

Event risks challenge captives, insurers alike / 3

PacifiCare HMO aims to offer more with less / 3

Business Insurance

www.businessinsurance.com

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\$4

Hughes manages to cut inflation Wellness, disease management contain health care costs

By **ROBERTO CINECEROS**

EL SEGUNDO, Calif.—Hughes Electronics Corp. can boast of holding cost increases to 2% for its self-insured health plans when comparing 2002 to 2001 expenses.

The modest cost hike resulted from implementing wellness and disease management programs several years ago, according to data recently provided by Hughes and the San Francisco-based Integrated Benefits Institute.

Among the 500 members of the IBI, which promotes benefits inte-

gration, are insurers, third-party administrators, health care providers and employers, including Hughes. Hughes, an El Segundo, Calif.-based provider of digital television entertainment, broadband capabilities and other broadcasting-related services, employs 16,000 worldwide.

Hughes' wellness and disease management practices—which are included among the employer's broad integrated disability management approach—also have proven their ability to cut short-term disability claims by nearly half while reducing the cost of filed claims by

44%, according to an evaluation conducted by Watson Wyatt Worldwide in 2001.

The results offer an example for

HUGHES

other employers, said William Molmen, general counsel for the San Francisco-based Integrated Benefits Institute. In a pioneering effort, Hughes launched its integrated disability approach in 1994. The com-

pany's results show that integrated disability management can continue producing "solid results" over the long term, Mr. Molmen said.

Mr. Molmen acknowledged that though the savings realized by a company's adoption of integrated disability management often moderate over time, he stressed that the savings typically continue to be greater than if the company had not integrated.

Hughes' results also offer an example for other employers because it tracked the medical savings and

See **HUGHES**/page 38

Late News



CIGNA settles docs' class-action suit

CIGNA Corp. will take a charge of up to \$65 million to cover its settlement of a class-action suit alleging that CIGNA HealthCare used unfair physician payment practices. CIGNA will take the charge in the fourth quarter to cover its costs after its recovery from its insurers for the settlement. CIGNA refused to disclose details, but plaintiffs' attorneys said the value of the deal was at least \$200 million. The physicians alleged, among other things, that CIGNA delayed claims payments and reclassified claims to reduce their payments.

Towers Perrin Re buys Claytons

Towers Perrin Reinsurance has acquired London-based reinsurance broker Denis M. Clayton & Co. Ltd., significantly increasing Towers Perrin Re's size and giving it a presence in the

Towers Perrin Reinsurance

London market. The combined operations will produce more than \$120 million in revenues and handle more than \$3 billion in reinsurance premiums, according to Towers Perrin Re. For 2001, Towers Perrin Re was the world's seventh-largest reinsurance broker, with \$66.5 million in revenues. Terms of the deal were

See **LATE NEWS**/on next page

WorldCom deal alters D&O cover No cover for fraudulent officials

By **DOUGLAS McLEOD**

NEW YORK—A federal bankruptcy judge has approved a settlement between WorldCom Inc. and one of its directors and officers liability insurers that will void WorldCom's entity coverage and allow the insurer to re-



scind the coverage of any WorldCom official deemed "culpable" for alleged fraud at the telecommunications giant.

The settlement with National Union Fire Insurance Co. of Pittsburgh, Pa., a unit of American International Group Inc., preserves coverage for "nonculpable" directors and officers who are not implicated in World-

Com's multibillion-dollar overstatement of earnings and other alleged misdeeds.

National Union wrote \$25 million in primary and excess limits on WorldCom's \$100 million D&O program, along with a \$10 million primary limit on a separate fiduciary liability and crime program. Both programs are covered by the settlement.

Lawyers for WorldCom are now hoping to negotiate similar agreements with a half dozen other excess insurers involved in the D&O and fiduciary liability programs, said David W. Steuber, a partner with Howrey, Simon, Arnold & White in Los Angeles who represents WorldCom.

Before winning approval of the deal from U.S. Bankruptcy Judge Arthur J. Gonzalez, World-

See **WORLD**COM/page 37

Reversal of fortune Underwriting up, investments down

By **JUDY GREENWALD**

Sometimes, it seems commercial property/casualty insurers can't catch a break.

Despite months of rising property/casualty rates, the industry's full recovery from the soft market has been hindered by low investment yields and, in some cases, the need to boost reserves.

"Just when new business is on track, the investment shoe falls off," said Matthew Coyle, director at rating agency Standard & Poor's Corp. in New York.

John Ward, chairman of the Cincinnati-based Ward Group, said, "The irony of this is, in many years gone by, the underwriting results were not doing well but the investment results were carrying the day. And just the reverse of that is now occurring."

But analysts say that results should improve for insurers next year, though an extraordinarily low

catastrophe year in 2002 may make year-to-year comparisons difficult.

For the nine months ended Sept. 30, the 15 commercial property/casualty insurers participating in the *Business Insurance* survey that report this data posted a 351.2% increase

Property/Casualty Insurers

Nine-month RESULTS

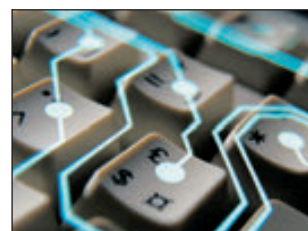
in net income, to \$8.35 billion. However, 2001 results reflect the brunt of insurers' losses from the Sept. 11 terrorist attacks.

"If you're looking at 2002 results relative to a year like 2001, just about anything would look good," said Mr. Ward.

See **RESULTS**/page 36

Spotlight
**RISK MANAGEMENT:
NEW TECHNOLOGIES
& ONLINE SERVICES**

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RISK MANAGEMENT
INFORMATION
SYSTEMS**

Ranking on page 12

Inside

Report urges OSHA changes

The Occupational Safety and Health Administration's method of identifying hazardous workplaces for priority inspections could be improved, a government report says. **Page 4**

Parasites' greed puts all at risk

Paul Winston finds an analogy in nature for the lingering asbestos liability situation. **Page 6**



Time to retire single-hulled ships

The recent oil spill off Spain underscores the need to speed up plans for eliminating single-hulled oil tankers, one of this week's editorials says. **Page 8**

Syndicate's move spurs Gibraltar hopes

Insurance and captive managers in Gibraltar predict rapid growth of business in the domicile following a Lloyd's of London syndicate's decision to move part of its operations there. **Page 12**

Runoff company buys Gerling's P/C reinsurance

Gerling Konzern Allgemeine Versicherungs A.G is selling its property/casualty reinsurance business to a runoff company. **Page 33**

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

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CONTINUED FROM PAGE ONE
not disclosed.

NAIC issues bulletin on terror coverage

The National Assn. of Insurance Commissioners has issued a model bulletin to help property/casualty insurers implement the federal Terrorism Risk Insurance Act of



Ms. Vaughan

workers compensation coverage and the definition of terrorism. "Insurers have a tight deadline to meet in complying with certain provisions of the federal act," said Terri Vaughan, NAIC president and Iowa's insurance commissioner.

Liberty Mutual buying Winterthur units

Winterthur Insurance Co. is selling its Portuguese insurance and pension management operations to Liberty International for an undisclosed sum. Winterthur said the sale is part of its strategy to focus on its core

markets, which are Belgium, Germany, Italy, Spain, Switzerland and the United Kingdom. The Portuguese operation, Companhia Europeia de Seguros S.A., wrote gross nonlife premiums of 127 million euros (\$113.0 million) and life premiums of 45 million euros (\$40.1 million) in 2001. The pensions arm managed total assets of 13 million euros (\$11.6 million) in 2001.

2002. The bulletin includes, among other things, information on the definition of an insured loss, disclosure notices, the legislation's effect on



Late News



PHOTO: NEWSCAST

U.K. utility National Grid Transco is facing a pension deficit of nearly \$2.4 billion.

U.K. utility reports \$2.4 billion pension deficit

U.K. utility National Grid Transco says it is facing a funding deficit of about £1.5 billion (\$2.37 billion) in its occupational pension fund. National Grid Transco last year had a

combined £181 million (\$286.0 million) deficit in its pension plan, which has more than 150,000 members. The London-based company declined to provide figures for the plan's assets and liabilities. National Grid Transco blamed the swelling deficit on poor investment performance.

E.C. approves venture between Aon, Siemens

The European Commission has approved an insurance brokering joint venture between Aon Jauch & Huebner GmbH,



the German arm of Aon Corp., and Siemens A.G., the diversified German electronics group. The two companies are setting up a new unit, Industrieschutz Insurance Broker

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

Online this week:

- A new **Directory of Risk Management Information Systems** is available for use.
- The **Datebook** lists industry meetings and events and lets you add your own event information.
- The **Online Forum** lets readers exchange ideas and information.
- New **Commentary** from Paul Winston and Douglas McLeod.
- More than 40 searchable **directories** provide easy access to resources and services.
- *BI's* **weekly poll** offers an opportunity to weigh in on a variety of topics.

GmbH, that will specialize in providing insurance brokering and risk management services for commercial clients. A spokeswoman for Siemens was unable to provide further details of the joint brokerage venture.

Annuity & Life Re still in the red

Life reinsurer Annuity & Life Re (Holdings) Ltd. reported a \$29 million loss for the first nine months of 2002, compared with a restated \$38.9 million loss for the same period last year. Total revenues for the first nine months of 2002 totaled \$343.3 million, a 32% increase over the same period in 2001. The reinsurer faces several challenges in the next month, including the need to post up to \$210 million in additional collateral under its reinsurance agreements by Dec. 31, 2002.



Pohjola to produce business for U.K. Club

The United Kingdom Mutual Steam Ship Assurance Assn. Ltd. has entered a deal with Pohjola Non-Life Insurance Co. Ltd. through which Pohjola will place Finnish third-party liability business with the protection and indemnity club. Under the arrangement, Helsinki, Finland-based Pohjola will effectively act as an intermediary for the U.K. Club and will not assume any underwriting risk.

