

Adelphia seeks halt to D&O coverage suit / 2

High court to decide scope of asbestos liability / 3

Business Insurance

www.businessinsurance.com

November 4, 2002

Entire contents copyright © 2002 by Crain Communications Inc. All rights reserved.

\$4

Underpriced accounts, service gaps pose formidable problems CIGNA strives to get on track

By SALLY ROBERTS

PHILADELPHIA—Executives at CIGNA Corp. hope that a renewed focus on underwriting and customer service will help reverse its health care operation's declining fortunes.

The Philadelphia-based insurer last week revealed that it had severely underpriced accounts in its experience-rated indemnity book of business and incurred higher costs due to customer service shortfalls.

As a result, CIGNA lowered its operating earnings forecast for year-end 2002 and 2003. On Friday, CIGNA posted a net loss of \$445 million for the first nine months of 2002, compared with



net income of \$798 million for the same period last year. The 2002 figure includes more than \$1.04 billion in nonrecurring charges related to runoff reinsurance operations and a Medicare cost-reporting matter. CIGNA reported operating income of \$762 million, excluding the nonrecurring charges, for the nine-month period, a 5.6% decrease from the comparable period in 2001.

But the bad news didn't end there. After

CIGNA announced its lower earnings forecast, its stock price tumbled, triggering a shareholder suit. And CIGNA disclosed late last week that the Securities and Exchange Commission had begun an informal inquiry into the company. CIGNA shares closed Friday at \$38.40, down 41.0% from before the earnings forecasts.

H. Edward Hanway, CIGNA's chairman and chief executive officer, in a conference call with analysts, said that given the stock market's reaction, the SEC action "was not unexpected."

In addition to lower earnings, CIGNA said it also expects the service and underwriting problems to reduce its Jan. 1, 2003, enrollment by 4%

See CIGNA/page 36

Terror law will bring challenges Tough choices ahead

By MEG FLETCHER

WASHINGTON—Many risk managers and insurance industry representatives are only now beginning to appreciate the magnitude of the choices and challenges they could face if the current draft of a federal terrorism insurance bill becomes law.

Risk managers have mixed feelings about the bill. Although the bill contains a nullification provision that would void all terrorism exclusions, at least for a short period, the bill would backstop only insured losses from terrorism motivated by "any foreign person or foreign interest" and not damage resulting from domestic terrorism. As a result, losses from the Oklahoma City bombing, for example, would not have been covered.

As for insurers, their primary concern is the marketing and logistical challenges they would face in evaluating each individual commercial property/casualty risk and providing it with a quote for terrorism insurance coverage.

The draft bill specifically covers most commercial lines policyholders, including workers

See TERROR/page 38

Wellstone sentiment may spur parity bill vote

By JERRY GEISEL

WASHINGTON—The death last month of mental health care benefits parity advocate Sen. Paul Wellstone, D-Minn., could provide impetus to the long drive to pass parity legislation, but time will likely run out in the current congressional session before an agreement is reached.

Over the last few months, lawmakers had been making little visible progress in fashioning an agreement on parity legislation that could pass both houses of Congress and be signed into law by President Bush.

That lack of progress, benefit lobbyists say, was due, at least in part, to the political calculations made by Republicans and Democrats alike on the impact an agreement could have on the upcoming elections.

Specifically, had an agreement been reached, the beneficiary could have been Sen. Wellstone, who had been, along with Sen. Pete Domenici, R-N.M., the leading congressional champion of mental health care benefits parity legislation. That, in turn, could have boosted Sen. Wellstone's re-election chances by defusing Republican charges that his liberalism gave him little influence in Congress.

The Congressional leadership was "mindful of an issue that could have changed the outcome of an election," said Paul Dennett, vp-health policy at the American Benefits Council, an employer

See WELLSTONE/page 38



Tributes to Sen. Paul Wellstone, D-Minn., who died in a plane crash in northern Minnesota on Oct. 25, took many forms last week.

Late News

Aon scraps sale of underwriting unit

Aon Corp. has announced plans to raise approximately \$1 billion to enhance the company's capital position in anticipation of debt maturing in 2003 and pension obligations. In addition, Aon has scrapped plans to sell all or part of its underwriting operations, "due to the unfavorable mergers and acquisitions environment," the company said. Aon will not develop Combined Specialty Group Inc. into a specialty property/casualty insurer, as it had planned, and will try to help the management team it had assembled over the past several months to transfer to a different company, an Aon statement said.

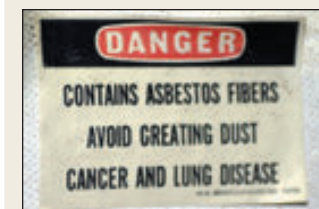


PHOTO: KRT

Best report details scope of A&E exposures

The property/casualty insurance industry will incur more than \$121 billion in net losses related to asbestos and environmental claims, estimates A.M. Best Co. According to Best, asbestos losses industrywide are expected to reach \$65 billion, while environmental losses are expected to reach \$56 billion. The findings are based on Best's proprietary data combined with data reported to the National Assn. of Insurance Commissioners for year-end 2001.

Employer can't be sued for client's actions

California's principal anti-discrimination law does not permit employees to sue their employers for sexual harassment stemming from the actions of a client or customer, a state appeals court ruled. The legislative history of the California Fair Employment and Housing Act indicates that the Legislature expressly rejected making employers liable for harassment by clients or customers, the court ruled. The case stems from a 1997 incident involving a Paratransit bus passenger who assaulted a female driver.

See LATE NEWS/next page

Spotlight

E-COMMERCE/ BEST OF THE WEB

Begins on page 10



Inside

HMOs trying new approach

Health maintenance organizations, once known for requiring little employee cost-sharing for in-network services, are introducing high-deductible plans to keep premiums down. **Page 4**

Finding unusual common ground

Editor Paul Winston finds an unexpected ally in the cause of litigation reform. **Page 6**

Asbestos fears not a cause for claim

The Supreme Court, in considering an asbestos-liability case, should rule that fear of developing asbestos-related cancer is insufficient cause for awarding noneconomic damages, one of this week's editorial says. **Page 8**

Ohio employers boost pension funding

Stock market losses are forcing many Ohio-based companies to contribute to their pension funds. **Page 28**

Colombian insurers seek terror backstop

A host of insurers in Colombia are pushing for the creation of a government-backed reinsurance facility for terrorism coverage. **Page 33**

Windstorm losses may hit \$300 million

Insured losses from a windstorm that swept across the United Kingdom and parts of continental Europe on Oct. 27-28 may total as much as \$300 million. **Page 33**

Departments

Advertiser Index	38
Classifieds	28, 30
Comings & Goings: Industry	30
For the Record	39
Insurance Services Guide	26
International	33
Opinions	8
Ticker	39
World Updates	33

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

Business Insurance (ISSN 0007-6864) Vol. 36, No. 44, is published weekly by Crain Communications Inc., 360 N. Michigan Ave., Chicago, Ill. 60601-3806. Periodicals postage is paid at Chicago and at additional mailing offices. POSTMASTER: Send address changes to Business Insurance Circulation Department, 1155 Gratiot Ave. Detroit, Mich. 48207-2912. \$4 a copy and \$97 a year in the U.S. \$130 in Canada and Mexico (includes GST). All other countries, \$230 a year (includes expedited air delivery). Canadian Post International Publications Mail Product (Canadian Distribution) Sales Agreement No. 0293512, GST No. 136760444. Printed in U.S.A. Copyright © 2002 by Crain Communications Inc.

CONTINUED FROM PAGE ONE

Swiss Re, Lincoln National settle purchase dispute

Swiss Reinsurance Co. and Lincoln National Corp. have settled their dispute over how much Swiss Re should pay for Lincoln National's life reinsurance unit. Swiss Re will drop its lawsuit that sought a \$770 million reduction in the \$2 billion it agreed to pay for Lincoln Re. Lincoln National will reduce the purchase price by \$195 million and will pay \$100 million to increase the reinsurance unit's reserves.

More federal charges leveled against Segal

A federal grand jury last week returned new charges against Michael Segal, owner of Near North National Group Inc. and its Near North Insurance Brokerage Inc. unit, charging that over at least 12 years, he caused more than \$20 million in insurance premiums to be diverted to his own and his companies' use. The 16-count superseding indictment charged Mr. Segal with seven counts of insurance fraud, seven counts of mail fraud, one count of wire fraud and one count of racketeering. Mr. Segal, who has denied wrongdoing, stepped down as Near North's chairman and CEO earlier this year. A statement from his attorney rebutted the charges and said, "We intend to do our talking in the court room." In its own statement, Near North emphasized that the company was not charged in the indictment and that it has assembled an independent board of directors and a new management team.

PHOTO: AP/WIDE WORLD



Mr. Segal

Late News

China eases restrictions on reinsurance

Insurers in China will have more freedom to choose reinsurers under changes to the country's insurance law. The change removes a requirement that insurers place at least 20% of their business with China's state-owned reinsurer, China Re. The amendment goes into effect Jan. 1, 2003. The revision to China's insurance law is intended to comply with the country's commitment for acceptance into the World Trade Organization.

Aetna reports \$2.62 billion loss

Aetna Inc. reported a \$2.62 billion loss for the nine months ended Sept. 30, compared with a \$92 million loss



for the comparable period a year ago. Aetna said the results reflect a \$2.97 billion charge it took earlier this year related to changes in accounting rules. For the third

quarter, Aetna posted a \$98.8 million profit, compared with a \$54.4 million loss in 2001. Revenues for the nine-month period declined 20.9%, to \$15.16 billion, largely due to decreased membership.

Rate hikes to last at least two more years

Rate hikes for commercial property/casualty insurance will continue for at least two more years, predicts Ernst & Young L.L.P. On average, commercial property/casualty rates are rising by about 20% this year, "with no signs of going down," said Peter Porrino, global and Americas director of insurance industry services for Ernst & Young. Insurers' policyholder surplus has been dropping since 1999, and further rate increases are needed to push this back up, he said.

Acquisitions, rate hikes fuel XL gains

XL Capital Ltd. reported profits of \$182.2 million for the first nine months of 2002. For the comparable period in 2001, XL recorded a loss of \$492.5 million, largely due to the

Sept. 11 terrorist attacks. XL's gross premiums for the first nine months



were \$7.05 billion, more than

double its volume for the same period in 2001, due, in part, to the inclusion of results for Winterthur International and Le Mans Re.

White Mountains posts \$889 million profit

White Mountains Insurance Group Ltd. reported profits of \$889.2 million for the first nine months of 2002, compared with a loss of \$132.8 million in the same period last year. The profits include \$667 million of net deferred credits associated with the adoption of new accounting standards.

Briefly noted

Lawrenceville, N.J.-based property/casualty holding company **Highlands Insurance Group Inc.** and five of its noninsurance subsidiaries have filed for Chapter 11 bankruptcy reorganization. Highlands' insurance units ceased underwriting last year and have been placed under supervision by regulators in several states... A new multidisciplinary law office whose named partners include a nonlawyer has been formed in Washington to focus on settling complex insurance claims involving environmental, asbestos and other high-dollar issues. **Eisenstein Malanchuk L.L.P.** was founded by Larry Eisenstein, formerly a partner at Swidler Berlin Shereff Friedman L.L.P.; and John Malanchuk, president of Harbour Consulting, a wholly owned subsidiary of Swidler Berlin.... Zurich, Switzerland-based ABB Group said it expects to settle the **asbestos liabilities** of its U.S. unit, Combustion Engineering Inc., for about \$1.1 billion. ABB announced Friday that it is negotiating with asbestos plaintiffs to resolve its liability by reorganizing the unit under Chapter 11 bankruptcy.

Check out Businessinsurance.com

To get breaking news as it occurs, visit *Business Insurance's* free online Daily News, located 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:

- Read profiles of the Web sites honored by *BI* for being the **Best of the Web**.
- See a new **Commentary** from Paul Winston, as well as the work of *BI's* other columnists.
- Check the **Datebook** calendar for upcoming industry meetings and events or add your own.
- Exchange ideas and information with other readers through the **Online Forum**.

But Rigas family, other former officers want resolution of recision case Adelphia seeks halt of D&O cover suit

By DOUGLAS McLEOD

NEW YORK—A bankruptcy judge is expected to rule soon on Adelphia Communications Corp.'s request to halt a lawsuit in which the company's directors and officers liability insurers are seeking to rescind coverage.

In its motion in U.S. Bankruptcy Court in New York, Adelphia is facing off not only against its insurers but also members of the Rigas family—the company's former top officers—who want the coverage litigation to proceed.

Three insurers that wrote \$50 million in D&O limits for Adelphia sued to void their policies in a Philadelphia federal court last month, charging that Adelphia founder John J. Rigas and other company officials concealed schemes by which the Rigas family looted Adelphia of millions of dollars.

The insurers—Associated Electric & Gas Insurance Services Ltd. and units of Chubb Corp. and XL Capital Ltd.—separately asked a New York bankruptcy judge overseeing Adelphia's reorganization to allow Adelphia itself to be added as a defendant in the recision action, which now names only directors and officers.

Adelphia, though, is now asking U.S. Bankruptcy Judge Robert E. Gerber to deny the insurers' request and to halt any further action in the recision case.

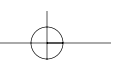
The Coudersport, Pa.-based company argues, among other things, that the D&O policies are "valuable property" of the Adelphia estate and that the coverage dispute should be handled by the bankruptcy court at a later date, after criminal and civil fraud charges against Adelphia officials are resolved.

Mr. Rigas, two of his sons and



John Rigas, right in inset, and his son Michael are among five former officers of Adelphia Communications Corp. who have pleaded not guilty to federal securities fraud, bank fraud and conspiracy charges.

PHOTOS: GETTY/HARRY SCULL, REUTERS/CHIP EAST



Case involves validity of award for fear of future illness

High court to decide scope of asbestos liability

By MARK A. HOFMANN

WASHINGTON—The way the Supreme Court decides a case scheduled for argument this week could have a significant impact on how the nation's asbestos litigation problem is solved.

The main question before the high court when it hears oral arguments in *Norfolk & Western Railway Co. vs. Freeman Ayres et al.* on Nov. 6 is whether fear of cancer alone is enough to justify noneconomic damages in certain asbestos liability cases. The case involves a 2001

West Virginia state jury's decision to award \$5.8 million for emotional distress to six retired railway workers who feared they would develop cancer because of exposure to asbestos. Although all of the retirees suffered from lung ailments, none of them had developed cancer.

Business and insurance groups hold that the justices should rule against the retirees. Upholding the idea that fear without symptoms constitutes grounds for damages will drain the funds available to compensate the truly ill, they say.

A second question before the jus-

tics in the case is whether a single defendant can be held liable for 100% of a plaintiff's damages even



if the defendant was not responsible for all of the plaintiff's injuries.

The West Virginia jury received instructions that the railroad could be held liable for the entire award, even though the retirees' asbestos exposure occurred both when they worked for the railroad and when they worked elsewhere.

In a brief to the justices, the National Assn. of Manufacturers held that the state court, by providing such instructions, acted contrary to both evolving common law principles and the Federal Employers' Liability Act, under which the suit was brought.

The Federal Employers' Liability

Act, which came into existence in the early part of the 20th century, was designed to protect railway workers in an age before workers compensation, said Mark Behrens, co-counsel to the insurer-backed Coalition for Asbestos Justice Inc. Mr. Behrens is also a partner in the Washington office of the Kansas City, Mo.-based law firm of Shook Hardy & Bacon.

"FELA is sort of a tort law equivalent to workers comp for railroad workers," Mr. Behrens said. The Jones Act, which covers longshore-

See **ASBESTOS**/page 39



PHOTO: AP/WIDE WORLD

Police block off an area near the site of a fatal shooting last week at the University of Arizona's College of Nursing.

College shooting underscores risks

Training urged to avert violence

By DAVE LENCKUS

TUCSON, Ariz.—As the University of Arizona copes with the shooting deaths of three professors at the hand of a despondent student, some crisis management and mental health experts assert that the tragedy is another wake-up call for employers.

Although U.S. government statistics show that employees nationwide suffer around 2 million incidents of workplace violence annually and that homicide is among the leading causes of workplace deaths, employers generally have not adequately trained supervisors in how to deal with potentially violent individuals, experts said.

The university's risk manager said he was unsure whether faculty members receive such training on a comprehensive basis. Additional faculty training on how to deal with a threatening student "may be needed," said Steve Holland, director of risk management and safety for the university, which has a student population of nearly 36,000.

Shortly after classes began at the College of Nursing on Oct. 28, a 41-year-old student who was flunking out of school shot one of his professors in her office and then two others in a classroom full of his fellow students. He then killed himself.

Two days later, the Arizona Daily Star newspaper published on its Web site a 22-page suicide letter in which the gunman rationalized his actions. The newspaper received the mailed letter the day after the shootings.

In the missive, the gunman—a licensed practical nurse who was studying to become a registered nurse—wrote that he was depressed and fatigued from his life's travails. He wrote that he was frustrated by what he perceived as unfair treatment by the college's administration and faculty, including two of his victims.

Mr. Holland would not discuss the letter, saying it is not "a credible source of truth."

Crisis management and mental health experts also declined

See **SHOOTING**/page 36

Trenwick exits U.S. specialty, warns of possible shutdown

By DOUGLAS McLEOD

HAMILTON, Bermuda—Trenwick Group Ltd., continuing to grapple with financial problems, said last week it will cease writing U.S. specialty insurance business and warned that its potential inability to renegotiate a credit facility may leave it unable to continue as a going concern.

Standard & Poor's Corp. responded to the disclosures by cutting the counterparty credit and financial strength ratings of several Trenwick operating units.

Bermuda-based Trenwick announced Wednesday that its Canterbury Financial Group Inc. unit will stop writing specialty program business for a trio of Trenwick subsidiaries—Insurance Corp. of New York, Chartwell Insurance Co. and

Dakota Specialty Insurance Co.

The program business accounted for \$65.8 million, or 10.8%, of Trenwick's six-month 2002 revenues of \$611.5 million, according to the insurer's Securities and Exchange Commission filings. Gross written premium volume from spe-

"the reduction in premium volume...will significantly reduce Trenwick's operating leverage and permit it to focus its financial resources on those segments of its business that we believe have the greatest potential for profit."

The announcement followed Trenwick's disclosure of the potential impact of A.M. Best Co.'s recent rating downgrade of several Trenwick units to B+ from A- (*BI*, Oct. 28). The downgrade triggered a default under a \$230 million letter of credit facility that Trenwick has used to capitalize its Lloyd's of London underwriting operations and that required a minimum A- Best rating.

Unless creditors agree to ignore the default, Trenwick will be required to stop paying dividends on

See **TRENWICK**/page 34

TRENWICK GROUP LTD.

cialty programs jumped 40% in the first half, compared with the same period in 2001, because of rate increases and the addition of several new programs, the insurer reported.

W. Marston Becker, Trenwick's acting chairman and chief executive officer, called the underwriting cessation "unfortunate," but he said

Baden-Baden reinsurance renewals meeting

Cedents focused on security

By EDWIN UNSWORTH

BADEN-BADEN, Germany—The key word at last month's reinsurance renewal meeting in Baden-Baden, Germany, was "security."

Turmoil in global equity markets; the absence from the meeting this year of the world's seventh-largest reinsurer, Gerling Global Reinsurance Group; and a host of downgrades or cautious statements from rating agencies have combined to mean that security has become major concern for all parties to the renewals process.

Hand in hand with the demand for greater security in a global reinsurance market already characterized by less capacity and tightened conditions is the realization that cedents are going to have to pay considerably more for their protection in 2003.

Those were some of the reflections of executives who attended the annual gathering of reinsurers in Baden-Baden, which is one of the main year-end renewal meetings.

"From a security point of view, the recent announcement from Gerling to withdraw from reinsurance has opened the eyes of a lot of European companies who, in the past, believed that anyone who had been there for 100 years would be there for another 100 years," said

Michael Handler, Zurich, Switzerland-based chief executive officer in charge of continental Europe for Guy Carpenter & Co. Inc.

Gerling announced late last month that it would stop writing nonlife reinsurance business after it failed to find a buyer for the business (see story, page 33).

"The focus is on who are the financially strong com-

See **BADEN-BADEN**/page 34



PHOTO: BBT

Reinsurance and insurance executives gather each year in Baden-Baden, Germany, to discuss renewals.



Some HMOs add deductibles to keep premiums affordable

By **JERRY GEISEL**

BOSTON—Health maintenance organizations, once known for requiring virtually no employee cost-sharing on services provided within their networks, now are introducing high-deductible plans to keep premiums more affordable.

In Massachusetts, two major health plans—Blue Cross & Blue Shield of Massachusetts and Harvard Pilgrim Health Care—are rolling out new high-deductible

plans. The Blues plan, which has been available since September, features a \$1,000 deductible for individual coverage and \$2,500 for family coverage, while the Harvard Pilgrim plan, to be offered early next year, will have a \$2,000 deductible for individual coverage and a \$4,000 deductible for family coverage.

While high-deductible plans have been around for years, they generally have been most common in indemnity plans and in the per-

sonal lines market.

The high-deductible plans are a break from the traditional, low cost-sharing design that has separated HMOs from other types of plans. But at a time when premiums charged by HMOs, as well as other types of health plans, are increasing by double digits, the HMOs are looking to give employers a lower-cost option.

“What is driving these plans are economics. Employers just can’t afford to spend 12% to 15% more each year on premiums,” said Vin Capozzi, senior vp of sales and marketing at Wellesley, Mass.-based Harvard Pilgrim. “This is a plan that is more affordable.”

Indeed, the new plans will cost at least 20% less than more-traditional HMO designs.

The plan design will mean employees will pick up more costs, though the burden of that could be somewhat offset with flexible spending accounts, in which employees contribute pretax dollars to accounts to pay for unreimbursed services such as deductibles. The high-deductible plans also can be paired with health reimbursement accounts, in which employers fund the accounts to cover a portion of unreimbursed expenses.

Benefit experts say the new design is an effort not only to make premiums more affordable but also, through greater exposure to costs, to make employees more-careful consumers of health care services.

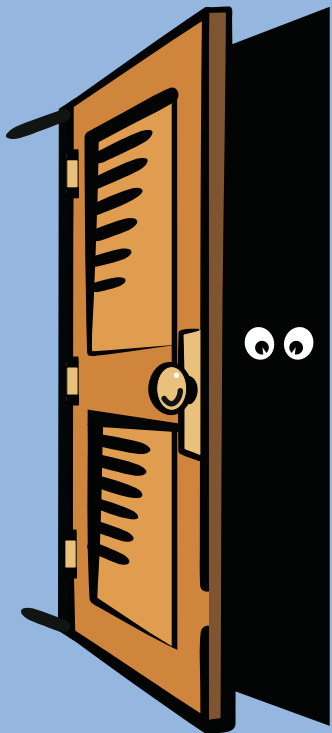
“This helps to address overutilization,” said Beth Holman, a consultant with Watson Wyatt Worldwide in Wellesley Hills, Mass. Ms. Holman noted that health plan enrollees may lack the incentive to use services carefully when, for example, the copayment on an office visit is only \$10.

