglini: Ethics key to education

Continued from page 10

alty Underwriter—better known as CPCU—and the Associate in Risk Management, as well as conducting other continuing education programs and publishing professional education materials. He became president of the organization in 1987.

But not all was academic with Mr. Baglini; before joining the institutes, he worked in the marketing department at Marsh & McLennan Cos. Inc. and as an underwriter at Aetna Inc.

Looking back, Mr. Baglini said that the biggest single development

in collegiate education has been the Internet.

"For example, in our 'smart classrooms,' we have access to multiple Web pages simultaneously, so our class discussions may benefit from the latest reports, developments and data. We are also able to show hazards and loss events around the world through video. Using the Internet, we are able to conduct group discussions between scheduled classes. Undergraduate and graduate students of all ages are very comfortable with this technology, and the instructor's role as a facilitator and resource person is made

much easier with all the tools available to us today," he said.

Insurers and other employers are showing increased interest in hiring students with a specific insurance-related major, he said.

"I believe the growing interest in students who major in risk management and insurance is not only because of the knowledge and skills learned, but also because of the students' commitment to a career with an insurer, broker, consulting firm, risk management department or other segment of the risk management business," he said. He added that at Temple, "almost of all of our

seniors" have had an insurance-related internship, and some have had three by graduation. He called an internship "a priceless learning experience" for students and corporate sponsors alike.

In the realm of ongoing professional education, Mr. Baglini said that designations such as the ARM and the CPCU "absolutely" carry more weight now than they did when he joined the institutes. At that time, "much learning was done on the job at the elbow of a senior technician, whose wealth of knowledge was passed along," he said. But structural changes in risk management and insurance meant that experience was no longer an adequate guide through new risks, new risk financing tools and new

challenges in general, he said.

"Consequently, employers increasingly looked to organizations" such as the institutes and other designation-granting organizations "to develop a pool of talent who showed their mastery of a wide range of subjects and skills by passing national exams," he said. Mr. Baglini said that the inexpensive nature of the programs, and the fact that they can be completed either through local classes or self-study, has led "many employers to build these credentials into personnel development plans."

"Of course, it helped when clients asked their broker, adviser or underwriter if they had earned a particular professional designation," he said.

'Courses should include group work on cases involving the ethical challenges students are likely to encounter in their careers.'

*Norman Baglini
Temple University*

The programs themselves have improved, he said. Offerings have increased, and qualifying exams are being given more frequently to meet the needs of the people seeking the designations. In addition, technological changes in publishing "have made it possible to tap the talent in the field, capture their ideas and write, edit and print books quickly to keep them up to date—a major challenge in these times," he said.

But insurance education of all sorts must include ethical as well as technical preparation, Mr. Baglini stressed.

"Insurance and risk management courses should include group work on cases involving the ethical challenges students are likely to encounter in their careers," he said.

"For example, conflicts of interest and full disclosure are ethical issues for those who will be intermediaries between clients and underwriters. Those who will be underwriters must be prepared to deal with the issues of unfair discrimination in selecting insureds and rating plans. And actuaries must know when it is proper and improper to adjust reserves. The groups must have a set of guidelines for making ethical decisions, and the cases must be realistic," said Mr. Baglini.

"Because of the recent publicity about unethical acts in business, I find students very interested in learning about how to be successful while remaining ethical. And I believe recruiters are becoming interested in hearing about how ethical awareness and ethical competence are being built into collegiate and professional designation courses," he said.

He noted that ethics courses have been required for earning the CPCU designation since the American Institute for CPCU was founded 60 years ago.

"I believe the founders felt that trust is a fundamental principle of insurance. Without trust, insurance and other risk-sharing techniques can't work," he said.

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Scholarships: Programs helping build talent base

Continued from page 10
Forge Chapter contributes funds to the foundation. A golf tournament held in conjunction with the Philadelphia chapter in May raises money for the effort. The Loman foundation also receives contributions from insurers and other businesses.
The foundation uses the money to match, up to \$1,500, scholarship amounts awarded by the chapters. The scholarships can go to students based on need or merit as long as they are awarded to someone in insurance-related studies.
The Greater Valley Forge Chapter

awards scholarships to students at Temple University in Philadelphia and, over the past four years, has given out \$33,000. The scholarships generally are for \$2,000.
When the chapter began the program, there was some uncertainty as to how it would work out, said Jack Kelly, secretary with the Greater Valley Forge Chapter and vp at Kel-Mar Inc., an insurance agency in Eagle, Pa. "Having done it, it's turned out to be one of those fun types of things" that serves an important need, he noted. "I remember being a student myself and how high tuition was."

"It helps out a lot," said Sam Codispoti, a Temple senior who received a \$2,000 scholarship from the chapter last year. The funds helped free up some time that he would have spent earning money to fund his education, Mr. Codispoti said, and allowed him to take on the role as president of the school's chapter of Gamma Iota Sigma, a professional fraternity for students of risk management, insurance and actuarial science.
Mr. Codispoti said he has taken a liking to the brokerage side of the insurance business after spending one summer as an intern with rein-

surance broker Guy Carpenter & Co. Inc. in New York and another at Marsh Inc. in Washington. "I'm leaning a little bit toward reinsurance," he said.
The scholarship will be a bright spot on his resume, Mr. Codispoti said.
Scholarships also are available from the Angus Robinson Jr. Memorial Foundation, which awards an average of 20 per year at amounts ranging from \$500 to \$5,000.
The fund, begun in 1990, raises scholarship money primarily through a golf tournament and a St.

Patrick's Day raffle.
The scholarships go to students of actuarial science or risk management who maintain a high grade point average and need financial help.
The NAIW Education Foundation, which operates separately from the National Assn. of Insurance Women but works with the association's board, has been offering scholarships for nearly 10 years.
Students seeking a degree with a major or minor in insurance, risk management or actuarial science are eligible for the NAIW foundation's scholarships. The applicant has to be at least a sophomore with a GPA of 3.0 or higher. An essay must be submitted describing the student's chosen career path and goals.

The Spencer Educational Foundation funds an internship program 'so that students can learn how risk management is practiced in a real-life scenario.'

*Richard Hackenburg
Spencer Educational Foundation*

Beverly Moore, executive director at the Tulsa, Okla.-based foundation, said the group awarded 33 scholarships last year that averaged just more than \$1,000 each. During its existence, the foundation has awarded more than \$200,000 in scholarships.
Funds are raised "primarily from the NAIW membership," according to Ms. Moore, with some help coming from corporate donors.
The NAIW Education Foundation makes scholarship applications available on its Web site at www.naiw-foundation.org.
Help apart from scholarships also is available from the Spencer Educational Foundation.
The group also funds an internship program for organizations that want students to work in risk management departments, "so that students can learn how risk management is practiced in a real-life scenario," said Mr. Hackenburg.
The foundation awarded \$32,000 to eight companies and RIMS chapters to fund hiring of interns at businesses in the United States and Canada last year.
Students also benefit from the foundation's Risk Manager in Residence program, which awards grants to universities that use the money to pay for the costs of inviting risk managers to lecture. The foundation awarded \$28,000 to universities under the program last year.
The foundation also awards a \$20,000 grant to RIMS each year, which funds the Anita Benedetti Student Involvement Program. The program helps pay for students to attend the annual RIMS conference, where they can develop contacts in the industry, attend educational sessions and gain exposure to hundreds of industry exhibitors, Mr. Hackenburg said.

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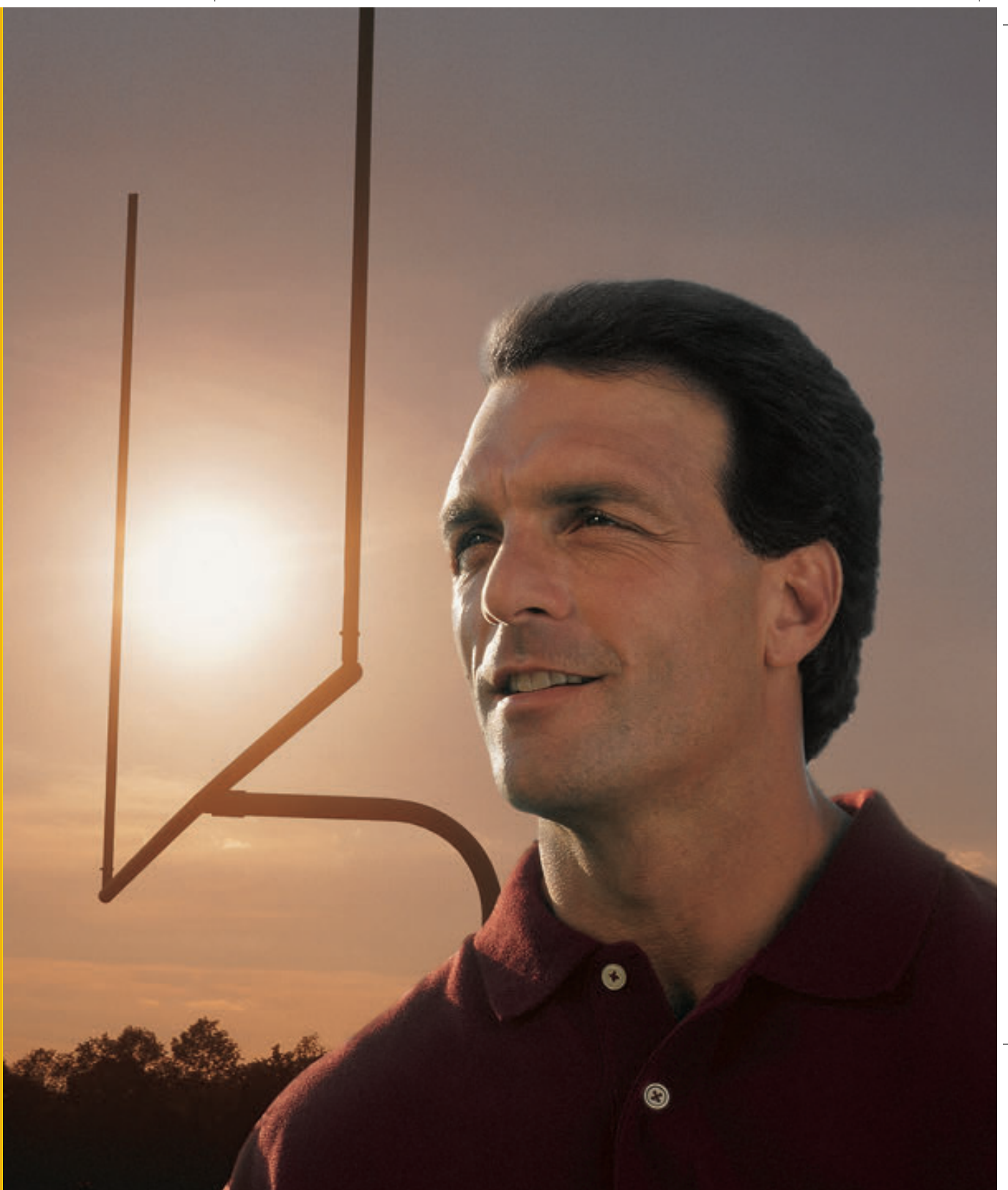
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Education: Interest in RMI programs on the rise

Continued from page 9

the last five years combined," Ms. Schneider said. "Such issues as terrorism and (directors and officers liability insurance), which have really been highlighted in the last year, I'm sure has helped us in the sense of drawing people."

George B. Flanigan, insurance industry professor at the Katie School of Insurance and Financial Services at Illinois State University in Normal, Ill., said that more students are considering an insurance and risk management education today because "they know there are careers in the insurance industry."

In the job market, "things are tough out there, and they're not as tough in insurance," he said. "People have realized that the insurance industry...is always going to be there; it's not going to disappear like WorldCom," Mr. Flanigan said, referring to the bankrupt telecommunications company.

"There is a strong and growing demand for students who have a solid understanding of risk management and how you go about evaluating, transferring and dealing with risk," said Ellen Thrower, professor and executive director of the School of Risk Management, Insurance and Actuarial Science at St. John's University in New York. "There are far more jobs within insurance and risk management than there are students to fill (them), and that's very different than the job market that is facing most graduates today."

Indeed, the number of firms coming to college campuses to re-

cruit students with risk management and insurance backgrounds is growing, educators note. And, they say, interest in such students is coming from a broader range of companies than ever before.

"We are finding that, on the undergraduate level, all kinds of folks are hiring these students now," Ms.

Having strong ties to the industry 'provides jobs, it provides internships, it provides financial support for your program.'

*Ellen Thrower
St. John's University*

Schneider of Georgia State said. "Five years ago, it was mostly insurers and agencies that were hiring, with a few corporate risk management departments having positions open now and then. Now, we're finding insurers, corporate risk management departments, agencies, brokerages, personal financial planning firms, banks and accounting firms—all of those groups for different reasons are now interested in the skills that our students have," she said.

A close association with the insurance industry is vital to the success of a risk management and insurance program, many educators say.

"Connectivity to the industry" is key to a successful program, said

Ms. Boose of Indiana State. "It's about internship opportunities, placement opportunities, scholarship support, speakers coming to campus and students participating in industry shadow days," she said.

Indeed, having "strong ties to the industry" is very important, said Ms. Thrower of St. John's. "That provides jobs, it provides internships, it provides financial support for your program, your faculty and your research and it provides scholarships to the students."

Ensuring that students receive personal attention also is important, several educators point out.

"I think what really makes a program successful is faculty who care about the students," said E.J. Leverett, professor emeritus and founder of the risk management and insurance program at the University of Georgia in Athens. "Unfortunately, in a good many colleges...there are professors who just want to come teach their classes, do their research and go home. Everybody who I ever hired, I told that, if they don't care about the students, then don't come here, because we're going to interact with these students and we're going to help them now or 20 years from now. And we do that," he said.