Stuck in sub-orbit, the Astra 1K is insured for nearly \$300 million

Maneuvers buy time for errant satellite

BETZDORF, Luxembourg—Efforts to alter the orbit of a telecommunications satellite that is stranded in a useless sub-orbit could give the satellite owner enough time to rescue the equipment and save insurers hundreds of millions of dollars.

Betzdorf, Luxembourg-based SES Astra, a subsidiary of SES Global, raised its satellite's orbit hours after its Nov. 26 launch to 186 miles from about 109 miles, according to a spokesman. That maneuver gave the company days to put the satellite into a circular orbit.

If that effort is successful, SES Astra would have months to assess whether and how it could save the satellite, the spokesman explained.

The problem occurred when a launch rocket's second-stage burn failed. To become operational, the satellite, the Astra 1K, must reach a geostationary orbit 22,320 miles above the equator, the spokesman said.

The satellite was designed to provide up to 13 years of backup television, radio and Internet services in Europe and expand those services to Eastern Europe. But fuel consumed in the orbit maneuvering efforts would shorten that lifespan even if the satellite were rescued, the spokesman said.

Numerous insurers cover the satellite, valued at \$291.5 million euros (\$290.7 million), according to sources. Munich Reinsurance Co. wrote the biggest piece of the program—\$42 million euros (\$41.9 million), sources said. Other major underwriters on the risk include London lead Marham Space Consortium, at \$30 million euros (\$29.9 million); AXA S.A., \$22 million euros (\$21.9 million); and the Hiscox Syndicate at Lloyd's of London, \$19 million euros (\$18.9 million), sources said.

International Space Brokers of Rosalyn, Va., placed the coverage.

—By Dave Lenckus



PHOTO: AFP

The Astra 1K satellite could not reach a geostationary orbit after a rocket's second-stage burn failed in the Nov. 26 launch.



Backstop will spur growth, stymie lawsuit abuse: Bush

WASHINGTON—The Terrorism Risk Insurance Act will both enhance economic growth and discourage “abusive” litigation, according to President Bush.

Flanked by members of Congress and union representatives, the president signed the measure—which creates a federal backstop to help insurers pay claims stemming from future terrorist attacks—into law last week, nearly a year after the House passed its version of the bill.

The president said that the act, which combines features of both the House bill and a competing Senate bill passed earlier this year, will encourage construction projects. “Billions of dollars in investments will be more secure,” he said.

President Bush had long pushed for the

act by saying that more than \$15 billion in real estate transactions and projects had been cancelled or delayed because owners and developers could not get terrorism coverage after the attacks of Sept. 11, 2001.

The president also hailed the bill as a means to prevent what he called “abusive lawsuits” in the wake of any future attack. Responding to critics within his own party who criticized the bill as being light on tort reform, the president noted Tuesday that the measure requires that terrorism-related civil cases be heard in federal rather than state courts and that it bans the use of taxpayer money to pay punitive damages.

—By Mark A. Hofmann

12th Annual World Captive Forum

A good captive front is hard to find

By MICHAEL BRADFORD

NAPLES, Fla.—At a time when fronting companies are becoming increasingly scarce, captive owners and the insurers need to be mindful of each other's needs in the complex relationship.

“Any captive has to be concerned, entering into a fronting relationship, that the party they are getting into bed with has the stability and security to be there a long period of time,” said William T. Torpey, senior vp of Old Republic Risk Management Inc., a Saddle Brook, N.J.-based unit of Old Republic Insurance Co. that provides fronting services.

“It's difficult to make that judgment sometimes,” Mr. Torpey said during a panel discussion at the 12th Annual World Captive Forum, held last month in Naples, Fla. “The history of the insurance business shows that companies that were A+ rated last year are bankrupt today.”

Michael Curio, executive vp of the financial services group at AIG Risk Management

Inc. in New York and another panelist, said it is getting tough to find insurers that are willing to offer fronting services. His conversations with regulators have revealed that 2002 likely will be a record year for new captive formations, he said. “Concurrent with that, fronting companies have gone from 12 to six.”

When starting a fronting relationship, it also is important for the captive to provide enough information for the front to reach a “comfort level,” Mr. Torpey said. “Both parties have to get comfortable with each other. We're not simply renting a piece of pa-

per...It's essential that there be a dialogue between the two parties so that everybody understands what's going on and there are no surprises down the road.”

“From an insurer's point of view, we are absolutely concerned about stability, not only of the captive but of the parent company,” Mr. Torpey emphasized. “Security and stability are absolutely essential because there is little chance of the program succeeding if the insurer doesn't have that confidence level.”

The cost of the arrangement is not going to make or break a deal if the two parties see eye to eye on other issues, according to Mr. Torpey.

“In my experience with these types of programs, the price the front charges is probably the least important of the concerns,” he said. “If you've got the right deal, if you've got the right relationship with a stable partner, pricing will work itself out. I don't think there's anybody that gouges a good business partner.”

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**WORLD
CAPTIVE
FORUM**

**Additional
conference
coverage
on page 30**

12th Annual World Captive Forum

'Event risk' poses industry challenge

By MICHAEL BRADFORD

NAPLES, Fla.—Captives and traditional insurers are facing many of the challenges that marked previous hard-market cycles, but this time there is an increased awareness of event-risk exposure, says an executive with one of the pioneers of alternative risk financing.

“I think that it is clear that we are now in a new reality where the meaning of risk seems to be broadening almost on a daily basis,” said Susan M. Rivera, president of ACE INA Holdings in Philadelphia. “If there has been one theme over the past 12 months, it has been the regularity of stunning but seemingly disparate events in every part of the world.”

Speaking at the 12th Annual World Cap-

tive Forum, held Nov. 18-20 in Naples, Fla., Ms. Rivera pointed out that, unlike in the hard market of the 1980s, captives and insurers now must tackle the challenge of “event risk.”

“For at least another year,” Ms. Rivera predicted, “event risk is our new reality.”



'Event risk encompasses a growing litany of reasons to stay awake at night.'

Susan M. Rivera
ACE INA Holdings

Event risks, she said, “are the things that are making the pricing of insurance risks more difficult every day. Event risks encom-

passes a growing litany of reasons to stay awake at night,” Ms. Rivera noted, listing among them terrorism, accumulation risks, earthquakes, financial scandals, asbestos, mold, the plaintiffs bar, medical inflation, legislative changes, interest rates, increasing credit risks, global warming, “and even obesity lawsuits against fast-food restaurants.”

“When you think about it,” Ms. Rivera said, “event risk means any material exposure to the integrity of our balance sheet from a source that is not known or quantifiable today.” And, she pointed out, event risks are those that insurers are legally obligated to cover whether or not they have specifically underwritten for them. “It also includes the enormous risk of incurring losses today from policies written

See **RIVERA**/page 26

Doc network downsizing attempts to cut costs

By ROBERTO CENICEROS

CYPRESS, Calif.—Less is more.

That's the philosophy behind an effort by some employers to contain their health care costs by contracting with smaller networks composed of lower-cost medical providers providing higher-quality care.

In addition to near-term savings from identifying more-affordable providers, employers expect to cut long-term costs by an equal emphasis on delivering better quality care.

The practice of reducing network size runs counter to a years-old tendency among managed care plans to increase provider accessibility to meet client demand, say benefit consultants.

One of the latest health plans to buck that trend is Cypress, Calif.-based PacifiCare of California. PacifiCare recently developed its Value Network health maintenance organization in conjunction with several large employers.

The HMO, which is available only in certain California counties, limits the number of doctors and medical facilities available to employees. Only doctors and hospitals that have been screened for affordability and higher scoring on quality of care measures may participate.

“It's virtually a reversal of a trend,” said Joe Martingale, national leader of health care strategy for Watson Wyatt Worldwide in New York. “For the last five years, managed care has gotten broader and looser. Here, we see a reversal of that, back toward narrower and more restrictive. But the difference this time is that those limited providers have been evaluated and pass the quality test.”

Other health plans throughout California are weighing similar strategies, said Kirby G. Bosley, a health care practice leader for William M. Mercer in Los Angeles.

Nationwide, a handful of large employers, working with a variety of health plan models, are taking similar measures to identify providers considered more efficient—providing better care at lower cost—than their peers.

See **PACIFICARE**/page 39

GAO critical of OSHA's selection of sites to inspect

By MARK A. HOFMANN

WASHINGTON—The Occupational Safety and Health Administration's method of identifying hazardous workplaces for priority inspections can be improved, according to a new government report.

In a Nov. 22 report, "OSHA Can Strengthen Enforcement through Improved Program Management," the General Accounting Office gave OSHA generally high marks for its efforts to improve workplace safety. In its report, though, the GAO said that "OSHA's targeting processes have not fully ensured that it effec-

tively identifies hazardous worksites for priority inspection," citing OSHA's efforts to target problem worksites in the construction industry as a specific example of where the agency relied on an inadequate database.

As a result, the GAO said that OSHA targeted its efforts on larger worksites—which it did not define in terms of the number of workers employed—rather than smaller sites.

The GAO report holds that the smaller sites are more dangerous than larger ones.

OSHA, however, disagreed with

this contention, and noted that the GAO had not provided hard data to back up the charge. Citing Bureau of Labor Statistics data, OSHA said that the smallest construction employers—those with two to 10 workers—experienced a considerably lower rate of lost workdays than did midsize construction employers, who had 50 to 249 workers.

GAO's proposed changes include:

- Encouraging area OSHA offices to inspect small construction worksites as well as large ones to identify safety problems.

- Improve the quality of the data

it uses to identify worksites to be inspected. The report also called for the Secretary of Labor to "encourage" OSHA and the Bureau of Labor Statistics to work together in obtaining "the necessary data to understand those injuries, illnesses and fatalities" that take place in areas that are under OSHA's authority.

- Analyze the targeting program's impact on reducing workplace injuries and illnesses in light of the resources expended on inspection.

- Improve OSHA's training programs for its inspection staff.

Rep. Charles Norwood, R-Ga., the chairman of the House Education and the Workforce Committee's Subcommittee on Workforce Protections, requested the report from the GAO.