Conversely, the high-deductible plans, like traditional HMOs, continue to offer cost sharing for most preventive services, such as annual physicals, pap smears and immunizations to encourage employees to seek treatment and reduce the likelihood of certain medical problems going undetected.

“It is important to promote preventive care, and we will continue to do that,” said Alan Rosenberg, vp-marketing with Boston-based BC/BS of Massachusetts.

Mr. Capozzi said the new plan could appeal to smaller employers, which, generally, are less able to afford to provide health care coverage than are larger companies. He noted that a bigger organization, though, might offer the high-deductible plan as one of several plan options.

The situation: Surety bond companies sure are hard to find.



OR

ACSTAR

Tired of playing hide-and-seek to find a surety bond? At ACSTAR, our door is always open, long after bigger names have fled. Draw from our 15+ years' experience, especially for the tough cases. **860.224.2000**

SURETY BONDING • TREASURY LISTED • RATED EXCELLENT BY A.M. BEST • LICENSED NATIONWIDE

FAX: 860.229.1111

233 MAIN STREET, NEW BRITAIN, CT 06050-2350

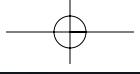
www.acstarins.com



The one to go to first.

Errors & omissions

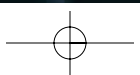
Due to a production error, a logo for The St. Paul Cos. Inc. incorrectly appeared in an Oct. 28 For the Record item about Marsh & McLennan Cos. Inc.'s nine-month results.



Claim Services When you have a claim to settle you can't afford to have someone drop the ball. That's why people enjoy the technical expertise and genuine compassion for injured and ill workers they get from Wausau. What's more, our teamwork approach facilitates problem solving and helps us effectively direct resources to get the job done. The result? Lower loss costs and greater employee satisfaction. When it comes to prompt, results-oriented claim handling, nobody beats Wausau.

Wausau Insurance Companies • 2000 Westwood Drive, Wausau, WI 54401 • wausau.com • A+ A.M. Best Rating • Member of Liberty Mutual Group

What can we do to help you?



Adelphia: Halt of D&O suit sought

Continued from page 2

two other former Adelphia officers have pleaded not guilty to federal securities fraud, bank fraud and conspiracy charges filed in New York. They and other former Adelphia officials separately face a civil suit filed by the Securities and Exchange Commission and roughly 40 shareholder actions, according to court filings.

The U.S. attorney's office in New York has said it will try to block discovery proceedings in the coverage case—if it goes any further—to “prevent prejudice to the prosecution of the criminal actions,” according to Adelphia, which suggests the coverage litigation would thus be futile. Federal prosecutors have similarly sought to halt discovery in the SEC lawsuit, Adelphia's filings say.

Adelphia also argues that it has not made any claim under the D&O policies yet and that there is thus no reason to tackle the coverage issues immediately.

“When and if Adelphia and the carriers have an actual dispute re-

garding distributions, the parties will have ample opportunity to litigate as appropriate,” the company contends.

Three insurers that wrote \$50 million in D&O limits for Adelphia have sued to void their policies, charging that Adelphia officials concealed schemes that looted the company of millions of dollars.

The D&O insurers, meanwhile, counter that they will be exposed to bad-faith claims by the Rigases—who have already threatened such claims—if the coverage issues are not resolved quickly. The insurers also contend that the policies are not “valuable property” of the estate because Adelphia is not entitled to any coverage.

“Adelphia and the directors and

officers...threaten the carriers with the specter of bad faith if they fail to accede to (payment) demands, while at the same time preventing the carriers from having the coverage issues resolved for an indefinite...period of time that could extend for years,” the insurers argue.

The insurers, though, are actually aligned on the subject of the rescission case with Mr. Rigas and his three sons—all former Adelphia executive vps—who have also asked Judge Gerber to allow the coverage suit to go forward.

The Rigases have spent more than \$1 million defending themselves in civil suits so far and are continuing to spend several hundred thousand dollars a month, according to their court filings. The D&O insurers have refused to cover these costs, and delaying a resolution of the coverage issues will “substantially harm” the Rigases, their filings say.

Judge Gerber heard arguments from the various sides last Thursday and is expected to rule within 10 days.

Paul Winston

Finding unusual common ground

I heard Newt Gingrich deliver a speech last week and was surprised (stunned is more like it) to learn that he and I see eye to eye on a few things.

As a member of the liberal media, I was not expecting to be enlightened by the former Republican speaker of the House and conservative pundit, as much as entertained. Newt's address covered an array of issues having to do with living in an era of great change.

Newt talked about the need to improve math and science education in America. If the United States is to remain competitive globally, better education in the sciences is the starting point, he contends.

Newt also said that if automakers would make the switch to hydrogen fuel cells—a technology that already exists—we'd be less reliant as a country on foreign oil, improve the environment and restore the U.S. auto industry to its former prominence in one fell swoop.

In addition, Newt reviewed the challenges posed by the aging population.

The Baby Boomer generation will have the best health of any previous generation as it enters its golden years, he said. This is partly the result of improvements in medicine, but also stems from changes in workplace demographics, meaning fewer people working in unhealthy industrial settings. This improved longevity, however, places a great strain on the Social Security system, whose creators, he contends, never expected people to live much beyond age 65.

Furthermore, Newt called on lawmakers to pass tax and regulatory reforms that would restore the economic well-being of the country so that Baby Boomers can rebuild nest eggs lost to the stock market downturn. Naturally, he suggested that if Republicans were restored to majorities in Congress, this would be more likely.

Newt also criticized the health care profession for not being more accountable for quality of care and for medical errors. He noted that when a maintenance problem with DC-10 aircraft was shown to be to blame for crashes, the Federal Aviation Administration issued a bulletin for a new standard of maintenance for the aircraft. Within 48 hours, every airplane mechanic in the world knew of the need to change and adopt the new standard for repairing the planes; those unwilling to make the change would no longer be employed. In contrast, he said, when a new and better way of providing medical care emerges, it

can take over a decade before it is widely adopted, and yet physicians are not held accountable for failing to keep up with the state of the art.

Those comments were thought-provoking. I happen to think we need more English majors than algebra whizzes, but I'm biased. I worry about the humidity if everyone starts driving hydrogen-powered cars. And I'm skeptical that FDR was trying to fleece the public, as Newt's Social Security comments suggest.

But the thing that really caught my ear and my wholehearted agreement was when he said this nation's culture of litigiousness has gotten out of hand. And he laid the blame squarely at the feet of attorneys.

Newt observed that, at one time, the attorneys fighting big business on behalf of injured clients were often portrayed as poor but noble lawyers, seeking justice on behalf of their clients. Today, those attorneys are likely to be so rich that they own their own Gulfstream jets and can afford to buy a professional sports team, he said, with a

nod to Baltimore Orioles' owner Peter G. Angelos.

Furthermore, Newt said, today's plaintiff attorney does not see pursuing millions of dollars on behalf of clients as a bid for justice. Rather, it is simply an economic transaction to get even more money.

Today, Newt said, there are too many attorneys, which results in them chasing ever more outlandish and outrageous claims in the hope of hitting it big. A case in point, he suggested, was the lawsuit alleging that fast-food companies were liable for a man's health problems.

Newt said that legal reforms are needed that protect the rights of people without enriching lawyers at their clients' expense. He directed the audience to visit the “Litigation Reform” section of his Web site, www.newt.org, for more information. The site doesn't offer much in the way of concrete reform proposals, but does highlight several speeches and appearances Newt has made lobbying for legal reform.

The site also notes that Newt supports Common Good, a group formed earlier this year that works to counter the American culture of litigiousness (*BI*, April 29).

I may not support everything Newt has to say, but as long as he's out there championing the need for a more rational and balanced legal system, I'll be listening.

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



Paul Winston

Truly Web-Based!

iVOS – A Springboard to the Future.

Introducing iVOS™, Valley Oak Systems' new, web-based claims administration software

Much more than “web-enabled” iVOS is truly web-based, which means:

- No need for middle-ware (e.g. Citrix®)
- Java™-based (J2EE™ compliant)
- No need to distribute software to individual computers – only a browser is needed
- Client hosted or ASP solutions
- Ease of access through the Internet
- Upgrades are managed at the server level

With a superior level of flexibility, customer responsiveness and support, we can proudly boast, we've never lost a client. The iVOS web-based system is here to assure we maintain that record.

Contact us today for a demonstration.

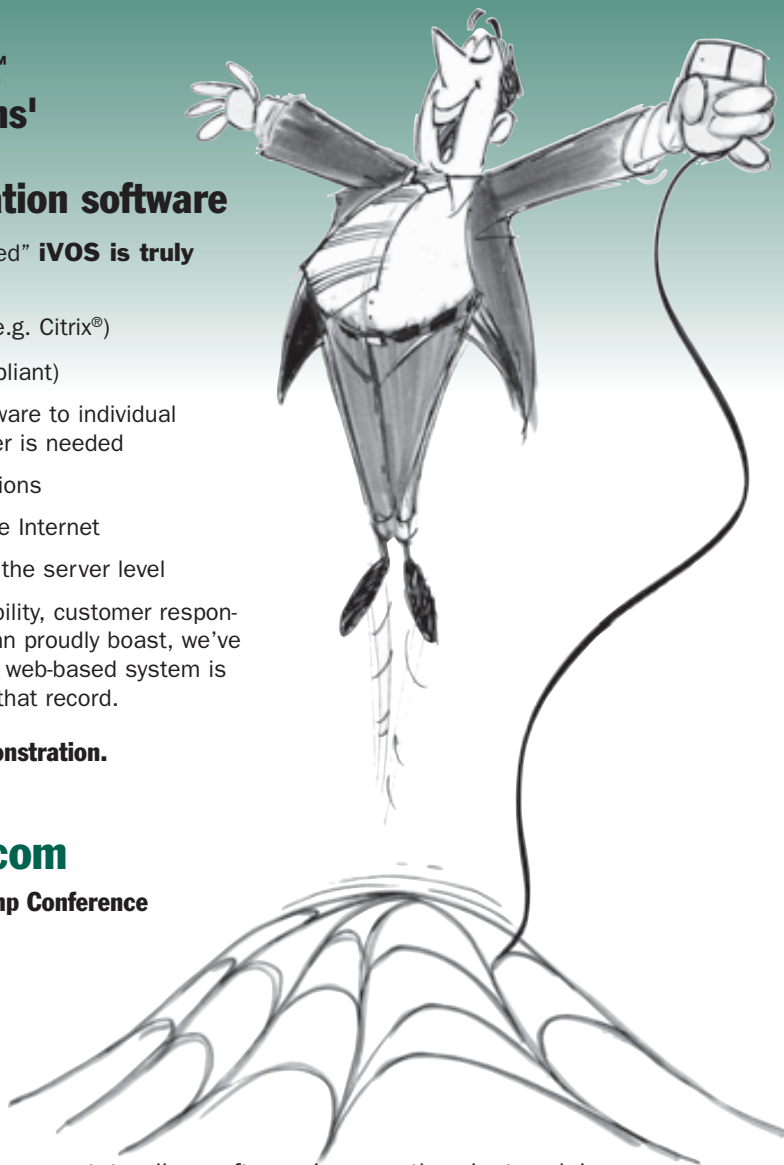
925-552-1650

www.valleyoak.com

Visit us at the Workers' Comp Conference



Because our outstanding software is more than just a claim



**ARCHITECTS. DENTISTS.
MANAGEMENT CONSULTANTS.
WHEN IT COMES TO
PROFESSIONAL LIABILITY,
THEY'RE ALL THE SAME, RIGHT?**



UNDERSTAND. THAT'S A GOOD POLICY.

At Kemper, we don't believe in the "one size fits all" way of doing business. Quite frankly, different professions require a completely different set of answers. And we follow through on this philosophy by combining dedicated, knowledgeable specialists with an extensive portfolio of professional liability solutions that can be combined with our other commercial products. For more, call your independent Kemper Insurance agent or broker, visit us at www.kemperinsurance.com or call toll free 1-866-2KEMPER.



Business Insurance

Vice President/Publisher: Martin J. Ross III (New York)

Editor: Paul D. Winston (Chicago)

Editor-at-Large: Jerry Geisel (Washington)

Managing Editor: Regis J. Coccia (Chicago)

Assistant Managing Editor - Graphics: Kathy L. Barnes (Chicago)

Assistant Managing Editor - News: Gavin Souter (New York)

Senior Editors: Meg Fletcher, A.R.M. (Chicago); Judy Greenwald (San Jose); Mark A. Hofmann (Washington); Dave Lenckus (Tucson); Douglas McLeod (New York); Edwin Unsworth (France); Joanne Wojcik (Denver); Rodd Zolkos (Chicago)

Bureau Chief: Roberto Cenicerros (Los Angeles)

Associate Editors: Michael Bradford (New Orleans); Michael Prince (New York); Sally Roberts (Denver); Sarah Veysey (London)

Correspondents: Carolyn Aldred (England) and Gerard O'Dwyer (Finland)

Copy Desk Chief: Matt Scroggins (Chicago)

Copy Editors: Mary B. Nick (Chicago), Joe Walker (Chicago)

Directory Editor: Kevin P. Edison (Chicago)

Assistant Directory Editor: Carrie A. Brittain (Chicago)

Assistant Graphics/Online Editor:

Amy R. Kepka (Overland Park)

Executive Assistant / Reprint Manager:

Karen Brown Tucker (Chicago)

Editorial Cartoonist: Roger Schillerstrom (Chicago)

Advertising Director: Kenneth F. Luker Jr. (New York)

Midwest Advertising Manager: Robert L. Niesse (Chicago)

District Managers: Chris Crain (New York); Lori Lieberman (Los Angeles); Robert B. Murray (New York); John L. Phillips (Chicago); Ron Kolgraf (Boston)

Classified Advertising Manager: Irais Amleshi (Chicago)

Assistant to the Publisher: Pat Ghazvini (New York)

Advertising Traffic: Stephanie Cress (New York)

Production Manager: J. Thomas Janka (Chicago)

Director of Communications: Ronnie I. Drachman (New York)

Promotion Coordinator: Barbara O'Brien (New York)

Promotion Manager: Michael Ambrosio (New York)

EDITORIAL: Chicago: 312-649-5200; Denver: 303-698-7601; London: 207-457-1400; Los Angeles: 323-370-2455; New Orleans: 504-364-1908; New York: 212-210-0100; San Jose: 408-774-1500; Tucson: 520-579-1937; Washington: 202-662-7200

ADVERTISING: Boston: 617-292-4856; Chicago: 312-649-5276; New York: 212-210-0133; Los Angeles: 323-370-2456

COMMUNICATIONS: New York: 212-210-0132

SUBSCRIPTIONS: Detroit: 888-446-1422

Business Insurance is published by Crain Communications Inc.

Chairman: Keith E. Crain

President: Rance Crain

Secretary: Merrilee Crain

Treasurer: Mary Kay Crain

Executive Vice President/Operations:

William A. Morrow

Senior Vice President/Group Publisher:

Gloria Scoby

Group Vice President/Technology, Circulation, Manufacturing: Robert C. Adams

Corporate Director/Production & Manufacturing:

Dave Kamis

G.D. Crain Jr. Founder (1885-1973)

Mrs. G.D. Crain Jr. Chairman (1911-1996)

S.R. Bernstein Chairman-executive committee (1907-1993)

Published weekly at 360 N. Michigan Ave., Chicago, Ill. 60601-3806, Fax: 312-280-3174, biweb@crain.com.

Offices: 711 Third Ave., New York, N.Y. 10017-5806, Fax: 212-210-0704; 473 Fairfield Ave., Gretna, La. 70056, Fax: 504-364-1337; Suite 814, National Press Building, Washington, D.C. 20045-1801, Fax: 202-638-3155; 6500 Wilshire Blvd., Suite 2300, Los Angeles, Calif. 90048-4947, Fax: 323-655-8157; 967 Bermuda Court, Sunnyvale, Calif. 94086-6750, Fax: 408-774-1155; New Garden House, 78 Hatton Garden, London EC1N 8LD England, Fax: 207-457-1440; 10 Grande Rue, Jarze 49140, France; 8157 N. Torrey Place, Tucson, Ariz. 85743, Fax: 520-579-3476; 777 E. Speer Blvd., Denver, Colo. 80203-4214; Fax: 303-733-2244; 11133 W. 108th St., Overland Park, Kan. 66210, Fax: 312-280-3174, 77 Franklin St., Suite 809, Boston, Mass. 02110-1510; Fax: 212-210-0704 \$4 a copy and \$97 a year in the U.S., \$130 in Canada and Mexico (includes GST). All other countries, \$230 a year (includes expedited air delivery). Craig Bowman, circulation coordinator. Four weeks' notice required for change of address. Send subscription correspondence to Circulation Department, *Business Insurance*, 1155 Gratiot Ave., Detroit, Mich. 48207-2912, Phone: 888-446-1422 or 313-446-0450, Fax: 313-446-6777. Microfilm copies available: University Microfilms, 300 Zeeb Road, Ann Arbor, Mich. 48103. Microfiche copies: Bell & Howell, Micro Photo Division, Old Mansfield Road, Wooster, Ohio 44691. Portions of the editorial content of this issue are available for reprint or reproduction in other media. For reprints or reprint permission: Karen Brown Tucker, *Business Insurance*, 360 N. Michigan Ave., Chicago, Ill. 60601-3806, 312-649-5319, Fax: 312-280-3174.

To subscribe, call 888-446-1422, or 313-446-0450 outside the United States.

www.businessinsurance.com

BPA

COMET

Editorial

Wellstone parity fight a worthy one

WHILE WE DIDN'T AGREE with him on every issue, we certainly respected Paul Wellstone, the Democratic senator from Minnesota who tragically was killed in a small-plane crash last month.

In an era of sound-bite politics where members of Congress, on both sides of the aisle, fervently conduct and consult polls before staking out positions, Sen. Wellstone stood out as an exception.

The positions he took were not based on how they would play or enhance his electability or rake in campaign contributions, but rather on what he believed was right.

One of those positions—for

which he battled alongside Sen. Pete Domenici, R-N.M.—was federal legislation mandating equitable group health care coverage for mental disorders.

In that battle, Sen. Wellstone was only partly successful. In 1996, Congress passed legislation that he and Sen. Domenici sponsored eliminating the widespread practice of plans providing lower annual and lifetime dollar caps for treatment of mental disorders than for other medical conditions.

That legislation ended one type of discrimination—based on dollar limits—but continued to permit others, such as allowing plans to require higher copayments for treat-

ment of mental disorders than for other medical problems, or imposing caps on the number of visits to mental health therapists but not for other medical conditions.

Sen. Wellstone understood the limitations of the 1996 law when it passed but accepted it as stepping-stone to more comprehensive and meaningful legislation. He and Sen. Domenici last year introduced a measure that would have required total parity for mental disorders. The measure passed the Senate but later died in conference committee.

Now, there are suggestions that Congress should pass the bill during the upcoming lame duck session as a tribute to Sen. Wellstone.

On that, we have decidedly mixed feelings. Legislation should be considered on its merits and not as a tribute to its backer.

Either mental health care benefits parity is a good idea or it is not, and the death of one of its top backers, however tragic, should not enter the equation.

Having said that, we do believe that legislators and the Bush administration—if not now, then certainly in the next congressional session—should work together to pass parity legislation that ends health care plan discrimination in coverage of mental disorders without unduly raising group health care costs.

High court shouldn't allow payouts for asbestos fears

THE SUPREME COURT has another chance to inject some sanity into the nation's ever-worsening asbestos litigation crisis after the justices hear oral arguments Wednesday in *Norfolk & Western Railway Co. vs. Freeman Ayers et al.*

As we report on page 3, at issue is whether six retirees suffering from asbestos-related disease can also receive damages for the emotional distress stemming from their fear of developing cancer in the future. None of the retirees had cancer, but that didn't stop a West Virginia jury last year from holding that, under the Federal Employers' Liability Act,

they were entitled to \$5.8 million from the railroad on the basis of their fear alone.

FELA is a rather limited law, but if you're an employer, the idea that fear alone is grounds for liability is a pretty scary thought in and of itself. And there's an additional—and very troubling—dimension to the fear issue where asbestos litigation is concerned.

As employers, insurers and some members of the trial bar have argued for years, a limited pool of money is available to compensate victims of asbestos-related illnesses, no matter how many defendants you find. If that money goes to peo-

ple who fear an illness rather than those who actually have an illness, the laws of mathematics hold that there's going to be less money to compensate the truly ill.

Congress should have dealt with this issue years ago and is making some noises that it may finally do so in the near future. But, for the time being, we're going to have to rely on the high court's wisdom.

We hope that a majority of the justices will agree that fear alone isn't enough to trigger compensation—particularly at the potential risk of denying the proven victims of asbestos-related illness the compensation they deserve.

Schillerstrom



"IT'S JUST AS WE SUSPECTED...IT'S YOUR FAULT"

Letters to the Editor

Business Insurance welcomes letters to the editor. The section is intended to be a forum for readers' opinions and comments.

We reserve the right to edit letters for clarity or space. We will not publish unsigned letters. Please send your letters to:

Letters to the Editor, *Business Insurance*, 360 N. Michigan Ave., Chicago, Ill. 60601-3806; fax: 312-280-3174; e-mail: pwinston@crain.com

Online Forum

Visit BI's online forum, which offers unmoderated discussion areas for readers to exchange ideas or information on risk management, employee benefits, insurance and other topics. The forum is located at www.businessinsurance.com/cgi-bin/boardView.pl

Online Commentary

Visit the Commentary section of www.businessinsurance.com to read the latest commentaries by *Business Insurance* editorial staff members as well as contributors Dr. George L. Head and Myron Picoult.

Online Polls

Each week, *Business Insurance* posts a poll question about industry events on www.businessinsurance.com.

Visit the BI Web site and cast your vote in the weekly online polls.

Business Insurance
www.businessinsurance.com

E-commerce

Spotlight Editor: Joanne Wojcik

Tools permit Internet document collaboration

By ROBERTO CENICEROS

In the past, Steve A. Stich wasn't much impressed by the computer technology options available for risk managers.

But Mr. Stich, chief risk officer for Oshkosh Truck Corp., recently discovered Internet technology that excites him.

Mr. Stich made his discovery while attempting to merge the Oshkosh, Wis.-based company's domestic insurance program with insurance policies held by a recently acquired European company.

It looked like it was going to be an arduous task, Mr. Stich said; the acquired company had itself just acquired units in other European countries, and those units had purchased a variety of policies issued by a variety of insurers.

'What was really exciting is they were able to make it all visible to us instantaneously.'

Steve A. Stich
Oshkosh Truck Corp.

But what Mr. Stich found to help him was collaborative document management technology developed by New York and London-based Riskclick Inc. Riskclick's product is a shared software suite

that allows multiple parties—such as brokers, insurers, consultants and risk managers—to work on the same spreadsheets or word processing documents even though the parties' computer hardware is not integrated.

Collaborative technology made it easy for Mr. Stich to compare and integrate the insurance policies for manufacturing and distribution business units spread over 11 European countries. It let him obtain policy summaries, risk assessments and other documents from the individual independent brokers in each country—all while rushing to meet the demands of a corporate integration deadline.

"What was really exciting is they were able to make it all visible to us instantaneously," Mr. Stich said. "All I have to do is get into the Internet and give passwords, and I have access to everything everyone else has."