"Personal attention to students, I think, is very important in a field like this," said Ms. Schneider. "We are...often perceived by people outside of the risk management discipline as being a very narrow field. I think it will always be important, unless that perception changes,

that we personally in the department...strategically place our students (in the industry); that we offer internships through our department; and that we make sure our students have the opportunity to be mentored by people in the industry," she said.

Educators also stress the importance of having good faculty and a curriculum that covers both the basics of risk management and innovative approaches to the discipline.

"I think it's important to have faculty members who are primarily focused on insurance and risk management, who want to develop a program and who have an interest in establishing a relationship with the business community," said Mr. Flanigan of the Katie School.

"I would definitely say that cutting-edge curriculum is important," Ms. Schneider said. "You always

want that curriculum to be just ahead of where the industry practice is, while still keeping students aware of where the industry practice is, so when they get out there in an entry-level job, they can do the nuts and bolts. But being a little ahead in their thinking and being a little more open-minded about where things might be headed allows them to think more strategically when they get out," she said.

In addition, Mr. Query of Illinois Wesleyan said that alumni-relations arrangements can strengthen a risk management and insurance program. Not only are alumni great recruiting tools, but they also can speak to students about what it really means to work in the industry.

"It provides students with concrete job descriptions and what they will be doing on a daily basis," he said.

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Association promotes research, education

ARIA plans international forum on risk, insurance

By MARK A. HOFMANN

The American Risk & Insurance Assn. will take on an international air in 2005.

That's the year ARIA plans to play host to the first World Risk and Insurance Congress in Salt Lake City, marking yet another expansion of the organization's activities. And that expansion comes at a time when interest in risk and insurance education is rising, ARIA officials say.

Hosting an international forum on risk and insurance issues was probably far from the minds of the academics who formed the American Assn. of University Professors of Insurance in 1932. The group eventually became ARIA, and it now has more than 500 members, according to Tony Biacci, ARIA's executive director in Malvern, Pa.

ARIA's chief mission is to promote research and education in the areas of risk management and insurance, said President Mark Browne, professor and chair of the department of actuarial science, risk management and insurance at the University of Wisconsin at Madison.

"Most of the members are insurance academics, economists, people

who do research in the risk management and insurance fields," he said. Although officers have traditionally come from the academic community, the organization and its leadership positions are open to insurance professionals of all types, including risk managers.

Mr. Browne said that ARIA's major activities involve the publication of two scholarly journals. One publication, *The Journal of Risk and Insurance*, is considered the leading academic journal of its kind, he said. The second, *The Risk Management and Insurance Review*, was launched in 1999 and is designed to bridge the gap between academics and the insurance industry, he said.

As ARIA has been expanding its activities—which include an annual meeting in August—undergraduate interest in risk management and insurance has been growing, said ARIA President-elect Rob Hoyt, who is a professor and head of the risk management and insurance program at the University of Georgia's Terry College of Business in Athens.

"I think what we've seen is a trend toward and movement toward an increased preference (in the industry) for individuals coming out of risk and insurance programs. The University of Georgia is

one of the largest programs, but we've actually seen about a 20% increase in the number of majors in the past two years. We're at 255 in the undergraduate program," he said. There has been a similar pattern of growth of interest in risk management and insurance courses at the school's master of business administration program, Mr. Hoyt

'The proposed World Risk and Insurance Congress will promote education, research, and professional contacts in the broad area of risk management and insurance.'

*James Carson
Florida State University*

added.

"I think one of the biggest reasons has been the increased interest by insurers and brokers in recruiting our graduates. The students see that increased demand for students graduating with a degree in risk and insurance, and I think that's been one of the biggest" reasons for the increased interest in the last 18 months to two years, he said.

Mr. Browne said there also has been increased interest in risk management courses at the University of Wisconsin. Much of that interest is coming from a nontraditional source—non-business majors—who find it is "becoming increasingly relevant to understand risk and its implications and strategies for dealing with it," he said.

"All of our classes are pretty much filled up to capacity," Mr. Browne said.

The growing interest in insurance education and insurance careers was evident at ARIA's recent annual meeting in Montreal, said Mr. Hoyt.

The annual meeting "offers an opportunity for us to share best practices, in the context of industry interaction on the college campuses. As an example, we had a session this year at the ARIA meeting in Montreal that talked about hosting a specific career fair for risk and insurance graduates and managing internship programs and industry conferences," he said.

In addition, "we were able to offer a plenary session on what employers are looking for in future college graduates."

The meeting provides a forum for academics and industry representatives to come together and share

ideas, said Mr. Hoyt.

That forum will grow even more inclusive in 2005, said James Carson, Midyett Eminent Scholar in Risk and Insurance at Florida State University in Tallahassee and vp and program chair of ARIA.

That's when ARIA will hold a joint meeting with two similar organizations—the Geneva, Switzerland-based Geneva Assn., a group of 80 top insurance executives who promote insurance scholarship, and the Singapore-based Asia-Pacific Risk & Insurance Assn., a group of insurance academics and others interested in insurance education throughout the Pacific Rim. Organizers hope the event, the World Risk and Insurance Congress, will be held on a regular basis.

"The proposed World Risk and Insurance Congress will promote education, research, and professional contacts in the broad area of risk management and insurance, not only in the academic community, but hopefully also among corporate interests around the world. The joint conference is open to all academics, industry professionals and regulators," said Mr. Carson.

"We will try to take parts of the best of each of the groups and bring them together," he said.



Awards Luncheon

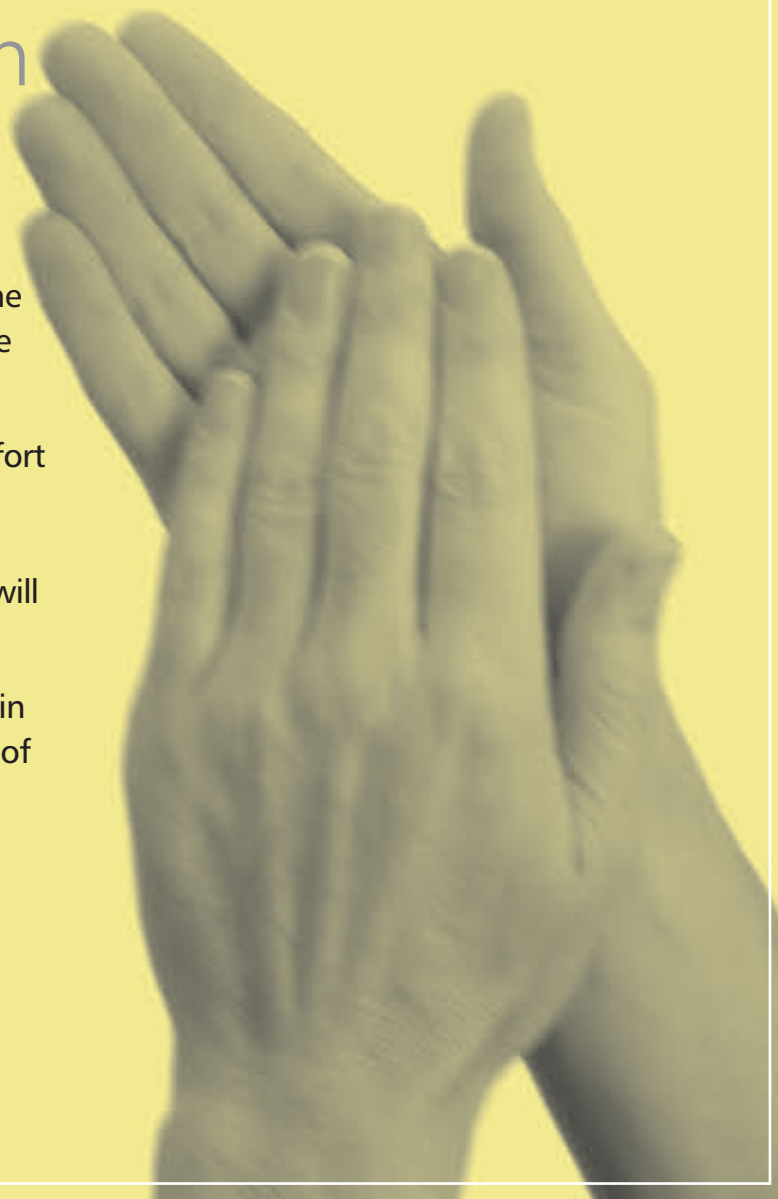
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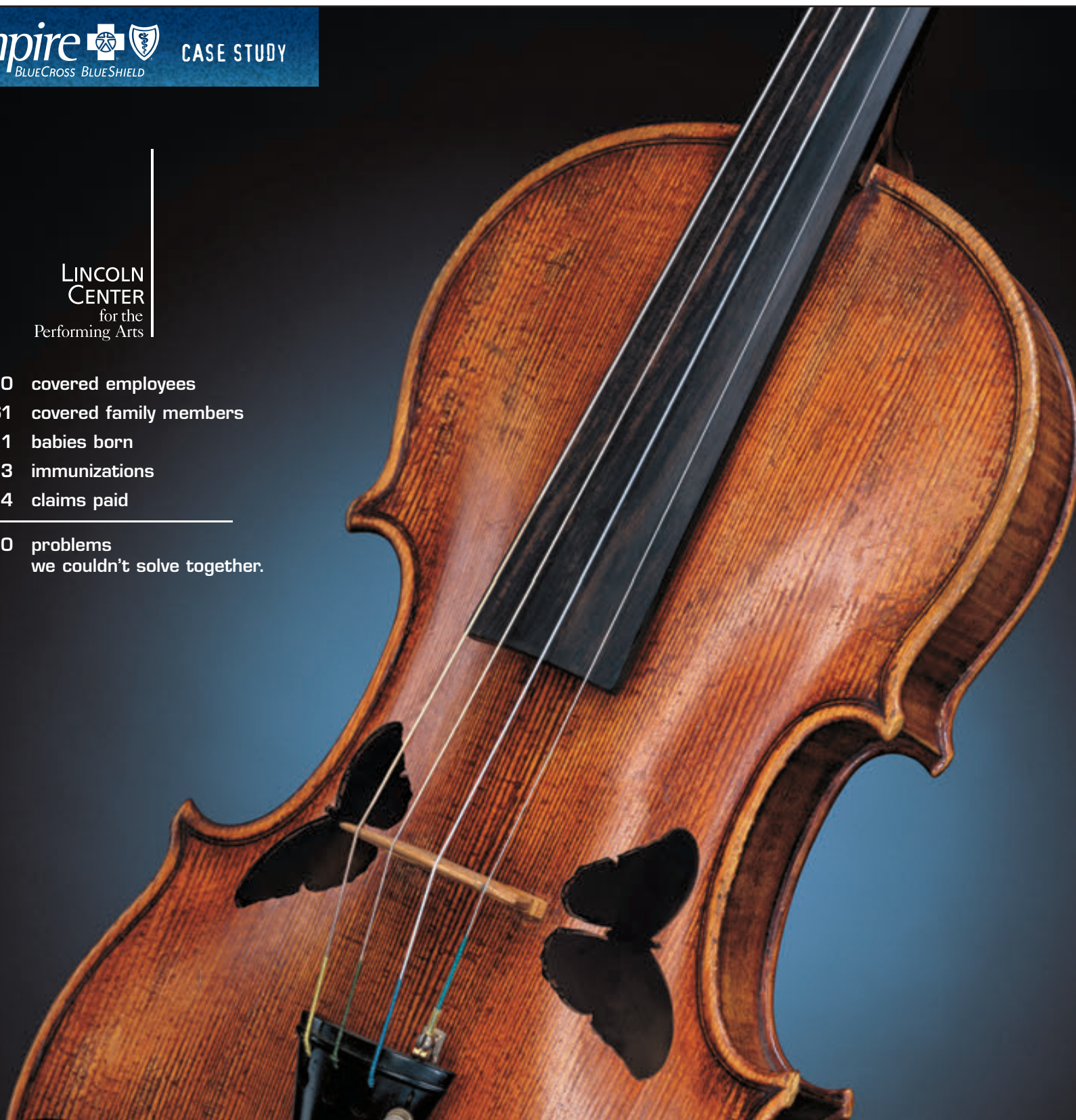


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Programs available to pros

Although the Associate in Risk Management designation is still the standard in the field, other designations can be worthwhile to risk managers as well.

For example, the Chartered Property Casualty Underwriter, now in its 60th year, is helpful to those seeking an in-depth understanding of underwriting.

One might think that just risk managers would seek the ARM, which was launched in 1965, but many brokers and underwriters also pursue the designation so they can communicate better with their risk manager clients, said Jim Markham, senior vp, general counsel and director of curriculum at the American Institute for Chartered Property Casualty Underwriters and Insurance Institute of America in Malvern, Pa.

"The CPCU and the ARM are both valuable. The ARM is focused on risk management principles. But it's interesting how many brokers and insurance industry professionals go through the program. And the CPCU program includes some risk management, but it also has more general insurance industry courses as well," he said.

Another professional designation, Certified Risk Manager, was developed six years ago by the Austin, Texas-based National Alliance for Insurance Education & Research. The CRM involves 20 hours of coursework—four hours on Wednesday and eight hours each on Thursday and Friday—followed by an exam on Saturday. Different courses are offered throughout the country.

An estimated 54,000 industry professionals have the CPCU designation, while nearly 22,000 hold the ARM, and more than 600 have the CRM.

Other designations that risk managers often hold, depending on their career paths, include the Associate in Claims, which is offered by the AICPCU/IIA, and the Certified Insurance Counselor, administered by the National Alliance.

Many risk managers seeking to specialize also obtain such credentials as the Environmental Risk Management designation, offered by the International Institute for Environmental Risk Management in association with Southwest Texas State University, as well as the ARM-P, offered by the AICPCU/IIA for public entity risk managers.