The thrust of the report drew mixed reactions from insurers and employers.

"It should help OSHA to devote an appropriate amount of energy and attention on addressing longer term structural issues, in this case its management and data systems," said Keith Lessner, vp-safety and environment for the Alliance of American Insurers in Downers Grove, Ill.

"There's a tremendous amount of pressure that OSHA faces to deal with the shorter-term political concerns of both labor and management. These reports keep them focused on the structural kinds of things that the lobbyists don't like to talk about," he said.

Mr. Lessner said the extent to which OSHA can help improve workplace safety—particularly for employers with bad safety records that have failed to respond "to the financial incentives that workers compensation offers"—will reduce the pool of employers with poor experience that drive up workers compensation rates.

But the Washington-based National Assn. of Manufacturers questions if the emphasis on inspections is the right approach to improving safety.

"We here at NAM always believe that enforcement only is not the way to try to make the workplace safer for employees. Basically compliance assistance is what we're looking for" from OSHA, said Chris Tampio, director of employment policy for the NAM.

"Employers want to have safe work places, they want to have their employees come back the next day on the job making products," he said.

Employers with safety problems have an incentive to fix the problems because they pay more for insurance and have to find replacements when workers are injured, Mr. Tampio said.

"I don't think their biggest problem is enforcement and where to go. There are some bad actors and OSHA has to go after them, but the majority of people want to have safe workplaces for their employees," he said.

Copies of the report, "OSHA Can Strengthen Enforcement through Improved Program Management," can be accessed at GAO's Web site: www.gao.gov.

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Errors & Omissions

- Because of inaccurate information supplied by the company, the wrong revenue figures for GENEX Services Inc. were published in the Oct. 21 ranking of rehabilitation service providers. The correct figure is \$88,800,000, which makes GENEX the third-largest provider, not sixth-largest.

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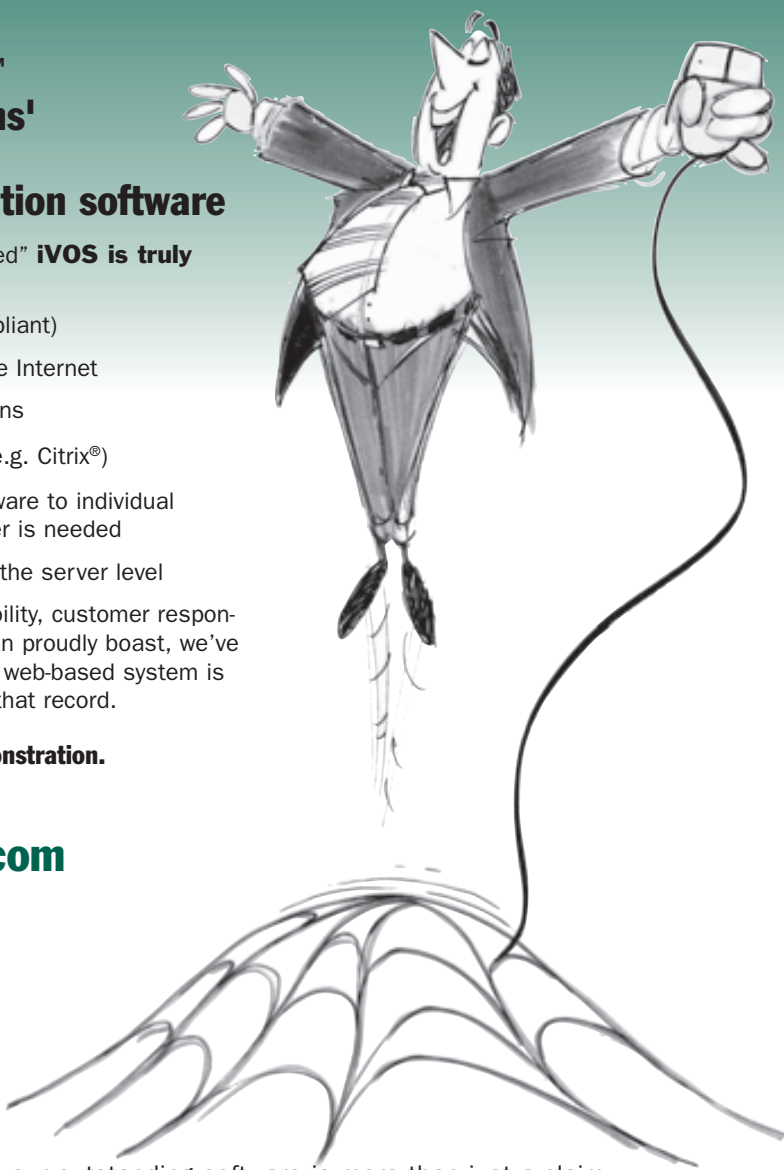
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Paul Winston Parasites' greed puts all at risk

When I was a kid visiting the Natural History Museum in Denver, I was always fascinated and repulsed by an exhibit that contained a tiny scene probably overlooked by most visitors.

The display was of some sort of mountain wildlife (to the best of my recollection), but in the foreground was an evil little scene containing a wasp and a spider.

The wasp was a kind of parasite that would sting and paralyze a spider, then lay its eggs on the spider's abdomen. When the baby wasps were born, they would get their first meal by consuming their paralyzed host. They would burrow their way inside its body, feasting and then emerging from the cored-out husk as young wasps out to find an eight-legged friend to continue this little cycle of nature.

I could never muster much sympathy for spiders, but this exchange still struck me as repellent. I think most people generally find parasites offensive, especially ones that are so single-minded in their consumption that they cannot see that their actions will kill the very host on which they depend for survival.

I suppose this is why vampires are such a recurring theme in Hollywood films, why the thought of the mosquito-borne West Nile Virus fills us with such horror and why a little detail in a dusty diorama still sticks in my mind 30 years later.

The thought of parasites—or more accurately parasitoids, which kill their hosts—in nature was on my mind as I was considering a similarly destructive chain of events in our economy.

Specifically, I was thinking of the asbestos liability situation, in which some attorneys have feasted on the soft belly of businesses for more than two decades and only now are starting to realize the food supply is running low and they may have killed their host. (In the interest of fairness I should note that just as not all wasps are parasites, not all attorneys or asbestos claimants are bloodsuckers.)

As the health hazards of asbestos became better known and diseases emerged in the 1970s and 1980s, the surge of claimants seeking compensation for their illnesses was overwhelming. Many of the major producers of asbestos were driven into bankruptcy, and the insurance claims they passed on also claimed the lives of many underwriting businesses.

Attorneys quickly realized that the pool of available assets to

satisfy the demands of their clients was limited, and claims paying facilities were set up to administer the available resources.

To borrow from nature, the host had been bled dry and now any parasites looking for sustenance had to look elsewhere.

With the supply of asbestos producers exhausted, attorney parasites set their sights on new host targets. These included companies that manufactured products containing asbestos, ranging from brake pads to building products. Other targets included companies that had acquired firms that had former links to asbestos, however tenuous.

Over and over again, the parasites had to search for fresh

hosts, bled them dry, too, and then move on again. These included: asbestos installers, asbestos removers, asbestos product wholesalers, asbestos product retailers, asbestos product consumers. Owners of properties containing asbestos. Companies that demolished property containing asbestos.



Paul Winston

Manufacturers of

instruments and tools used to mine, transform, install or remove asbestos. And so on.

According to the Insurance Information Institute, research by the Rand Corp. found that more than half of all U.S. industries have faced asbestos claims. Does that make sense to anyone?

The latest wave of claimants include ones who may never grow sick, but simply fear getting the disease and want to lay claim to their share. It's analogous to two female wasps, one pregnant and one not, battling over who gets to sting the spider and lay claim to its carcass as a bassinet.

The problem is that as succeeding waves of defendants are driven into insolvency by unrestrained asbestos litigation, it has unintended consequences for other entities. Jobs are lost, products disappear from the market, and pretty much anyone who depended on that company for a product, service or livelihood is now at risk.

The behavior of parasites is truly repellent, but in nature they have a valid role to play.

When parasites' appetites spin out of control, however, and they begin squabbling among themselves over a dwindling supply of hosts, then the natural order is unbalanced, to the detriment of all.

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Editorial

It's time for single hulls to ship out

FOR MORE THAN A DECADE, the risks associated with single-hulled oil tankers have been well known, yet such vessels continue to be widely used—and continue to result in spills that create ecological disasters.

Although regulatory and legislative efforts have been made to phase out the single-hulled vessels, they are a case of too little, too late.

The most recent disaster involving a single-hulled tanker is the spill off Spain's Atlantic coast caused by the Bahamian-flagged Prestige, whose hull cracked in a storm and then broke apart and sank during salvage efforts (*BI*, Nov. 25). Its oil now is fouling Spain's Galician coastline.

The most notorious accident caused by the breach of a single-hulled oil tanker occurred in 1989,

when the Exxon Valdez leaked 11 million gallons of oil in Alaska's Prince William Sound.

That disaster prompted U.S. lawmakers to enact the Oil Pollution Act of 1990, which imposed about 40 new safety rules for ships traveling in U.S. waters, as well as new criminal and civil penalties for oil spills. Among the safety changes was a requirement that all tankers built after 1990 have double hulls. It also required reinforcement of all single-hull ships still in use, and their total elimination after 2015.

Largely due to pressure from the United States, a 1992 amendment to the International Convention for the Prevention of Pollution from Ships, commonly known as MARPOL, mandated the gradual elimination of single hulls, through their conversion to double hulls or retire-

ment. That international law also set a 2015 deadline for completely phasing out single-hull vessels.

Why wait?

We have long known that the single-hulled vessels are at greater risk of spilling their cargo in an accident. Many of these vessels were built in the 1970s, and their aging hulls are now at or near 30 years of service. Why wait another decade for them to be scuttled or retrofitted—during which their risk of being pierced grows?