Riskclick also develops an audit trail by tracking and noting any time one of the parties reads or changes any of the documents.

The building of audit trails places greater structure around Internet interactions, said Brian Warren, risk manager at Microsoft Corp. in Redmond, Wash. And structure helps prevent misunderstandings among parties accessing documents via the Internet, Mr. Warren said.

Recording each interaction, for example, could help clearly establish when a participant opted to offer or accept a contract docu-

See COLLABORATION/page 12

2002 BEST OF THE WEB

Inside: Insurance Services: Riskclick	page 16
Risk Management: EPLselect.com STARS Web	page 18 page 24
Benefits Management: myCIGNA.com	page 20
Health Plan Services: eGroupBenefits.com	page 22
Legal Services: ARAG Group	page 22
Educational/Professional: IRMI Online	page 24
Criteria & Judges	page 26

Web transactions a boon to reduced benefits staffs

By MICHAEL PRINCE

The Internet continues to make it easier for benefit managers to do their jobs, and that help is especially welcome at a time when many benefit staffs are being trimmed by employers to cut costs.

From automating enrollment and claims processing to providing benefit managers with detailed reports of plan participant activity, the online tools that have emerged in recent years are allowing benefit managers to streamline and simplify their administrative work.

And Web sites that go beyond merely providing information to allow benefit managers and employees to conduct transactions have become standard in recent years.

"Almost any employee benefit Web site worth its weight has all employee data and allows transactions," said Scott Japko, director of product management at Mellon HR Solutions in Fort Lee, N.J.

Automated online benefit management

tools have been a boon to benefit managers at companies forced to cut staff in the tough economy, said Curtis Peterson, general manager at Ceridian Corp. in Salt Lake City. By using Internet-based benefits applications, benefit managers can "empower employees to take care of their own transactions," Mr. Peterson said.

With online employee self-service, "the benefit managers can focus more on strategic issues," rather than on administrative tasks, he said.

"Web enrollment is so much more efficient," said Michael Kriner, director of pensions and benefits at NCR Corp., a data management company in Dayton, Ohio.

Mr. Kriner said NCR relies not only on the individual Web sites of its benefit service providers but also on the Fidelity NetBenefits Web site, which acts as a portal linking NCR's health care, prescription drug and behavioral health providers, as well as Fidelity's pension plans.

See BENEFITS/page 13

HIPAA won't guarantee all vendors protect info

By JOANNE WOJCIK

Some health benefit experts are raising concerns that the Health Insurance Portability and Accountability Act is creating a false sense of security among employers and consumers that personal health information is safe.

Under 1996 federal law, health care organizations are required by April 2003 to safeguard personal patient data against access by unauthorized parties. The extent, though, to which these new privacy regulations apply to companies peripherally linked to health care depends upon the nature of their operations, industry observers point out.

For example, although health care providers, health plans and health care clearinghouses are considered "covered entities" under HIPAA, third-party administrators, e-commerce companies and other vendors that are not directly involved in delivering health care services or health care benefits are not.

In fact, some health care marketing firms are already exploring how they can legally sidestep HIPAA and obtain consumers' personal data to influence drug choice and use.

"Basically, the public, including me, has no idea how our information is being used. We have vague, varying degrees of paranoia about it," observed Linda Bergthold, senior consultant and national leader for policy and compliance at Watson Wyatt Worldwide in Universal City, Calif.

"On the provider side, it's absolutely critical to share diagnoses to get the whole medical record. But it has been a very sloppy process. A lot of people have seen data that don't need to see it," Ms. Bergthold said.

For example, "for a gynecologist to turn the names of pregnant patients over to a diaper service without their permission would probably be improper under the new HIPAA rules," said Robert Gellman, an independent privacy and information policy consultant based in Washington.

An insurer or health maintenance organization that has relationships with firms that provide services to pregnant women and newborns may be able to circumvent this prohibition, though, by calling such activities "case management," Mr. Gellman said.

"Is it really marketing, or is it something else? It's hard to tell. I don't think there's any activity that you call 'marketing' that can't be

See HIPAA/page 14

Some health care marketing firms are already exploring how they can legally sidestep HIPAA.

Collaboration: Permitting Internet document sharing

Continued from page 10

ment, Mr. Warren said. That makes it harder to confuse or dispute the participants' intentions.

The technology also has a notification system that alerts each designated party when a document is read, filed or changed. "It's kind of like e-mail on steroids," Mr. Warren said.

Collaborative technology—available from Riskclick and several other companies—is an "evolutionary step" toward conducting transactions such as insurance purchasing over the Internet, Mr. Warren said.

Riskclick provides only the means to collaborate over the Internet, said Tim Wright, Riskclick chairman and chief executive officer. It does not advocate the specific types of transactions customers engage in.



GRX Technologies

GRX Technologies of Providence, R.I., is one of the other companies that provides the commercial insurance industry with such collaborative tools, said Matthew Flanagan, GRX's chief marketing officer.

GRX uses collaborative technology to focus on speeding the submission of policies for underwriting, Mr. Flanagan said. But GRX also provides technology that allows risk managers to easily integrate data from their computers into brokers' and underwriters' computer systems.

A risk manager can, for example, create an exposure report from his company's database and move it directly into an insurer's system, regardless of differences in the two parties' computer technology, Mr. Flanagan explained.

Several risk management technology observers note that while collaboration products and integration services have been available for about two years, they still aren't in wide use by risk managers. These observers say that while collaboration products, which are also known as "transaction platforms," have been used to settle claims and to purchase coverage in a few instances, their use for buying coverage remains limited.

"If we were to rely on that segment of the marketplace to drive our income, we would be cooling our heels for some time to come," said David Bradford, executive vp, for Advisen, a New York-based online provider of information services for the commercial insurance industry. "It just has not taken off as a significant part of the transaction market at this point in time."

Mr. Stich found his way to collaborative technology when he turned to the Worldwide Broker Network, an international network of brokers and agents, to help him assess the risks and policies of the European company Oshkosh acquired. Riskclick technology and the WBN,

with its string of brokers across Europe, accomplished the job, he said.

Mr. Stich said he foresees greater use of collaborative technology at his company. He wants to develop a system to allocate insurance-related costs to each Oshkosh business unit, and he wants Oshkosh's insurers to invoice those units, while he receives notification of the invoices for his approval before the business unit pays the bill.

Though Mr. Stich said he finds his new Internet capabilities "pretty exciting," he wasn't always enthusiastic about the computer technology available for risk managers. He



Riskclick

had looked at risk management information systems, for example, and found, he said, that they didn't provide "enough bang for the buck." They were too narrowly focused on claims management and not flexible enough, Mr. Stich said.

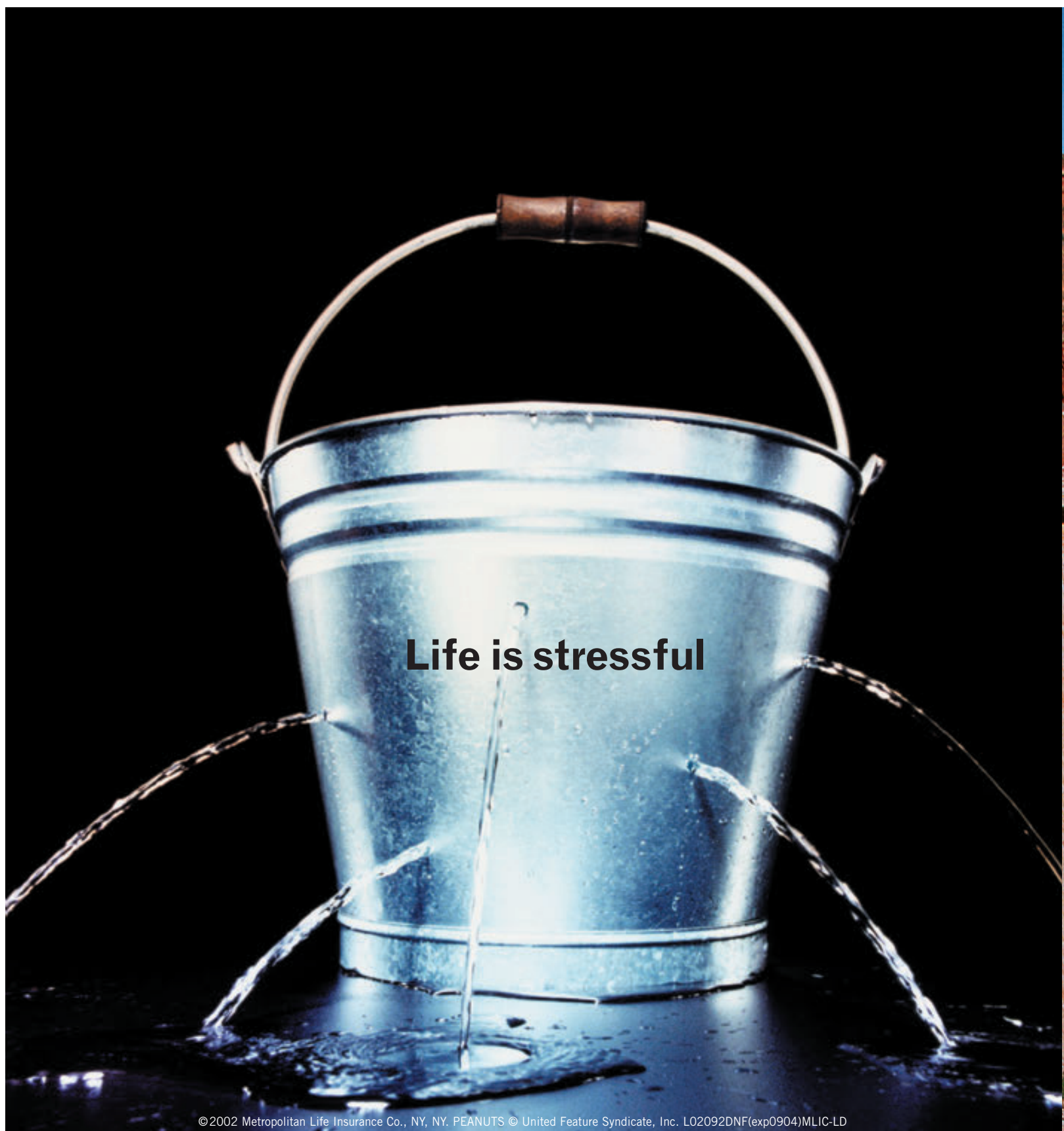
RMIS products originally derived from insurer claims processing systems, Microsoft's Mr. Warren said. Consequently, while many RMIS are well suited for an array of claims-related processes, "when you start looking at your whole business process and what you are responsible for as a risk manager, that is only a piece of what you need to do," he said. "It's far from the whole thing."

But a distinction should be made between claim information systems and Internet-based risk management information systems, said Paul Bildsoe, vp business develop-

ment for Atlanta-based Risk Laboratories L.L.C.

By his definition, Mr. Bildsoe said, a true RMIS integrates a greater array of risk-related information into a single database. RiskLabs' products, for example, track both claims and exposure data, as well as information about how many coverage dollars remain untapped under specific policies.

Because RMIS tools assist in collecting data and formatting reports, they are ideal for feeding information to the new online systems such as those provided by GRX and Riskclick, Mr. Bildsoe said.



©2002 Metropolitan Life Insurance Co., NY, NY. PEANUTS © United Feature Syndicate, Inc. L02092DNF(exp0904)MLIC-LD

DISABILITY SOLUTIONS

STD • LTD • FMLA Services • Integrated Disability Management

Benefits: Web transactions a boon to reduced staffs

Continued from page 10

The Fidelity NetBenefits Web site, operated by Boston-based FMR Corp., provides "one-stop shopping for employees and retirees," Mr. Kriner said.

Having employees conduct their own transactions is all the more important at a time when many companies are operating with reduced benefits staff, said M.J. Burg, director of health and welfare benefits at printer R.R. Donnelley & Sons Co. in Chicago.

"When you really achieve your economies of scale is to redo the workflow so the computer does the

work that a clerk might have done," she said.

In addition, Web transactions give shift workers full access to benefit services; in the past, those individuals often had limited opportunities to interact with benefit professionals while at work, Ms. Burg said.

Ms. Burg said that Donnelley uses a site offered by CitiStreet, a company jointly owned by Citigroup Inc. and State Street Corp., that acts as a portal to Donnelley's various benefit vendors.

And Ms. Burg noted that the CitiStreet site is set up to look like

Donnelley's own Web site. "What the Web can do is to help you create a more cohesive front-end picture," she said.

Health plan automation

Managed care plans in recent years have expanded the capabilities of their Web sites.

For example, the number of managed care Web sites that allow members to check the status of their claims grew to 59% at the start of 2002, compared with 27% in mid-2001, according to a study conducted by Cap Gemini Ernst &

Young U.S. L.L.C. earlier this year.

In addition, the number of sites that permit online claims submission mushroomed to 31% from 4% in 2001, the study states.

Health plans have added other applications to aid benefit managers.

Many sites now allow benefit managers to change health plan membership lists as employees come and go, said David Finkel, senior vp of e-business for CIGNA HealthCare in Bloomfield, Conn. Such online transactions cut out "days and days of a paper-based process," Mr. Finkel said.

At CIGNA, over 75% of employers use their online tools more than once a year, said David Musto, vp of product management at CIGNA Retirement & Investment Services in Hartford, Conn.

One of the most common benefits-related uses of the Internet is online plan enrollment. According to a report released earlier this year by Hewitt Associates Inc., the percentage of employees that take advantage of online enrollment opportunities has nearly doubled in the past two years.

Among those employers that offered Internet-based enrollment in 2001, 70% of employees elected to enroll online, up from 51% in 2000 and 36% in 1999. Meanwhile, the use of telephone call centers for enrollment dropped to 22% last year from 33% in 2000 and 34% in 1999, the report states.

One benefit of online enrollment is that it makes it easier for benefit managers to keep track of employees who have not yet signed up during open-enrollment periods and to send e-mail reminders to such individuals, Mr. Peterson said.

Benefit managers also can easily determine which plans are attracting employees and which are not, he said.

Retirement applications

Online retirement-planning applications also have been useful. Many companies now offer their employees online applications that permit them to change their retirement investment allocations.

Benefit managers can use such applications to track employees' investment decisions, allowing benefit departments to gauge the efficacy of their investor education efforts, said Michael O'Sullivan, assistant vp of e-business at CIGNA Retirement & Investment Services in Hartford.

In addition, many online applications allow benefit managers to generate up-to-date reports on members' contribution rates and fund elections. "It gives the ability to get the information they want when they want it," Mellon's Mr. Japko said.

Other uses

Donnelley's Ms. Burg said that she also visits Web sites run by the Washington Business Group on Health and the Midwest Business Group on Health, which provide information and news articles on health care issues. In addition, she said, she frequents the Web sites of the large benefit consulting firms, to read their latest surveys and research reports.

Vendors that want to attract traffic from benefit managers should ensure that their online tools are straightforward and easy to navigate, NCR's Mr. Kriner said.

Reams of information and services galore aren't helpful if an individual can't figure out how to use the site, Mr. Kriner said. "If someone goes to your site and it's hard to use and not designed properly," he said, "people won't come back."

MetLife is easier

Are employee absences draining your company's productivity? As a leader in disability, MetLife can help you manage your programs by providing the right resources at the right time. Contact your MetLife representative or benefits consultant, or visit www.metlife.com/business.

• Individual Disability Buy-Up • LTD Reserve Buy-Out • 1-877-638-2862

MetLife
have you met life today?SM

HIPAA: No guarantee all vendors will protect info

Continued from page 10

restructured to be called 'case management' or 'treatment,' " he said.

Despite HIPAA's rigid privacy rules, some medical providers, such as drug makers and disease management firms, still can legally use personally identifiable health information "for treatment, payment or operations," Ms. Bergthold said.

This exception was added to HIPAA after President Bush took office, because the original regulations promulgated by the Clinton administration were considered too onerous, Ms. Bergthold said.

"The people who wanted the more-rigorous consent requirement, I suspect, never worked in this environment," she said. "Employers do health management activities—disease management. To do that, they have to know" which employees to target. "In the original HIPAA, it looked like employers or health plans weren't going to be able to do that anymore. So they changed it so that they can still advocate treatment options."

But exactly how much information can be shared and with whom remains a gray area, many industry observers say.

For example, there is still a question about whether pharmacies can sell lists of customers' names to drug makers for direct-marketing

purposes, Ms. Bergthold said.

"The greatest abuses (in information sharing) were around pharmaceuticals and the selling of lists of names. Can they or can't they sell lists? Any law will have a variety of interpretations," she explained.

In fact, at least one health care marketing firm already is studying how it can do this, and other types of direct-marketing, within the constraints of HIPAA.

Forrester Research of Cambridge, Mass., hosted a seminar Oct. 21-23 in Miami that promised to show attendees how to use consumers' personal data to influence drug choice and use without overstepping privacy and regulatory boundaries.

"Learn which data, processing power and analytical tools will allow you to monitor actual consumer behavior—not just attitudes—to help you influence drug choice and better target new treatments," Forrester Research's marketing materials touted.

The seminar focused on how to "work within the regulations" and still target individual health care consumers, explained Liz Boehm, an analyst at the firm. "Every law has its letter and its interpretation," Ms. Boehm said.

"The goal of HIPAA is not to shut everything down; it's to educate people to address privacy and use

the right method to send e-mails, etc.," explained Rick Shaw, chief executive officer of CorpNet Security, a firm in Lincoln, Neb., that provides security technology and training services to employers.

Mr. Shaw pointed to a recent case involving a drug manufacturer that was fined for a privacy breach involving an e-mail that was sent to more than 600 people participating in a prescription drug study. Rather than sending a bulk e-mail to participants, an employee mistakenly put the names of each individual in the "to" column of the e-mail.

"Some organizations may not have a clue what HIPAA is," Mr. Shaw said.

So what can employers do to ensure that the personally identifiable medical information that vendors gather and disseminate about their employees is guarded?

Regardless of federal law, "employers should always be concerned about maintaining privacy on employee data within their organizations and with any third parties that they work with that have access to personally identifiable medical information," said Carla Gracen, senior project manager at Ceridian in Atlanta. Among the services Ceridian offers is third-party administration of group health plans.

Employers should "take it seri-

ously and view it as an employee-relations issue," suggested Ms. Bergthold of Watson Wyatt. "They need to be visible and compliant, because employees have a lot of distrust about how their medical information is being used already."

Employers that self-insure their employees' health benefits should be especially careful with personal health information, said Andrew E. Graw, a partner at Lowenstein Sandler in Roseland, N.J.

"In a self-insured plan, the employer, as the plan sponsor, is also typically the fiduciary of the plan and oftentimes has responsibility for determining benefits, such as whether or not a particular procedure is covered. As a result, the employer becomes privy to all sorts of different private health information and, therefore, would be in a position to disclose that," he explained.

And while, "as a practical matter, I don't see the employers of self-insured plans disseminating information about their employees to marketing groups and the like," the TPAs with which they contract may do so, Mr. Graw suggested.

"They do hire third-party administrators to pay claims, and, in that case, the TPA is a business associate," and not a "covered entity" that is specifically covered by the HIPAA privacy regulations, he said.

Consequently, Mr. Graw said, employers' contracts with their TPAs "should include the necessary language to preclude the TPA from disseminating that kind of information."

Drafting new contract language may not be necessary, though, if the vendors' contracts have already been amended to include reference to the new HIPAA privacy regulations, according to Mr. Gellman.

"Many vendors have standard contracts that may already cover HIPAA," he explained.

Mr. Gellman advises employers to "go to all your vendors and find out what they're doing about HIPAA," Mr. Gellman said. "Even if they're not engaged in some activity that's covered by HIPAA, they still may want to comply with HIPAA."

And, "even regarding things that are permitted under the rule, employers may want to give patients a little more say in what happens" to their personal health care information," Mr. Gellman suggested.

"Disease management may be a good thing for some people. Other people might object. The teen-age daughter doesn't want to come home and find a message on the answering machine that her prescription for birth control pills is about to expire," he said.

Introducing IME.MD

Your one-stop, online, medical information resource

IME.MD is the first service of its kind to combine medical information and state-of-the-art technology to bring you the most efficient way to get the expert answers you need — fast.

IME.MD provides direct access to medical experts for:

- ◆ peer review
- ◆ precertification
- ◆ assistance in developing treatment strategies
- ◆ evaluation of disability ratings
- ◆ evaluation of medication, or medication regimes
- ◆ information on a proposed treatment or invasive intervention
- ◆ interpretation of tests
- ◆ review of diagnosis and treatment options

We're on call for you.

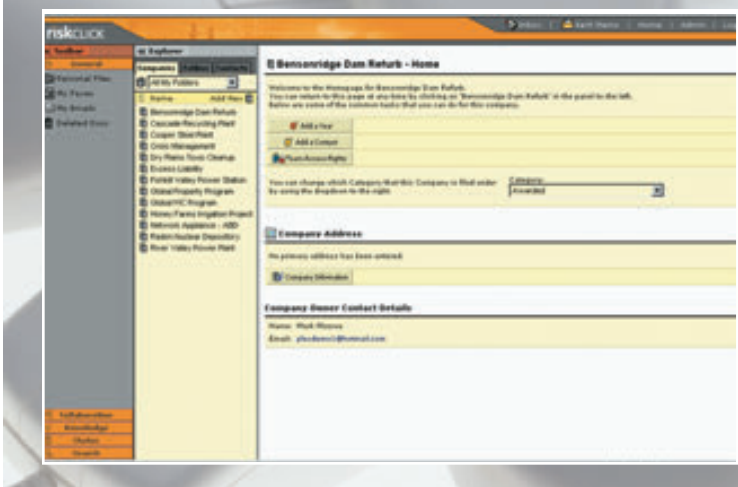
IME.MD

www.ime.md

customer service 866.463.6399

patent pending

Insurance Services: Riskclick



Tool gives all document access while maintaining controls

By ROBERTO CENICEROS

Getting risk managers, their brokers, underwriters and other service providers on the same page can be a challenge.

But Riskclick Inc.'s online collaborative tool can make that happen—literally.

Riskclick, based in New York and London, provides collaborative document management technology.

The product is sometimes called a “teaming tool” because it allows a



number of parties to read and modify the same documents. Yet one individual, such as the risk manager, can control who is able to access or

change the documents.

A risk manager could, for example, allow several brokers, insurers and reinsurers to simultaneously read a coverage submission. Or the risk manager could allow a broker, insurer, third-party claims administrator or claims adjuster to view claim information.

Each party allowed into the “community” could add additional documents, insert data or add comments on existing pages. The risk manager can view, in real time, the changes made to document pages, as well as the interactions among the members of the community.

It's all done using popular word processing and spreadsheet software.

Transactions are synchronized with e-mail messaging so that participants are notified whenever a party views a document.

Each time someone accesses a page or changes it, Riskclick tracks and records the interaction. The “audit trail” of every action by every party helps risk managers maintain control of complex transactions, according to Riskclick.

‘We are recognizing the reality that the participants in this industry...need to work together in a collaborative manner.’