For more information, contact AICPCU/AII at 610-644-2100 or www.cpcu.org; the National Alliance at 800-633-2165 or www.scic.com; and the IIERM, 773-774-6758 or www.environmentalriskmanager.com.

—By Joanne Wojcik

Designations: Help in advancing careers

Continued from page 10

Calif. Mr. Godwin also teaches insurance education courses at the Insurance Educational Assn. and at the University of California-Riverside.

Risk management "is not static. We used to categorize risk management as a distinct field, but not anymore. The nature of risk is changing," he said.

To respond to the evolution of risk management, Mr. Godwin has developed and teaches a new course at the IEA called "Current Issues in Risk Management" that delves into the concept of enterprise risk management, among other topics.

"We're used to dealing with risk, but now we're talking about business risk in addition to pure risk. But we don't have the training and skills to look at risk-benefit analysis. This course takes some of the MBA concepts and brings them to risk managers to broaden their horizon," he explained.

The Risk & Insurance Management Society Inc. also is offering courses in enterprise risk management as part of its new RIMS Fellow designation.

The program, which was introduced in Canada and has expanded into the United States, requires:

- Either the ARM or the CRM, which is the certified risk management designation offered by the National Alliance for Insurance Education & Research of Austin, Texas, or three college-level risk management courses.
- A minimum of five years' experience in either risk management or insurance and financial services.
- Four college-level foundation courses in business.

- Twelve days of RIMS Fellow workshops, which are conducted throughout the country every year.

And risk managers who receive the designation must continue their education to keep it. To remain a RIMS fellow in good standing, risk managers must take at least two days of workshops every two years, be involved in RIMS programs and either publish papers in professional risk management journals or teach courses in risk management.

"We're trying to raise the bar on risk management as a profession," explained Carol Fox, director risk management at Convergis Corp. in Cincinnati and vp of professional development at RIMS.

Risk managers who receive the CRM designation from the National Alliance also are required to go back to school regularly to remain certified.

"Once you become a CRM, every year you have to do updates by attending one of the five CRM classes or other advanced classes," said Wayne Dauterive, vp in charge of the risk management designation program at the Alliance. Mr. Dauterive, who formerly worked as a risk manager in both the public and private sectors, holds both the ARM and the CRM designations and is a member of the RIMS Fellow advisory board.

The CRM, which consists of five intensive weekend courses that culminate in exams, each addressing

the different steps in the risk management process, takes longer to obtain than the ARM, which involves three classes and the three exams. That is because the CRM concentrates more on practical applications, while the ARM focuses on theory, Mr. Dauterive explained.

Because of that difference, risk managers may want to obtain both designations, as well as an advanced business degree, said Lance Ewing, first vp and chief risk officer of RIMS, who holds both the CRM and the ARM designations and teaches CRM courses. He also has two master's degrees—one in law and justice and one in occupational safety and health engineering.

"I'm a strong proponent of 'you never stop learning,'" said Mr. Ewing, who recently left his position as senior director of legal/risk management at GES Exposition Services Inc. in Las Vegas.

"Years ago, just having the requisite knowledge and experience was enough, but today, if you look at the job ads, many of the higher-level jobs in risk management jobs require either a finance degree or an

MBA," Mr. Ewing said.

RIMS President Chris Mandel said that having an MBA has been invaluable in helping him communicate with his company's top financial officers. He earned the degree in 1994 while serving as risk manager for the American Red Cross. He also holds both the ARM and CPCU designations.

"I spend most of my time reporting to senior financial executives like treasurers and CFOs—I've got to be able to speak their language. An MBA is one of the best ways to mitigate the potentially negative effect of being an insurance person," said Mr. Mandel, who is assistant vp of enterprise risk management at USAA Group in San Antonio.

"You hear that a lot. 'Oh, you're the insurance guy.' That's because people haven't communicated very effectively about what they really do. But if you can really speak that broader financial game and show you understand it, then you're going to be able to get a better reception from management on all kinds of things that go beyond insurance and risk management," he said.

Combining an MBA with a professional designation or two is probably the best of all worlds, said Jim Crockett, manager of risk and benefits at Denver Water and a member of the RIMS external affairs committee. Mr. Crockett has an MBA, as well as both the ARM and CPCU designations.

"For me, the MBA initially opened the doors and was more valuable for a number of years. But, I think you reach a point in time after you've been out of school for a number of years and begin to specialize, when the CPCU or the ARM mean more than the MBA does," he said.

It's not that such credentials show that "you're more knowledgeable than someone who doesn't have an ARM, but that you were more motivated to do what the other person could do, but hasn't," Mr. Crockett said.

Furthermore, "among fellow risk managers at RIMS and at other meetings, there's some prestige value if there's an ARM after your name. At least you've distinguished yourself from your peers," he said.

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8 AM - 1:30 PM \$10K Golf Tournament and Box Lunch
3:00 PM - 5:00 PM Opening Workshops
Track 1: *Captive Basics: The Latest Developments*
Track 2: *Employee Benefits in Captives: The Opportunities and the Realities*
Track 3: *Investments for Captives - the Lows and the Highs, from the Ground up to the Stratosphere*
5 PM - 5:45 PM Interactive Special Topics Workshop
6 PM - 8 PM Featuring a discussion on the extension of the Federal Risk Retention Act
 Welcome Reception with Exhibitors

TUESDAY, NOVEMBER 19, 2002

8 AM - 9 AM Breakfast in the Exhibit Hall
9 AM - 10:30 AM Keynote Address
David Mair, Immediate Past President of RIMS
 and **Susan Rivera**, President, ACE INA Holdings, Inc.
10:30 AM - 11 AM Cyber Café Beverage Break in the Exhibit Hall
11 AM - 12:15 PM Breakout Sessions
Track 1: *Cell Captives and Rent-a-Captives*
Track 2: *Reinsurance Networks and Strategies: The Latest Developments*
12:15 PM - 1:45 PM Buffet Luncheon featuring speaker **Kathryn Westover**
1:45 PM - 3:00 PM Breakout Sessions:
Track 1: *Cell Financing Strategies*
Track 2: *Fronting*
3 PM - 6 PM Networking Poolside Break
7 PM - 10 PM Cocktail Reception, Dinner and Entertainment

WEDNESDAY, NOVEMBER 20, 2002

7:30 AM - 9 AM Domicile InfoBreakfast
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9 AM - 10:30 AM Captive Case Studies
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10:30 AM - 11 AM Beverage Break in Exhibit Hall
11 AM - 12:30 PM Tax Developments
12:30 PM - 1:30 PM Prize Drawing, Box Lunch and Conference Round Up

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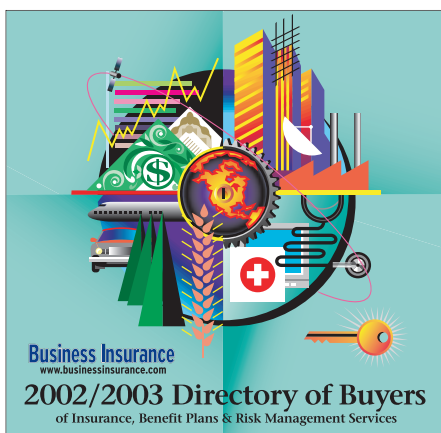
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As others shed members, Blues continue growing

By MICHAEL PRINCE

CHICAGO—People keep flocking to Blues plans.

For the first half of 2002, the Blue Cross & Blue Shield Assn. reports that its 42 independent licensees saw their membership grow 2.5% to 84.7 million, compared with the end of 2001.

The first-half gains continue a trend: Last year's enrollment total

marked the eighth consecutive year that the Blues plans had seen their membership increase. The June 30 enrollment also marked the highest enrollment level in Blues plans since 1981, when the association had 86 million members.

The current growth comes amid continued consolidation among the Blues plans, and as competing health plans, such as Aetna Inc. and CIGNA Corp., have pursued a

course of trimming their membership rolls.

The Blues are following a different strategy.

"We view it as a positive," a spokeswoman for the BC/BS Assn. in Chicago said of the membership gains.

A lot of the Blues' growth occurred as employers began in the late 1990s to shift away from restrictive health maintenance orga-

nizations to more open preferred provider organizations, which are a strength of the Blues, said Joe Martingale, national leader for health care strategy at Watson Wyatt Worldwide in New York.

"A lot of this growth is people moving to the Blues and getting a PPO for the first time," he said.

"Blues plans have always been real strong with PPOs," noted a spokeswoman for the BCBS Assn.

Current enrollment numbers reflect that, with 41.7 million members in PPO products, 20.4 million in traditional indemnity plans, 16.8 million in HMO plans, and 6.9 million in point of service plans.

Mr. Martingale said that employees generally like Blues plans because they have broad networks and fewer restrictions than other health plans. And employers like them as their network clout generates strong discounts with providers, he said.

Growth at the Blues comes as some major commercial plans have been shedding members or keeping a lid on new ones to boost profits.

The most dramatic decline was at Aetna, which reported commercial membership of 14.1 million as of June 30, down 19.9% from 12 months earlier, with most of that decline coming from its HMO product.

CIGNA saw a less than 1% decline over the same period to 14.2 million enrollees at June 30.

PacificCare Health Systems Inc.'s commercial membership fell 2.4% to 2.5 million as of June 30, compared with a year earlier.

While these and other plans are looking to prune members to boost profits, there is no indication that, in following an opposite strategy, the Blues plans are taking on poorly priced risks, Mr. Martingale said.

"A lot of their growth has been with large cases that are self-insured," he said.

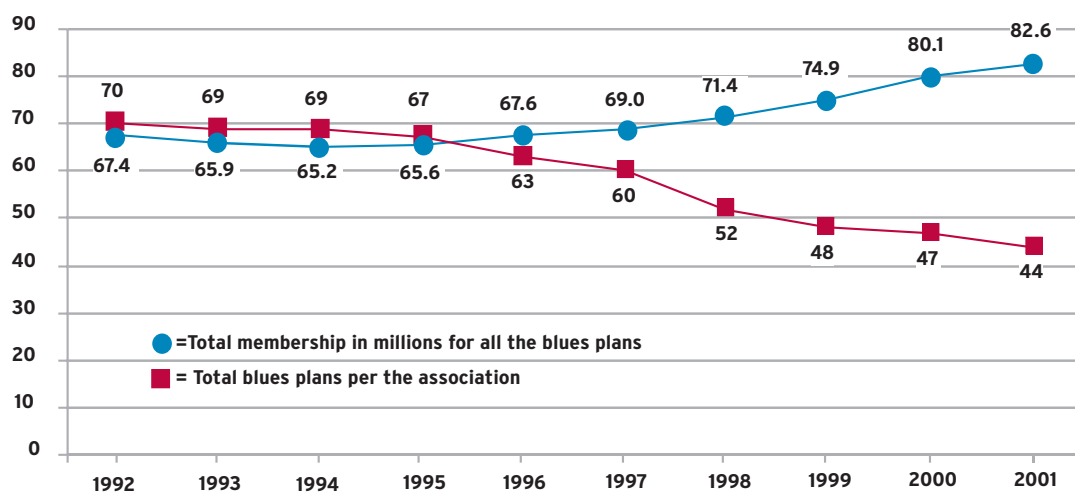
Blues plans saw membership drop in the early 1990s, as they were slower than competitors to offer managed care plans. Membership rebounded later in the decade as the Blues began to compete in that area.

Total membership stood at 67.4 million in 1992 and five years later had grown only 2% to 69.0 million. The plans added more than 13 million members over the following four years, a pattern that has continued so far in 2002.

During the same period, consolidation among Blues plans has led to fewer licensees. At midyear, there were 42 Blues plans, down from 44 in 2001, 47 in 2000 and 70 a decade ago in 1992.

BLUES PLAN GROWTH

Even with consolidation of some blue plans, membership grows



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Products & Services

Web tool aims to speed claims reporting

HARTFORD, Conn.—Risk managers can access claims-reporting information from a Web-based application developed by Travelers Property Casualty Corp. Large policyholders can sign up for a customized site that provides claims-reporting information for specific lines of business, a link to Travelers' online medical provider directory, electronic information-sharing with other policyholder locations, access to the insurer's Web site for injured workers and other features.

Brian MacLean, executive vp of the insurer's Travelers Claim unit, said in statement that the new application "speeds up the flow of reporting information to the risk manager, then on to their reporting locations, from days to minutes.... This leaves more time for risk managers to manage risks, not paper."

More information on the application is available from Leslie Marshall at 860-954-5729.



401(k) provider assumes fiduciary responsibilities

NEW ORLEANS—Pan-American Life Insurance Co. is offering a fiduciary liability management program in conjunction with its 401(k) plans. The New Orleans-based insurer

will take on joint fiduciary responsibility with plan sponsors who use the management program. The company said the program is aimed at improving plan quality while reducing the potential fiduciary liability of sponsors. Rob Jennings, vp of retirement investment services for Pan-American, said in the statement that "Plan sponsors can tap our unique relationship with Standard & Poor's for unbiased analysis of best-in-class investment options and use our comprehensive multimedia employee education program to get beyond merely signing up people for the plan." More information is available at www.panamericanlife.com.

Travel services offered with life, disability plans

SIMSBURY, Conn.—Employers that buy group life and disability insurance products from Hartford Financial Services Group Inc. can offer their workers a new travel assistance program. Hartford is offering the program through Worldwide Assistance Services Inc. Under the program, employees and dependents are eligible for travel services for any trip 100 miles or more from home. The program offers emergency medical assistance, emergency personal services and pretrip information. The medical assistance portion covers medical referrals and monitoring, emergency medical payments, return home of a travel companion or child and other services. Employees can use the personal services to send and receive urgent messages, make emergency travel arrangements, obtain emergency cash, report lost or stolen items, tap legal assistance and access interpretation services.