The cost of retrofitting and building double hulls is significant, but so, too, are the costs of relying on single-hulled ships. Single hulls expose their owners and the owners of their cargo to a greater risk of loss, as well as potentially massive liability for pollution. As a consequence, single-hulled vessels must

pay higher insurance rates, which is fair given the threat they present.

In response to the Prestige accident, European lawmakers are calling for the immediate ban of single-hull tankers in European waters. U.S. lawmakers, who were out in front of this effort with OPA '90, should follow suit as soon as the new Congress convenes.

Even before lawmakers act to move up the deadline for requiring double hulls under all circumstances, the private shipping industry can act voluntarily to cut the risk. This would ultimately lower its costs and its exposure, while protecting coastlines and wildlife around the world from disaster.

The result of an overly generous timeframe for eliminating the obsolete and risky vessels is washing ashore in Spain.

Seize chance for asbestos reform

AS THE EUPHORIA over enactment of federal terrorism insurance legislation fades, risk managers, insurers and others are beginning to gird themselves for their next big congressional initiative: reform of the asbestos litigation system.

On this issue, rarely has the atmosphere for positive change been so auspicious. Of course, last month's congressional elections added to the ranks of pro-tort reform lawmakers, further strengthening the hand of a pro-reform president. But unlike many other proposed legal reforms, asbestos litigation reform is not necessarily a partisan issue.

Both Republicans and Democrats realize that the current legal system can work perversely, delivering awards to claimants who have no symptoms of asbestos-related disease—let alone cancer symptoms—while draining the pool of funds available for the truly injured. After bankrupting most asbestos producers, these plaintiffs now target companies linked to asbestos through the most tenuous of connections.

Support for reforming this system does not break neatly along business vs. the trial bar lines. Some prominent trial lawyers want to see reform as well. They support change not out of love of the defendant companies but, rather, to en-

sure that their clients can receive compensation for proven injuries.

Public opinion may be moving in a pro-reform direction as well. The well-known financial writer Robert Samuelson recently devoted a column to the issue, accusing some members of the trial bar of being guilty of "legalized fraud" in their pursuit of asbestos compensation. The Washington Post—hardly a bastion of right-wing sentiment—not only ran Mr. Samuelson's column but called for reforms on its editorial page as well.

Insurance groups are already pushing for asbestos litigation reform and can be expected to bolster their efforts when the new

Congress convenes next month. The political stars are moving into alignment for significant reform of a problem-plagued compensation system, and there's no reason not to reach for those stars.

Letters to the Editor

Decide control of defense before coverage is placed

To the editor: Kudos to Randy Paar and Elizabeth Sherwin for their insightful perspective, "Guarding the quality of insurer-led defense," in the Nov. 25 issue.

A key point to underscore is that any "control of defense" prerogatives sought by policyholders should be part of the negotiation when insurance coverage is placed.

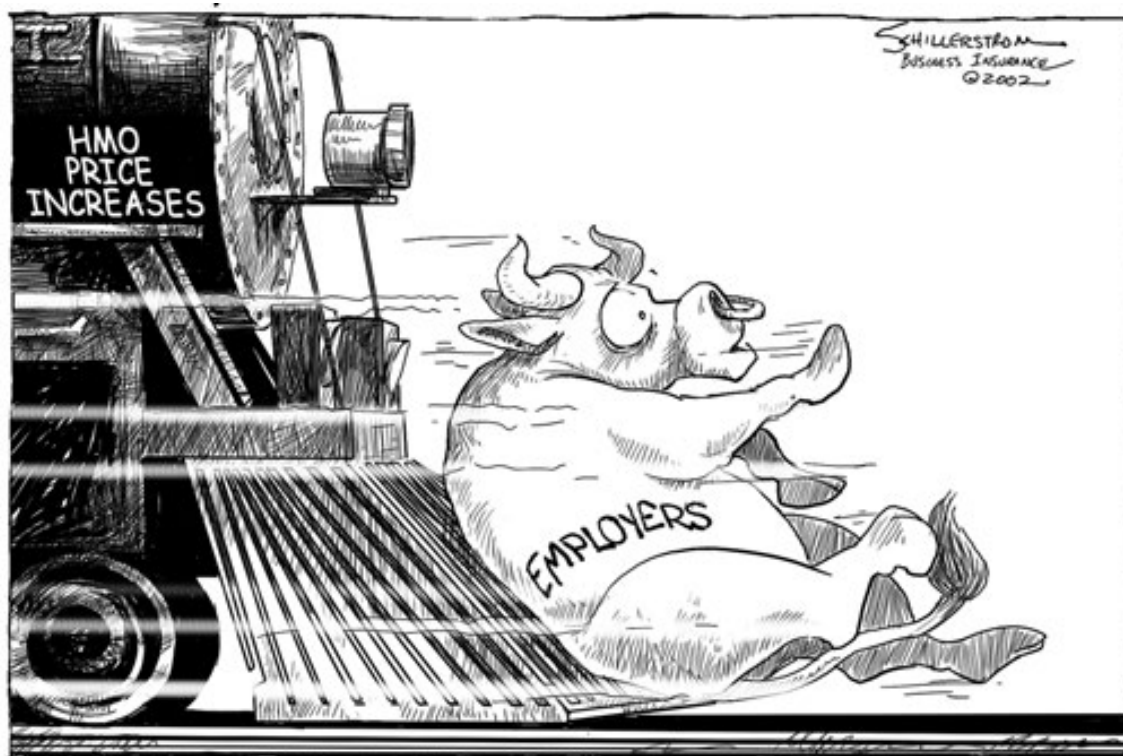
Unfortunately, what happens far too often is that the issue is ignored by buyers until a claim surfaces well into the policy span. At that time, the account wants to open negotiations on claim-handling prerogatives and insurers balk. Too often, claim issues get glossed over or ignored in the zeal of "doing the deal," later causing friction and putting the insurer's claims personnel in the unenviable position of being the "heavy."

Because insurers have the small matter of their policy limits being at risk, they have an understandable interest in controlling the selection of counsel and ensuring that the choice is wise. Insurers are in the business of selecting legal services; most policyholders are not.

Strong interests exist for guarding the quality of both insurer-led and insured-directed defense efforts.

Kevin M. Quinley
Senior Vp, Risk Services
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Schillerstrom



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New Technology & Online Solutions

Spotlight Editor: Joanne Wojcik

Wireless tools aiding work but uses are still limited

By DOUGLAS McLEOD

Many risk managers are expanding their use of wireless communication tools, though the use of wireless devices for such tasks as loss reporting and safety audits from remote locations remains in the early stages.

Devices that provide wireless e-mail service, for example, have become increasingly important for some risk managers, allowing instant communication in the face of disasters, crucial negotiations or even the handling of routine losses, some say.

Insurers, brokers and corporate risk management teams are also using handheld personal digital assistants to conduct safety audits in the field, though they are not yet using the PDAs' wireless features, according to some

'You would think people would jump all over this stuff.

They don't. Risk managers don't.'

*Kenneth C. Ancona
Risk Sciences Group*

insurance company and risk management sources.

In general, risk managers are using wireless devices for communications rather than for taking over paper-work-intensive office functions, several

sources indicate.

For such duties as loss reporting, for instance, many risk managers would still rather use phones and fax machines than Web-based systems, consultants say.

Risk Sciences Group, a Schaumburg, Ill.-based unit of Crawford & Co., has made a big push to interest clients in Web-based loss reporting programs that could record and track workers compensation and other losses worldwide, said Kenneth C. Ancona, marketing and sales manager.

Convincing clients to use these systems in their offices—let alone looking for ways to use wireless PDAs—has been tough, he observed. Many clients ask about innovative technology but never adopt it, continuing to use faxed forms and toll-free numbers for loss reporting, Mr. Ancona said.

"You would think people would jump all over this stuff," he said. "They don't. Risk managers don't."

For some, the most valuable wireless tools are devices such as Research In Motion Ltd.'s Blackberry, which provide continuous remote e-mail access, along with directory, calendar and other functions.

Michael Liebowitz, director of risk management and safety for Bridgeport Hospital & **See WIRELESS/page 20**



Computer system changes bring hassles, big costs Switching insurers often means new systems

By JOANNE WOJCIC

In the current hard market, many risk managers changing insurers also face a move to new claims administration and risk management information systems, and the transition is often both involved and expensive.

Some risk managers feel they must, in essence, pay a ransom to obtain their past claims information from insurers that hold the data hostage by writing it in a computer language that only their systems can understand. Because of a lack of standardization, the data must be translated before it can be moved to another insurer's system or to an independent RMIS.

To avoid these hassles should switching insurers become necessary—a prospect that is increasingly likely as the once-touted long-term relationships between buyers and insurers disappear with the market's constriction—many risk managers are turning to independent RMIS systems. They also are doing so to gain more control over their exposure information and claims handling as their self-insured retentions grow.

"In this marketplace, I think there's more involuntary movement from one carrier to

another, and to the degree that that's done, obviously, these claims management systems are going to be different," said Jeff Pettegrew, vp of risk management and insurance at Westaff Inc., a temporary staffing firm based in Walnut Creek, Calif.

But transferring claims data from a prior insurer's system to a new one generally adds time and expense to the transition process.

"They don't like losing that business. And once that business is gone, then they're faced with the cost associated with providing that data on a monthly feed," explained Brian Mack, vp of sales and marketing at Valley Oak Systems Inc., an independent RMIS vendor in Alamo, Calif.

To recover those costs, "I've seen people charge anywhere from reasonable amounts to cut a tape to very unreasonable amounts to basically do a simple extraction function that should not be that difficult," said David Duden, a director of Deloitte & Touche L.L.P. in Hartford, Conn. "And, obviously, the risk manager has to pay for the load routine whenever the data is going to. Nothing's free anymore."

When Cindy LeRoy, U.S. firm risk manager **See SYSTEMS/page 14**

Companies' exposure to cyber terror growing

By SALLY ROBERTS

As the United States' war on terrorism intensifies, one front of that struggle involves protecting computer systems against politically motivated hacking attacks.

Cyber security experts say that though the first targets of such attacks tend to be government agencies, employers that have not implemented adequate security measures to protect their systems also are prime targets.