Tim Wright
Riskclick

For making its Internet-based tool available to the commercial insurance industry, Riskclick's Web site won the Insurance Services Best of Show award in *Business Insurance's* Best of the Web competition. Riskclick launched its Web site, www.riskclick.com, in January 2001.

“We are recognizing the reality that the participants in this industry, of which there are many, need to work together in a collaborative manner,” said Tim Wright, chairman and chief executive of Riskclick. “That is important for all the participants for different reasons.”

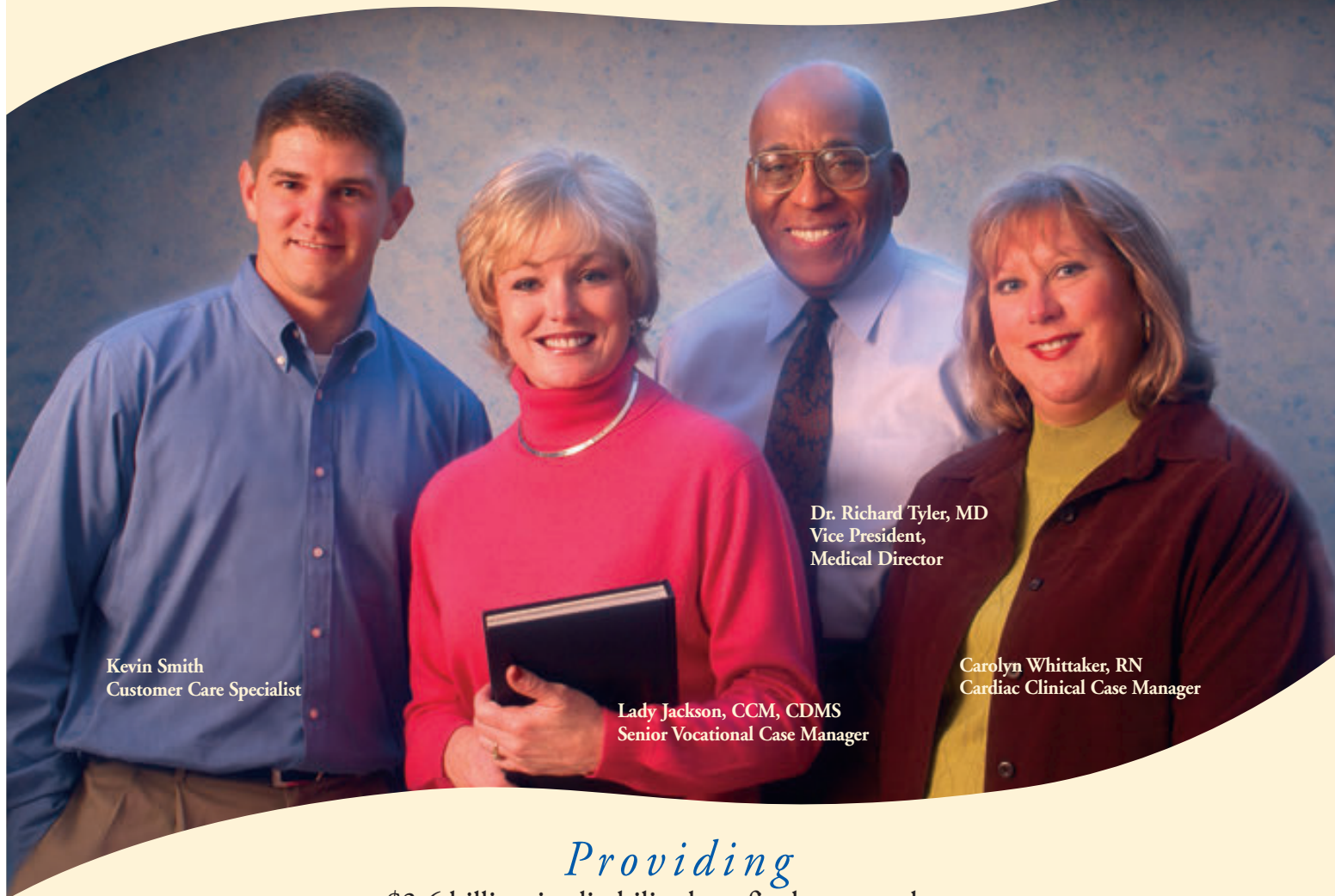
Insurers, brokers and risk managers have all purchased Riskclick's product. But brokers currently are the biggest users of Riskclick's collaboration tool, Mr. Wright said. They purchase it to improve client service. By documenting every step of each transaction, it also can help brokers minimize the number of errors and omission claims made against them, he said.

Insurers can benefit from efficiencies gained as they solicit more underwriting information, Mr. Wright said.

But “the ultimate beneficiary has to be the risk manager,” Mr. Wright said. “If this does not add value for the risk manager, then it's probably not going to add value for the broker and the insurer, given the collaborative nature of the offering.”

UNUMPROVIDENT

*The Leader In Income Protection**



Kevin Smith
Customer Care Specialist

Lady Jackson, CCM, CDMS
Senior Vocational Case Manager

Dr. Richard Tyler, MD
Vice President,
Medical Director

Carolyn Whittaker, RN
Cardiac Clinical Case Manager

Providing
\$3.6 billion in disability benefits last year alone.

Connecting
customers with skilled people who understand.

Committed
to being there when it matters most.

For additional information please call toll-free 1-866-491-8108 or visit us at www.unumprovident.com

©2002 UnumProvident Corporation. The name and logo combination is a trademark of UnumProvident Corporation. All rights reserved. UnumProvident insurance products are underwritten by Unum Life Insurance Company of America, Provident Life and Accident Insurance Company, The Paul Revere Life Insurance Company and (in New York) First Unum Life Insurance Company and Provident Life and Casualty Insurance Company. *UnumProvident represents multiple insuring subsidiaries of UnumProvident Corporation, including the #1 individual and group income protection carriers in the U.S. according to the JHA U.S. 2001 Group and Individual Disability Market Surveys, 2002.

NS02-0067



Strength.

American Re. It's just plain good for your business.

If you want protection you can count on in uncertain times, you want a reinsurance company that's got real power. You want American Re.

For over 86 years, we've been a source of strength and stability to our clients in good times and bad. And thanks to the support of the Munich Re Group, the world's largest reinsurer, we're more committed than ever to continuing this proud legacy of service.

No matter what your needs are, American Re stands ready to serve up a strong solution.

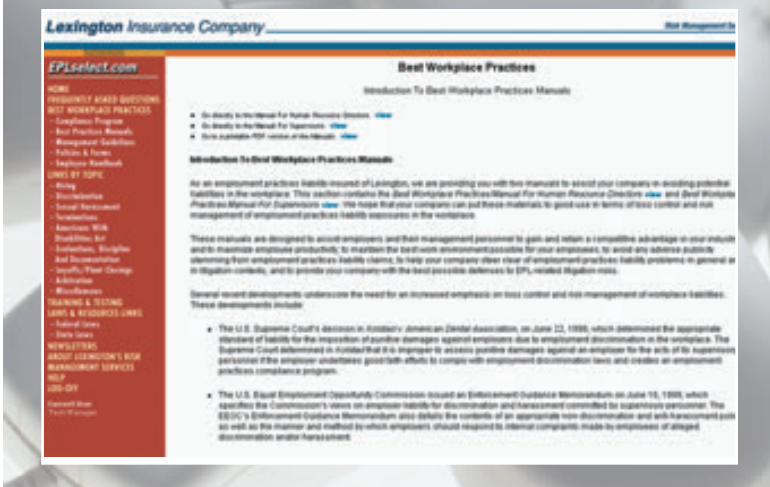


AMERICAN RE
A Member of the Munich Re Group



555 College Road East, Princeton, NJ 08543
www.amre.com

Risk Management: EPLselect.com



Internet training helping employers avoid EPL claims

By MICHAEL BRADFORD

Lexington Insurance Co. policyholders are seeing fewer employment practices liability claims and are better able to defend those that do arise, thanks to the insurer's Internet training program.

Lexington's EPLselect.com site trains employers to maintain documentation and implement practices that can protect them from EPL claims. Launched in June 2000, it



has picked up its second consecutive Best of the Web award from *Business Insurance*. The site received

an Award of Excellence last year. Costs related to EPL claims against Lexington policyholders have, in some cases, fallen 40% or more since the site was implemented, according to Lisa Bee, director of risk management services at Boston-based Lexington, a unit of American International Group Inc. "We looked at their loss ratios before they used the site and then after they utilized the training," she said.

The site was created after two U.S. Supreme Court cases established that employers could gain some protection from charges by proving they had educated and trained their employees regarding sexual harassment and had offered ways for a worker to air a complaint before a suit is filed, Ms. Bee said.

The site was created after two Supreme Court cases established that employers could gain some protection from charges by proving they had educated and trained their employees regarding sexual harassment.

Lexington responded by creating the Web site and a toll-free number that employees can call to complain of practices they believe may be inappropriate, she explained.

Use of the site, which is mandatory for Lexington clients, is available at no charge.

Policyholders are able to access state-of-the-art personnel policies and procedures at the site and can use a training and testing system that establishes proof of company-wide training. The curriculum is continuously updated and is accessible at any time. There is a program tailored for managers and supervisors and another for workers in nonsupervisory positions.

The system for managerial employees features an e-mail link to a risk management consultant, updates on significant verdicts and settlements, legislative updates, manuals on workplace best practices, summaries of state and federal laws and more.

"We will be adding additional training on other topics," Ms. Bee said, including those that cover matters related to the Occupational Health and Safety Administration and the Employee Retirement Income Security Act.

Links allow users to access related sites, such as those developed by the Department of Labor and the Equal Employment Opportunity Commission. Users also can access legal help through the site by contacting Baker & McKenzie, the Chicago-based law firm that operates the site in partnership with Lexington.

LORD OF THE DEAL

Consolidate. Strengthen. Expand.

Lord, Bissell & Brook has been representing insurance companies for more than 90 years. With 30 lawyers dedicated to insurance-industry transactions, we're helping leading market players with innovative deals—such as **Hartford Life's** acquisition of Fortis Financial Group's individual annuity, life and mutual fund businesses; **Unitrin, Inc.'s** purchase of Kemper's personal lines business, representing \$700 million in annual written premiums, and **Hannover Re's** offshore placement of \$400 million of guaranteed subordinated step-up floating rate notes to finance its purchase of a U.S. insurance group.

www.lordbissell.com

LORD BISSELL  BROOK
BUSINESS NEEDS CHAMPIONS

Benefits Management: myCIGNA.com



myCIGNA lets customers access medical, financial services

By MICHAEL PRINCE

Now it's your Internet.

CIGNA Corp.'s newly created Web site, *myCIGNA.com*, merges a customizable Web site with information and news on health care and financial matters. This hybrid offers CIGNA's 16 million members a place to turn to for information on both their health care and retirement accounts.

Through the site, members can track their medical and dental



claims, update personal information, check the physician directory and order additional identification cards. In addition, because CIGNA

administers retirement plans for millions of people, those individuals can check on their portfolio balances in the same visit.

This combination of breadth of coverage and customizable information has captured CIGNA the Best of Show award in *Business Insurance's* Best of the Web contest in the Benefits Management category. Philadelphia-based CIGNA also won last year for the same category with its *CIGNA.com* site.

But this year's Web site differs from the older version because it's designed to be more personalized for the individual user, said David Musto, vp of product management at CIGNA Retirement Services in Hartford, Conn. In addition, the Web site brings together information on all of CIGNA's services, health plans and retirement funds on one Web site.

Once logged on, a member finds that the health care part of the site lists all of his or her claims for the past 45 days. A click on each claim provides detailed information. Research revealed that most members' questions can be answered by referral to the basic information from those recent claims, said David Finkel, senior vp of e-business at CIGNA HealthCare in Bloomfield, Conn. With information on those claims readily available, the site "basically answers the questions we know that 70% to 80% of our people ask about claims, without any clicking at all," Mr. Finkel said.

In the retirement section, a user can check on his or her CIGNA-administered retirement portfolio, create a personalized stock ticker that can include mutual fund prices, change his or her asset allocation and transfer money between investment accounts, Mr. Musto said.

In addition to the individualized information, the site has health care and financial stories supplied through CIGNA's partnership with Sunnyvale, Calif.-based Yahoo! Inc.

Another interesting feature is the link the site has with Yahoo, the popular Web portal. Not only has CIGNA used Yahoo's software to design and develop *myCIGNA.com* but its users can add a button onto their already-existing personal Yahoo! Web site that takes them directly to *myCIGNA.com*.

"It gives us the ability to make sure our members are aware that this capability site exists," Mr. Finkel said.

Since its launch in June, the site has consistently grown in popularity. In September, the site averaged almost 46,000 visits a day, with a total of 847,191 unique visitors to the site during the month.

But CIGNA is not content merely to enjoy its past successes. The company regards the current site as simply the first step and plans to add significant new features early in 2003, Mr. Finkel said. The goal, he said, is to make the site "more responsive to the individual, whatever their needs are."

"There is a lot of work we're still going to tackle," he said.

Is the capital you seek



just out of reach?

Traditional financing sources tend to reward companies that follow certain rules. But if your plans don't submit to convention, you could be denied the capital you need. Enter Centre. At Centre, we know how to uncover capital. With a careful balance of discipline and innovation, we help make deals happen through unique forms of credit enhancement, financial products and insurance coverage.

Reinventing®

Capital

CENTRE

A member of the Zurich Financial Services Group

centresolutions.com

Bermuda
441-295-8501

Dublin
353-1-818-9800

Hong Kong
852-2230-9850

London
44-207-816-0816

New Jersey
201-395-4715

New York
212-898-5300

Paris
33-1-58-56-6500

San Francisco
415-977-7850

Sydney
61-2-8247-2800

Zurich
41-1-229-9500

Products are offered as appropriate by Centre companies that are financial services, insurance or reinsurance companies. Not all Centre companies have offices in the listed locations. Products may not be available in all jurisdictions and, in certain instances, may only be available through a licensed broker or intermediary. © 2002 Centre Group Holdings Limited

AGENT/BROKER TOPICS

A MONTHLY EDITORIAL SECTION SENT EXCLUSIVELY TO AGENTS, BROKERS AND CONSULTANTS

E&O / Loss Prevention



Intermediaries' acts can pose problems

E&O coverage may not extend to nontraditional placements

By **ROBERTO CENICEROS**

Agents and brokers should carefully review their errors and omissions coverage before recommending alternative market solutions to clients, agency management advisers warn.

With prices continuing to escalate and accounts becoming harder to place in the standard market, more agents are turning to alternative market solutions to assist their clients, observers say. These producers are helping their clients to participate in risk retention groups, captive facilities and other self-insurance arrangements and to tap into the excess and surplus lines market.

Although such services may help agents deal with their clients' exposures, they may also create risks for the producers themselves.

"I was just in an agency that writes medical malpractice insurance, and it is planning on taking all its clients to a captive," said Carol A. Hammes, president of The Middleton Group, a management consulting company in Pine, Colo. But placing business in the alternative market may not be covered by some agents' E&O policies, Ms. Hammes noted.

"A lot of E&O policies are very standardized, cookie-cutter things," she said. "They will cover you if you do the normal

things retail agencies do. But, boy, you step beyond that and go into something else, you may not be covered."

Dan Vaughn, vp in New York for Liberty International Underwriters, a unit of Liberty Mutual Insurance Co., said that his company's E&O policies generally cover agents placing business through various alternative risk transfer vehicles. That goes for agents placing business in captives, but not for the agents who create or manage them, he said.

Many insurers provide similar coverage, Mr. Vaughn said, but he noted that policies could vary according to insurers' appetites.

Problems can occur, though, because plenty of agents focus only on the price they pay for their E&O policies and fail to look closely at the coverage provided, Ms. Hammes said. It's a case of "the shoemaker's kids not having any shoes," and it could drive an agency into bankruptcy, she said.

Agents should review their E&O coverage before placing business in the E&S market, said David Hulcher, director of operations for the Independent Insurance Agents & Brokers of America Inc. in Alexandria, Va. "The more they expand the products and services they are selling, as well as the method they are using to insure people, they need to make sure they are covered under their policies," Mr. Hulcher said.

The need for agents and brokers to review

their professional liability policies before placing business in the E&S market is greater now because more E&O insurers are putting insolvency exclusions into their contracts, Mr. Hulcher said.

That means an agent's E&O policy may not cover a claim stemming from the agent placing business with an insurer that becomes insolvent. In addition, policies purchased from nonadmitted insurers generally are not covered under state guaranty funds.

Under such circumstances, there is no indemnification for the insured, increasing the likelihood of a lawsuit against the agent, Mr. Hulcher explained.

Insolvency clauses are likely to apply to other alternative market tools as well, said Steven E. Germundson, a partner at OPTIS Partners L.L.C., an agency management consultant in Minneapolis. "A captive or a risk retention group or any alternative market mechanism will likely fall under that category," Mr. Germundson said.

Chris Burand, president of Chris Burand & Associates L.L.C. in Pueblo, Colo., said he is hearing of more agents encountering problems that could lead to E&O claims. Those difficulties, he said, stem from agents' increasing use of E&S brokers.

In part, the troubles arise when agencies neglect due diligence when selecting brokers. An agent must verify an E&S broker's credibility and ensure that the broker also

has E&O insurance with adequate limits, Mr. Burand said.

One agency Mr. Burand knows of recently encountered problems by allowing young producers who had never before experienced a hard market—or conducted business in the nonadmitted market—to select E&S brokers without the oversight of agency managers.

Each agency owner should have a policy requiring an individual within the organization with the appropriate experience to review and authorize or reject all E&S transactions, Mr. Burand said. "That should be mandatory in every agency," he said. "There should be no exception to that."

An agency manager authorizing an E&S transaction needs to review all contracts between the agency and the broker, as well as the coverage contracts the broker obtains on behalf of the policyholder, Mr. Burand added. As part of that, the manager should make sure the broker provides a certificate of insurance for any coverage placed.

Ms. Hammes said that another precaution an agency can take is to purchase coverage from an E&O insurer that is willing to write a manuscripted policy. The policy should detail the specific risk or group of risks—such as alternative market transactions—that it covers, she said.

Ms. Hammes said she is seeing a return of manuscripted policies with such endorsements. Such policies were common

See E&O/next page

E&O coverage renewing at higher rates / 12B

Ohio broker back on a buying spree / 12D

AGENT/BROKER TOPICS

E&O: Review advised E&O renewals more expensive

Market contraction adding to difficulties

By SALLY ROBERTS

Continued from previous page during previous hard markets, she noted.

Ms. Hammes also advises agencies placing business in the nonadmitted market to obtain a letter from the policyholder stating why it is seeking coverage in that market, whether to seek better pricing or avoid the difficulty of obtaining coverage from standard insurers. "You have to have that signed letter from the insured to make sure they truly understand what they are doing by buying in the surplus lines market," she said.

For more complex transactions, such as placing business in a captive, Ms. Hammes advises hiring an attorney to review all documents and ensure that the agent is covered by a hold-harmless agreement signed by the client.

Liberty Mutual's Mr. Vaughn said that, so far, he hasn't seen an increase in agents filing claims against their E&O policies. But he said he expects such a development in the future due to the continuing hard market and rapid changes in what the various policies cover and exclude.

Agents and brokers renewing their errors and omissions liability coverage are seeing double-digit rate increases and shrinking capacity.

Although pricing varies by account, agency E&O underwriters say they are imposing rate increases, on average, in the range of 20% to 30% and predict further hikes next year. In some cases, underwriters also are offering

reduced limits due to the reinsurance market, which has become less willing to offer large limits, they say.

Much of the change in the marketplace stems from underwriters trying to make up for years of soft market conditions. At the same time, although the number of E&O claims has not increased significantly, claim severity has. And those underwriters with poor claims experience are now withdrawing

from the market.

"There's definitely been a tremendous retraction in the marketplace," said Curtis M. Pearsall, vp and manager of the E&O program for Utica Mutual Insurance Co. in Utica, N.Y.

"In 1987, there were probably five to six companies writing this line of business. Then, it blossomed into about 30 companies writing it in the mid- to late '90s," he said. "Now, I think we're back" to five or six.

"This is not the line of business to dabble in," Mr. Pearsall said. "You either make a commitment in doing it and stay with it through thick or thin, or maybe it's best you pick another line."

In August 2001, Western Surety Co. decided to discontinue writing agency E&O business on a national level.

"We didn't have the market share necessary to make it a viable product," said a spokesman for Sioux Falls, S.D.-based Western Surety. "By the end of this year, with the exception of very few policies, we will be out of that market," he said. Because the insurer's losses were disproportionate to its market share, "we were never able to be profitable in that line of business," he said.

In addition, Simsbury, Conn.-based Chubb Specialty Insurance has amended its underwriting guidelines and has pulled back from the agency E&O business, a spokesman confirmed. He declined to elaborate other than to say that the retraction, which began in early 2002, was prompted by the insurer's claims experience.

Whether agents and brokers have had to go out and find a new underwriter or are renewing their E&O coverage with their current insurers, they can expect some significant changes in their coverage.

"We're seeing rate increases of 20% to 30%," said Ed Seidl, underwriting account manager for E&O Professionals, a managing general agency and unit of Media Professional Insurance Agency Inc. in Kansas City, Mo. E&O Professionals' agent E&O product, called Polaris, is written on National Casualty Co. and Scottsdale Insurance Co. paper.

"While rates are increasing in the 20% to 30% range now, in a year, that number might be quite higher," said Jim Steer, chief financial officer of E&O Professionals. "It's a supply-and-demand game."

Although rate increases vary by account, Mr. Pearsall said Utica will probably finish the year with a 25% average rate increase. "We're probably going to see something along those lines or a little less in 2003," he predicted.

Mr. Pearsall added that the number of E&O claims is not the catalyst behind the rate increases.

"Our frequency through the first
See RENEWALS/page 20D

Distinguished program Dev
4 column x 10"

AGENT/BROKER TOPICS

Renewals: Agents, brokers seeing big E&O rate hikes

Continued from page 20B

nine months of 2002 is the best that it's ever been," he said. "The area where we've been hit the hardest is severity. We went a number of years without a claim of more than \$2 million, and we had two claims in excess of \$2 million in 2001," he said. "The severity of this line of business has definitely increased."

The agency E&O market is in "flux," said Brian Evans, director of professional underwriting for

Westport Insurance Corp. in Overland Park, Kan. "Carriers are really re-evaluating their portfolios and how those portfolios are structured and how individual accounts should be structured."

"Obviously, rates are going up and have been for the last couple of years and will continue to go up," he said. "More than that, though, agents are probably going to see a change in the structure of their account, and a lot of that is going

to depend on the make-up of the agency," Mr. Evans said.

For example, if the agency places a lot of "volatile" business, such as medical malpractice liability coverage or workers compensation coverage, it may encounter difficulties obtaining E&O coverage, he said. There is an increased risk of errors in procuring such hard-to-place coverages, he said, and "E&O underwriters look at that as part of their underwriting criteria."

In addition to facing rate increases, agents and brokers may not be able to obtain the same amount of coverage that they have in the past.

"What we've seen is the reinsurance market has really been spooked on the whole agents E&O program," Mr. Steer said. E&O Professionals, for one, has cut its limits from \$10 million per claim

to \$5 million due to lower limits imposed on its reinsurance treaty.