Information on visa, passport and immunization requirements, travel advisories and foreign exchange rates is available as part of the pretrip planning services. More information is available from Curt Barnard at 860-843-3565 or at www.thehartford.com/press/financialnews/2002/.

TPA, Patient Choice offer consumer-driven plan

WAUSAU, Wis.—Wausau Benefits and Patient Choice Healthcare Inc. are offering a managed care program designed to give patients and health care providers greater control over health care decisions than they have with some standard plans.

Patient Directed Health Care, available to midsize and large self-funded companies, also gives employers a better way to predict their costs, according to a statement from Wausau Benefits, a third-party administrator in Wausau, Wis. The TPA is partnering with Minneapolis-based Patient Choice, which develops patient-focused health care networks, to offer the program. Patient Directed Health Care allows patients to choose providers and determine the types of medical services they will receive. Members also can work with physicians to find specialty care without interference from the health plan, the companies said.

Patient Directed Health Care offers employers more predictable medical expenditures with lower cost increases from year-to-year, according to Wausau. The plan combines preferred provider organization coverage with an employer-funded personal health account. Employees can carry roll over account balances from year to year, which encourages conservative medical purchases, Wausau says. More information is available from Susan Ford-Hoffert at 715-841-6613.

Commentary

Court should hear exotic ADA case

One of the best things about being a Washington-based journalist is that you get to cover the Supreme Court, which opened its October 2002 term last week. This can be a lot more fun than going to routine congressional hearings, where half of the committee members don't show up. Those who do often act out a sort of political Kabuki theater, where the players go through stylized motions—including stylized righteous indignation verging on fulmination—to make points you've heard them make only a few dozen times before.

Thus, it can be a struggle to stay focused, though letting the mind wander can have some unforeseen and amusing effects. For example, during one excruciatingly dull yet exceedingly uninformative exchange between a powerful lawmaker and—as we say here inside the Beltway—a "high administration official," I closed my eyes for a couple of seconds and thought I was overhearing Foghorn Leghorn berate Kermit the Frog. They had the voices down pat, albeit unintentionally, and I had no difficulty at all in running the imaginary cartoon across the back of my eyelids.

This does not happen when the right honorable chief justice and associate justices of the Supreme Court speak. These are serious—and often quite cutting—people. I personally can think of a number of unpleasant medical procedures I'd rather undergo than experience five minutes of questioning by Stephen Breyer or Antonin Scalia. And, under most circumstances, arguments are limited to a grand total of 30 minutes per side, which promotes a fast-moving legal drama.

That's why I hope that a certain Americans with Disabilities Act lawsuit eventually makes it to the nation's highest court. This case comes from Florida, but I doubt that either of Florida's most esteemed satirists—Dave Barry or Carl Hiaasen—could have made something like this up.

Consider the facts as reported by the Associated Press and other reputable news outlets this summer. Wildside Adult Sports Cabaret is an adult entertainment establishment—in other words, a strip club—in West Palm Beach. According to the AP, the aptly named Edward Law is confined to wheelchair. He says the club is in violation of the ADA because its lap-dance room is not accessible to wheelchairs. According to the AP story, Mr. Law also alleges that the counter around the stage

where the strippers perform is too high, making it hard for him to watch the action or to put his drink down. This was obviously intolerable, so Mr. Law did what any aggrieved American would do—he sued. And who can blame him? After all, the guy paid good money for a walk—or something—on the Wildside, so the least they could do is accommodate him.

Turns out he has sued another strip club, a restaurant and motorcycle shop for similar violations. And, according to a lawyer buddy of mine, this type of suit is becoming an ADA cottage industry for a certain segment of the trial bar. Sue an establishment for a technical ADA violation in an effort to get court-ordered attorney's fees and whatever you can for the client.

There's a chance for some real tort reform here. I doubt the drafters of the ADA really intended their handiwork to be used as lawyer's full employment act, particularly when the full employment involves access to lap dancers. To the best of my knowledge, Bob Dole, perhaps the ADA's chief proponent, has never uttered a kind word about those who chase ambulances—or, in this case, wheelchairs.

So let the case proceed, if it hasn't already been settled out of court by the time this appears. In fact, as far as I'm concerned, a pretrial settlement would be a legal tragedy even if a trial would likely degenerate into a legal farce. In fact, it's hard to imagine the case could get much more farcical.

That's because this case would give the high court a chance to come out once and for all against frivolous lawsuits, for this one is frivolous in so many ways as to beggar the imagination. The whole situation is so surreal that even Clarence Thomas—who goes through entire court terms without uttering a word during oral arguments—might feel moved to ask a question. That alone would make it worth the price of admission, which, of course, is nothing. And nothing, I trust, will aptly describe the justices' assessment of the legal reasoning underlying this case if it ever reaches their docket, a most undignified case for a most dignified venue.

Senior Editor Mark A. Hofmann's commentary appears periodically in *Business Insurance* and on www.businessinsurance.com. He can be reached by e-mail at mhofmann@crain.com.



Mark A. Hofmann

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International

25

Report raises possibility of compensating names for losses

E.U. probing U.K. regulation of Lloyd's

By CAROLYN ALDRED

BRUSSELS, Belgium—A report published last week by a European Parliament committee accuses U.K. authorities of failing to regulate Lloyd's of London in accordance with European Union insurance directives and suggests that Lloyd's names should perhaps be compensated for losses they suffered.

On Oct. 7, the Parliamentary Petitions Committee discussed a report prepared by MEP Roy Perry, which stemmed from several petitions sent to the European Parliament by Lloyd's names who have incurred significant losses. The report accuses British financial au-

thorities of failing to regulate Lloyd's of London in accordance with E.U. insurance directives regarding auditing and solvency.

According to the report, "there was failure to observe E.U. directives up to 1982 and failure to correctly apply them after 1982." That was the year Parliament passed a Lloyd's Act, which applied the directives' audit requirements to Lloyd's.

As a result, the report states, "the question must arise whether (names) are entitled to compensa-

tion for loss suffered as a result of that late transcription and non application." The report suggests that compensation could come from regulatory authorities, such as the U.K. government or the European Commission.

Lloyd's sent a representative to the meeting, and a spokesman called the report "inaccurate and unbalanced." Lloyd's sought to have the Petitions Committee table the matter until after the European Commission had completed its own investigation into the matter, which

the committee last week agreed to do.

The commission launched formal infringement proceedings against the United Kingdom on Dec. 20, 2001, as a result of petitions from Lloyd's names. The commission is now assessing the U.K. government's response to a detailed questionnaire and will consider whether to pursue the matter further, according to a statement released Oct. 8 by the Petitions Committee.

The commission will report on its findings by the end of the year, said Internal Market Commissioner Frits Bolkestein.

See E.U./next page



Ruling may ease administration of E.U. pensions

By CAROLYN ALDRED

STRASBOURG, France—Multinational companies should welcome a European Court of Justice ruling earlier this month that employees should be able to receive local tax advantages on contributions to pension plans based in other European Union countries, consultants say.

The ruling should benefit companies with employees of diverse nationalities or that assign workers to other E.U. countries, though the ruling clarifies just one aspect of a complex legal and regulatory framework for European pensions, they say.

The European Court ruling on Oct. 3 concerned the pension contributions of a Finnish physician, Dr. Rolf Dieter Danner, who paid into two voluntary pension plans in Germany.

Dr. Danner, who has dual Finnish and German citizenship, paid into the two plans while working as a physician in Germany. He continued paying into the plans after returning to Finland in 1977.

The Finnish government argued that the contributions should not receive tax advantages because they had been paid to a foreign pension plan. Dr. Danner argued that his German contributions should benefit from the same tax breaks as if they had been paid to a Finnish pension plan.

According to the court, Finnish tax provisions, which prohibit tax relief on voluntary contributions from Finnish taxpayers to a foreign pension plan, are contrary to European Community law.

The ruling stated that European Union governments should

not be "restricting or disallowing (tax advantages) of contributions to voluntary pension schemes paid to pension providers in other member states."

Dr. Danner is entitled to benefit from Finnish tax advantages on pension contributions even though the pension schemes were administered outside of Finland, the Strasbourg, France-based court ruled.

The ruling "adds another significant piece to the jigsaw of pan-European pensions," said Mark Sullivan, European partner at Mercer Human Resource Consulting in London.

"There has been a lot of waiting for this judgment. It is a very positive step and will make things more straightforward for multinational companies sending employees to work in other European Union countries," said Simon Dudley, head of the international group of Watson Wyatt L.L.P. in Reigate, England.

The ruling is expected to make administering pension plans easier for workers assigned to other European countries, though obstacles remain for employers wishing to create pensions covering all European countries, benefit experts note.

The judgment does simplify pension rules for foreign-based workers, but legal, tax and cultural differences between E.U. countries still remain major obstacles to pan-European plans, noted Mr. Dudley.

Mr. Sullivan agreed that several issues block widespread acceptance of pan-European pension plans.

"To achieve pan-European pension provision, European governments will have to deal

See TAX/next page

German insurers see accounting change

Better picture of investments sought

By EDWIN UNSWORTH

BERLIN—As regulators tighten insurance and reinsurance regulations throughout Europe in response to rising investment losses, Germany is the latest country where new accounting rules on insurers are being considered.

Earlier this month, a German trade association for public accountants issued new guidelines for the valuation of insurers' equity holdings.

The change is intended to give policyholders and other observers a clearer view of the size and performance of insurers' investments.

The proposed change in German accounting rules is one of several reforms throughout Europe to subject insurers and reinsurers to closer scrutiny following stock market turmoil and corporate scandals over the past several months. Many insurers have reported sharply lower quarterly profits in recent months as the value of their stock holdings has declined.

Regulators in the United Kingdom and Spain have introduced accounting changes, the European Union plans to establish new regulatory bodies, and the Organization for Economic Cooperation and Development has announced an agreement to exchange information on insurers and reinsurers.

The changes in accounting treatment for German insurers were announced Oct. 2 by the Institute Der Wirtschaftsprüfer, a professional association representing certified public accountants in Germany.

The IDW's new guidelines include requiring insurers to write down the value of stock holdings if their market values drop 20% or more below their book values for six months or 10% below book value for 12 months.

The guidelines also include new provisions that would enable insurers to avoid write-downs if they can

show that the book value is in line with longer-term performance. Previously, insurers had to write down the value of an investment if it had slumped below its level at the previous year end. But under the IDW proposal, they would not have to use the investment's market value if the book value is shown to be in line with the average value for the whole of the previous year.

Although the guidelines are not legally binding, the IDW's members, which include 85% of Germany's CPAs, will use them as a measure before approving insurers' 2002 accounts.

Insurers welcome the changes.

"We think it's a good thing for us, and we are happy with them...We believe its good that there is now clarity about this topic," said a spokesman for Düsseldorf, Germany-based insurer Ergo Versicherungsgruppe A.G.

With regard to the impact of the reforms on policyholders, the spokesman said: "The IDW allowing us to have in mind the long-term price of the shares...is really in the best interests of the policyholder."

The Gesamtverband der Deutschen Versicherungswirtschaft e.V., German insurer trade association, agreed.

"We appreciate these proposals. It gives us clarity as to how the auditors will interpret the accounting rules on securities, and for our clients it is helpful that securities may be treated as long-term investments under certain circumstances," according to a GDV spokesman.

Policyholders would benefit from the change as they will have a clearer picture of the long-term financial strength of insurers as a result of the accounting changes, he said.

Wolfgang Rief, an analyst with rating agency Standard & Poor's Corp. in Frankfurt, Germany, called

See RULES/next page

World Updates

Fleetwood named ALARM chairman

David Fleetwood has been elected chairman of the London-based Assn. of Local Authority Risk Managers following the resignation of Ian Horwood last month. Mr. Fleetwood, head of procurement and risk management at Sunderland City Council, was ALARM chairman from 1998 to 2000 and most recently served as treasurer. His chairmanship will end at ALARM's annual conference in July 2003.

Wellington to make share offering

Wellington Underwriting P.L.C. plans to raise £120 million (\$187.7 million) through a share offering. London-based Wellington said it would use the proceeds to increase its stake in Exali Reinsurance Holdings, the holding company of Wellington Reinsurance Ltd, and to boost the capacity of Wellington's composite Lloyd's of London syndicate 2020.

FTSE100 pensions lose more than \$98 billion

The pension plans of the U.K. FTSE100 companies have lost £63 billion (\$98.53 billion) since the start of this year, according to research by actuarial consultants UBSL. Overall pension fund deficits of FTSE100 companies' pension funds now stand at £59 billion (\$92.27 billion), UBSL said.

Hiscox providing online U.S. terror coverage

Lloyd's of London insurer Hiscox P.L.C. has launched a new online service to provide terrorism coverage for middle-market clients in the United States. Selected U.S. brokers can access the extranet system via Lloyd's-licensed brokers. Limits of up to \$25 million are available, with no physical damage deductible and a seven-day deductible for business interruption. The coverage contains exclusions for chemical and biological terrorism, cyberterrorism, hoax or threat of terrorism and nuclear attacks.

S&P, Moody's downgrade Allianz

Standard & Poor's has downgraded its financial strength ratings on Munich, Germany-based Allianz A.G. Holding to AA from AA+. S&P said the downgrade was prompted by Allianz's risk profile, disappointing earnings and weakened capitalization, among other things. Moody's Investors Service also lowered its ratings of Allianz to Aa2 from Aaa. Moody's cited changes to the group's risk profile, capital base and earnings stream in issuing the downgrade.

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E.U.: Regulation eyed

Continued from previous page

Mr. Bolkestein pointed out to names attending the Parliament committee meeting, however, that the commission is "not a court of law" and cannot "sit in judgment" over what happened 20 years ago.