But regardless of hackers' motives, proper network security efforts are needed to mitigate the exposure of companies' computer systems to attacks, the experts say.

And although insurance policies are available to help transfer such risks, risk managers must be aware of the possible existence of war and terrorism exclusions in such coverage.

"Typically, spikes in cyber activity following political events have been in the form of denial-of-service attacks, transfer of malicious code and Web site defacements—things we broadly classify as nuisance activity," said Patrick Donnelly, director of technology and professional risks in the financial services group at Aon Risk Services Inc. in Chicago. "That's not to minimize the importance of it, because it can be very costly for corporations."

"More concerning for the populous, however, is the potential for defective information that could compromise national security or compromise systems that control critical infrastructure such as banks, utilities and air traffic control," Mr. Donnelly said.

Chief information officers, chief security officers and the like "are not necessarily concerned with the motive behind the attacks as much as they are concerned with the loss or legal liability from them," he said.

Nonetheless, corporations today face an increased risk of politically motivated cyber attacks—or attacks from so-called "political hactivists."

According to the London-based mi2g Intelligence Unit, a security company that tracks hacking activity, a rise in politically motivated hacking is contributing to an overall increase in the number of digital attacks occurring each month around the world. The company **See ATTACKS/page 16**

Companies 'are not necessarily concerned with the motive behind the attacks as much as they are concerned with the loss or legal liability from them.'

*Patrick Donnelly
Aon Risk Services Inc.*

MOST-COMMON STANDARD FEATURES

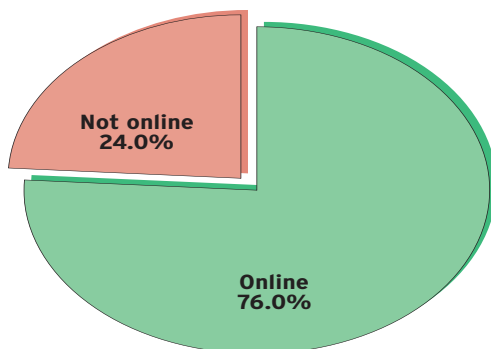
Ranked by percentage of total systems offering the feature

Report generation	95.7%
Incident reporting	84.8%
Diary	82.6%
Reserve tracking	82.6%
Loss trending	80.4%

Source: BI survey

ONLINE SYSTEMS

Percentage of organizations listed that offer online systems



Source: BI survey

TYPES OF CLAIMS MANAGED

Ranked by percentage of systems that manage the claim

Workers compensation	91.3%
General liability	84.8%
Auto	84.8%
Property	80.4%
Other	43.5% ¹

¹ Includes aviation, D&O, disability, E&O, marine, product liability, professional liability and others

Source: BI survey

Risk Management Information Systems

Ranked by number of installations in corporate risk management departments

Rank	Software name	Company/Address	Phone/Fax/Web site	Number of installations	Purchase price	First installation	Officers
1	e-CARMA	Travelers Property Casualty Corp. 1 Tower Square Hartford, Conn. 06183	860-277-2770 Fax: 860-277-2876 www.travelerspc.com/commercial/rmis	8,501	NA	1983	Matthew L. Carden, vp
2	STARS	Marsh-Risk Technologies Practice 230 W. Monroe St., 23rd Floor Chicago, Ill. 60606	312-627-6000 Fax: 312-627-6590 www.starsinfo.com , www.marsh.com	3,000	\$75,000	1990	Robert G. Petrie III, practice manager-Marsh Risk Technologies
3	Chubb RMIS Suite of Products	Chubb Corp. 15 Mountain View Road Warren, N.J. 07059	800-715-7475 Fax: 908-903-3012 www.chubb.com	2,479	up to \$20,000	1994	Michele Fincher, vp-large account services
4	RISKTRAC	RISKTRAC (Liberty Mutual Insurance Co.) 230 Commerce Way Portsmouth, N.H. 03801	603-422-0444 Fax: 603-433-4676 www.risktrac.com	2,100	NA	1999	Diane Fandrich, managing director
5	Aon Safetylogic	Aon Corp. 1000 N. Milwaukee Ave. Glenview, Ill. 60025	877-714-0999 Fax: 847-953-5141 www.aonsafetylogic.com	2,000 ¹	\$7,500 per year minimum	1998	Bob Newman, managing director
6	Aon Risk Monitor	Aon Corp. 1000 N. Milwaukee Ave. Glenview, Ill. 60025	877-714-0999 Fax: 847-953-5141 www.aon.com/riskmonitor	1,350	\$60,000	1995	Robert M. Schwiring, managing director-Aon Risk Monitor
7	@venture	The Hartford Financial Services Group Inc. Hartford Plaza Hartford, Conn. 06115	860-547-5000 Fax: 860-547-3017 www.hartford-specialty.com	1,000	\$5,000	1999	Mark Stergio, senior vp
7	IntelliRisk NetSource	AIG Insurance Services Inc. 400 Interpace Parkway, Building A, Third Floor Parsippany, N.J. 07054	800-767-2524 Fax: 973-402-2895 www.intellirisk.com	1,000	NA	1994	Steven Iler, president
9	RiskAdvantage Loss Management	ESIS Inc. 1601 Chestnut St. Philadelphia, Pa. 10103	800-344-0494 Fax: 215-640-5538 www.riskadvantage.com	875	\$5,000 to \$10,000	1998	Ed Troy, president
10	RiskFolio 4.0	Risk Laboratories L.L.C. 531 Roselane St., Suite 800 Marietta, Ga. 30060-6979	678-784-4600 Fax: 678-784-4700 www.risklabs.com	750	\$10,000 to \$1,000,000 per year	1994	Scott Saffron, COO/interim CEO

¹ Estimated
Source: BI surveyThe full Directory of Risk Management Information Systems is available online in the directories area of www.businessinsurance.com. The searchable directory allows users to locate suppliers of risk management information systems by company name, system name, number of installations, and system features, among other information. The online database is free to subscribers of *Business Insurance*. PDF copies of the directory can be purchased online.

Systems: Transitions difficult

Continued from page 10

at PricewaterhouseCoopers L.L.P., attempted to obtain old claims information from two previous workers compensation insurers and move it to PwC's current insurer, she found out just how involved—and costly—such a transaction could be.

Her goal was to consolidate the claims history from Price Waterhouse's workers comp insurer before the accounting firm merged with Coopers & Lybrand in 1998, with that of Cooper & Lybrand's premerger comp insurer, Ms. LeRoy explained.

"We really wanted it in one place. We didn't want to have to keep going back from the old carrier to the new carrier, and the old carrier usually is not really cooperative. And then they give you very minimal access. You can't read the adjuster's notes; it's basically just what the claim is," she said.

But when she approached the two firms' prior insurers, "they said, 'We're not going to give you any information unless we charge you something,'" she recounted. "I said, 'But we've got open claims. How are we going to manage them?' They said, 'You have to pay a fee just to get paper loss runs.'"

Then, after finding out just how much it would cost to obtain the claims information, PwC opted to get feeds twice a year rather than on a monthly basis, she said.

Another obstacle many risk managers face when transferring claims data is persuading the new insurer to accept all of the prior claims history.

"Most carriers and TPAs say they don't want anything to do with the prior loss history," said Kenneth C. Ancona, national sales and marketing manager at Risk Science Group, an RMIS vendor in Schaumburg, Ill., that is owned by Crawford & Co. "They say, 'That's your thing. You keep it.' Or, if they do (accept it), it costs them an arm and a leg to convert it into the active TPA or carrier. That's where all the pain comes in," he said.

Data conversion is a significant issue, because of differences in the ways insurers and TPAs format data. In fact, some even use more than one language.

"We convert data from, literally, 900 sources a month from more than 200 different providers. Travelers and Crawford probably send us 30 or 40 sources a month. Every single one of those is in a different format," said Bob Petrie, managing director in charge of Marsh Risk Technology in Chicago.

In an attempt to address the issue, the Risk & Insurance Management Society Inc. approached ACORD—the Assn. of Cooperative Operations Research & Development—last November to persuade insurers and TPAs to adopt the use of extensible markup language, or XML, so that all carrier information is transmitted in the same format (*BI*, Dec. 3, 2001).

But the movement is taking off slowly, and so far, only a handful of insurers have adopted XML, according to Beth Grossman, assistant vp

of industry relations at ACORD in Pearl River, N.Y.

"When the risk managers through RIMS got involved with ACORD, the main goal was portability of data," she said. "The biggest issue was, on the claims side, to be able to move from one claims administrator to another or to pull it in-house, or to decide to go from managing it in-house to having a TPA do it," Ms. Grossman said.