"Even getting \$5 million in the marketplace is not an easy thing," Mr. Steer said, noting that most accounts are purchasing \$2 million to \$3 million in limits.

But not every agency E&O underwriter is having the same experience in the reinsurance market.

Capacity has not been an issue with Utica, according to Mr. Pearsall. "We can put out limits, without too much difficulty, of up to \$20 million per claim and \$21 million aggregate," he said. Utica retains the first \$10 million under a treaty, and for anything in excess of \$10 million, the underwriter purchases facultative reinsurance. Mr. Pearsall said that he has not had any trouble obtaining facultative coverage, but Utica does expect to be hit with a rate increase

for its treaty coverage when it renews at year end.

And, he said, "As our expenses go up, we have to—make sure we generate a profit—pass those increased costs onto the policyholder."

Many agency E&O underwriters say that business has never been better.

"I've never seen it any better for us," Mr. Steer said. "It's absolutely unbelievable, the number of new business applications that come in the door."

"We are having a record year," Mr. Pearsall said. "We are getting a record number of applications in. While our hit ratios are not as high as they used to be, with the increase in the number of applications, we are generating close to \$6 million in new business, which will be close to double the best year ever."

The Plan is Working

THE BESTGUARD PLAN®

We began offering The BestGuard Plan® in January 1998. The plan was simple: Provide the broadest liability coverage at the lowest cost to only the very best private security guard companies in the country. With a very impressive loss ratio for four years running, *the plan is definitely working.* While other insurance companies are raising rates and restricting coverage, we continue to provide broad coverage and stable pricing by sticking to our plan of only insuring the very best private security companies.



If you insure a private security guard company that exemplifies the best practices of the Private Security Industry and you are being quoted large increases on their insurance renewals, please contact us and let The BestGuard Plan® work for you and them.

BROWNYARD PROGRAMS LTD

CALL: 800-665-7304
 FAX: 631-581-9385
 EMAIL: info@brownyardprograms.com
 ONLINE: www.brownyardprograms.com

Compliance filling
2 column x 5"

Ohio broker back in business of buying P/C, benefit firms

CBIZ returns to strategy that helped it grow

By RYAN CORNELL

Watch for accounting and business services firm Century Business Services Inc. to make a strategic acquisition in the near future, though probably not until at least the end of the year, according to CBIZ Chairman and Chief Executive Officer Steven Gerard.

With plans for an acquisition, as well as the Oct. 3 purchase of Benicor Associates Inc., a 45-person benefits and insurance services firm in Calverton, Md., CBIZ is signaling that it is back in the buying business.

The company, which in the late-1990s was a voracious acquirer of small accounting and business-services firms, is the 13th largest broker of U.S. business, based on 2001 brokerage revenues of \$124.8 million. In the past 18 months, CBIZ has sold off more than 30 business units and consolidated another 20, Mr. Gerard said.

"The Benicor deal represents the first significant acquisition we've made since I got here" in October 2000, he said. "And we are aggressively and actively looking at other acquisitions."

Mr. Gerard said CBiz wants to

make acquisitions to strengthen the depth of services it offers in existing markets. He said CBIZ at present is in acquisition discussions with about six benefits and insurance firms and an equal number of accounting firms nationwide. He would not identify any of the acquisition targets.

Another deal could close by the end of the year, Mr. Gerard said, though it's more likely to come in early 2003.

"We're looking at property and casualty firms across the country and benefits consulting firms in Denver, Florida and New York," Mr. Gerard said.

He said the improved financial state of Independence, Ohio-based CBIZ is making acquisitions possible again. Debt is down, cash flow is positive, and the company this month obtained a new and more flexible \$73 million credit facility from a four-bank consortium that Mr. Gerard said will make acquisitions easier.

CBIZ's total debt has shrunk to \$27 million at present from \$33 million in June and \$147 million in October 2000, when Mr. Gerard took the company's helm.

"I wouldn't be surprised if it was even lower at the end of the quarter," Mr. Gerard said.

The company's previous credit facility was underwritten by a group of 11 banks and was set to drop to a \$60 million limit in the fourth quarter. The company's new line of credit can be expanded to \$80 million, which will give the company more of the cash it needs for acquisitions, Mr. Gerard said.

"It's encouraging to see in today's credit market that we were able to get a substantially better deal than the one we had before,"

he said.

Despite the momentum for deals at CBIZ, the one thing that hasn't perked up is the company's stock price. On Oct. 29, CBIZ shares closed at \$2.46, down from a 52-week high of \$4.04, recorded April 16.

"The market tends to look for earnings per share" and growth in those earnings, Mr. Gerard said.

CBIZ of late has not provided that. In the second quarter ended June 30, CBIZ reported earnings from continuing operations of 2 cents a share, identical to per-share earnings for the second quarter of 2001. Results for this year's third quarter were expected to be issued as this story went to press.

"Investors are looking for significant revenue and bottom-line growth," Mr. Gerard said. "The market isn't going to react just to our improvements."

Jim Macdonald, a securities analyst with First Analysis Corp. of Chicago, said he believes CBIZ's stock has been overlooked by investors.

"We think it's attractive at these prices," Mr. Macdonald said. "But it takes a long time for news to filter into the market."

Nonetheless, he said the average small accounting firm grew revenues by about 8% last year. By that measure, "CBIZ has been kind of neutral," Mr. Macdonald said. "They've underperformed on earnings and revenue growth....If their core accounting business could grow from 5% to 10% organically, they'd get more interest."

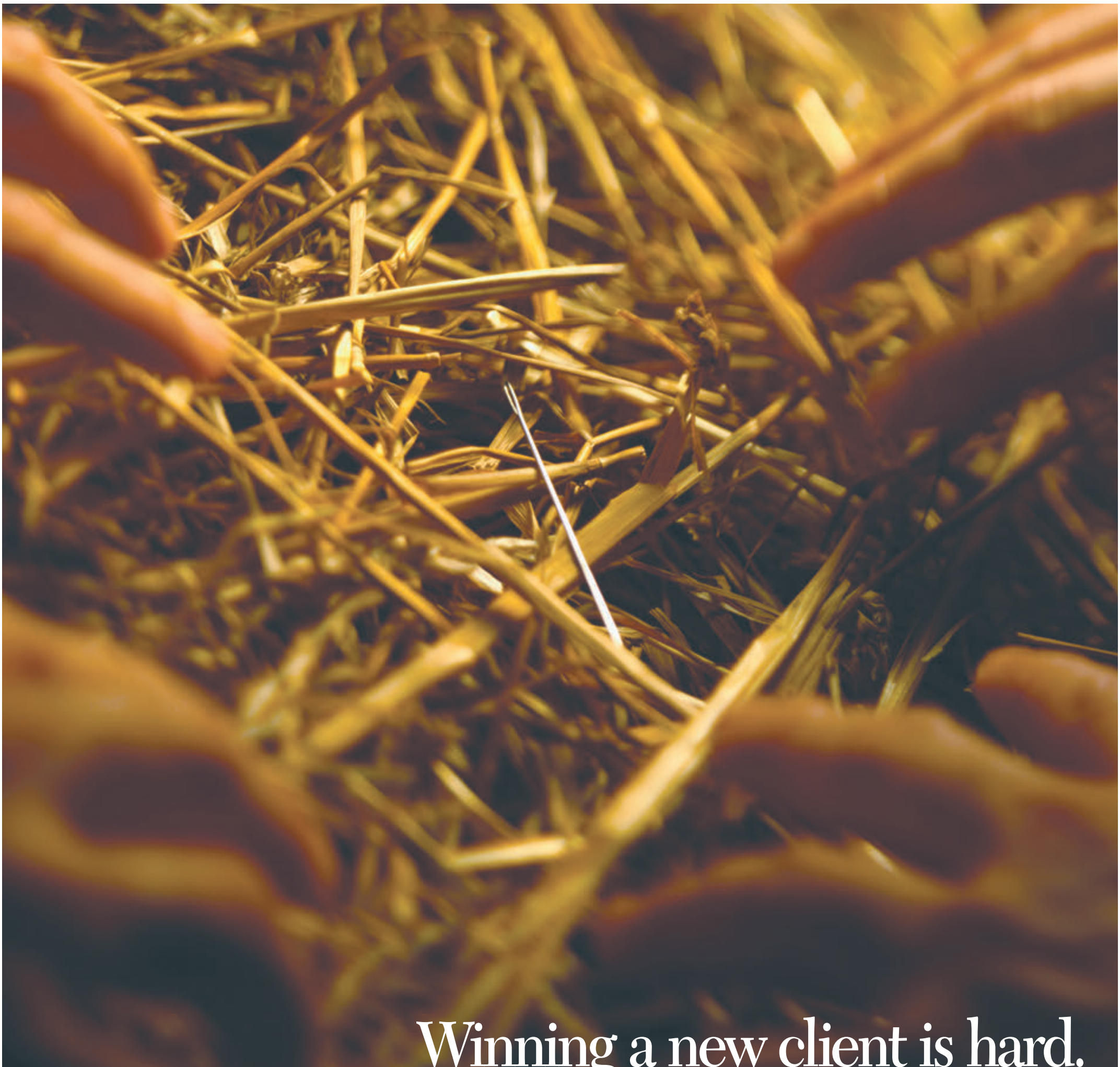
Ryan Cornell is a reporter for Crain's Cleveland Business, a sister publication of Business Insurance.

Agent/Broker Topics

ADVERTISER INDEX

Issue of June 3

ADVERTISER	PAGE #
Brownyard Programs Ltd.	20DA
Chubb Group of Insurance	20C
Compliance & Filing	20D
Distinguished Program Dev.	20B



Winning a new client is hard. Finding one shouldn't be.

The 2002/2003
Directory of Buyers.



YOUR CONNECTION TO OVER 10,000 TOP-LEVEL CORPORATE EXECUTIVES

AVAILABLE ON CD-ROM
CALL 888.446.1422
OUTSIDE THE US: 313.446.1662
E-MAIL: SUBS@CRAIN.COM

Business Insurance
www.businessinsurance.com

**We're making great
health care a little easier.**

**We're #1 in member
satisfaction in Massachusetts.***

**We just may be on to
something here.**

When we set out to make health care a little easier, it was always about what it would mean to our members. And now, they've told us: The National Committee for Quality Assurance has released its annual Quality Compass® study, and Harvard Pilgrim was rated #1 in the "Rating of Health Plan" member satisfaction measure in Massachusetts. As a Broker, this means that when your clients offer Harvard Pilgrim, their employees are getting the health plan with the most satisfied members. And why would they deserve anything less? For more good reasons for your clients to switch to Harvard Pilgrim, visit the Broker section of our website at www.harvardpilgrim.org and call us toll-free at 1-866-540-7821.



Making great health care a little easier.™

*The source for data contained in this advertisement is Quality Compass® 2002 and is used with the permission of the National Committee for Quality Assurance (NCQA). Any analysis, interpretation, or conclusion based on these data is solely that of the authors, and NCQA specifically disclaims responsibility for any such analysis, interpretation, or conclusion. Quality Compass is a registered trademark of NCQA. NCQA is a private, non-profit organization dedicated to improving health care quality.

California employers can take benefits outsourcing online

By SALLY ROBERTS

Small employers in California seeking to outsource their employee benefits needs online need to look no further than eGroupBenefits.com.

The Roseville, Calif.-based online broker offers California employers with fewer than 50 employees the ability to go online and obtain quotes from an unbiased group of insurance plans that represent 97% of the California marketplace. The Web site also contains online enrollment and employee self-service features, further eliminating the repetitive paperwork and constant follow-up that typically is part of benefits administration. Other innovative features of the site include an automated renewal process and a call center staffed with licensed customer service agents available via telephone or e-mail.

The Web site, located at



www.egroupbenefits.com, received the Best of Show award in *Business Insurance's* Best of the Web competition in the Health Plan Services category.

Steve Fertitta, chief executive officer of eGroupBenefits.com, said that he decided to launch the site after seeing a number of dotcom companies with human resource platforms go out of business.

"They saw online enrollment functionality as a commodity, while employers expected to get that from their brokers at no cost," he said. "What we saw devel-

oping was more employers that needed online benefits administration but they didn't necessarily want to pay for it. So we've taken the position that if they allow us to become their broker, in return, they get all these other value-added services, including online enrollment, for free."

eGroupBenefits.com, which Mr. Fertitta refers to as a "brick and mortar retail agency and a click and mortar retail agency," was officially launched in February 2000.

Since then, 180 small employers have outsourced their benefits administration—including group medical, dental, life and 401(k) products—to eGroupBenefits.com, Mr. Fertitta said. At the same time, 50 larger employers—those with up to 2,000 employees—also use eGroupBenefits.com, though only for its online enrollment features.

"Larger employers don't have a

Health Plan Services: eGroupBenefits.com



quoting engine; they have to do it the old-fashioned way by submitting (requests for proposals) to insurance companies and get quotes back," Mr. Fertitta said. Where they find value, though, is through the online enrollment feature, which eliminates paperwork, he said.

Mr. Fertitta said that eGroupBen-

efits.com obtains larger-employer referrals through a strategic partnership with Sacramento, Calif.-based broker InterWest Insurance Services Inc. He said he hopes to expand eGroupBenefits.com into additional states through similar partnerships with other brokers in the future.

Legal Services: ARAG Group



Legal services site avoids the arcane

By JUDY GREENWALD

Legal issues can be arcane and difficult to follow, but that doesn't mean a legal services Web site has to be.

That is the guiding philosophy behind the Web site of the ARAG Group, a Des Moines, Iowa-based legal services provider. The site, launched in 1997, was named Best of Show in the Legal Services category in this year's *Business Insurance* Best of the Web competition.

Although the site's design is straightforward and simple, its development was a complicated undertaking, given that the site had to address numerous constituencies, including plan members, employers, business consultants, attorneys, media and affiliates.

"Our priority in developing the Web site was thinking about each of our audiences, and providing an outstanding customer service for each of them," said Dee Moriarty,



ARAG's Web manager. "We spent a lot of time tailoring information to reach the audience, and that has probably been our strongest differentiator, what distinguishes it from others," said Ms. Moriarty.

Plan members who visit the ARAG Group's site, www.araggroup.com, for instance, can choose from three links: one providing information on the company's UltimateAdvisor legal insurance plan; another on its SeniorAdvocate program, which helps employees with issues related to aging family mem-

See ARAG/page 24

FCB Berlin



We do things differently.

Dialogue instead of monologue.

That is our maxim. We are not in the business of ready-made solutions, but develop unique ones together with you. If you demand the best, please come and see us. www.hannover-re.com/advanced-solutions

hannover re
Advanced Solutions®

Risk management reference materials presented in a user-friendly fashion

By **RODD ZOLKOS**

For a Dallas-based publisher of risk management and insurance reference materials, its move onto the



Web was a natural, if challenging, step.

"We started out in the old days in print, and we had to evolve as everybody else did," said Jack Gibson, president of the International Risk Management Institute Inc.

"We had developed probably the largest reference library—something along the lines of 23,000 pages in print—of reference material for the risk management community," Mr. Gibson said. "Essentially, our customers were telling us they

would like to be able to get access to that information on the Web."

While the objective was clear, the challenge was to present that information on the Web in an easily accessed, well-indexed fashion, Mr. Gibson said. IRMI launched the site, www.irmi-online.com, in April, and its success has earned it a Best of Show award in the Educational category in *Business Insurance's* second Best of the Web competition.

"It's getting great response," Mr. Gibson said. "The customers that we have using IRMI Online love it, and they tell us that it is exactly what they were looking for. It's easy to use, and it presents the information in a great format."

The site was developed over two years by a team of seven IRMI staffers.

"The site has a search form that allows various kinds of sophisticated searches, including Boolean searching," Mr. Gibson said. But an "advanced search" feature provides a variety of other options, such as keyword searches, searches for items excluding certain words and



exact-phrase searches, he said.

"It's got the flexibility, but it's presented in a very user-friendly way, so you don't have to learn all those things about doing a Boolean search," Mr. Gibson said.

Another key element of the IRMI Online site is its user guide. "Somebody can go through that and in about 15 minutes be a real expert at using the site," he said. And with the site's table of contents feature, a user can drill down into a topic to

find the specific document he or she is looking for.

The IRMI site also divides the online library into various "publications," such as liability, property and risk finance, so IRMI Online subscribers can customize their versions of the library. Doing so allows users to pay only for what they need. In contrast, many reference sites "will have a database of information, but you have to buy all or none," Mr. Gibson said.

Marine Insurance Problems?

We're Ready.

G & M MARINE, INC.
MARINE INSURANCE UNDERWRITERS

www.gmmarine.com
(504) 588-9044

ARAG: Tailored tool

Continued from page 22
needs, including access to a network of qualified attorneys. Within each of these three categories, more information is available. Plan members clicking on UltimateAdvisor, for instance, can get information on online, telephone and in-office legal services; on financial and tax-planning services; and on identity-theft services.

needs, including access to a network of qualified attorneys.

Within each of these three categories, more information is available. Plan members clicking on UltimateAdvisor, for instance, can get information on online, telephone and in-office legal services; on financial and tax-planning services; and on identity-theft services.

"When we built the navigation for the site, we really looked at how we could provide a tailored experience for each of the targeted audiences, and we strive to make sure that each section is...very appropriate for that audience," said Ms. Moriarty.

Although the site is complex overall, "we really try to keep it simple and streamlined in design, so it's very simple for the user to find what they're looking for, for their individual needs," Ms. Moriarty said.

The Web site is updated daily. "Our strategy is to continually look at what we can add to the site that will...enhance the services that we provide to the customer," said Ms. Moriarty.

You Get What You Pay For...

Except When You Get More!



Like when you subscribe to *Business Insurance*.

Because we offer all of our paid subscribers a variety of valuable, exclusive and free online content at BusinessInsurance.com, including:

- Access to our searchable archive of all *Business Insurance* articles, in their entirety, published since 1994.
- Access to our extensive, custom-searchable database of vendors from our exclusive industry directories.
- Click-through access to complete articles available on our Sunday email, "This Week In BI".
- Desktop access to the full content of the current issue before it reaches your mailroom.

So subscribe to *Business Insurance* today... and get so much more than you bargained for.

Get your subscription, and everything that comes with it, at www.businessinsurance.com or call 888-446-1422 (outside the U.S., 313-446-0450).

Business Insurance

www.businessinsurance.com

Business Insurance
www.businessinsurance.com

SINGLE-COPY SALES

To order any current or back issue of *Business Insurance*, call the single-copy sales division of BI's Circulation Department:

1-888-446-1422

LIST RENTAL

Portions of BI's subscriber database are available to qualified companies for list rental. For available titles and a price quote, call our list broker:

313-446-0478



STARS Web services shine

STARS Web
www2.stars-web.com/starsweb70

Owner/Sponsor: Marsh Risk Technologies division of Marsh USA Inc., New York.

Launched in: Initially launched in January 1999, version 7.0 launched in June 2002.

Target market: Marsh client risk managers looking to consolidate risk data on a single database.

Strategy: STARS Web is a companion product to Marsh's STARS personal computer-based risk management information system, designed to offer client companies with multiple sites an easy way to use the RMS system. "Most of our clients will actually use both products," said Stephen Fischer, a managing director with Marsh in New York.



Among the primary advantages of STARS Web is "really sophisticated report distribution," Mr. Fischer said. "STARS Web can just automatically e-mail reports to anybody."

"Another is global data collection," he said. STARS Web uses "interview-style incident entry," he said, simplifying data entry, with users able to customize data entry interviews.

In addition, STARS Web facilitates gathering exposure information from remote users. And the site is fully international, "which means it can be translated into any language and it supports local currencies," Mr. Fischer said.

—By Rodd Zolkos

With Tufts Health Plan,
you can offer award-
winning health care
without making huge
sacrifices to pay for it.

Great health care doesn't have to come at the cost of everything else.

Your employees will get
access to the HMO rated
#1 in Metro Boston, six
years in a row.*

And we offer lots of
different plan designs to
help stretch your budget
further. There's even a
range of PPO plans to
cover your employees
who live out of state.

Just visit us at
tuftshealthplan.com or
call your broker or sales
representative. We'll
show you how to afford
quality health care for
your company —without
trading in your office
equipment.



TUFTS  **Health Plan**
No one does more to keep you healthy.

Visit www.tuftshealthplan.com or call 1-800-208-8013

Independent judges selected the Best of the Web for 2002

The Best of the Web competition was created in 2001 by *Business Insurance* to recognize and promote excellence in Internet-based services for corporate risk and employee benefits executives.

Web sites designed primarily for the buyer of commercial insurance services were invited to submit their sites for consideration. To be considered, entries had to be freestanding sites on the World Wide Web, not private intranets or Web-enabled software.

A panel of 10 independent judges reviewed and scored entries, judging such elements as functionality,

interactivity, design, innovation and relevance to the buyer of commercial insurance services.

The judges evaluated Web site entries based on seven criteria (see related story).

The sites with the highest average score in each category were named Best of the Web, subject to the judges' discretion. The next highest-scoring sites, subject to the judges' discretion, were given an Award of Excellence.

Awards for the Best of the Web competition are broken into eight categories, as follows:

- Insurance services.

- Claims services—property/casualty.
- Risk management.
- Benefits management.
- Health plan services.
- Claims services—life/health.
- Legal services.
- Educational/professional.

This year, the judges were generally critical of the quality of the sites entered. They chose not to award any winners in one category—claims services-property/casualty—and gave only one award of excellence across all other categories. No entries were submitted for the category of claims services-life/

health.

Even among the companies that earned the highest average score and a Best of Show award in a given category, the judges' scores for those top sites were equivalent to B grades, rather than A grades.

The judges for the 2001 Best of the Web competition were:

- Katherine H. Capps, president of Health2 Resources, a Vienna, Va.-based consulting firm specializing in health care issues. Ms. Capps was project manager for a recent study by the National Business Coalition on Health on how employers use the Internet for health care benefits (*BI*, Sept. 9).

- Michael D.P. Cavanaugh, vp of marketing for GE Medical Protective, a medical malpractice insurer owned by General Electric Co. in Fort Wayne, Ind. GE Medical Protective.com won a Best of Show in the insurance services category of the 2001 Best of the Web competition.

- David P. Duden, national practice leader for risk management information systems at Deloitte & Touche L.L.P. in Hartford, Conn.

- Kevin Hoskinson, director of risk management for Sun Microsystems Inc. in Broomfield, Colo., and a member of the Risk & Insurance Management Society Inc.'s Tech-

nology Committee.

- Richard Kerr, chairman and chief executive officer of MarketScout.com and Insurance Data Systems in Dallas. MarketScout is an e-commerce portal for specialty insurance transactions.

- Carroll Lachniet, editor of Workforce magazine, a sister publication of *Business Insurance* based in Costa Mesa, Calif., that focuses on human resources issues.

- Michael Pikelny, corporate actuary and employee benefits consultant at Hartmarx Corp. in Chicago.

- Jeffery W. Pettegrew, vp-risk management and insurance for Weststaff Inc., an international staffing services company in Walnut Creek, Calif. Mr. Pettegrew was the 1989 *Business Insurance* Risk Manager of the Year.