"If the commission does not decide to follow through the case with respect to the period covered by the petitioners claims, then a European Parliament Committee of Enquiry should be set up to fully investigate all aspects of the application of Eu-

ropean Insurance Directives with respect to Lloyd's," said Mr. Perry.

"If European law is to be upheld, the European Parliament must insist that the infringement proceeding, which the commission has commenced against the British government, must be taken to the European Court of Justice for its decision," said David Mainwaring, a Lloyd's name who filed a complaint to the Parliament in 2000.

The report is not publicly available.

Tax: Ruling hailed

Continued from previous page

with the financial nightmare of harmonizing the different tax reliefs on contributions and benefits paid out. There is bound to be some resistance from some governments to the potential loss of significant tax revenue that harmonization would bring," he said.

Several other tax cases pending before European institutions need to be resolved to clarify other aspects of pension laws and regulations, Mr. Sullivan said.

For example, observers are awaiting the outcome of an application currently before U.K. tax authorities that is also seen as an important case for pan-European benefit plans.

The application by AMS Management Systems Ltd., a London unit of Fairfax, Va.-based management consultant American Management Systems, to put a U.K. employee in its Dutch pension scheme is being supported by the Pan-European Pension Group, or PEPGO, an organization of 20 multinational companies. AMS has asked the United Kingdom's Inland Revenue to give its U.K.-based employee tax relief on contributions made to the company's Dutch pension plan.

Inland Revenue's response to the application is expected shortly. PEPGO says that if Inland Revenue turns down the application, it will take the case to the European Court of Justice.

Rules: Changes seen

Continued from previous page

the IDW's proposals "a reasonable approach" that helps to overcome the difficulty insurers face of having to state investment values year-by-year in an annual reports. He noted, however, that if capital markets do not recover some of the their losses in the near future, insurers' balance sheets could be weakened as a result of the IDW changes.

The change in German accounting treatment follows several other changes in financial and regulatory assessments of European insurers.

Both national and inter-governmental agencies have become alarmed about the effects of equity market turmoil and events such as the Enron Corp. and WorldCom Inc. collapses on the solvency of insurers and reinsurers that invested in corporate bonds.

Other national responses include:

- The United Kingdom's Financial Services Authority is overhauling regulation of the insurance sector to ensure better systems and controls. Measures include closer contact with regulators and external auditors and actuaries to ensure management is exercising proper control of insurers.

- In Spain, the insurance regulator has asked insurers to report on how their equities investments are affecting earnings and claims reserves and, if the effects are adverse, what action they intend to take.

- Members of the Organization for Economic Cooperation and Development, the Paris-based association with 30 member countries, has agreed to exchange regulatory and financial information on reinsurers. OECD members agreed to provide public and nonpublic information requested by other OECD members on such subjects as fraudulent activities and reinsurer insolvency.

- The European Union has agreed to set up pan-European bodies to regulate the insurance and banking sectors, possibly from next year. The aim is to establish a more efficient system for E.U. institutions to prepare, adopt and implement new legislation for sectors such as insurance, pension funds and banking.

Simon Gentry, director of European affairs for the London-based Assn. of British Insurers, sees the moves on stricter accountability for equities investments more as local issues rather than a European one.

Commenting on the E.U. proposals, he said: "It all depends on getting the appropriate balance between new opportunities for companies to operate in new markets and across borders and the risk that you get of over regulation as the E.U. tries to move towards a single market. You end up with everybody adding their regulations, so it actually becomes a layering-up process, rather than liberalizing."

Errors: Reporting medical mistakes poses risks

Continued from page 2

Yet situations vary, as do state requirements, and there is no precise answer to the question of when it is best to report errors and what to reveal to regulators.

"I don't know that there is a right answer to that question," Mr. Groszkruger said. "I know that each one of us is going to be faced with that dilemma at some point in time, deciding what do we report and when do we report. At the same time, the politics of the situation suggest if we wait too long, we are going to be criticized. If we come across as defensive, we are going to be criticized."

Risk managers can determine when and what to report by evaluating four potential sources of conflict, the speakers said. There are organizational, regulatory, media and financial issues to resolve.

Organizational issues include the

concerns of hospital directors and doctors about their reputations and the financial impact of lawsuits.

"You go to your docs and hold their hand," Mr. Driver said. "You tell them how you can handle these cases carefully so you can at least mitigate the problem. You may still get sued, but you are not going to have a cover-up problem. You may be able to settle."

Hospital board members, administrators and doctors all may have concerns about the scope of an internal investigation into errors. The scope ultimately will depend on the case and the participants' input.

"Collect those opinions and move to some point of agreement," Mr. Driver said.

Community confidence also is an organizational issue. Stories concerning errors circulating through a community can obliterate that confidence unless the hospital is first to

get its facts out, Mr. Driver said.

Hospital risk managers should develop relationships with regulators and educate them, Mr. Driver

'There are cases where we say, "We're not going to report." That is not the decision of a risk manager...That is a consensus-driven decision.'

Jeff Driver
Beth Israel Deaconess
Medical Center

said. Develop procedures for sharing information with them during a time when a crisis does not exist.

Precisely how much information to present to regulators will depend

on various legal and confidentiality requirements. Unless his organization is required to do so, it does not identify physicians and patients in initial reports, Mr. Driver said.

Finally, if reporting to regulators is not mandatory, consider the risks and rewards of doing so, Mr. Driver said.

"Because there is a lot of gray area, regularly balance risk and reward. There are cases where we say, 'We are not going to report,'" he said. "That is not the decision of a risk manager, by the way. That is a consensus-driven decision." At his organization, such decisions involve administrators and a board-level committee whose members evaluate each case, Mr. Driver said.

Addressing the media's tendency to sensationalize issues and create a victims-and-villains scenario requires developing relationships with reporters and educating them

before a crisis occurs, Mr. Groszkruger said. It also helps to frame a story so that it is not about an individual.

"The emphasis is on system failure, not on human beings," he said.

Financial concerns are best addressed immediately, he said. They are easier to mitigate early on and can be prevented from growing worse. Reporting problems early may also benefit the hospital if a state imposes a statute of limitations on claimants.

Additionally, addressing a problem immediately increases a hospital's chance of protecting itself by entering into an early settlement that includes a confidentiality agreement.

Such agreements can prevent claimants from sharing information with the media or other outsiders. "That certainly can be valuable," Mr. Groszkruger said.

American Society for Healthcare Risk Management 2002 Annual Conference & Exhibition

Use of temporary staff can create lasting problems

By ROBERTO CENICEROS

SEATTLE—Hospitals can prevent liabilities stemming from the use of temporary nurses and other health care professionals by scrutinizing the insurance arrangements of the staffing companies that provide the workers, risk experts advise.



If a staffing company lacks adequate coverage or the financial ability to pay claims generated by the temporary employees, the hospital contracting with the staffing company could be responsible for resulting liabilities, speakers said at the recent American Society for Healthcare Risk Management annual conference in Seattle.

The qualifications of nurses, therapists and aides supplied by staffing companies also should be closely examined, the speakers told attendees. Likewise, staffing companies may need close monitoring to ensure they comply with qualification requirements for the employees they provide.

If a staffing company's employees do not have the appropriate professional credentials or skills required for a particular job, the hospital may be held liable for any errors.

"Make sure they don't take any warm body and put them in your

hospital so (the staffing company) can make a few bucks," warned Denise Schumann, general counsel for Nursefinders, an Arlington, Texas-based medical staffing company.

The issues of patient safety, injury to temporary nurses, injury to employees resulting from the actions of temporary workers and theft of patient and hospital property all come into play, said Pamela K. Haughwout, senior vp for Shepard Riley Coughlin, an insurance brokerage in Boston.

Such issues increasingly are critical to hospitals, because a shortage of nurses and surging demand for them is driving annual growth of 15% to 20% in the health care staffing industry.

With staff in short supply, some hospitals frequently shift nurses, on short notice, from their assigned department to another area of the hospital, Ms. Schumann said.

Hospitals should avoid that practice unless they have determined that the nurses are qualified to work in the second area, especially if it involves higher-risk procedures, she advised.

In addition, don't just take the word of a staffing company motivated by revenue concerns that a nurse is qualified, Ms. Schumann said. Get proof that nurses are licensed and experienced.

A letter from the agency attesting to a nurse's experience and skills may be satisfactory under some circumstances. Other situations demand more substantial documentation, such as competency test results. Hospitals also should check the quality of the staffing company's competency tests and how they are administered.

Some staffing companies have been known to "help" their nurses pass competency tests, Ms. Schumann aid. She knows of one hospital that checks on staffing companies by sending a nurse to apply for

work. The nurse then pretends to fail the test, just to see how the company will react.

Drug testing and criminal background checks may be more important for permanent staff, because temp workers are not under a hospital's supervision as often, Ms. Schumann said. Find out just how thorough a staffing agency is when it conducts criminal background checks and drug testing.

She suggested that hospitals clearly convey their requirements to staffing companies in contracts, then ensure adherence to those requirements.

"What if they say, 'We do that' and they don't, and the person they send to you is negligent and the patient is injured and sues you?" Ms. Schumann asked. "By the time you find out that they didn't comply

with the contract, what are you going to do, sue them? What if they are out of business?"

To ensure staffing companies' contract compliance, visit their offices and look through the companies' temporary employees' personnel files. But avoid confidentiality problems by first confirming that the staffing company has obtained employee agreements, in writing, allowing the review of their files, she said.

Staffing companies "should throw their files open to you," Ms. Schumann said.

On the insurance side, hospitals should require staffing companies to buy professional liability coverage from a reputable insurer, the speakers advised. Check coverage limits to assure they are adequate for the risks related to the area of the hospital in which the tempo-

rary employees will work.

If a staffing company maintains a large self-insured retention, check its balance sheet to make sure the company can meet that deductible, Ms. Schumann advised. Otherwise, the hospital could be left with the bill, she said.

Also make sure the company has fiduciary liability coverage, in case one of its workers steals from a patient, Ms. Schumann said.

When incidents occur involving temporary nurses, report complete details of the event immediately to the staffing company, said Sharon L. Spencer, risk manager for Nursefinders.

An early investigation will help in settling the claim. Additionally, if the staffing company purchases liability insurance under a claims-made form, prompt reporting of the claim is crucial, Ms. Spencer said.

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Over 2,200 attend ASHRM

Speakers, vendors and attendees at the recent American Society for Healthcare Risk Management conference focused much of their attention on patient safety and the disclosure of medical errors.

More than 2,200 people attended the annual conference, held Sept. 29 through Oct. 1 in Seattle. In 2003, ASHRM will hold its conference Nov. 2-5 in Nashville, Tenn. For more information, contact ASHRM at 312-422-3980.

ASHRM is a Chicago-based membership group of the American Hospital Assn. and has more than 4,400 members.

American Society for Healthcare Risk Management 2002 Annual Conference & Exhibition

Suspicion greets loss control

By ROBERTO CENICEROS

At a time when patient safety is drawing considerable attention, doctors, administrators and patient advocates sometimes see health care risk managers as secretive and an impediment to efforts to keep patients safe.

Consequently, risk managers are "being left in the patient-safety dust," one risk management consultant says.

The perception that risk managers hinder the exchange of patient-safety information—such as that involving medical errors—stems from their aim to limit the information that plaintiffs in lawsuits can gather through discovery, said Geri Amori, a risk management consultant for Lexington, Mass.-

based Health Care Negotiation Associates.

"Our fear of discovery is good," Ms. Amori told those at a session of the American Society for Healthcare Risk Management's recent annual conference in Seattle. "It is important. It's part of protecting ourselves from a lawsuit. But we are seen as hiding everything."

To change that perception, health care risk managers should not hide behind laws, such as those that govern what information must be disclosed to patients and their families, Ms. Amori said. Although laws serve most people well, doing what is best for a particular patient may require following the spirit, rather than the letter, of the law, she noted.



When it comes to laws, such as those regulating safety issues, risk managers should always do what is legal, moral and ethical, said Ms. Amori, who is the immediate past president of ASHRM.

"I have always said I would rather defend my doctors for doing what is right than for going by the letter of the law," Ms. Amori said.

Some risk managers need to "unlearn" old ways of thinking, including the "naysayer" mindset, she said. "Our job isn't to go around and say, 'We can't do that,'" she said. "Our job is to go around and say, 'How we are going to do this together?'"

"You don't want to be the one people run away from, you want to be the one people run to," Ms. Amori said.

"Would you rather be known for serving the patient?" Ms. Amori asked. "If we save the patient, we save the assets of the organization."

Weather: Awareness of risk hedges grows

Continued from page 1

groups out there," she said.

Meanwhile, interest continues to grow in the Chicago Mercantile Exchange's temperature-related weather futures contracts, particularly since the exchange named Wolverine Trading L.L.P. lead market maker on the weather contracts earlier this year. The move to designate a lead market maker was seen as giving companies interested in the CME weather vehicle easier access to the market and related information.

Those companies entering the weather market or expanding their presence suggest they are responding to what they see as the market's potential for growth given weather's huge impact on the overall economy.

"The market does exist, it's growing and more people are starting to focus on it," said Mark Tawney, managing director at Swiss Re Financial Products in New York. "You're still seeing quote-unquote end users come to the market every year, and that continues to grow."

Mr. Tawney previously ran Enron's weather group, and was part of a team that came from the Houston company to Swiss Re earlier this year as the reinsurer moved to bolster its commitment to the weather market.

Following a strategic review of its weather business late last fall, Swiss Re determined that to be truly successful in the area, the company had to devote additional resources, Mr. Tawney said, and position itself to address weather risk not only through insurance products but also traded vehicles.

Lauralee Tillman, president of Good Weather Insurance Agency Inc. in Salem, Mass., said with this year's winter season, "Immediately, your mind goes to the snow portion of our accounts." Last year, her company saw a decline in business from companies looking to insure

against severe snowfall, however. "We saw a tremendous drop-off in people buying coverage for excess snow last year," she said.