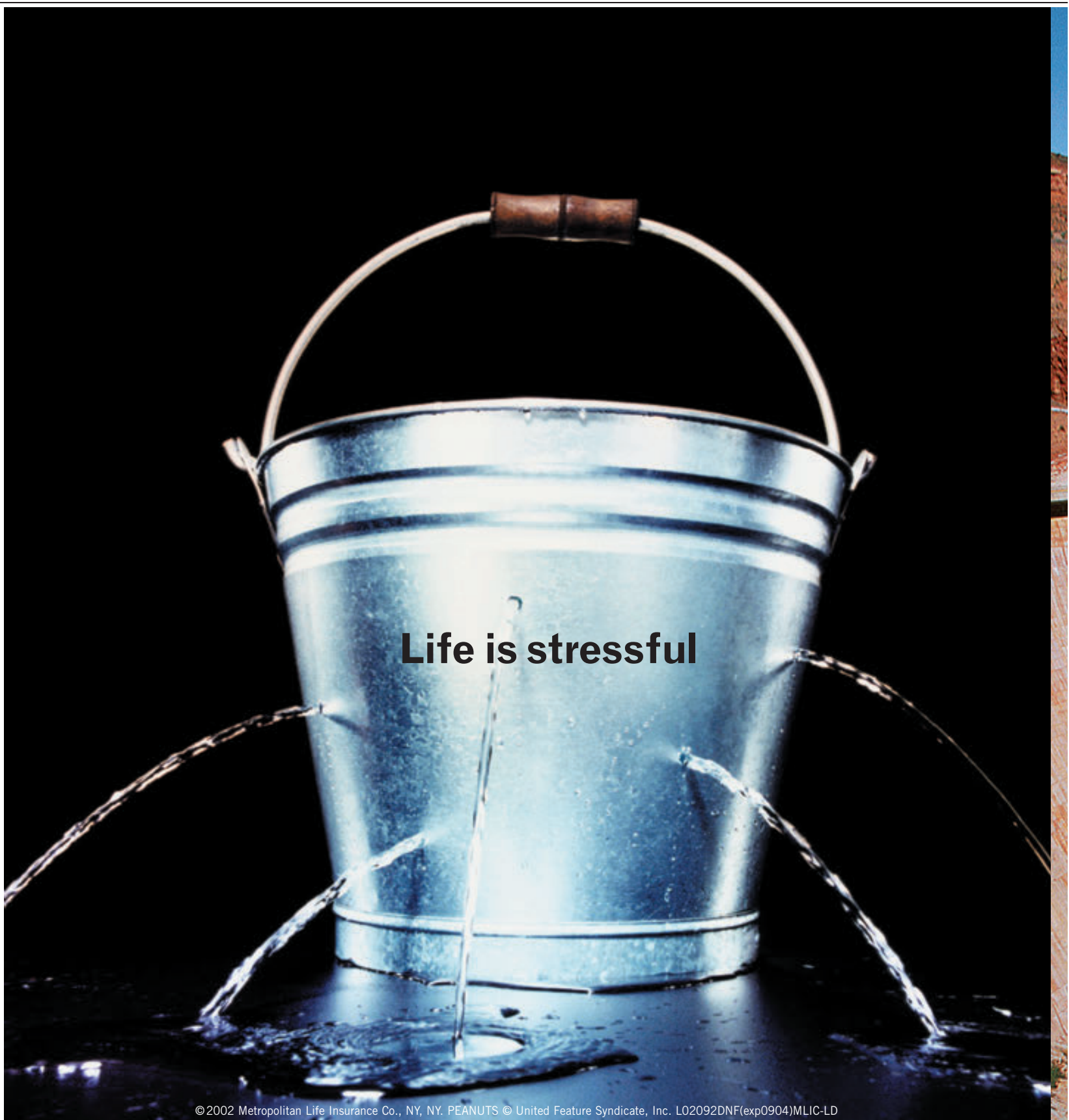
The two organizations decided to concentrate initially on creating standards at the beginning of the insurance transaction, because "at

the beginning was where the biggest bottleneck was," she explained. To address that problem, ACORD created an "exposure template." The template, which uses a Microsoft Excel spreadsheet, allows users to enter in a variety of detailed information about exposures.

That standardized approach to detailing exposures is taking off in London and among reinsurers, which have been seeking more and better exposure information since the Sept. 11, 2001, terrorist attacks, according to Ms. Grossman.

But insurers aren't the only ob-

Continued on next page



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Continued from previous page

stacle to adoption of a universal language for RMIS, industry experts say. Risk managers themselves have developed their own unique methods for reporting that insurers, TPAs and RMIS vendors implement for them.

"There's still going to be a degree of customization," said Mr. Duden of Deloitte & Touche. "Take, for example, the definition of 'total incurred.' You look at five different systems, and each of them will define 'total incurred' differently. Do they consider recoveries? Do they consider legal expenses? Everybody has a slightly different definition for some of these common terms and words that we use, and data standards are not going to solve all

of that."

Notwithstanding the standards debate, interest in independent RMIS systems seems to be growing as deductibles and self-insured retentions rise.

"The more self-insurance, the more demand for RMIS products," said Marsh's Mr. Petrie, adding that "we're seeing a huge spike in demand by customers wanting our services." Marsh offers the STARS system.

Sheryl A. Pixler, risk manager at StorageTek, a data storage company based in Louisville, Colo., opted for an independent RMIS system to better monitor how the company's insurer, St. Paul Cos. Inc., was handling workers compensation claims under a large-deductible program.

"They administer our claims, but we are extremely active in participating in the settlement of those claims," she said.

She also wanted a system that could produce reports to enable her to spot trends, Ms. Pixler added.

"I'd rather go the independent route. I can call the shots then," said Connie Burkhard, StorageTek's loss control specialist.

"The control thing is huge. I want to be able to get to my claims when I want to. I want to be able to run reports when I want to," she said.

"Right now, we can pretty much slice and dice any way we really want and need to, and you don't always have that ability with those other systems," Ms. Pixler said.

Many risk managers opt for an independent RMIS because these systems generally are more robust than insurer and TPA systems.

In many cases, "risk managers think the claims system is going to be serving all sorts of risk management needs, and it doesn't. That's not really what it's built for," said Neil Harrison, director of risk information consulting at Aon Corp. in New York.

As a result, "We see a lot of disappointment in the market," Mr. Harrison said.

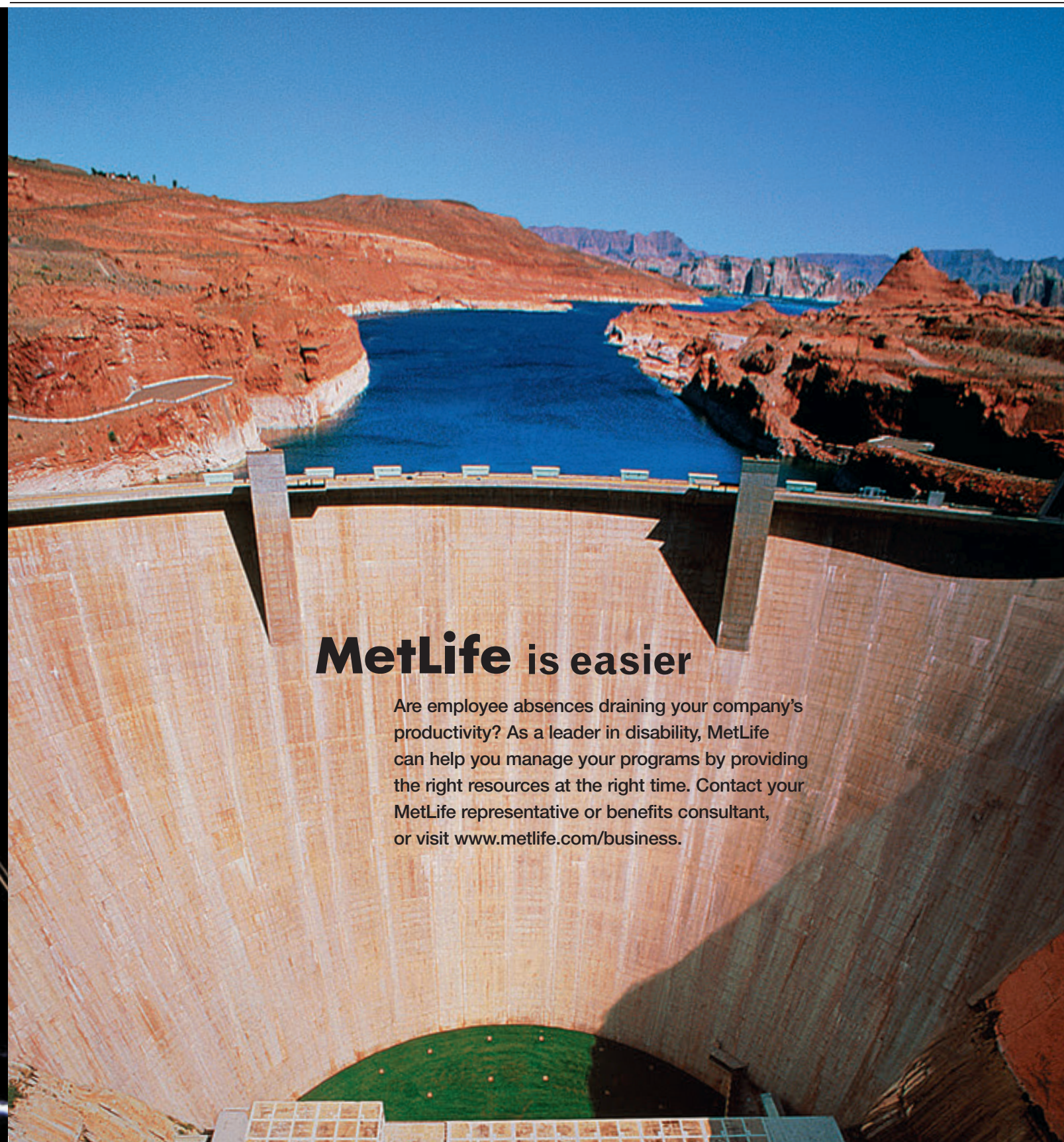
"The claims system is very strong in transactional claims information, but doesn't do a great job in recording exposure data, providing links to other parts of the client's business, and so on," he explained.

Furthermore, by having an independent RMIS, "if you would change carriers, you would have your history in-house, and you can go forward with the new carrier," pointed out Deloitte & Touche's Mr. Duden, leaving no question about who "owns" the data.

However, some proprietary carrier systems are becoming more sophisticated.

After looking at an independent RMIS, PwC decided to go with Chubb's proprietary RMIS Dimensions because it provided more current information and better access to adjuster's notes, said Mary Beth Pedone, PwC's manager of claims and loss control.

"If you use a carrier system, it's much more real-time," she said.



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A DIFFERENCE OF OPINION

Risk managers express much less concern over most network security risks than do their IT counterparts

Internet liability risks	Report themselves as very concerned about risk		Rate their company's management of risks as "excellent"	
	Risk manager	IT manager	Risk manager	IT manager
Network security risks from hackers	41%	62%	35%	30%
Privacy risks	31%	38%	33%	24%
Intellectual property risks	7%	16%	18%	19%
Online libel and slander risks	7%	14%	26%	24%

Source: The St. Paul Cos.