- Steven Tippins, professor of risk management and insurance for the Walter E. Heller College of Business at Roosevelt University in Schaumburg, Ill.

- Ellen Vinck, vp of risk management and benefits at United States Marine Repair Inc. in San Diego. Ms. Vinck, who was assisted in the judging by her staff, also is a member of the RIMS Executive Committee, serving as vp of finance and treasurer.

The panel of judges for the 2002 competition



Not pictured:
Katherine H. Capps,
Michael D. P. Cavanaugh,
Jeffrey W. Pettegrew



Mr. Duden



Mr. Hoskinson



Ms. Lachniet

PHOTO: NADIA BOROWSKI SCOTT



Mr. Kerr



Mr. Pikelny



Mr. Tippins



Ms. Vinck

How the winning sites were chosen

Seven criteria were used by the judges to score the entries for the *Business Insurance* Best of the Web competition.

The panel assigned a numerical value of one to 10 for each of the following:

- **Content:** This criterion assesses the range and depth of services available to users. Is the site limited to one core function, or does it provide multiple tools and services?

- **Sophistication:** Is the Web site's function readily accessible to risk and benefit professionals, or does it require an advanced understanding of computer skills and assistance from Internet technology professionals to achieve its function?

- **Design:** Is the site visually pleasing and engaging, or is it stale, cluttered or otherwise unattractive?

- **Functionality:** Is the site easy to navigate and under-

stand, well organized and complete?

- **Innovation:** Does the Web site provide new services to users or just automate existing ones? Does it represent a new type of online insurance service, or is it one of many?

- **Fulfillment:** Does the site offer information to the buyer of insurance services, or is it aimed primarily at others, such as intermediaries? How well does the Web site meet its stated objectives to its targeted users?

- **User experience:** Overall impression; is it easy to use and helpful—or mind-numbing and repetitive? Would you want to come back to this site for more information?

Finally, for each site, judges were asked whether, in their opinion, the site would be worthy of an award if it were the top-scoring entry within a category.

Products & Services Guide

To place your ad, contact **Irais Amleshi** at (312) 649-5340 / fax: (312) 649-7937 / E-mail: iamleshi@crain.com
Business Insurance, Classified Department, 360 N. Michigan Ave., Chicago, IL 60601-3806. Call for details on blind box and internet advertising

Associated Claims Enterprises

TPA for Professional and General Liability Claims.
Flat Fee Per Claim Fixes Claim Costs.
Start-up, On-going and Run-Off Programs.
Underwriting, Claims and Due Diligence Audits.
Self-insured Retention Management
26 Years of Experience.
Call Thomas Mayo @ (312) 338-3022

CPCU® AIC, ARM, IA, CLU/ChFC, and CIC candidates

Executive Seminars so good you'll pay the first time, every time or your money back!
Call 1-888-BURNHAM Now!
www.BurnhamSystem.com

Any Risk Management Questions?

Ask www.GeorgeLHead.com

BI Get Results!
Advertise in our next issue

November 11
Bonus Distribution: ARIMA; PLUS
Closing: Nov. 5



www.swissre.com

For most people the horizon is as far as they can see. But for us it represents the threshold to an unseen world of new opportunities. As one of the world's foremost managers of capital and risk, we are constantly searching for solutions that lie beyond the obvious. With financial and intellectual reservoirs of great depth and breadth to draw from, we combine insight, knowledge and original thinking to create new opportunities. We do it for ourselves. We can do it for you.

Solutions beyond the obvious.

Swiss Re



Stock market woes prompt pension funding boosts

By RYAN CORNELL

The topsy-turvy stock market has had Ohio corporate executives reaching for the antacid in the last couple of years. Now, some of their companies are reaching for the checkbook to pump millions of dollars into underfunded pension funds battered by losses in the stock market.

The pension funds of a host of Ohio-based companies—including Goodyear Tire & Rubber Co., Cleveland-Cliffs Inc., Eaton Corp., FirstMerit Corp., Parker Hannifin Corp. and Steris Corp.—have been hammered by stock losses. To meet Internal Revenue Service regulations that guard retirement funds, some of those companies and others already have made or are considering making contributions to their pension funds, taking charges to their financial results or lowering their expectations for investment returns.

Experts say the moves to bring pensions to required funding levels could force some companies to delay expenditures in other areas, including acquisitions and capital improvements.

Bob Mast, a senior consulting actuary in the Cleveland office of employee benefit consulting firm Watson Wyatt Worldwide, said IRS rules dictate that companies must maintain a pension fund asset level equal to or greater than 90% of the fund's current liabilities. If the value of the fund falls below the 90% threshold, the shortfall must be corrected within five years, Mr. Mast said.

"In general, the funded status of pension plans is down significantly," he said.

Citing projections from a forthcoming Watson Wyatt study, Mr. Mast said roughly 62% of U.S. companies' pension plans will be less than 100% funded at the end of this year, and 15% of companies' plans will be less than 75% funded.

"This is a situation I have not lived through in my 30-year career," Mr. Mast said. "Companies will be required to make cash contribu-

tions at dramatically high levels."

Most recently, Cleveland-Cliffs on Oct. 7 announced it likely would take a noncash charge to equity of between \$100 million and \$125 million in the fourth quarter, for required increases to its minimum pension liability.

Cleveland-Cliffs' pension fund assets stood at \$317.9 million on Jan. 1, down nearly 10% from \$352.7 million on Jan. 1, 2001. Meanwhile, benefit obligations rose 5%, to \$319.1

'This is a situation I have not lived through in my 30-year career. Companies will be required to make cash contributions (to pension plans) at dramatically high levels.'

Bob Mast
Watson Wyatt Worldwide

million on Jan. 1, from \$303.5 million the previous year. The company has not made public data for pension fund gains or losses in 2002.

A Cleveland-Cliffs spokesman attributed the fund's losses to a downturn in the stock market and said he expects to see many companies make similar announcements in the near future.

"You're going to see a lot of this from a lot of different companies because of what has occurred in the market, both because of interest rates going down and stocks not going up," the spokesman said.

Many other Ohio companies are grappling with pension fund losses in a variety of ways.

In September, Akron-based tiremaker Goodyear dumped 11.3 million of its shares, worth about \$141 million at the time, into two of its pension plans in reaction to continued stock market losses. In the past month, Goodyear's stock has tumbled to just more than \$8 per share, meaning the contribution

currently is worth about \$93 million.

A Goodyear spokesman said the company was not required to make a contribution to its pension plans until 2004 but chose to do so for strategic reasons.

"It was something we had the ability to do," the Goodyear spokesman said. "And by doing it now, it didn't have any material impact on earnings per share." He also said Goodyear's pension funds still are strong and continue to pay benefits to retirees, despite the economic downturn.

The story is much the same at Parker Hannifin in Cleveland. The capital equipment manufacturer's pension fund currently is underfunded, with assets of about \$1.34 billion covering a little more than 80% of obligations of \$1.66 billion at the start of the 2002 fiscal year.

"We likewise have gone from a comfortable surplus to an underfunded position," said Parker Hannifin Vp and Treasurer Tim Pistell. "We are not in a situation where funding is mandatory, but we have the unique ability to make a discretionary contribution."

He said the company is weighing options for uses of its free cash flow, which could include making a contribution to its pension funds, an acquisition or a stock repurchase.

"We have no final decision, but it's a high priority," Mr. Pistell said.

Clyde Bartter, chairman and CEO of Boyd Watterson Asset Management L.L.C. in Cleveland, which manages assets for some pension funds, said correcting pension fund shortfalls potentially could result in companies taking a hit to earnings and putting off capital improvement plans.

For instance, Cleveland-based Eaton disclosed in its 2001 annual report that "due to the effect on pension income of the dramatic decline in stock market valuations on the company's pension fund, coupled with lower discount rates associated with pension and other postretirement benefit liabilities," it expects its 2002 earnings will take a hit of 56



PHOTO: KRT

Goodyear Tire & Rubber Co. in September contributed to its pension plan in response to stock market losses.

cents per share.

In line with that prediction, Eaton on Oct. 14 announced that its second-quarter earnings of \$1.26 a share "were unfavorably impacted by 12 cents per share due to lower pension income."

Mr. Bartter said some companies also might lower their assumptions for anticipated returns on investments.

Bob Becker, employee benefits director for Steris in Mentor, said the medical equipment manufacturer fell victim to assuming that the stellar returns on its stock investments in the late-1990s would continue to be the norm. Steris' pension funds, with assets of \$35.1 million and obligations of \$41.4 million as of March 31, is underfunded by IRS standards, although only slightly.

"Frankly, we missed our mark," Mr. Becker said. "We got lulled into hoping the returns of the '90s would continue forever."

Ryan Cornell is a reporter for Crain's Cleveland Business, a sister publication of Business Insurance.

Professional MarketPlace

To place your ad, contact **Irais Amleshi** at (312) 649-5340 / fax: (312) 649-7937 / E-mail: iamleshi@crain.com
Business Insurance, Classified Department, 360 N. Michigan Ave., Chicago, IL 60601-3806. Call for details on blind box and internet advertising

BUSINESS OPPORTUNITY

AGENCY EST. 1904
SEEKS CARRIER / MGA
TO WRITE
SEASONED BOOK OF
HABITATIONAL BUS.
50,000 UNITS IN
NYC/WEST/LI
GL 1/2MM
Silent on lead
Occur. Sub-Limit ok
Reply in confidence:
INSUREIT@BESTWEB.NET

SOFTWARE DEVELOPMENT

Insurance Software Development
- Company websites
- Internet quotation systems
- Incident reporting systems
- Loss reporting systems
- Claims administration systems
- Renewal automation
- Data Conversion/Clean Up
Call: 510-914-2372
www.objectorientedgroup.com

HELP WANTED

Senior Financial Officer for National Insurance Company located in SE-Michigan. A minimum of 10 years P & C insurance experience, CPA, strong management qualities. Opportunities for advancement with expanding company. Involvement in strategic planning, budgeting and regulatory issues. Confidential reply to: hr222@lycos.com or Fax: (248) 865-2280. E.O.E.

HELP WANTED

The Response Companies, Inc
Insurance Recruitment Specialists for
Primary, Reinsurance and Brokerage Professionals
jlee@responseco.com
212-843-9150
23 East 39th Street, New York, NY 10016
www.responseco.com

HELP WANTED

keystrategies

L.L.C.

"The Risk
Management
Career
Experts"

Executive Recruiting • Career Coaching

- Corporate Risk Management
- Insurance Brokerage
- Risk Management Consulting
- RMIS

100 Eagle Rock Ave. East Hanover, NJ 07936
Phone 973-887-2300 Fax 973-887-4334
www.keystrategies.com

- Mike Tannenbaum
- Barry Citron
- Lee Burrows

More Classifieds on Page 30

RECRUIT THE BEST!

When the most talented men and women in the insurance industry want to make a move, they turn to...

Business Insurance

Call (312) 649-5340 to place your recruitment ad

NOVEMBER 11

Bonus Distribution:
ARIMA & PLUS

Closing: November 5

NOVEMBER 18

Burmuda Market Report
Chart & Online Directory:
Policyholder-Owned Facilities

Bonus Distribution: WCF
Closing: November 12

Comings & Goings

Insurers:

Argonaut Insurance Co. has named **Roger Greiner**, former president and chief operating officer of Genesis Underwriting Management Co., as president of Aegean Managers Inc., a unit that focuses on alternative risk transfer group programs.

Mr. Greiner, who was with Genesis' parent, General Re Corp., for more than 20 years, also served as president and COO of Genesis In-

demnity Insurance Co.

In other senior-level appointments at Argonaut:

H. Clay Bassett Jr. was named chief underwriting officer. Mr. Bassett formerly was senior vp and deputy head of Swiss Reinsurance Co.'s direct reinsurance operations in the United States.

Charles Weaver was named senior vp of claims, responsible for claims for all Argonaut Group member companies. He previously

was senior vp of insurance services at Cambridge Integrated Services Group, a unit of Aon Corp.

Daniel M. Izard, former president and chief executive officer of Associated Aviation Underwriters, has joined Bermuda-based Endurance Specialty Insurance Ltd. as executive vp, responsible for aviation and aerospace insurance and reinsurance activities.



Mr. Izard

New York Life Insurance Co. has named **Albert J. Schiff** as senior vp in its agency department. Mr. Schiff, who will remain president and chief executive officer of New York Life unit NYL Executive Benefits L.L.C., previously was president and CEO of Clark/Bardes Partners.

Agents/Brokers:

Cynthia A. Beveridge was named resident managing director of Aon Risk Services Inc. of New Jersey. Ms. Beveridge previously served as managing director of Aon Financial Services Group.

Also at Aon, **Stephen Schluter** was named executive vp, market

area sales leader in origination. Most recently, Mr. Schluter was a senior vp and sales practice leader for Marsh Inc.

Edward S. Brockie III has joined the San Francisco office of Summit Global Partners Inc. as senior vp. Mr. Brockie formerly was senior vp of the regional consumer products brokerage team at Aon Risk Services.

Reinsurance:

Ramona Farris has joined GE Employers Reinsurance Corp. in Overland Park, Kan., as senior sales specialist responsible for provider excess in the company's commercial insurance health care division. She previously was an Internet products sales specialist at Aetna Inc.

Also at GE ERC, **Steven Kelner** was named global reserving actuary for the global property and casualty reinsurance business unit. He previously was chief actuarial officer at American Re-Insurance Co.

Other suppliers:

Dennis McGill was named executive vp and chief financial officer of the GAB Robins Group of Cos. in Parsippany, N.J. Mr. McGill previously was executive vp of international retailer Savers Inc.

Kevin Murnane was named senior vp of business development at Pilat NAI, a human resources software and consulting company in Lebanon, N.J. He previously was a senior selection specialist at Development Decisions International.

Cadwalader, Wickersham & Taft has added new partners to its litigation department in New York: **Gregory A. Markel** and **Ronit Setton**, former partners in the securities litigation department at Brobeck Phleger & Harrison L.L.P., and **Kenneth R. Pierce**, who formerly was a senior vp in the Insurance Products Group at Lehman Brothers Inc. Also, **Nancy Ruskin**, formerly of counsel in the securities litigation department at Brobeck, will join the firm as special counsel.

Christopher D. Winans was named principal and senior equity analyst covering the insurance industry at The Williams Capital Group L.P., a New York-based investment bank and institutional broker/dealer. Mr. Winans previously was an analyst in equity research at Morgan Stanley.

Business Insurance would like to report on senior-level changes at commercial insurance and reinsurance companies, brokers and other service providers.

Please send news of recently promoted, hired or appointed senior-level executives to:

Joanne Wojcik, Business Insurance, 777 E. Speer Blvd., Denver, Colo. 80203-4212; jwojcik@crain.com.

Photos should be sent to: Kathy Barnes, Business Insurance, 360 N. Michigan Ave., Chicago, Ill. 60601-3806; kbarnes@crain.com.

Professional MarketPlace

To place your ad, contact **Irais Amleshi** at (312) 649-5340 / fax: (312) 649-7937 / E-mail: iamleshi@crain.com
Business Insurance, Classified Department, 360 N. Michigan Ave., Chicago, IL 60601-3806. Call for details on blind box and internet advertising

LEGAL NOTICE

THE CIRCUIT COURT OF COOK COUNTY, ILLINOIS COUNTY DEPARTMENT, CHANCERY DIVISION

IN THE MATTER OF THE LIQUIDATION)
OF GALLANT INSURANCE COMPANY AND) 02 CH 04056
VALOR INSURANCE COMPANY)

NOTICE OF CLAIM FILING DEADLINE AND PROCEDURES

PLEASE TAKE NOTICE, that on August 23, 2002, the Circuit Court of Cook County, Illinois, entered Orders of Liquidation ("Orders of Liquidation") against Gallant Insurance Company ("Gallant") and Valor Insurance Company ("Valor"). Nathaniel S. Shapo, Director of Insurance of the State of Illinois, is the statutory and court-affirmed Liquidator of Gallant and Valor (the "Liquidator").

TAKE FURTHER NOTICE, that pursuant to the Orders of Liquidation, all rights and liabilities of Gallant and Valor and their policyholders, creditors and stockholders, and all other persons interested in their property or assets, are fixed as of August 23, 2002, unless otherwise provided in subsequent orders of the Court.

TAKE FURTHER NOTICE, that on October 16, 2002, the Circuit Court of Cook County, Illinois, entered an Order Providing for the Filing of Claims and the Setting of Claim Filing Deadlines ("Claim Filing Order"). Pursuant to the Claim Filing Order, all persons, companies or entities who have, or may have claims against Gallant or Valor, their property or assets, or against a Gallant or Valor insured or policyholder, shall have the right to present and file with the Liquidator proper proofs of claim on or before February 23, 2004 at 4:30 p.m. (C.D.T.).

TAKE FURTHER NOTICE, that any insured under an insurance policy issued by Gallant or Valor shall have the right to present and file with the Liquidator a proper proof of claim setting forth a contingent claim on or before February 23, 2004 at 4:30 p.m. (C.D.T.). No contingent claim shall be allowed for purposes of participating in any distribution of estate assets that may be made at the fourth priority level, 215 ILCS 5/205(1)(d), unless such claim has been liquidated and the insured claimant has presented and filed evidence of payment of such claim to the Liquidator on or before August 23, 2004 at 4:30 p.m. (C.D.T.). Any contingent claim for which a proper proof of claim is filed on or before February 23, 2004 at 4:30 p.m. (C.D.T.), but which is not liquidated on or before August 23, 2004 at 4:30 p.m. (C.D.T.), may be estimated pursuant to 215 ILCS 5/209(4)(b) for purposes of participating in any distribution of estate assets that may be made at the fifth priority level, 215 ILCS 5/205(1)(e), unless otherwise directed by the Court.

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

THE LAST DATE FOR THE FILING OF PROOFS OF CLAIM WITH THE LIQUIDATOR IS SET FORTH ABOVE. NO PERSONS, COMPANIES OR ENTITIES HAVING OR CLAIMING TO HAVE ANY CLAIM AGAINST GALLANT OR VALOR, THEIR PROPERTY OR ASSETS, OR AGAINST A GALLANT OR VALOR INSURED OR POLICYHOLDER, SHALL PARTICIPATE IN ANY DISTRIBUTION OF THE ASSETS OF THE COMPANY UNLESS SUCH CLAIMS ARE PROPERLY FILED WITH THE LIQUIDATOR ON OR BEFORE FEBRUARY 23, 2004 AT 4:30 P.M. (C.D.T.)

Cathleen M. Travis
Special Deputy Receiver

LEGAL NOTICE

IN THE HIGH COURT OF JUSTICE (OF ENGLAND AND WALES)

No 5774 of 2002
CHANCERY DIVISION
COMPANIES COURT
IN THE MATTER OF

**ASSURANTIEMAATSCHAPPIJ "DE ZEVEN PROVINCIEËN" NV
(ALSO KNOWN AS "THE SEVEN PROVINCES" INSURANCE COMPANY
LIMITED);**

**"TRANSATLANTICA" HERVERZEKERING MAATSCHAPPIJ NV;
NATIONALE-NEDERLANDEN INTERNATIONALE SCHADEVERZEKERING
NV (ALSO KNOWN AS "NV THE NETHERLANDS INSURANCE
COMPANY EST. 1845 LIMITED");**

**NATIONALE-NEDERLANDEN SCHADEVERZEKERING MAATSCHAPPIJ
NV; AND**

MERCANTILE MUTUAL INSURANCE (AUSTRALIA) LIMITED;

AND

IN THE MATTER OF THE COMPANIES ACT 1985

AND

IN THE FEDERAL COURT OF AUSTRALIA

No. 3502 of 2002

NEW SOUTH WALES DISTRICT REGISTRY

IN THE MATTER OF

**MERCANTILE MUTUAL INSURANCE (AUSTRALIA) LIMITED
ACN 35 000 456 799**

AND

IN THE MATTER OF THE CORPORATIONS ACT 2001 AUSTRALIA

NOTICE IS HEREBY GIVEN that, by an order dated 15 October 2002, the High Court of Justice in England and Wales in the above matters has directed that separate meetings ("Meetings") be convened of the Scheme Creditors (as defined in the scheme of arrangement referred to below) of each of the above named companies ("Companies") for the purpose of considering and, if thought fit, approving (with or without modification) a scheme of arrangement pursuant to section 425 of the Companies Act 1985 and, in the case of Mercantile Mutual Insurance (Australia) Limited ACN 35 000 456 799, section 411 of the Corporations Act 2001 proposed to be made between each of the Companies and its respective Scheme Creditors ("Scheme"), and that such Meetings be held on 11 December 2002 at The Chartered Insurance Institute, Insurance Hall, 20 Aldermanbury, London, United Kingdom EC2V 7HY, the first such Meeting commencing at 11am London time. (Scheme Creditors are, broadly speaking, creditors of the Companies in respect of discontinued international reinsurance business and discontinued direct insurance business written for policyholders in the USA or written in the home-foreign account in The Netherlands). All Scheme Creditors are requested to attend at such place and time either in person or by proxy.

Scheme Creditors may vote in person at the Meetings or may appoint another person, whether a Scheme Creditor or not, as their proxy to attend and vote in their place. A copy of the text of the Scheme and of the statement required to be provided to creditors pursuant to section 426 of the Companies Act 1985 and/or section 412 of the Corporations Act 2001, as well as blank FORMS OF PROXY and VOTING FORMS, may be obtained from Mark Jones, PricewaterhouseCoopers, Plumtree Court, London EC4A 4HT, United Kingdom during normal business hours before 11 December 2002.

REQUEST FOR PROPOSALS

The West Virginia Board of Risk and Insurance Management is issuing a Request for Proposal (RFP) to provide **INSURANCE ADVISORY SERVICES** related to premium calculation. For a bid package, contact Sarah H. Long, CPA, Chief Financial Officer, 90 MacCorkle Ave SW, South Charleston, WV 25303 Telephone (304) 766-2646 107.

A mandatory bidder's conference will be held on Tuesday, November 19, 2002 at 1:30PM at BRIM's office. Proposals are due no later than Friday, December 13, 2002 at 12:00PM.

e-mail
iamleshi@crain.com

Need a
Legal Notice
or
**Request For
Proposals**
Published?
Call
Irais Amleshi
(312) 649-5340

Colombian terrorism pool proposed

Insurers seek reinsurance facility to back underwriting of country's risks

By **ROBERTO CENICEROS**

BOGOTA, Colombia—Long before the events of Sept. 11, 2001, drew worldwide attention to terrorism insurance, corporations in Colombia regularly sought terrorism coverage to mitigate frequent attacks.

But because international reinsurance for terrorism events has become very costly and nearly impossible to obtain, Colombian insurers have proposed that their government help them create a terrorism pool.

The country's leading association of insurers, the Federacion de Aseguradores Colombianos, known as FASECOLDA, has asked Colombian President Alvaro Uribe to request that Congress adopt a law creating the pool and an agency to operate it.

FASECOLDA's preliminary proposal calls for the agency to be managed jointly by the national government, insurers and reinsurers.

The pool would be called Fondo Nacional de Terrorismo, or FONDTER, said William Fadul, FASECOLDA's president in Bogota.

FONDTER would back insurers providing coverage for personal and commercial risks. It would also cover publicly owned properties, Mr. Fadul explained.