Ms. Tillman blames that decline on the economy and suggested that, faced with other budget con-

Discussion of climate change 'is heightening companies' awareness of...weather risk markets and the ability to do something to hedge risks.'

Mark Tawney
Swiss Re Financial Products

siderations, some companies that otherwise might have sought insurance decided against buying coverage for excess snowfall. "Winter cost containment is discretionary," she said. Recently, Good Weather has seen an increase in quote activity, however, so the winter weather insurance business might pick up

this year, Ms. Tillman said.

"In terms of this winter, the big news is that there is a mild to moderate El Nino forming," Ms. Tillman said. The Pacific Ocean phenomenon is expected to cause increased rain in the southern United States this winter, she said.

"It's pretty intense, the projection for Florida particularly," Ms. Tillman said. There, rainfall is predicted to be 70% above average this winter. And in Texas, rainfall amounts are expected to exceed winter averages by 30% to 40%, she said. El Nino concerns could drive increased weather risk market activity in those states in particular, Ms. Tillman said.

In September, Boston-based modeling firm AIR Worldwide Corp. released its forecast for the winter season, which among its projections shows a probability of above-average temperatures this winter in the northern and southern regions of the United States, and below-average temperatures in the Mid-Atlantic and Southeast.

While energy companies remain

the primary users of the various weather hedges, particularly in the winter season, awareness of the weather markets and the tools' potential continues to grow.

"One of the things that we're really hearing this year from a number of companies—and it's really the first time I've heard it—is that banks are beginning to require hedging in their loan agreements," Mr. Tawney said. That interest by lenders in customers hedging weather exposures is a validation of the weather risk industry, he said.

Discussions of global climate change also are increasing awareness. Last week, a report on climate risk to the global economy issued by a United Nations panel pointed out that the threats posed by global climate change do offer opportunities for the weather derivatives market.

"It seems like the whole discussion of greenhouse gases is heightening companies' awareness of weather risks, and that's heightening their awareness of weather risk markets and the ability to do something to hedge risks," Mr. Tawney said.

"This winter, we are seeing more end users coming in," Element Re's Ms. Clemmons said. She attributes that increased activity to efforts to educate potential users on the hedging opportunities the weather market might provide and those new participants being "ready to make the jump into the market."

Awareness of weather's impact and opportunities to hedge the risk is growing, agrees Good Weather's Ms. Tillman.

"We're told that 20 minutes of every news hour has stories related to weather," she said, and increased awareness is "happening both in the very large businesses with the weather derivatives but also on very small companies. And that's where the weather insurance tends to come in."

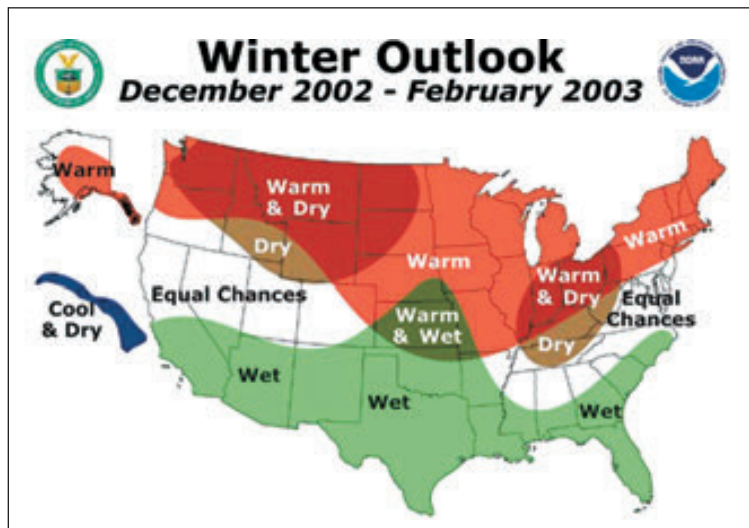


PHOTO: NOAA

Forecasts for above-average precipitation in some regions this winter are generating increased interest in weather risk management through hedging instruments, market sources say.

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9-26-02

Taking stock

Insurance industry's woes go beyond the obvious

By Myron M. Picoult

Notwithstanding a pricing environment that is clearly stronger and broader based than was expected by industry observers, property/casualty stocks have not performed as well as many industry gurus had expected.

Admittedly, the stock prices of many underwriters have done somewhat better than the Standard & Poor's 500 Index since the end of 2001. Although most insurers have seen their stock prices recede, the declines are somewhat less than the 31.6% drop registered year-to-date by the S&P Index.



While one cannot ignore the overall stock market malaise, there are other factors that have affected the industry's stock market performance. This begs the question: If you can't make hay in this environment, then when will you be able to make hay?

There is no question that the broad-based rate relief that is being garnered is needed, given the extended pricing wars in the 1990s and the material erosion in underwriting

standards. Furthermore, the prolonged underwriting downturn that resulted from soft pricing clearly argues for the rate changes to be sustained for several more years. It took the industry many years to get into this mess, and it will take many years to get out.

Clearly, earnings expectations for 2002 started out too high and managements have had to curb analyst enthusiasm. This restraint has developed despite a relatively light level (to date) of catastrophe losses. Although 2003 operating results should show improvement above final 2002 numbers, we believe that expectations for operating returns still have to be tempered.

The revenue bucket is clearly being filled up at a very good pace owing to rate increases. However, most company buckets have big holes in them.

Business written in 1998 and 1999 was more poorly priced than virtually anyone had perceived. We also believe that the ultimate development of 2000 and 2001 writings will show more adverse development than industry observers have factored into their earnings models.

All of this is on top of reserve deficiencies that have existed for prior-year writings, which is something we have been harping on for many years. Overall margins could also come under additional pressure from reinsurance cost and availability pressures if these facets are not appropriately factored into busi-

ness plans.

Exacerbating the underwriting results is the decline in the yield curve that is wrecking havoc with the industry's net investment income growth. The current rates on a 3-Month T-Bill, 3-Year T-Note and 5-Year T-Note are 1.56%, 1.97% and 2.58%, respectively. The comparable rates a year ago were 2.21%, 3.17% and 3.80%.

It will take several more quarters before parity is reached, and that could be delayed if interest rates decline further. Hence, the industry's old savior, net investment income, has not been and will not be much help for some time to come. The industry has to make money the old-fashioned way: from underwriting.

Depending upon the business mix and leverage employed, most carriers would have to produce combined ratios in the high 80s or low 90s to produce their stated return-on-equity goals. Most have never been in this territory. This is not to say that they cannot at least try to get there. However, the underwriting talent pool in the industry is relatively sparse, and it will take many years for this to be corrected. These folks don't grow on trees.

As if this were not enough of a burden, many carriers still have to contend with capital constraints. Indeed, underwriters with "disabled capital" bases are not in a position to take full advantage of the sharp rise in

prices and remain under close scrutiny from the rating agencies. In addition, these and other carriers with stronger balance sheets still have to contend with reinsurance-recoverable issues and looming questions about finite covers that are in place or about to kick in.

For many years, we have pointed to the widening spread that we perceived between the haves and the have-nots. It is finally occurring. There is one other facet to the gap that has developed between carriers. There has clearly been a shift in recent years to more disputes between reinsurance entities and their clients. This factor has also worked its way into the relationship between primary carriers and their clients. The ability of a carrier to pay and its willingness to pay are critical issues that will weigh on the widening spread between the haves and the have-nots.

When one puts all of the above into the hopper, it is no wonder that we are in the midst of an "endless transition." One can only speculate as to whether investors will be attentive and willing to listen once the industry gets its act together.

Myron M. Picoult is an advisor to Lazard Freres & Co. in New York. He is a past president of the Assn. of Insurance & Financial Analysts and a member of the New York Society of Security Analysts.

2002 Liberty Mutual Risk Management Forum

Kidnap risks growing

By JOANNE WOJCIK

LAS VEGAS—If one of your employees were abducted, would you have policies and procedures in place to deal with the situation?

That was the rhetorical question posed to risk managers attending the 2002 Liberty Mutual Risk Management Forum Sept. 29-Oct. 1 in Las Vegas by kidnap risk expert Armando Lara, vp of operations at Control Risks Group L.L.C. in McLean, Va.

Even companies or organizations that do not operate outside the United States—where the risk of kidnapping is greater—should have procedures in place that would help to mitigate the threat to employees, which are their most important asset, Mr. Lara advised.

In fact, since Sept. 11, the U.S. State Department has issued a warning that all Americans should be aware of the potential kidnap of U.S. citizens by terrorists, he said.

"The threat of violence directed against us because we are U.S. citizens" has been growing since 1979, when the United States provided weapons and training to Afghanistan rebels to fight off the Soviet invasion, he said.

At the time, it was thought that only Afghans were being trained. However, it turned out that Muslims from throughout the globe received this U.S. training. Many of those Muslims, who have since returned to their native countries, sympathize with Osama bin Laden, head of the Al Qaeda terrorist network, according to Mr. Lara.

"They've formed an international brotherhood," he said.

Because of these numerous terrorist cells, Americans are not safe anywhere anymore, he suggested. In fact, the videotapes taken at an Al Qaeda training camp that were

broadcast on Cable News Network a few weeks ago showed kidnap instruction, according to Mr. Lara.

"So that certainly is on their minds," he said.

And if the U.S. government continues to seize the assets of charitable organizations and other entities acting as fronts for terrorist organizations, they may turn to kidnapping to raise money, Mr. Lara said.

"If you seize those assets, if you take the money away from them, they have to look for some method or new ways to generate revenue," he said. "So will that force them to resort to kidnap, which is a traditional way of generating large amounts of money."

But companies can reduce this threat to their employees in several ways, he said. For example, they can formalize crisis management plans and teams; prepare evacuation plans in high-risk areas; conduct travel security awareness training for employees traveling outside of the United States; provide online sources of information that employees can access from anywhere they have Internet access.

"Organizations that have thought through what they stand for well in advance of a crisis are those that manage crises best," he said.

Effective crisis management shows employees that their employer cares and also protects stock value and reputation, according to Mr. Lara.

"What additional threats are we going to face throughout the world by radical elements, and will that heighten the kidnapping threat?" Mr. Lara queried.

"Our lives changed on 9/11," he said. "Therefore it is our obligation to develop those processes and systems to protect our people domestically and internationally."

Casino: Risk management

Continued from page 3
pointed out.

It's "much more than a hotel and casino," she explained. "It has a large mall with a canal and gondolas running through the middle of it. It has world-class dining. It has shopping."

And, to keep it all running smoothly, the Venetian has an engineering department with more than 400 employees, a carpentry shop, an upholstery shop and a key shop.

'In many aspects, we're larger than most towns,' with more than 14,000 employees on site at any one time, and perhaps hundreds of thousands of visitors each day.

*Susan Waters
Asset Protection Services Group Inc.*

"We have every kind of construction-related employee that you could think of. We have over 400 housekeepers who must clean over 3,000 suites a day," she said. "We have our own internal police and a security department. We have our bank in the casino cage. We have a post office. We have our internal schools to help our employees."

The Venetian even has its own power plant that can generate enough power to meet its own needs, as well as those of the neighboring casinos, Ms. Waters said.

"In many aspects, we're larger than most towns," with more than 14,000 employees on site at any one time, and perhaps hundreds of thousands of visitors each day, she said.

Fortunately, as a longtime member of the Las Vegas insurance and risk management community, Ms. Waters was able to consult with some of her colleagues in the casino community, who were willing to share their operations' policies and procedures.

But reviewing the other casinos' approaches

and then developing policies and procedures for the Venetian proved more time-consuming than Ms. Waters had anticipated.

"Remember, one of the reasons I wanted this job—and that I knew I could be so good—was because I thought I could do it my way," she said. "That also meant, however, that there were no current programs to use as a base. They all had to be created from scratch."

To determine what kinds of claims the Venetian might face from both visitors and employees, Ms. Waters also called on her casino risk manager peers, and she also developed procedures for handling those claims that are unique to the Venetian.

"We borrowed procedures from other hotels and facilities and then tried to adapt them to our own internal philosophies," she said.

For example, she developed an incident report for slip-and-fall claims that includes such information as the type of shoes a claimant was wearing. She also instituted a policy in which the hotel offered to pay for initial medical treatment in exchange for a signed release that would also provide access to a claimant's medical history.

To curb workers compensation costs stemming from abuse of the system, Ms. Waters sought to show injured employees that the company cares and is concerned about their welfare. Those efforts included hand-delivering workers comp payments to claimants to provide a "personal touch," and sending "get well" cards in various languages. Sometimes, she sent flowers.

Ms. Waters also developed a procedure for detecting the presence of methamphetamine labs, though the Venetian management initially scoffed at the idea.

"Do you realize that you can bring everything you need to make a meth lab into a hotel in a backpack, and in four hours you can cook up a batch? But if something goes wrong it could cost us thousands and thousands of dollars, let alone the publicity," she informed the management.

Terrorism: Bill's chances fading

Continued from page 1

In addition, the House of Representatives is expected to adjourn this week, further narrowing the window of opportunity for passage of terrorism insurance legislation. Even if the punitive damages issue is resolved among lawmakers, other significant issues involving the structure of a program remain to be addressed.

These include how much individual insurers would have to pay before the government would begin to help defray their losses and how much, if any, of the federal money would have to be repaid. And even if negotiators reach agreement on these issues, the result would have to be translated into legislative language and approved before the Congress adjourns for the November elections.

Nevertheless, given a narrower basis for disagreement, compared to how far apart lawmakers were only a few weeks ago, proponents of a federal role in guaranteeing coverage for future terrorism losses remained hopeful that a deal could be struck.