Attacks: Anti-hacking measures needed

Continued from page 10
estimates that the month of November saw between 15,000 and 17,000 digital attacks, compared with the 16,167 recorded digital attacks in October and 11,114 in September.

A spokesman for the company attributed the growth activity to politically motivated hacking, as well as to vandals and criminal syndicates involved in credit card and identity theft.

"Politically motivated hackers were initially many disparate individual groups, but in May 2002, we began to notice the coming together of many of these groups to form larger hacking groups, in particular, those hacking to protest Islamic-interest issues," the mi2g spokesman said.

One of the more-prolific pro-Islamic hacker groups—Unix Security Guards—increased its hacking activity tenfold in September to show solidarity with the Arab world amid rising tension between the United States and Iraq and the ongoing Israeli/Palestinian conflict, according to mi2g.

Cyber security experts say that it is employers that have not taken the proper security steps that are most vulnerable to politically motivated computer system attacks.

The mi2g spokesman said USG has successfully carried out nearly 2,000 hacking attacks since May, primarily centering on data deletion, business interruption, data piracy and data modification. In anonymous interviews with mi2g, USG also has claimed to have been involved in denial-of-service attacks, but the mi2g spokesman pointed out the company has not confirmed that activity.

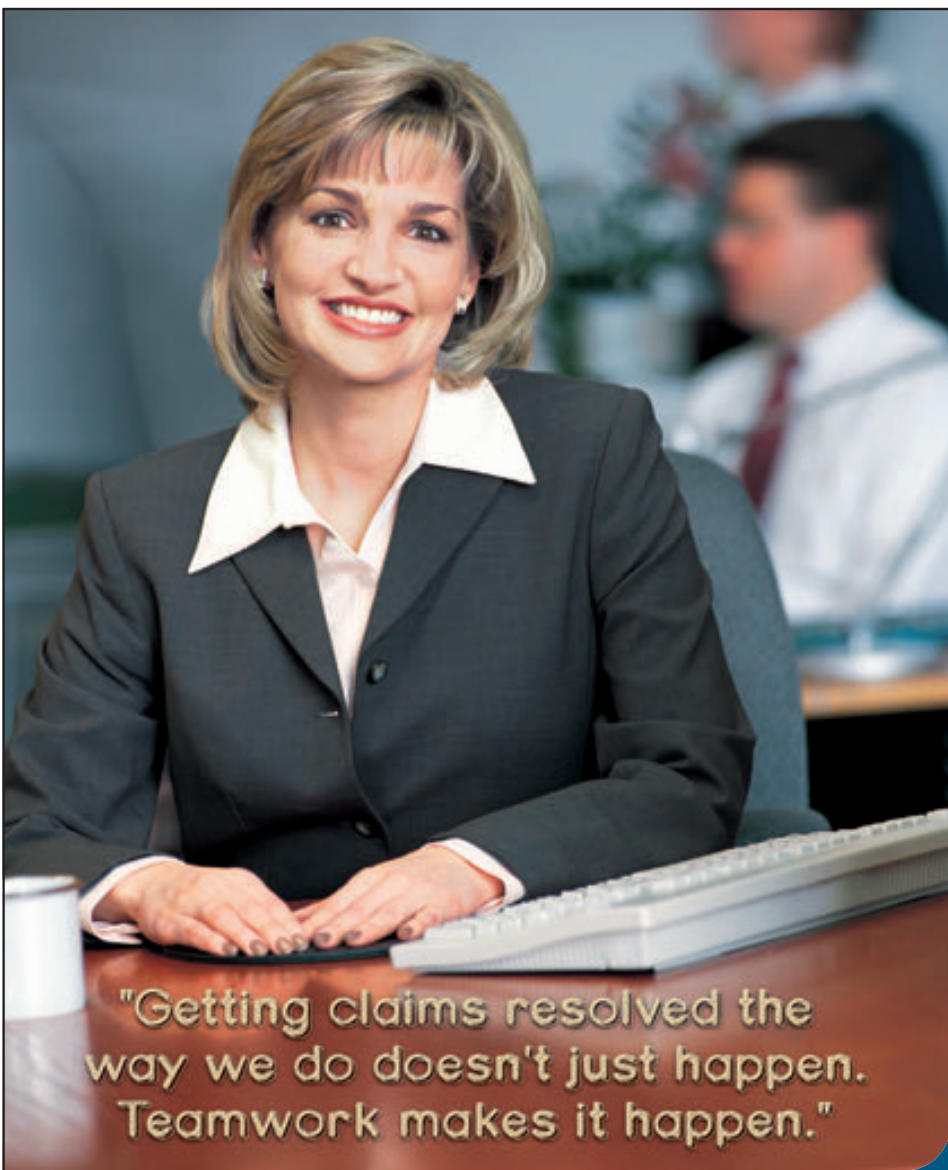
"In the beginning, USG's activity seems to have been limited to Israeli systems," he said. "However, in order to accomplish these large numbers of attacks, they have had to set their sights on systems in the U.K., Europe, U.S. and Australia."

Cyber security experts say that it is employers that have not taken the proper security steps that are most vulnerable to such attacks.

"This is the age of automatic attack tools, which are freely available on the Internet," the mi2g spokesman said. "As a consequence...there has been a tendency for hackers to choose low-hanging fruit, such as the ill-prepared small to medium-sized business enterprises, rather than the large and well-protected corporate networks, which will often require a great deal of skill and experience, together with extensive social engineering, to penetrate," he said.

Rick Fleming, vp-strategic technology at Digital Defense Inc., a computer security firm in San Antonio, noted that most organizations still have a "head in the sand" mentality when it comes to cyber attacks. They think they don't have any information on the Web that anyone would want, don't care if anyone has the information or regard themselves as such "a small grain of sand in the beach of the Internet" that no one will find them,

See **ATTACKS**/page 18



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Attacks: Anti-hacking efforts protect online assets

Continued from page 16
he said.

"With hackers, they don't sit and say, 'Who do I target next?'" Mr. Fleming said. Unless they are engaged in focused attacks, hackers "start scanning a wide variety of addresses looking for vulnerabilities and take targets of opportunity," he said. "I think of it as network sniping."

Mr. Fleming said that if an employer wants to mitigate its exposure to attacks, it needs multiple layers and techniques to defend its systems.

In addition to installing anti-

virus software, firewalls and intrusion detection software, an employer should develop and enforce security policies, train employees at all levels about general security and awareness and develop some sort of electronic testing program to determine how the company would respond if it were attacked, he said.

"The best way to secure your system is to lock all the doors and build a strong defense," Mr. Fleming said.

Aon's Mr. Donnelly added that the key to cyber security is "a level of corporate awareness, and then diligence in an appropriate fash-

ion."

To achieve this, he advises that companies form a multidisciplinary team that includes individuals from risk management, information technology, legal, financial, human resources and other company departments. This team should then conduct a risk assessment and regular audits. It should establish a corporate strategy that includes not only defensive technology such as intrusion detection and anti-virus software but also business continuity, disaster recovery and crisis management plans, he said.

"These plans need to allow for a

gradual response that takes into account the severity of the attack and the appropriateness of the response," Mr. Donnelly said.

According to a 2002 survey conducted by The St. Paul Cos. Inc., though, many companies have yet to take some of these steps.

Of the 251 risk managers surveyed, 76% said they have developed and implemented company-wide privacy policies, and 67% said they've worked with other departments to identify Internet risks. But only 45% said they have developed employee awareness and training programs, and only 41% said they

have retained consultants to conduct network security assessments, according to the survey.

Another protection against cyber terrorism is insurance. But while there are policies out there to purchase, "many companies we speak to are still waiting to be scared," said Michael Zeldes, senior vp of Kaye Insurance Associates Inc., a member of Hub International based in New York. "They are waiting for that major business interruption loss or major third-party liability loss where they can clearly show a hack led to a major financial loss," he said. "We clearly believe there

Puzzled?



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Which set of flags
completes the analogy?

Unless they are engaged in focused attacks, hackers 'start scanning a wide variety of addresses looking for vulnerabilities and take targets of opportunity. I think of it as network sniping.'

Rick Fleming
Digital Defense Inc.

are many of these cases, but they are not publicized."

Risk managers with cyber policies and those interested in purchasing such policies need to pay attention to whether they cover cyber terrorism, experts caution.

For example, American International Group Inc., one of the largest writers of cyber insurance policies, excludes terrorism from its standard policy but offers it on a buy-back basis for additional premium, explained Ty R. Sagalow, executive vp and chief operating officer of AIG e-Business Risk Solutions in New York.

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Wireless: Tools aid work but uses are still limited

Continued from page 10

Healthcare Services Inc. in Bridgeport, Conn., said his RIM device allows him to stay in constant touch when he's on the road, rather than having to wait to plug in a laptop computer at this hotel.

"When I see something that's coming across in real time, it gives me the ability to respond in real time," said Mr. Liebowitz, who is also vp-member and chapter services for the Risk & Insurance Management Society Inc.

For example, Mr. Liebowitz can be notified quickly of an event at a Bridgeport hospital and can instant-

ly relay advice on how to mitigate potential losses, document conditions and assist hospital staff, he said.

So far, Mr. Liebowitz hasn't added a wireless PDA to a collection of equipment that also includes a cell phone and beeper; PDAs, he said, are still too big to carry everywhere.

"I love any new gadget that comes along," he said, "but you have to draw a line in the sand somewhere."

For health care risk managers, meanwhile, wireless technology itself presents new challenges with

regard to maintaining privacy standards required by the Health Insurance Portability and Accountability Act.

Until encryption systems being developed for this information are perfected, Mr. Liebowitz said, risk managers may simply have to advise health care workers against performing any wireless transmission of patient information.

Like Mr. Liebowitz, Lance Ewing, executive director-risk management for Las Vegas-based Park Place Entertainment Corp., said he uses wireless technology mainly to stay in touch. Having wireless e-mail, he

observed, means being able to answer queries throughout the day, rather than having "142 e-mails to respond to" from his hotel room in the evening.