There is much at stake, according to FASECOLDA documents. Local and international investment in Colombia could dry up if terrorism coverage is not available to protect those investments.

U.S. State Department reports say Colombia suffers from the worst terrorism problems in Latin America. State Department reports blame guerrillas engaged in a civil war with killing about 3,000 citizens in 1991. The same year, two guerrilla groups bombed one multinational-owned oil pipeline more than 150 times.

Terrorism coverage really came of age in 1990, when narco-terrorists sought to punish the government

for cracking down on a drug cartel, Mr. Fadul said. Demand from corporations has remained high.

Purchasers "are asking for more coverage, but the insurers can't give it, because we can't get it from the reinsurers," Mr. Fadul said.

Under FASECOLDA's proposal, primary insurers would retain the first layer of coverage and FONDTER would provide a second layer of coverage.

Precisely how much risk the primary insurers would retain remains to be determined, Mr. Fadul said.

For its share of risk, FONDTER would obtain funding through loans provided by the government, the World Bank and other organizations. It would also rely on collected premiums and accumulated reserves.

FONDTER would cede some or all of its risk to reinsurers. Depending on market conditions and the capacity reinsurers are willing to provide, FONDTER could provide a fourth layer of coverage above the

reinsurers.

Whether FONDTER or the primary insurers would set policy pricing and terms remains to be determined, sources say.

Several government officials have told FASECOLDA that they are interested in creating the fund, Mr. Fadul said.

Just last month, Colombia's banking superintendent who regulates insurers, Patricia Correa Bonilla, told FASECOLDA that the government has great interest in creating the pool, said Manuel Obregon, president of Chubb de Colombia Compania de Seguros S.A.

Mr. Obregon said that though the severity of terrorism claims in Colombia is small, especially in comparison to the damage caused on Sept. 11, 2001, their frequency is a concern.

The most-frequent targets are telephone and energy facilities. Guerrillas favor them because they draw media attention to their cause.

World Updates

Gerling exits P/C reinsurance

Gerling Konzern Allgemeine Versicherungs A.G. has ceased writing nonlife reinsurance after a failed effort to find a buyer for parts of those operations. Cologne, Germany-based Gerling's life reinsurance operations will be placed in a new company, Gerling Life Reinsurance GmbH. Uwe Eymer, deputy chairman of Gerling Global Re, will serve as chairman of the unit. Gerling will run off its existing nonlife reinsurance business, which accounted for about 4.5 billion euros (\$4.39 billion) in premiums in 2002.

SCOR announces turnaround plan

Flood claims, poor investment returns and losses at its Bermuda unit will help push Paris-based SCOR S.A. into the red by about 250 million euros (\$244.1 million) for 2002, the reinsurer warned. The expected loss follows a 278 million euro (\$271.5 million) loss for 2001. Losses at Bermuda-based Commercial Risk Partners Ltd. are leading SCOR to restructure that unit and add 225 million euros (\$219.7 million) to reserves. SCOR also plans a "drastic" reduction in its alternative risk transfer business and credit and surety reinsurance. SCOR is considering a private share issue to offset its 2002 losses.

Converium reserving holds down profits

Converium Holding A.G. posted net income of \$26 million for the first three quarters, compared with a loss of \$359.9 million in the same period last year. Gross written premiums climbed 12.9%, to \$2.52 billion. Hampering profits was \$59.6 million in third-quarter reserve additions. The reinsurer blamed increasing loss development on business written during the soft market, including professional liability coverage for nursing homes, automobile and medical excess liability and umbrella liability lines.

New mediation facility forms in London market

Alternative dispute resolution company InterMediation has established a claims mediation center for the London market. The Claims Mediation Centre was set up in response to calls from London market participants for less-costly ways to resolve difficult claims and disputes, according to London-based InterMediation. The center will have its own staff and mediation facilities, while also using a panel of experienced insurance mediators and evaluators.



PHOTO: REUTERS/JOHN PRYKE

A pedestrian in north London walks past blown-down signs from a furniture store. Winds up to 90 mph on Oct. 27-28 uprooted trees and damaged buildings across the United Kingdom.

U.K. windstorm claims could hit \$300 million

Insured losses from a windstorm that swept across the United Kingdom and parts of continental Europe on Oct. 27-28 will likely not total much more than \$300 million, according to initial estimates.

Risk Management Solutions Inc. estimates that the windstorm caused total damages of up to 1 billion euros (\$1.02 billion), but insured losses likely won't exceed 300 million euros (\$306 million), according to the Newark, Calif.-based catastrophe modeling com-

pany.

Insured damage in the United Kingdom, where winds of up to 90 mph uprooted trees and damaged buildings, will likely be between £50 million (\$77.6 million) and £100 million (\$155.1 million), according to the Assn. of British Insurers.

"At this stage, we are talking damages in the tens of millions of pounds rather than hundreds of millions," a spokesman for the London-based ABI said.

—By Carolyn Aldred

Labor groups staging strikes over closure of defined benefit plans

British unions go to battle over pensions

By **BENJAMIN SEEDER**

LONDON—British trade unions in recent months have staged strikes specifically over pensions, landing the first blows in what could be a massive battle between workers and employers over the closure of generous defined benefit plans.

The unions are also taking aim at Britain's Labour government, which is seen as exacerbating the situation by not doing enough to encourage companies to keep open their defined benefit plans.

Hundreds of U.K. companies are either winding up pension plans or closing them to new members, as finance directors look at ways of reducing cost and risk.

Workers at ASW Sheerness Steel Ltd., a steel company in Kent that has filed for bankruptcy, last month

staged protests outside Parliament over receivers' plans to close down the pension plan, which was not fully funded.

Elsewhere during October, members of the London-based Transport & General Workers Union voted to strike over plans by Yuasa Batteries Ltd. of Birmingham to close its defined benefit plan to new participants. And executives at Caparo Group Ltd. in Walsall reversed a decision to wind up the steelmaker's £160 million (\$249 million) defined benefit plan after walkouts by Iron & Steel Trades Confederation workers repeatedly shut down production in late September.

Finance sector workers are threatening further job action over life insurer Prudential P.L.C.'s recent decision to shut its £4.7 billion

See **PENSIONS**/page 34



PHOTO: REUTERS/JOAN HODGSON

Trade unions accused Prime Minister Tony Blair of inaction on the British pensions crisis when he spoke at the annual conference of the Trades Union Congress, held in Blackpool, England, in September.

Pensions: Unions strike over closure of plans

Continued from page 33

(\$7.29 billion) plan, while unions are taking legal action to prevent accounting firm Ernst & Young from winding up its £381 million (\$591.0 million) plan.

'A serious issue'

"Strikes are starting to pop up all over the country. I think unions have woken up and realized it is a serious issue with very serious consequences," said Julian Richards, head of pensions at London-based trade union Amicus.

The action is just one part of a union pensions campaign that was launched in September at the annual conference of U.K. labor federation the Trades Union Congress.

At the conference in Blackpool, England, where TUC General Secretary John Monks told delegates that all unions "were militants when it came to pensions," the trade unions accused Prime Minister Tony Blair of inaction in solving the so-called "pensions crisis."

Mr. Monks and other leaders are

concerned that their union members will be left without adequate pensions if companies continue to close defined benefit plans in favor of cheaper, less generous defined contribution plans.

More than half of the companies in the FTSE 100 have already closed their defined benefit plans.

"This is now a much wider social problem; there needs to be some kind of response as to how people are going to survive in retirement now," said John Gillies, head of consulting at Frank Russell Co. in London.

"Companies are now realizing that corporate solvency can be threatened by pension deficiency. The market boom in the 1990s concealed the reality that there is a real cost (to companies) in the provision of pensions. Higher life expectancy, lower interest rates and lower investment returns means higher contributions for the first time in years," he said.

"Poor markets was not the only factor. New legislation and the FRS 17 changes grabbed the attention of

finance directors and chief financial officers," Mr. Gillies said.

FRS 17 is a new British accounting standard that forces companies to bring pension liabilities onto the

'Companies are now realizing that corporate solvency can be threatened by pension deficiency. The market boom in the 1990s concealed there is a real cost to companies in the provision of pensions.'

John Gillies
Frank Russell Co.

corporate balance sheet and prohibits the smoothing of investment returns over longer time periods. London-based British Airways P.L.C. and a number of other major British companies cited FRS 17 as a factor in their decisions to shut down their defined benefit plans.

Rising deficits

Actuarial firm Watson Wyatt Worldwide in Reigate, England, estimated in a recent study that the pension deficits of FTSE 100 companies, on an FRS 17 basis, would rise to £70 billion (\$108.59 billion) this year.

"Finance directors (in the past two years) have been educated to the real risks of operating a DB scheme," said Alan Rubenstein, head of European pensions at investment bank Morgan Stanley & Co. International Ltd. in London. As a result, the companies are either completely shutting down plans or closing them to new members to limit or eliminate those risks.

Mr. Gillies of Frank Russell said pensions were now at the top of unions' lobbying agenda.

Political analysts said this new union militancy over pensions had become a source of concern for Britain's Labour government. Several trade unions already announced plans to reduce their level of funding to the Labour Party, citing mis-

givings over a range of policy issues, including pensions.

"It could pose a problem," said Mike Craven, partner at Lexington Associates, a political consulting firm in London. "The Labour Party is struggling financially right now. Corporate sponsors are donating less, so they are more reliant on the unions."

Much depends on what the government announces in a green paper on pensions, due out before the end of the year, which will contain proposals from the government on how to reform Britain's pensions system.

Unions are hoping that Mr. Blair will announce firm rules aimed at discouraging companies from shutting down their defined benefit plans, or introduce compulsory minimum levels of employer—and employee—contributions to retirement schemes.

Benjamin Seeder is a reporter for *Pensions & Investments*, a sister publication of *Business Insurance*.

Baden-Baden: Reinsurers focused on security

Continued from page 3

panies, with less concern as to where they are located," Mr. Handler said. Cedents are now less concerned with past relationships and traditional business links, he said.

Since the Sept. 11, 2001, terrorist attacks on the World Trade Center, there has been a noticeable move to well-capitalized reinsurers, said Clement Jourdain, deputy general manager of French reinsurer Le

Mans Re, a Le Mans-based unit of XL Capital Ltd.

"That's the big difference compared to last year. Now they're very cautious on security," Mr. Jourdain said.

Reinsurers are also being more selective.

Robert Stewart, a director at London insurance and reinsurance broker Miller Insurance Services Ltd. said reinsurers "are becoming more focused and selective as to who

they will protect...and are unlikely to treat clients in the same way as last year."

Mr. Stewart said reinsurers are reviewing cedents' exposures, ongoing business plans, and historical losses. Previously, reinsurers took a "broad-brush approach," which paid less attention to a cedent's particular circumstances, he said.

Reinsurers are also noting cedents financial strength ratings, capacity and whether they have an adequate spread of risk, said Michael Pickel, a member of the executive board of Hannover Re Group.

For insurers looking to reinsure, "capacity and security must have a price," said Mr. Pickel, who is responsible for Hannover Re's Austrian, German, Italian and Swiss business.

Having suffered three years of accumulated losses between 1999 and 2001 on its domestic German business, Hannover Re, along with other reinsurers, must use the contraction in reinsurance capacity and the upward trend in rates to achieve a worthwhile level of profit on its business, he said.

Werner Schaad, chief underwriting officer for property and casualty business for Swiss Re, said that, even with last year's significant toughening of terms and conditions, rating levels have recovered only to about their 1994 level and need to rise considerably more.

"One day, the cycle will turn again, and we need to replenish reserves," Mr. Schaad said.

Reinsurers are also tightening the wordings of reinsurance contracts, Mr. Schaad said.

"In the past, we in the industry haven't always been diligent enough to define what is covered and what isn't. It helps both sides

to do so. It helps us to quantify the risk better, to come up with a realistic price, and it gives the buyer confidence," he said.

Franz Hertl, head of German business for Munich Reinsurance Co., said the reinsurer wants greater transparency in regard to natural-perils risks. "Transparency is very important to calculate the exposure

Reinsurers 'are becoming more focused and selective as to who they will protect...and are unlikely to treat clients in the same way as last year.'

Robert Stewart
Miller Insurance Service Ltd.

correctly. The insurer should really register and know where his risks are situated, and only then can he buy the right reinsurance," he said.

Mr. Hertl said German reinsurers plan to make greater use of Catastrophe Risk Evaluation and Standardization Target Accumulations, or CRESTA, an independent organization set up in 1977 by the insurance industry to establish a uniform system for collecting global risk data on natural hazards. One of CRESTA's key functions is to develop standardized accumulation risk-recording forms for each country.

In addition to more information, reinsurers will be demanding further rate hikes for year-end renewals.

Mr. Jourdain at Le Mans Re said that, whereas last year's price increases following the World Trade Center attacks were concentrated

on property, aviation and terrorism exposures, this year in Europe, casualty and motor liability rates will increase the most. In general, casualty rates will be at least 30% higher in the 2003 contracts and fewer contracts will provide unlimited coverage, he said.

Property catastrophe reinsurance rates should increase by between 15% to 20% in Europe, Mr. Jourdain said. In France, where rates in this area have already risen substantially, the increase is likely to be around 10%, while in Germany and several other European countries, it should be 15% or more, he said.

At Swiss Re, Mr. Schaad said the reinsurer intends to reinsure proportional and per-risk excess of loss catastrophe business only with event limits and split conditions. That means, he said, that Swiss Re wants separately stated liability limits for different elements of the coverages.

Guy Carpenter's Mr. Handler said he also believes that recent European storms and floods have bolstered resolve to further increase catastrophe reinsurance prices. He said last year's catastrophe rate increases typically were "well in excess of 50%, and I would not be surprised if, overall, we see a similar increase this year."

Since Sept. 11, 2001, there has been a greater awareness of risk, Mr. Handler said. He noted, though, that while the aim a year ago was to insure that risk, in today's harder market, there exists more of an inclination to explore other ways to manage it.

"Contrary to the last hardening, we have seen a heavy focus on how we can keep the premium outflow low," he said.

Next year's Baden-Baden meeting will be held Oct. 27-31, 2003.

Trenwick: Financial problems continue

Continued from page 3

its common stock and three other classes of shares, the insurer reported in an SEC filing. Creditors may also demand that Trenwick secure its outstanding LOCs with cash, though "at this time Trenwick does

'Trenwick and/or one or more of its subsidiaries may be forced to seek protection from creditors....'

Statement
Trenwick Group Ltd.

not have sufficient available liquidity to provide the necessary cash collateral," the filing says.

Trenwick said it is negotiating with lenders to waive the default and renew its LOC facility, which is set to expire Nov. 22.

If creditors do not waive the default, do not renew the LOC facility for the 2003 Lloyd's underwriting

year or demand cash collateral for outstanding LOCs, "there is substantial doubt as to Trenwick's ability to continue underwriting at Lloyd's or continue as a going concern," the company reported. "Trenwick and/or one or more of its subsidiaries may be forced to seek protection from creditors through proceedings commenced in Bermuda and other jurisdictions."

S&P last week lowered its counterparty credit and financial strength ratings of London-based Trenwick International Ltd. to B+ from BB+; Stamford, Conn.-based Chartwell to B+ from BB; and ICNY and Dakota Specialty to BB from BBB.

In addition to pointing to the SEC disclosures, S&P cited Trenwick's recent announcements that it will re-evaluate its loss reserves during the fourth quarter and that Trenwick America Reinsurance Co. will begin producing business for Chubb Re Inc. rather than writing the business on its own paper.

CIGNA: Strives to get on track

Continued from page 1

to 5%, to about 12.7 million lives. Due to more accurate data, CIGNA reduced its 2002 indemnity enrollment figures by 900,000.

On the conference call, CIGNA executives said they believe they have targeted the right issues and are addressing the health care unit's performance problems.

"We clearly didn't have the right leadership in our health care operation," Mr. Hanway said. "We also didn't execute well on our fundamentals, including our service, transformation project management, spending and underwriting."

To help correct the situation, CIGNA hired Patrick E. Welch, former chairman, president and CEO of Montpelier, Vt.-based National Life Group, to replace William M. Pastore as president of CIGNA HealthCare at the end of May.

Mr. Welch has made a number of management changes himself, including naming David Cordani chief financial officer of CIGNA HealthCare, replacing Marc Pre-minger. Mr. Cordani was formerly head of CIGNA's transformation

initiative, a multiyear technology project aimed at improving customer service.

Mr. Welch also has named a new chief marketing officer, chief information officer, head of service operations, head of transformation and head of medical management.

CIGNA will begin a rebuilding initiative that includes strengthening its organizational structure, underwriting, medical cost management and customer service, Mr. Welch said. CIGNA will take a fourth-quarter charge of up to \$100 million to cover associated costs.

Compounding problems

While CIGNA executives are confident of a turnaround, some observers query how a successful health insurer got in such a mess.

Observers say that while CIGNA faces a huge challenge, they expect it to rebound.

"My only hope is they don't have to funnel income away from dealing with and improving service, keeping themselves in the marketplace, keeping their discounts and

their provider networks in place and keeping up the level of satisfaction with customers while trying to deal with the other issues," said Barry Barnett, a principal with PricewaterhouseCoopers in New York.

He said he is confident that CIGNA, like other health insurers that have faced similar issues over the past few years, will come around. "This is just CIGNA's turn at the plate," Mr. Barnett said.

Hartford, Conn.-based Aetna Inc. and Trumbull, Conn.-based Oxford Health Plans also have faced difficulties. In the mid- to late 1990s, Aetna faced financial problems stemming from its acquisition of U.S. Healthcare Inc., while computer system problems plagued Oxford.

"CIGNA has a decent strategy for the long term and they need to stick with it," said Joe Martingale, national leader for health care strategy for Watson Wyatt Worldwide in New York. "We've seen episodes like this before with others in this industry and we'll likely see more of them again," he said. "Health care is volatile and unpredictable, and the fact that somebody doesn't get it right from time to time about what costs are going to be next year, should surprise nobody."

Mr. Martingale was referring to underwriting and pricing misjudgments CIGNA made in 2002 primarily in its experience-rated indemnity book of business. CIGNA said the mispricing resulted in a \$100 million shortfall in third-quarter operating income.

CIGNA executives said the insurer cut prices to retain existing members and to write new business.

"We certainly did not price as effectively as we have in the past on this book of business and we did make concessions and those concessions were done for competitive reasons," Mr. Hanway said. "That is completely out of character with the way we have managed this book in the past and we don't believe it's indicative of the attractiveness of this part of our business."

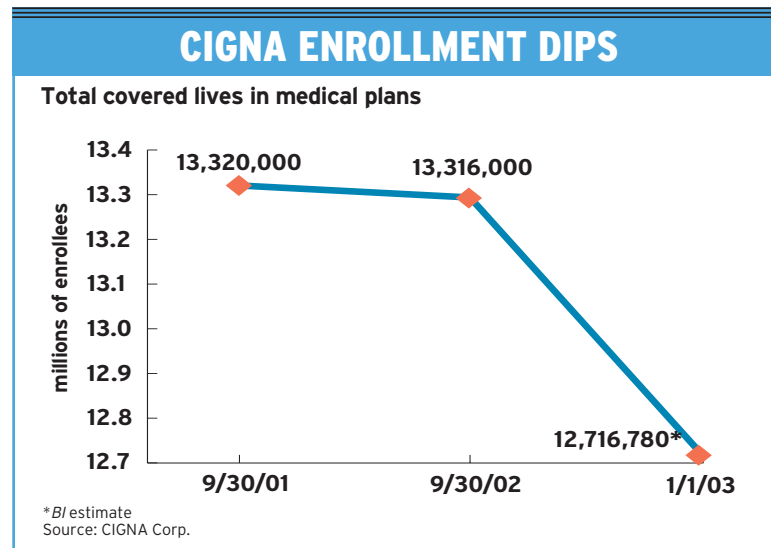
With experience-rated indemnity products, premiums are calculated based on projected future losses, and if losses exceed premiums, the insurer usually can recover the excess by raising premiums in future policy periods. But if a policyholder cancels its policy, the insurer is left to absorb the deficit.

CIGNA conceded that not only did it charge too little for the coverage, but a number of accounts generating large losses also left.

"When you do not manage the pricing effectively and you have cases that have large deficits in them because you didn't price them well in the beginning, they have a tendency to want to leave you," said James G. Stewart, CIGNA's chief financial officer, in a conference call.

The Miami-Dade County Public Schools was one such account.

CIGNA became the health insurer for 85% of the school system's 40,000 benefit-eligible employees in January following "very competitive and aggressive pricing" during its 2001 bidding process, explained Scott Clark, risk and benefits officer



for the school system.

But, when Mr. Clark began the 2003 renewal process in March, "we started getting frantic phone calls from CIGNA about the fact that the claims being incurred were far exceeding the premium they were collecting," he said.

"We had many meetings about that, and they thought maybe it was an anomaly and was going to improve. But what they soon came to admit was they had severely underpriced our account, and they put us on notice in April that they expected—based on our losses—to lose between \$50 to \$70 million on

'We've seen episodes like this before with others in this industry and we'll likely see more of them again....Health care is volatile and unpredictable.'

Joe Martingale
Watson Wyatt Worldwide

our account this year," he said.

CIGNA indicated that the school system's premiums would rise by 100% to 150%. "Obviously, that was not something I could tolerate," he said. "I felt I needed to protect the tax payers and our employees and move on."

After negotiations with CIGNA and other insurers, the Miami-Dade County school board awarded its 2003 health care contract to UnitedHealth Care.

In addition to poor underwriting execution, CIGNA acknowledged that its customer service also has lapsed. Not only did the insurer lay off a number of service employees at the beginning of the year, but its systems upgrade initiative also has not yet produced the service improvements CIGNA expected.

In January, CIGNA said it would cut 2,000 jobs in its health care, life and disability segment and take a \$65 million after-tax charge in the fourth-quarter of 2001 to pay for severance costs and expenses related to consolidating its U.S. service centers. CIGNA expected that cutting 4.5% of its workforce would save \$45 million to \$55 million in 2003 (BI, Jan. 14).

Mr. Hanway said CIGNA reduced service staff in anticipation of productivity gains. "These gains did not emerge and we've acted to restore staffing to get back to satisfactory service levels," he said.

At the same time, CIGNA's 2-year-old "transformation initiative" to replace its old legacy system with a new system platform has not gone according to plan.

"The cost is greater than anticipated, and much of the economic and service benefits have yet to be realized and transformation shortfalls have led to service shortfalls, which have led to lower new sales and retention," Mr. Welch said.

Specifically, the migration of large accounts to the new system resulted in "glitches" and more phone calls to the service centers, which were not fully staffed, Mr. Welch said.

He said CIGNA will continue to invest and move forward with the initiative despite the setbacks.

Challenges ahead

Analysts and consultants say CIGNA faces a big challenge.

"They have this huge operation that is thinly spread over most of the country and that doesn't give you the scale and ability to provide high-quality customer service," said Michael LeConey, senior vp and director of health care research for Gilford Securities Co. in New York. In addition to concentration, "the use of information technology allows you to be a lot more efficient on the customer service end, and CIGNA's not there," he said.