"I think they were in the process of good faith negotiations and no matter whether they reach an agreement Friday or not, in our view is not significant because the process appears heading toward a successful agreement of the terrorism insurance issue between Repub-

licans and Democrats," said David Farmer, senior vp-federal affairs for the Alliance of American Insurers in Washington, last Friday morning.

"Additionally, it's very clear that the White House's involvement has been a significant reason for the continuing good faith in the negotiations," said Mr. Farmer. President Bush has said on numerous occasions that enacting terrorism insurance legislation is key to economic recovery.

"While we remain optimistic, we are back to the same issue that stalled this initiative out last December—which is liability," said Joel Wood, senior vp-government affairs for the Council of Insurance Agents & Brokers in Washington. "The difference is we have considerably narrowed the distance between Republican and Democratic leaders. However, civil justice reform is always a highly combustible mix, particularly given the time constraints," said Mr. Wood.

Opponents of a federal terrorism insurance program, however, stepped up their efforts to kill it last week. In an Oct. 8 statement, Travis Plunkett, legislative director of the Washington-based Consumer Federation of America called on Congress to "go back to the drawing board and offer targeted assistance to the relatively few business that can't get terror coverage, such as some skyscrapers."

Texas orders stop-loss insurer to cease writing

By DOUGLAS McLEOD

AUSTIN, Texas—The Texas Insurance Department is moving to shut down a purported offshore insurer that has written stop-loss coverage for unlicensed self-funded health insurance plans, including one seized by Texas regulators earlier this year.

The Texas Department said Tuesday that it has issued an emergency cease-and-desist order against Britannia International Life & Casualty Ltd. and L. Raymond Stocks, a Houston-based insurance agent who has acted as the company's president.

Britannia served as a stop-loss insurer for American Benefit Plans, a fraudulent Fort Worth, Texas-based multiple employer welfare arrangement shut down by regulators in several states and ordered into receivership by a Texas judge in May. Robert David Neal, a certified public accountant who operated ABP, was sentenced in August to 27 months in prison after pleading guilty to one count contained in a pair of federal tax and health care fraud indictments.

While Britannia claimed to be based in Belize, regulators in Texas found that it was not licensed as an insurer there and had been struck from domicile's register of international business corporations, a department spokesman said.

Mr. Stocks, who said he resigned recently as Britannia's president, said that he does not know whether Britannia will appeal the cease-and-desist order. He has not decided whether to appeal on his own behalf, he added.

He denied regulators' assertions that Britannia has no legal existence as a Belize corporation, maintaining that regulators were simply unable to confirm its status because of the domicile's confidentiality laws.

"Anyone making an inquiry down there is not going to get any information about Britannia because of the privacy and secrecy laws," Mr. Stocks said.

Meanwhile, he confirmed the Texas department's assertion that Britannia has separately provided "advance benefit aggregate reinsurance" to about 900 employers participating in a single employer trust health insurance program administered by Vicare Administrative Services L.L.C. of Suffolk, Va.

Under the reinsurance program, Britannia has written a layer of coverage between the employer trusts and a stop-loss policy written by another insurer, Mr. Stocks said. The cease-and-desist order means that Britannia will have to withdraw from the program, he said.

Vicare officials could not be reached for comment.

Hewitt: Cost hikes to continue

Continued from page 1

Costs rose 10.2% on average in 2001 and 13.7% on average this year.

Indeed, the expected cost increases are so explosive that Kenneth Sperling, a Hewitt consultant in Norwalk, Conn., said of the cost trends: "There is no good news at all."

It isn't only employers that are being rocked by unrelenting cost increases. Thanks to cost-shifting, employees also are feeling the pain of higher premiums.

For example, next year, employees' premium contribution for single coverage will rise to an average of 19% of the total premium, up from 17% in 2002, according to Hewitt.

The Hewitt study is based on information that it collected from about 300 employers, whose workforces average about 5,000 employees. Health costs include employer and employee premium contributions—but not copayments—for medical, hospital and prescription drug coverage.

Just as health care cost increases have become painfully repetitive for employers, so have the reasons for those increases.

One key driver, Mr. Sperling notes, is the wave of mergers and consolidations among providers, which, in turn, gives them more leverage in negotiating reimbursement rates with health plans.

Providers know that "managed care plans need them more than they need the providers," which is resulting in providers, especially hospitals, winning big rate increases from the plans, he said.

Aside from providers charging

more, utilization also is rising. This is a direct result, at least in part, of consumers' managed care backlash and of changes in plan design that eased formerly tight controls and scrutiny of procedures, Mr. Sperling said.

"The marketplace has moved to a less questioning environment," Mr. Sperling said.

Just as health care cost increases have become painfully repetitive for employers, so have the reasons for those increases.

With managed care plans imposing very low cost-sharing requirements on services done within their network, employees have little financial incentive to question a provider, for example, when an MRI is recommended while a much less costly X-ray might be appropriate.

"No one is looking at the provider, and there are no checks and balances on the health care consumer," Mr. Sperling said in explaining utilization increases.

Still, there is no reason to believe that double-digit health care cost increases will continue indefinitely. Employers can take plenty of steps to stem cost increases. And some of the steps, modest as they have been, are beginning to have an impact.

For example, prescription drug cost increases, which had held at roughly 17% annually, now have moderated to the 13% to 14%

range. One reason for that moderation is the growing employer acceptance of plan design in which employees pay substantially more for brand-name drugs than for generics, leading price sensitive employees to opt increasingly for generic. That, in turn, can save big dollars, given that the average prescription cost for a generic drug is \$14, compared with \$70 for a brand name, Mr. Sperling said.

Prescription drug cost increases also could be eased by another design change in which employees paid a percentage of the total prescription cost rather than a fixed copayment. That would make employees more price sensitive, for example, to the cost of different brand-name prescription drugs, sensitivity they now lack with flat copayments, he said.

Ultimately, though, the only chance to hold down cost increases is for large employers to take the lead in implementing major design changes so that employees no longer are so insulated from the financial consequences of health care purchasing decisions, Mr. Sperling said.

One step in that direction is so-called consumer-driven health plans, which are high-deductible arrangements in which employees receive an employer-funded account to pay for a portion of costs that fall under the deductible.

If the employee does not exhaust the funds in the account, the unused amount can be rolled over for succeeding years' expenses—an incentive, say proponents, for employees to use health care services wisely.

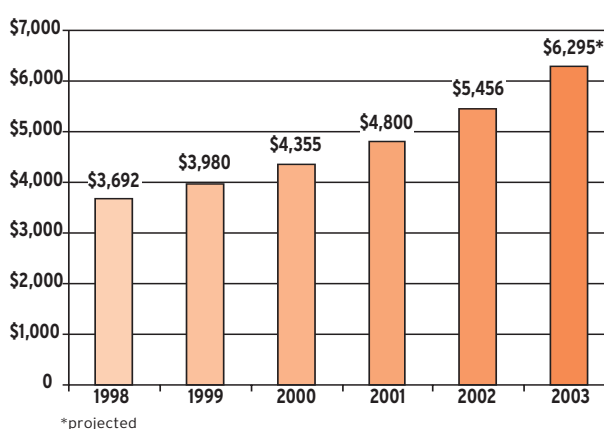
Mr. Sperling sees an expansion in such plans ahead but warns that their cost-saving potential won't be immediate.

To save money, consumer behavior has to change, and that does not come overnight, he said.

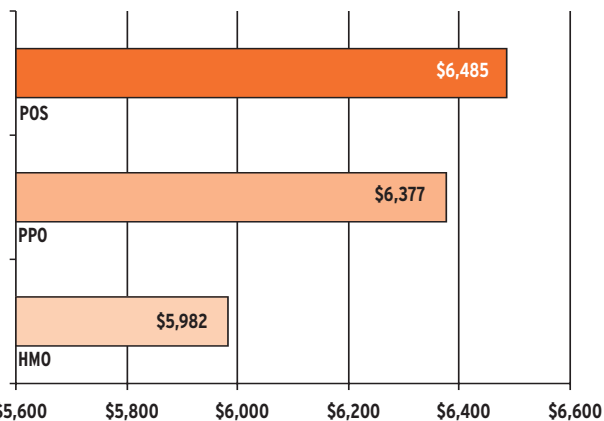
A summary of the Hewitt health care survey is available at www.hewitt.com.

HEALTH CARE COSTS STILL RISING

Survey shows rising health care costs per employee



Projected cost per employee for 2003



Source: Hewitt Associates Inc.

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For the Record

This roundup of news from the previous week is generated by *BI's* daily news reporting. To get breaking news as it occurs, log on to www.businessinsurance.com, or sign up online for free *BI* Daily News by e-mail.



The French oil tanker Limburg, which caught fire off the coast of Yemen, is insured for \$70 million.

Oil tanker explosion covered for \$70 million

An oil tanker that caught fire off the coast of Yemen after an explosion has \$70 million in insurance coverage, the tanker owner says. The tanker is covered through a package policy that includes hull and machinery and war risk coverage, which includes coverage for terrorist attacks, said a spokesman for Compagnie Maritime Belge in Antwerp, Belgium, which owns the Limburg through its subsidiary, Euronave S.A. The coverage is led by syndicates at Lloyd's of London.

Mississippi enacts malpractice tort reforms

Mississippi Gov. Ronnie Musgrove signed medical malpractice legislation that his office says will

avert "a health care crisis" by substantially reducing the liability of health care providers and facilities in future civil lawsuits. Provisions in the bill include a noneconomic damages cap of \$500,000 until July 1, 2011, followed by a \$750,000 cap until July 1, 2017, and a \$1 million cap after that. The caps are excluded, however, on actual damages, disfigurement cases or at a judge's discretion.

U.N. sees market risks in climate change

Natural disasters driven by climate change could have a disastrous impact on world stock markets and financial centers, and the financial services industry should provide more mechanisms for hedging such risks and should better factor those exposures into pricing, a United Nations report contends. The report warns that annual losses from



natural catastrophes could approach \$150 billion in the next 10 years if current trends continue.

Tobacco companies win secondhand-smoke ruling

Tobacco companies welcomed a trial court decision that they were not liable in a secondhand-smoke case. The plaintiff charged that she developed chronic sinusitis as a



result of exposure to smoke while working in aircraft cabins. The state trial court jury's decision in favor of the tobacco manufacturers supported the defendants' position that secondhand smoke has not been linked to sinusitis, said Douglas J. Chumbley, an attorney with Carlton Fields P.A., who represented R.J. Reynolds Tobacco Co. in the case.

Empire Blues' for-profit conversion approved

Empire Blue Cross & Blue Shield has received regulatory approval to convert to a for-profit company. Empire amended its proposed conversion plan after a public hearing in August. Changes to the original proposal include provisions that the for-profit company obtain regulatory approval for rate increases of more than 10% on individual direct-pay indemnity products and Medicare supplement policies. The changes will affect approximately 150,000 of Empire's 4.6 million customers, a spokeswoman said.

Wind claims unlikely to top \$500 million: EQECAT

Wind-damage claims stemming from Hurricane Lili are not likely to exceed

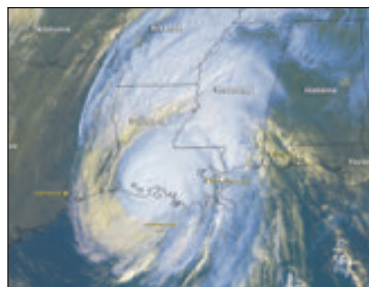


PHOTO: NOAA

\$500 million, according to EQECAT Inc. The catastrophe modeling company said that there is, however, a 20% chance that insured wind damage losses would be greater than \$600 million. Lili made landfall on Oct. 3 near New Iberia, La., after being downgraded to a category 2 storm—one packing winds of up to 100 mph—from category 4.

HSBC takes stake in Chinese insurer Ping An

HSBC Group P.L.C. has bought a 10% stake in Chinese multiline insurer Ping An Insurance Co. for \$600 million. As part of the deal, London-based HSBC will provide technical assistance and other services to Ping An. Ping An, which was established in 1988, had a life insurance premium volume of \$4.8 billion in 2001 and wrote \$776 million in property/

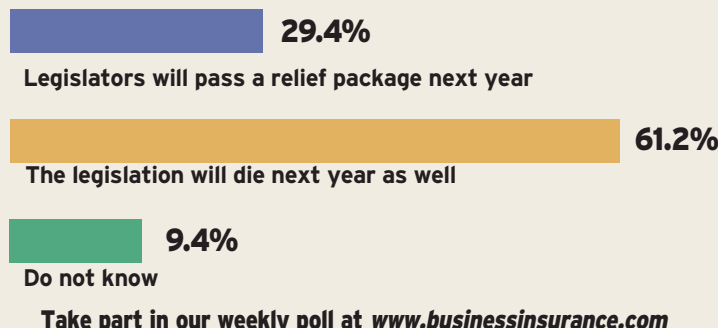
casualty premiums. The HSBC investment is subject to regulatory approval.

Briefly noted

As part of a corporate reorganization, **Lance Ewing** has left his job as senior director of legal/risk management at GES Exposition Services Inc. in Las Vegas. Mr. Ewing is first vp and chief risk officer for the Risk & Insurance Management Society Inc....The Pennsylvania House has passed legislation aimed at limiting the ability of plaintiffs to select favorable venues when filing **medical malpractice suits**. The legislation will now go to the Senate....William R. Wilkerson III has been named the 2003 chairman of the Washington-based **Council of Insurance Agents & Brokers**. Mr. Wilkerson, chairman and chief executive officer of Haas & Wilkerson Inc., a Shawnee Mission, Kan.-based retail brokerage, will succeed John L. Van Osdaal, the CIAB's 2002 chairman....**Marsh & McLennan Cos. Inc.** plans to acquire Saldana & Associates, a Marsh correspondent broker in San Juan, Puerto Rico. Management of 170-employee Saldana will remain unchanged following the acquisition, Marsh said.

Online Poll [10/7 - 10/11]

If Congress does not enact terrorism insurance relief this year, do you think:



Take part in our weekly poll at www.businessinsurance.com

ERISA: Benefit termination

Continued from page 3

leased to work, no physician had released her as of Sept. 29, 2000, according to court papers.

Ms. Lessard sued ARM, PRM and PRM's parent—Deerfield, Ill.-based MMI Cos. Inc.—in federal district court, charging that the defendants violated Section 510 of ERISA by entering into an arrangement that involved the termination of her medical benefits and the subsequent denial of benefits under the new plan.

The U.S. District Court for the Northern District of California granted the defendants summary judgment in February 2001. It ruled that Ms. Lessard failed to provide evidence that the ARM/PRM termination of her health care benefits was motivated by a specific intent to interfere with her protected rights under the plan. Specifically, the companies argued that the asset sale was a neutral action and that the termination of Ms. Lessard's benefits was caused by her own refusal or inability to return to work, according to court papers.

The 9th Circuit panel disagreed, however, ruling that the asset sale agreement was discriminatory.

The agreement "facially discriminates against employees who were on disability, workers compensation and any other form of extended leave, explicitly excepting from its separate schedule for conditional transfer any employee who was ab-

'We are disappointed in the court's reasoning and conclusion and are evaluating our options and determining what to do next.'

St. Paul Cos. Inc. spokeswoman

sent from work due to vacation, holiday or personal reasons," the appeals court wrote in its Oct. 3 decision. "At the time the companies executed the agreement, they knew that five of the six employees placed on the deferred schedule were on some form of medical leave or disability-related leave. We find that this conduct constitutes discrimination on its face."

The 9th Circuit remanded the case to the lower court, directing it

to award damages to Ms. Lessard and to determine the extent of each defendant's liability. In doing so, the court noted that a corporation that purchases the assets of another corporation ordinarily isn't liable for the selling corporation's obligations, courts do make exceptions.

The St. Paul Cos. Inc. acquired PRM's parent company, MMI Cos., in April 2000. In 2001, St. Paul formed Octagon Risk Services, an Oakland, Calif.-based risk management consulting, third-party administration and claims-handling firm, which comprises the former MMI and PRM operations (*BI*, May 7, 2001).

A spokeswoman for St. Paul, Minn.-based St. Paul said, "We are disappointed in the court's reasoning and conclusion and are evaluating our options and determining what to do next."

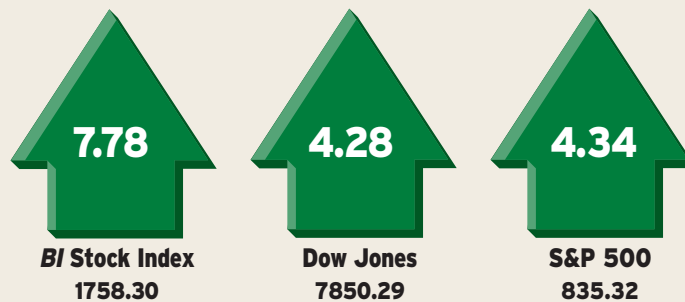
ARM's attorney said that the company is exploring its options.

Denice Lessard vs. Applied Risk Management; MMI Cos.; Professional Risk Management. 9th U.S. Circuit Court of Appeals; No. CV-99-03371. Decided Oct. 3, 2002.

BI Stock Index [10/7 - 10/11]

Up-to-the-minute data for all 87 companies that comprise the *BI* Stock Index can be found at www.businessinsurance.com

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



Largest gains

AXA-UAP Group
Marsh & McLennan
AEGON N.V.
Unico American Corp.
ESG Re Ltd.

21.41%
20.60%
17.87%
17.11%
14.63%

Largest losses

Gainsco
SCPIE Holdings
Meadowbrook Ins. Group
Allmerica Financial Co.
Clark Bardes Holdings

-14.29%
-12.45%
-11.15%
-10.05%
-9.58%

Weekly change by market segment

Brokers	5.38%
Insurers/Reinsurers	3.47%
Managed Care Organizations	5.55%

Source: CNET Investor (investor.cnet.com)

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Managing your relationships

Marketers and CRM vendors alike are learning from past mistakes and looking to leverage the power of technology in communicating with customers and partners

BY KAREN J. BANNAN

The customer relationship management industry has been taking it on the chin.

The press gave extensive coverage to a recent Gartner study that said as many as 50% of CRM implementations fail. In addition, there have been articles about CRM companies that have folded and left customers in the lurch.

But IT managers and vendors have learned their lessons from the CRM problems of the past and are looking optimistically toward the future. They are convinced that well-planned CRM programs will reap significant benefits. In fact, CRM is the No. 2 technology priority for IT managers, according to a study by the Meta Group. Only system integration ranked higher. This marks a significant departure from 2001, when CRM spending languished at No. 15.

As CRM rises on priority lists, companies have changed their buying patterns, and vendors have changed their selling strategies.

The most visible change is the size and scope of a typical CRM project, said Volker Hildebrand, VP-eCRM with SAP America. Gone are the days of multimillion-dollar technology buys. Unless companies can identify a short-term return, they're avoiding new purchases and turning to modular solutions.



ILLUSTRATION BY MICHAEL HILDEBRAND

"Customers are more focused on smaller projects or trying to solve a pain point," Hildebrand said.

As a result, CRM vendors are moving away from the suite approach and toward pay-as-you-go options. For example, J.D. Edwards is selling its products in bite-size chunks, said Karl Johnson, VP-CRM strategies, as are most of the major CRM vendors.

Vendors also are lowering prices, removing a barrier for anyone who's on the fence about CRM, said Ben Holtz, president-CEO of Green Beacon Solutions, a CRM consulting firm. "Prices are definitely dropping," he said.

Some companies are adding features to their software packages at no additional cost. Oracle recently announced it was bundling business intelligence technology into all of its base CRM products as well as reducing its prices. "We're making sure customers have accurate pricing and that they get all the discounts they are eligible for," said Andrew Kass, Oracle's VP-CRM development.

However, while per-seat costs have gone down, many suppliers now require per-name commitments—anyone who uses the software must be registered by name. In the past, companies simply bought a specific number of seats, and those seats were shared across the enterprise. Microsoft's new CRM offering will use per-name licensing, but it's an extension of its program's security, Holtz said.

CRM, page 18

PRM software delivers tighter channel ties

MARKETERS LOOK TO REDUCE COSTS, INCREASE REVENUE BY COORDINATING PARTNER ACTIVITIES

BY MITCH WAGNER

Marketers are starting to realize that they need to build relationships not only with customers but with channel partners, as well. With a renewed focus on selling through these partners, many companies now are considering partner relationship management, or PRM, systems.

PRM can help coordinate partner activities and facilitate connections by providing order management, lead sharing, joint marketing and collaboration. Although the concept of PRM hasn't enjoyed as much attention as CRM, the idea is the same: to use technology to more efficiently gather information, build relationships, save time, cut costs and, ultimately, increase revenue.

"PRM enhances the accuracy of the ordering process by eliminating steps," said Bill Picton, director of

Other marketers are seeing similar cost savings and increased revenue with PRM software. Vendors that provide such technology include ChannelWave Software Inc., Comergent Technologies Inc., HAHT Commerce Inc. and Click Commerce Inc. Also, vendors of CRM and other enterprise software, such as SAP AG and Siebel Systems Inc., are integrating PRM technology with other product sets.

"The benefits are that you have the ability to solidify channel relationships and make them into really strong assets," said Louis Columbus, senior analyst with AMR Research Inc.

Maintaining good relationships with the channel has become increasingly important, as some 70% of revenue for manufacturing companies now comes from channel sales, Columbus said. A good PRM software implementation can help enhance these relationships, he added.

"In a down market, it's hard to get people to pony up to try new things. We are queued up to pull the trigger as soon as the market turns around."

BILL PICTON, DIRECTOR OF INFORMATION TECHNOLOGY, THARCO CONTAINERS COLORADO INC.

information technology for Tharco Containers Colorado Inc., San Lorenzo, Calif., a manufacturer of corrugated and foam packaging with annual revenue of about \$250 million.

Previously, Tharco distributors had to create and send orders via phone, fax or e-mail, and then Tharco would re-key each order. Tharco now uses PRM software from Raleigh, N.C.-based HAHT Commerce that automates the process, saving time and reducing staff needs. The PRM system also reduces phone-call inquiries about the status of orders and stock levels; this information is now provided over the Web.

Since launching its Web-based PRM system, Tharco does about 10% of its sales volume over the Web, with distributors handling all of those sales. The company invested less than \$1 million in the system.

But many companies haven't taken full advantage of their PRM investments, he said.

"In general, there's more functionality in applications that have been purchased than is actually used," Columbus said. Lead management and lead generation features are popular, while collaboration and joint product introduction features often get ignored, he said.

For example, Tharco is using its PRM software exclusively for e-commerce, processing orders on the Web. The company is poised to deploy a catalog application on the Web that would allow its distributors to create their own branded online catalogs of Tharco products on the distributors' own Web sites, which then would send orders electronically back to Tharco's system.

"In effect, we could create a partner Web, where their customers order from them and they order from us, and it's seamless, with minimized

Benefits can be quantified

Despite the economic downturn, the PRM market is growing. The technology has proven to be dot-bomb-proof because proponents can demonstrate the business benefits in terms of reduced cost and increased revenue opportunities. Enterprises can expect to see a 30% reduction in the cost of order processing, plus 25% to 30% increases in sales, Columbus said.

Elron shifts to partner sales strategy

BY MITCH WAGNER

Elron Software is investing in partner relationship management technology as part of its migration from a direct sales model to a channel sales model. The Burlington, Mass., company makes filtering software that allows companies to control their employees' Internet access to objectionable Web sites, such as pornography or gambling sites.

The company is looking to boost revenue generated by channel sales from 20% of total revenue last year to 65% of total sales by the fourth quarter of this year. As part of that strategy, Elron implemented the ChannelWave 5 PRM system from ChannelWave Software Inc., Cambridge, Mass. The system enables the company to connect with partners for lead sharing, online training, demos and co-marketing.

Elron is changing its strategy because its product is conducive to channel sales, said Rosette Cataldo, director of channel sales for Elron. Companies aren't necessarily proactive about seeking content filtering; often they don't ask for it or are not aware of its potential usefulness, she said. Enterprises need to be sold on the software, and Elron believes channel partners can sell the software as part of an overall IT solution or as part of an overall security solution.

Everyone on the same channel

A year ago, Elron restructured its sales organization. Rather than having just a few salespeople focus on the channel, each of 15 salespeople was given channel responsibilities, Cataldo said. Elron recruited its 100 top partners to participate in the PRM network.

The PRM software helps automate channel relationships and leverages Elron's relatively small staff to maximize support, Cataldo said. "We had to find a way to communicate with partners without needing to get the partner on the phone," she said. Now, partners can go to the company's DiamondMine portal for the information they need.

For instance, Elron launched a new product last month and was able to distribute information automatically through the portal. The company designated which partners should receive the news and iden-

tified an individual at each partner company to receive it.

Elron also uses the software as part of a lead-sharing program. Once a partner inserts a lead into the system or receives a lead from Elron via ChannelWave, Elron can coordinate sales support efforts.

The company is now receiving more than 50% of its revenue from channel partners, and is on track to receive 80% of its revenue from channel partners by yearend, exceeding its initial goal.

Not all partners want closeness

The PRM installation brings the company and its partners closer together, but at least one Elron partner would just as soon keep his manufacturers at a distance.

"If you're a VAR [value-added reseller] that's dependent on the supplier for leads and support, you will turn into a vanishing VAR," said Allan Cowen, principal of Datamex Technologies Inc., a Vancouver value-added reseller. "While all the other VARs are messing around with a contact management system, I'd rather be engaged with the contact."

Moreover, he said, entering leads into the lead management system is time-consuming, taking up to 30 minutes per lead.

Also, the program requires partners to act quickly; Elron will assign the lead to a competitor if Datamex doesn't act on it within 48 hours. Cowen said he is working with Elron to improve the usefulness of the PRM system.

Technology companies such as Elron are aggressive implementers of PRM technology because they are, in general, early adopters of computer technology, said Louis Columbus, senior analyst with AMR Research Inc. Also, the entire industry is becoming more cost-conscious, he said.

Lead management—converting leads to sales—is the lifeblood of PRM, Columbus said. And part of lead management is "injecting your channels with a sense of urgency" about following up on leads.

"Respecting the relationship with channel partners while at the same time escalating leads that do not get followed up on can be a tightrope for companies to walk," Columbus said. □

data entry," said Tharco's Picton.

But the company has had difficulty signing distributors on to the project because most of these channel partners have tightened their belts in the rough economy, Picton said.

"In a down market, it's hard to get people to pony up to try new things. We are queued up to pull the trigger as soon as the market turns around," he said.

DuPont starts slowly

Similarly, DuPont Performance Coatings has installed a PRM system from Redwood City, Calif.-

based Comergent, but the manufacturer has signed up only about 100 of the largest distributors from its network of 2,500.

"We went with a very vanilla version and wanted to take it slowly so we could add the things they were looking for as enhancements," said Catherine Marchand, e-business strategy manager for the DuPont division. The \$4 billion business unit of E.I. DuPont de Nemours and Co., Wilmington, Del., provides paints and other automotive coatings to collision repair shops.

The company now uses its PRM system for order management, and

it hopes to attract new distributors to the system by adding enhanced functionality. For example, it may add the ability to order products from companies other than DuPont and directly interface with distributors' point-of-sale systems.

"Going from a manual system to an automated one gives you an awful lot of ways to improve overall performance, and that's what we're looking to do," Marchand said. The company uses PRM software to communicate with distributors over a Web portal, using technology from Bowstreet Inc., Portsmouth, N.H. □