"The issue is...how bad are their systems problems and will their efforts at improving service really be effective?" asked Jack Reichman, a director with Standard & Poor's Corp. in New York. "All in all, the company is not as strong as it used to be, but it's by no means a weak company," he said. "They still have various lines of business that are still earning money."

Other lines making profits include international life, health and employee benefits, retirement and specialty business, CIGNA executives said.

"The challenge that they have faced in front of them is one, how are they going to price their business so they don't lose too many groups, and two, how are they going to price new business, which they continually need to add to the books?" asked Dean Hatfield, a principal with Buck Consultants Inc. in Secaucus, N.J.

CIGNA's "billion-dollar claims system" is not working to its liking "and that is not going to help people feel comfortable that they should place their business with them," he said.

Shooting: Violence often predictable

Continued from page 3

to address the letter's contents. But, they warned that employers who do not train supervisors how to recognize and deal with potentially violent individuals expose supervisors to unsafe working conditions. Indeed, supervisors could inadvertently provoke violent acts, experts said.

Employers must understand that 'workplace violence never has been and never will be spontaneous.'

Paul M. Viollis Sr.
Citigate Global Intelligence
& Security L.L.C.

To that end, colleges and universities "are not doing what they need to be doing in terms of providing a safe working environment. That carries through with employers in general," asserted Paul M. Viollis Sr., a managing director with New York-based Citigate Global Intelligence & Security L.L.C.

Employers must understand a basic concept about violent employees or students, Mr. Viollis said: "Workplace violence never has been and never will be spontaneous."

Mr. Viollis stressed that supervisors should respectfully approach those under their authority about poor performance or

behavioral problems as soon as those issues arise.

Regardless of the individual's response, "you do give it importance; you do listen to it," said Mary Lebron, clinical director of the outpatient mental health program and an associate director of the Catholic Social Service in Tucson.

The supervisor's response "still might not be what the person is waiting to hear," so the upset individual should be encouraged to talk about his or her problems and seek counseling, Ms. Lebron said.

Such individuals often make excuses to refuse counseling, experts noted.

But that does not mean that an employer or faculty member is handcuffed, pointed out Laura Waterman, clinical director for the nonprofit Southern Arizona Mental Health Corp. in Tucson.

Even if an apparently mentally ill individual is not an imminent threat to anyone, a state's laws may allow that person to be hospitalized involuntarily after a mental health organization makes a site visit and assesses the individual, Ms. Waterman said.

Mr. Viollis also advised employers to develop a written workplace violence policy and require all employees to sign that they understand it. No one then can legitimately argue later that he or she is being treated arbitrarily because of the worker's threatening or violent behavior, he said.

Wellstone: Tribute on parity bill possible

Continued from page 1

lobbying group in Washington.

Conversely, an agreement that involved significant compromises by parity proponents could have benefited President Bush by indicating his willingness to work with both parties.

With the elections over next week and Congress returning the following week for a lame-duck session, though, those kind of political determinations will be much less relevant. And that, in turn, could aid the chances of an agreement being reached.

"Our assumption has been for some time (that) if an agreement is reached, the lame-duck session would be the time for a resolution. The elections would be over, and politics would be much removed as an element," Mr. Dennett said.

Indeed, some say that Sen. Wellstone's death in a plane crash could increase momentum for Congress to act on parity legislation, as a tribute to him.

"The tragic death of Sen. Wellstone is likely to add political and emotional energy to the drive to enact mental health parity," said Frank McArdle, a consultant in the Washington office of Hewitt Associ-

ates Inc.

"I can understand the emotional appeal of acting," added Leslie Kramerich, an attorney with Mercer Human Resource Consulting in Washington and a former assistant secretary in the Labor Department's Office of Pension and Welfare Benefits Administration during the Clinton administration.

Still, if the post-election climate is more favorable for forging an agreement on mental health care benefits parity legislation, reaching such an agreement remains a long shot.

Perhaps the biggest obstacle facing the legislation is the lack of time. Much of legislators' time during the special session will be devoted to passing appropriations bills needed to run federal agencies. And that could leave little opportunity to address other issues.

"It will be hard enough for Congress to resolve differences on fiscal, let alone other, issues," said Neil Trautwein, director of employment policy at the National Assn. of Manufacturers in Washington.

"There is a lot of uncertainty about the lame-duck session. No one knows how long it will last, which issues will be taken up and which party will be in control.

There are a lot of external factors that come into play," Mr. McArdle said.

Indeed, it is unclear which political party will control the Senate for the remainder of the current congressional session. Right now, Republicans and Democrats each hold 49 seats in the Senate, with one seat held by Vermont independent James Jeffords. Last week, though, Minnesota Gov. Jesse Ventura, an independent, hinted that he might appoint a fellow independent to fill Sen. Wellstone's now-vacant seat for the lame-duck session.

In addition, due to special rules in Missouri, if Republican candidate Jim Talent were to defeat incumbent Sen. Jean Carnahan, he could replace Sen. Carnahan, a Democrat, immediately. Sen. Carnahan was named to the position two years ago, when her husband, Missouri Gov. Mel Carnahan, who was running for the Senate, died in a plane crash three weeks before the election, which he won posthumously.

Before Congress can take up parity legislation, though, legislators and the Bush administration will have to reach a compromise.

In April, President Bush pledged to work with congressional leaders

to enact a parity bill. While the president said he endorses parity, he qualified that support by noting that parity has to be achieved without significantly increasing health care costs. In addition, President Bush said he advocated parity only for "serious" mental illnesses, which he did not define.

That position put the Bush administration at some distance from the legislation Sens. Wellstone and Domenici backed, which earlier failed to win congressional approval. That measure, which would have required group health plans to cover mental disorders on the same basis as other medical conditions, was unanimously approved last year by the Senate Health, Education, Labor and Pensions Committee. The measure was then added, on a voice vote on the Senate floor, to a broader appropriations bill, which the Senate later approved. A House-passed appropriations bill lacked a mental health care benefits parity provision.

The parity measure was stripped from the measure by a congressional conference committee, though, amid strong opposition from conservative House Republican leaders, who said they were concerned

about the cost of the parity mandate on group health plans at a time of rising rates.

Instead, Congress passed a one-year extension—through Dec. 31, 2002—of a limited 1996 parity law. Under that law, group health plans cannot set lower annual or lifetime dollar limits for the care of mental disorders than those they set for other health conditions.

But plans can—and many do—set higher co-payments for mental disorders than for other medical conditions. Many also limit the number of covered outpatient visits to therapists and inpatient days at hospitals without comparable limits on other health conditions.

While possible compromises have been tossed about—the most common being parity for severe biologically based disorders, an approach taken by many states—some say there just isn't enough time to achieve an agreement.

"If there were three or four months left, the differences might be closed. But in this congressional session, it is a question of time, and time is running out," the NAM's Mr. Trautwein said.

Even if an agreement is not reached, observers say the issue of parity in group health plans for mental disorders will not go away.

"This is too big and too important," said Mercer's Ms. Kramerich.

Terror: Challenges posed by terrorism bill

Continued from page 1

compensation and surety insurance. It excludes, however, other commercial lines coverage including: medical malpractice, group health/life insurance, financial guarantee and flood. All personal lines coverage also is excluded.

As drafted, the bill would require every commercial insurer covered by the act to price and offer terrorism coverage to their respective policyholders, generally within 90 days of the law's enactment.

Policyholders could then accept and pay for the terrorism coverage or reject it, which would allow insurers—after giving at least 30 days' notice—to reinstate terrorism exclusions, according to the latest draft of the bill.

While the bill's fate remains uncertain, many industry observers expect the most-recent conference committee report to become the framework for a federal reinsurance backstop law. All bets are off, though, if Republicans lawmakers gain control of the U.S. Senate after Nov. 5 elections, sources say, explaining that Republicans are unhappy with some of the deals struck to produce the bill.

Barring that outcome, Congress is expected to reconvene next week, make some additional technical changes to the bill as drafted and approve it. President Bush could sign the Terrorism Risk Insurance Act as early as the third week in November.

"Everyone should be alert to the fact that the outline of the deal has been struck, and it will have an immediate marketplace impact upon the president's signature," said Joel Wood, senior vp-government af-

fairs for the Washington-based Council of Insurance Agents & Brokers.

If the latest draft is enacted, one of the biggest boons to risk managers would be the immediate nullification of "any provision in a contract for commercial property and casualty insurance that is in force on the date of enactment of this act which excludes losses resulting from acts of terrorism."

That little-publicized nullification provision—which was not part of either the House or Senate versions of the bill—also would preempt state-approved terrorism exclusions, according to Richard Bouhan, executive director of the Kansas City, Mo.-based National Assn. of Professional Surplus Lines Offices Ltd.

The National Assn. of Manufacturers "hopes this nullification provision will make terrorism insurance available for our companies, who are uninsured or underinsured for terrorism losses," said Kimberly Pinter, the director of corporate finance and tax for the Washington-based organization.

The New York-based Risk & Insurance Management Society Inc. has come out strongly in favor of the bill, on whose behalf it had lobbied over the past year.

If the draft is enacted, the measure could conceivably give corporate policyholders up to several weeks of automatic coverage against any terrorist attack—of both foreign and domestic origin—while insurers make new offers of coverage and risk managers respond to those offers.

The content and form of terrorism insurance exclusions and how

they would be affected by the legislation, which provides protection only against foreign-caused terrorism, raise significant questions for the insurance industry.

"For the past year, there has been a growing patchwork of exclusions and massive marketplace confusion," Mr. Wood said.

For example, the National Assn. of Insurance Commissioners rec-

'As a risk manager, I would caution my peers to consider their exposure to domestic terrorism.'

Joe Hardy
Hudson's Bay Co.

ommended that states adopt terrorism exclusions for commercial property/casualty lines—but not others—as a stop-gap measure until a federal backstop program could be implemented.

Terrorism insurance is "a huge issue for us," said Marty DePoy, vp-government relations for the Washington-based National Assn. of Real Estate Investment Trusts. The organization's members operate hotels, apartments and office buildings.

More than "\$15.5 billion worth of real estate projects in 17 states have been stalled or canceled because of a continuing scarcity of terrorism insurance," according to a recent survey by the Real Estate Roundtable, a group of executives from real estate companies.

The lack of coverage under the bill for domestic terrorism could be a source of concern.

While "existing terrorism exclu-

sions vary," those published by the Insurance Services Office Inc. and used by many insurance companies "do not make a distinction between foreign and domestic acts," said Donald Griffin, assistant vp-business and personal lines for the Des Plaines, Ill.-based National Assn. of Independent Insurers.

Mr. DePoy concurred that "exclusions in the marketplace generally do not distinguish between terrorism caused by domestic forces and those caused by foreign forces."

"I'm sure that this bill is a 'win' in terms of establishing a United States federal terrorism backstop; however, there is a gap in covering domestic terrorism," said Joe Hardy, director-risk management and insurance for Toronto-based Hudson's Bay Co.

"As a risk manager, I would caution my peers to consider their exposure to domestic terrorism," said Mr. Hardy, a member of the RIMS board of directors who stressed he was expressing his personal views.

"Insurers will probably want to continue to exclude domestic acts" in their own policies, said the NAII's Mr. Griffin. This will require adjusting and refileing the exclusions—because the draft law nullifies all terrorism exclusions in existence on the date of its enactment—and obtaining regulatory approval, he said.

Insurers also will face "significant transition challenges" that include a "huge" underwriting task, increased reporting requirements and the possible renegotiation of reinsurance contracts, said Debra Ballen executive vp-public policy management for the Washington-based American Insurance Assn.

Despite these challenges, industry support for the bill remains widespread.

"This bill is essential for the property/casualty insurance industry," said Rodger Lawson, president of the Downers Grove, Ill.-based Alliance of American Insurers. "It is a giant step forward."

"If enacted, the bill should have a positive impact on commercial purchasers, reinsurers, insurers, state regulators and the economy," said NAIC Vp Mike Pickens, the Arkansas insurance commissioner.

ADVERTISER INDEX	
Issue of June 3	
ADVERTISER	PAGE #
Acstar	4
Aetna Corporate	23
AIG E-business Risk Solutions	40
American Re	17
Business Insurance	21, 25
Centre Solutions	20
CorVel Corporation	11
Empire Blue Cross / Blue Shield	21R
GE Risk Solutions	35
GeneralCologne Re	15
G&M Marine	24
Hannover Reinsurance	22
Harvard Pilgrim Health Care	21R
HUB International	32
IME.MD	14
Kemper Insurance Companies	7
Lexington Insurance	29
Lord Bissell Brook	18
Marsh Inc.	9
Metropolitan Life Insurance Co.	12/13
Mutual of Omaha	19
Oxford Health Plan	25R
State Comp. Ins. Fund	21R
Sun Life Financial	31
Swiss Re	27
Tufts Health Plan	25R
UnumProvident	16
Valley Oak Systems, Inc.	6
Wausau Insurance Company	5
Zurich NA	37

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.

Company sues Hartford for asbestos coverage

Hartford Financial Services Group Inc. has been named in a suit filed by MacArthur Co., a former asbestos products maker. MacArthur earlier this year agreed to a \$975 million settlement with The St. Paul Cos. Inc., another of its insurers. MacArthur says it faces \$1.8 billion in unpaid asbestos liability judgments and is seeking coverage for that amount less the \$975 million that St. Paul paid, as well as coverage for any future liabilities. Hartford says it "intends to defend the MacArthur action vigorously." The suit names two other unidentified insurers.



California health plans to pay doctor bonuses

Six California health plans seeking to improve the quality of care will pay doctors bonuses based on a common set of performance measurements. The plans are Aetna U.S. Healthcare, Blue Cross of California, Blue Shield of California, CIGNA Healthcare of

California, Health Net of California and PacifiCare of California. The bonus structures will vary, but 50% of the scoring will be based on clinical measures for their treatment of asthma, diabetes and coronary artery disease.

Platinum Underwriters IPO raises \$966 million

Platinum Underwriters Holdings Ltd., the spinoff of The St. Paul Cos. Inc.'s reinsurance operations, raised \$966 million last week in a long-delayed initial public offering and simultaneous private placement. Platinum sold 30 million common shares at \$22.50 per share, netting \$639 million after payments to stockbrokers handling the offering. Platinum raised another \$120 million in an offering of equity security units, and raised \$207 million through private placements of common shares with St. Paul and RenaissanceRe Holdings Ltd.

PwC settles suit over Anicom audits

PricewaterhouseCoopers L.L.P. will pay \$21.5 million to settle a lawsuit charging it with mishandling audits of Anicom Inc. prior to the wire and cable company's bankruptcy filing. The suit, filed by Anicom shareholders and creditors, contended that PwC's audits overlooked alleged accounting fraud. The auditor admitted no wrongdoing

in the settlement. Earlier this year, the U.S. Securities and Exchange Commission sued a group of Anicom executives, charging them with accounting fraud. The executives deny wrongdoing.

Willis nine-month revenues rise 20.7%

Willis Group Holdings Ltd. posted a 20.7% rise in gross revenues to \$1.25 billion for the first nine months of 2002. Nine-month net income was \$92 million, compared with a \$25



million net loss for the year-earlier period. Willis recently

completed several deals to bolster its global presence. It increased its majority interest in its German unit to 78%; completed two acquisitions in Sweden; and raised its ownership to 100% of certain business units in Australia and Indonesia.

Chubb strengthens asbestos reserves

A \$625 million strengthening of reserves for asbestos claims at Chubb Corp. puts "the asbestos issue behind us," says Dean R. O'Hare, chairman and chief executive officer.



Mr. O'Hare

The reserve strengthening led to a \$242.1 million third-quarter loss, but Chubb still reported net income of \$166.3 million for the first nine months of 2002. In 2001, Chubb reported a \$239 million third-quarter loss, which included \$645 million of terrorism-related losses, and nine-month profits of \$82.8 million.



Settlement charge reduces Oxford profits

Oxford Health Plans Inc. reported profits of \$148.1 million for the first nine months of 2002, down 35% from the same period last year. The 2002 nine-month results reflect a previously announced \$151.3 million charge related to the settlement of class-action securities suits filed in 1997. Nine-month revenues rose 11% to \$3.66 billion. Total membership stood at 1.5 million on Sept. 30, up 6.8% from the same date last year.

Wausau Benefits buying Marsh TPA branch

Wausau Benefits Inc. has agreed to buy a portion of Marsh Inc.'s retiree benefits administration operations. Under the deal, Wausau Benefits will buy the operation and renewal rights to the third-party administration business of the Des Moines, Iowa, branch of @WorkSolutions, a Marsh unit. The operation serves about 28 employers, primarily in the Midwest, Wausau said.

ACE posts third-quarter loss

ACE Ltd. reported at \$245 million profit for the first nine months of

2002 compared with a \$192 million loss for the same period in 2001. Gross premiums written rose 28.2% to \$9.57 billion. But stock market woes and European flood losses left ACE Ltd. with a \$57 million third-quarter loss. ACE posted a \$442 million loss in the year-earlier period.

Briefly noted

Benfield Blanch Inc. has hired two executives to oversee specialty areas for the reinsurance broker. Tim Pawlik will head accident and health business, and Mark Stubbs will lead surety business. Mr. Pawlik, who will be based in Minneapolis, formerly was with specialist broker John B. Collins Associates Inc. Mr. Stubbs, who will be based in Kansas City, Mo., formerly was with Employers Reinsurance Corp....At least 22 employees and agents of **AIA Vietnam**, a life insurance unit of American International Group Inc., were killed in a fire last Tuesday at the insurer's offices in Ho Chi Minh City, Vietnam. AIA occupied offices in the International Trade Center office and shopping complex, which caught fire after a blaze reportedly broke out in an adjacent disco....Bermuda-based **Allied World Assurance Holdings Ltd.** has opened an office in Dublin, Ireland, which will be the European headquarters of its **Allied World Assurance Holdings (Ireland) Ltd.** unit.

Online Poll [10/28 - 11/1]

Do you think a single-payer health care system, like the Canadian one, would do a better job of controlling costs and providing coverage than the U.S. system?

Yes 37.7%

No 63.6%

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

Asbestos: Court to weigh scope

Continued from page 3

men, mirrors FELA, he said. But Mr. Behrens noted that "90%-plus of the asbestos cases are not FELA or Jones Act cases."

"The reason it is important is that it gives the Supreme Court a platform to use the bully pulpit to once again reiterate that this country is in the midst of an asbestos litigation crisis," Mr. Behrens said.

"It gives them the opportunity to once again say we're still in a crisis, and that it has, in fact, gotten worse since they last took an asbestos case several years ago," he said. Mr. Behrens added that it also gives the justices "one more opportunity to say Congress has to do something about the situation and also to encourage state courts to become more responsible and to take steps to preserve assets needed to compensate the truly sick."

"Any kind of case law that's developed under FELA inevitably gets applied under federal common law," said Robin Conrad, senior vp of the Washington-based National Chamber Litigation Center Inc., which handles litigation for the U.S. Chamber of Commerce.

"As a general rule, the tort system does not afford recovery to individuals who have been negligently exposed to a risk of harm but have not actually been injured," the National Chamber Litigation Center argued in its brief to the high court. "This is a crucial limitation in the litigation of mass torts. While tens of millions of people are exposed to potentially harmful products or substances at one point or another during their lives, only the relatively small number who are hurt by that exposure are entitled to sue for damages."

"The court can't reasonably impose a duty on defendants to protect a plaintiff from speculative fears concerning cancer, particularly when the plaintiff's own conduct, such as smoking, would give the person much greater cause for concern," said Lynda S. Mounts, senior counsel for the American Insurance Assn. in Washington.

She said the AIA had raised the "rather novel issue" of whether plaintiffs with a history of smoking should be able to recover for fear of cancer on the basis of having another ailment that is not tied to

cancer. "This case gives the court the chance to address the role of smoking in public health," she said.

"The asbestos issue is huge, with projected costs of \$200 billion," said Ms. Conrad. "This case is really symptomatic of the problem. Allowing claimants to recover for fear of cancer opens the floodgates and exacerbates the already-growing asbestos litigation crisis."

Taking the other side of the issue, the Washington-based advocacy group Trial Lawyers for Public Justice dismissed that argument in its brief to the Supreme Court.

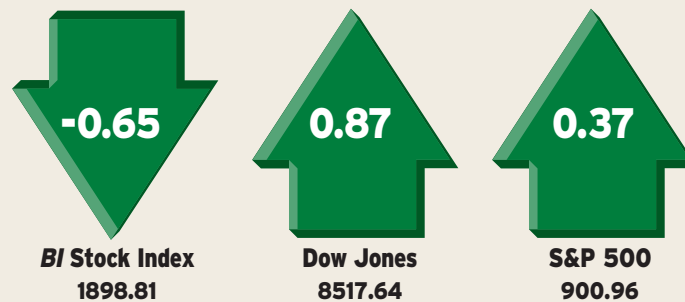
"Assuming, for the sake of argument, that this bleak assessment of asbestos litigation is completely true, prohibiting damages for fear of cancer does virtually nothing to make the potential liability any more definite or reduce the number of claims filed," said the brief. "People with asbestosis can still file claims, including for damages for past and present mental anguish."

The brief further held that Norfolk & Western's "quarrel is not with the uncertainty of asbestos litigation but with the uncertainty inherent in a jury system."

BI Stock Index [10/28 - 11/1]

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

Gainsco Inc.	61.29%
PacifiCare Health Systems	26.39%
Clark Bards Holdings	10.51%
W.R. Berkley Corp.	8.88%
Baldwin & Lyons Inc.	7.32%

Largest losses

SCOR	-27.84%
Ohio Casualty Corp.	-27.40%
Aon Corp.	-22.24%
Acceptance Insurance	-20.00%
Hartford Financial Services	-14.16%

Weekly change by market segment

Brokers	-4.13%
Insurers/Reinsurers	-1.44%
Managed Care Organizations	-2.30%

Source: CNET Investor (investor.cnet.com)

A hacker, virus or cyberattack can be as lethal as a fire, flood or tornado.



Especially when you're not insured.

Think conventional property and CGL policies cover Internet-related risks? Think again. Those policies are generally designed for brick-and-mortar liabilities. **The AIG netAdvantage Suite[®]** is designed for the full gamut of Internet risks, from e-mail viruses, hacker attacks, and credit card theft to cyber-extortion, cyber terrorism and more. With the flexibility to help zero-in on precisely the risks of your particular cyber-activities.

The AIG netAdvantage Suite[®] can even include innovative risk management services, like free on-site security assessments, provided by the expert firms of AIG's Technology Alliance, which help companies identify, manage and mitigate Internet risks.

This is exactly what you would expect from member companies of American International Group, Inc. (AIG), world leaders in insurance and financial services. We offer our clients the security of unsurpassed insurer financial strength. AIG Companies hold the highest ratings from the industry's principal ratings agencies.

So, if you've been wondering how your 21st century business can address
21st century perils, you can find an answer here.

For more information, call 1-866-826-4974 or contact your insurance broker. www.aignetadvantage.com

AIGeBusiness
RISK SOLUTIONSSM

The AIG netAdvantage Suite[®] is available with limits up to \$25,000,000.
Insurance coverage and services provided by members of American International Group, Inc. Issuance of coverage is subject to underwriting.
Please refer to the actual policy for a complete description of scope and limitations of coverage.