Mr. Ewing said that among the useful communications he receives are e-mail updates from one of Park Place's property insurers, Johnston, R.I.-based Factory Mutual Insurance Co.—which does business as FM Global—about coastal storms that could threaten Park Place casino hotel operations in Atlantic City, N.J., and on the Gulf Coast.

Wireless devices also allow communications after a disaster, he

added. After the Sept. 11, 2001, terrorist attacks, for example, wireless devices were the only way Mr. Ewing could contact the RIMS staff in New York to make sure everyone was all right, he said.

PDAs and RIM devices aren't very useful, though, in handling risk management chores that involve reviewing long documents or completing extensive forms, Mr. Ewing said.

"Do I want to look at a 1,200-page loss run from our insurance company on my handheld? I don't think so," he said.

New uses are being found for PDAs, though.

Liberty Mutual Insurance Co. and some of its clients have begun using nonwireless PDAs to perform onsite safety audits formerly handled with paper checklists. Wireless applications for the function will be the next step, those involved say.

The insurer maintains a program, dubbed Managing Vital Performance, that identifies the causes of workplace accidents, sets up procedures to prevent those accidents and sends auditors into the field to check on whether the procedures are being followed, explained Connie Bayne, a Liberty Mutual manager in Buffalo, N.Y.

The safety auditors avoid burdensome paperwork by using PDAs, which are loaded with electronic versions of surveys and which calculate compliance scores instantly. The information can later be uploaded into databases for use by Liberty Mutual and its clients.

In construction projects, for example, the PDAs are being used not only by the insurer's loss control consultants but also by contractor employees and property owner employees, getting everyone involved in safety efforts, said Michael Caughey, a technical consultant in the insurer's Houston office.

One Liberty Mutual client that is using the system successfully is the Houston-based Metropolitan Transit Authority of Harris County, which is nearing completion of a \$324 million light-rail project, according to Millie Garlington, program manager for the authority's owner-controlled insurance program.

Used by the project's seven prime contractors as well as a supervising engineer and Liberty Mutual employees, the PDAs have allowed the MTA to quickly identify trouble spots and to compare the performance of the various contractors, Ms. Garlington said. She noted that one priority, for example, was maintaining safe pedestrian crosswalks in a "pretty wild construction area."

Ms. Garlington said she sees the PDAs' role being expanded to such routine functions as transit facilities audits and chemical audits required by hazardous materials laws. The devices can also be loaded with pertinent safety laws, regulations and guidelines so that auditors can refer to them and—if necessary—cite them to workers.

"From a risk management perspective, I just see unlimited possibilities for these," she said.

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AGENT/BROKER TOPICS

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

New Business

Business search leads to captives

A sound strategy can pay off

By **DAVE LENCKUS**

In the current hard market, U.S. insurance agencies may face a harsher environment in which to form captives to assume some risk from their best clients, but the potential reward is worth the effort, captive experts say.

Unlike during the soft market, lining up fronting insurance could be tough today. And reinsurance-related costs for these captives are soaring.

Still, producer-owned reinsurance captives or cells, in the case of rent-a-captives, can be good business moves for producers who approach the idea as a long-term market and business strategy and not as an emergency measure, captive experts said.

Some favorable regulatory developments also could prompt more agents to consider forming domestic captives and moving their offshore facilities onshore, experts said.

Captive experts say that obtaining information on the exact number of producer-owned captives is difficult. Carol Pierce, an assistant vp at insurer rating agency and captive directory publisher A.M. Best Co. of Oldwick, N.J., estimates that 87 single-parent or group producer-owned captives were operating as of October—four more than at year-end 2001 and two more than in 2000.

While Ms. Pierce said those figures indicate that the number of such captives has been stable for several years, other captive experts say agencies continue to express great interest in this alternative market approach.

No one is sure how many agencies participate in rent-a-captives.

During the soft market of the 1990s, many agencies formed captives in preparation for expected new business opportunities in the next hard market. When the market turned in 2000, already established captives gave their owners the competitive advantage of being able to offer market stability to their best risks, helping producers retain that desirable business.

"Those who did this a long time ago are reaping the benefits of the market change right now," observed Glen Welch, president of Hampton, N.J.-based Charter Partners Inc., which helps small and midsize agents form captives.

Other agencies formed their facilities to address pressing coverage problems—especially in the workers compensation market—for their clients.

For example, several Massachusetts producers formed a fronted, offshore captive in 1996 to provide cheaper workers comp coverage to attractive risks that could not escape the state's pricey residual market four years after major state market reforms, explained J. Bruce Cochrane, president of Renaissance Insurance Agency Inc. The Wellesley, Mass., agency is one of 15 agencies that formed and still operate Bermuda captive Minuteman Insurance Co. Ltd.

Of course, another major reason why agencies formed or want to form captives is the additional profit opportunities those facilities create—that is, experts say, as long as agents stick to underwriting only their best risks.

Excluding the capital and surplus that must be committed to captives, agents that write a sound book of business should expect to recoup their captive formation expenses plus a profit during the first year, captive experts agree. Startup costs should not exceed \$100,000 and could be much less, experts said.

Captive owners should consider capital and surplus as an investment rather than startup costs, said Richard C. Goff, president of Towson, Md.-based managing general agency MIMS International Inc. MIMS subsidiary Taft Cos. provides captive formation services to agencies.

Captives can still be profitable even though investment returns are slumping, according to captive experts.

Indeed, some experts say the lack of significant investment income potential helps makes captive owners better underwriters.

"It makes everyone focus on underwriting profit," observed Bob Cubbin, president and chief executive officer of Southfield, Mich.-based Meadowbrook Insurance Group, a fronting insurer and captive program administrator. By curbing expenses and keeping the combined ratio at or below 100%, "you have a better program than when you focus only on investment income by generating abundant but not necessarily quality premium volume," he said.

Experts said that if agencies focus on underwriting they should avoid the problems that doomed some agents and brokers with underwriting operations during the 1980s.

While captive experts agree that the reasons for forming producer-owned captives are as sound today as they were during the soft market, some say the obstacles to

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New business opportunities abound / 20D
Number of young principals grows / 20D

Consumer-driven plans offer alternative / 20E
Ethics vital to business of insurance / 20F

AGENT/BROKER TOPICS

Captives: Strategy offers benefits

Continued from previous page

forming them are far more formidable.

Just finding an insurer willing to front the facility can be tough. Noting that insurers are being extremely cautious with how they commit their surplus because of hard market conditions and some recent insurer failures, Charter Partners' Mr. Welch said: "People are not making career-risking decisions right now with underwriting."

Finding a front even for a good risk may be problematic, Mr. Welch noted. Some good risks have been unprofitable in recent years because of poor pricing, not exorbitant loss-

es, but agents will have to prove that to fronts, Mr. Welch said.

In addition, the list of insurers willing to front "changes every six months or so," said Michael Murphy, president of independent consultant and captive manager RiskCap Inc. of Denver.

Still, several insurers are willing to front captives, though they may be extremely selective, according to captive experts and insurer representatives.

A few insurers even focus on fronting for producer-owned captives, said Mr. Goff of MIMS. Because insurers are more careful about how they put their surplus to use, "a

well thought-out agency captive is a great place to make that commitment," Mr. Goff said. Agents with a good business plan should not have much difficulty finding a fronting insurer, he said.

And, more insurers are looking into entering the fronting market as the models for producer-owned captives evolve, Mr. Murphy noted.

Under the traditional fronting model, such captives assume the risk written by their fronting insurers on an excess-of-loss basis, which allows the captives to retain 80% to 85% of the premium and related profits. The captives pay their fronts a fee for providing their paper, Mr. Murphy

explained.

If the captive's stop-loss reinsurance does not fully cover potential losses in excess of the captive's gross written premium, captives must collateralize that gap—usually with a letter of credit or a trust arrangement. Fronts require that collateral, because they are concerned they could be held responsible for losses that fall within that gap if the captive becomes insolvent.

Collateralization during the soft market was relatively economical, Mr. Murphy said.

But, "it's the biggest deterrent today in forming these deals," because skyrocketing collateralization costs make such arrangements cost-prohibitive for most agents, Mr. Murphy said.

In response, fronting insurers are offering to retain a large portion of the risk under quota-share arrangements with producer-owned captives, Mr. Murphy explained. That arrangement is more costly for the captives because of the additional profits they must share with their fronting insurers, but it is the only way that many agencies can afford to participate in captives, Mr. Murphy said.

To reduce and possibly even eliminate gap collateralization, some fronting insurers have developed programs in which they will hold 100% of the premium until losses work through the system, Mr. Murphy said. The front then determines and distributes the captive's profit under the terms of its reinsurance arrangement with the front, he explained.

Another issue that agents with underwriting aspirations must address early in their planning is where to locate their captives.

Until recently, that decision meant selecting one of a few offshore domiciles, because domestic domiciles did not allow producer-owned captives. The British Virgin Islands and Turks & Caicos have been the most popular offshore domiciles for these facilities, according to captive experts.

Now, with one exception, there is no benefit to going offshore, captive experts asserted.

They point to several U.S. domiciles that now allow producer-owned captives, as well as to the lower travel and professional costs that captive owners would incur in running a domestic facility.

The U.S. domiciles that either specifically allow producer-owned captives or do not prohibit them are the District of Columbia, Hawaii, Nevada and South Carolina. Arizona could join that list next year, if a provision permitting these facilities survives insurance reforms that regulators currently are drafting and the state Legislature approves the measure, according to an insurance department spokeswoman.

The only reason to form an offshore captive is if several agencies want to form a group captive to take advantage of U.S. tax regulations pertaining to noncontrolled foreign corporations, said Mr. Goff of MIMS. The tax code allows those captive owners to defer their tax on captive profits until the profits are redomesticated.

But tax deferral is not a tremendous advantage to many group captive owners, said Derick White, assistant director of captive insurance at the Vermont Department of Banking, Insurance, Securities and Health Care Administration in Montpelier.

Those captive owners do not delay in redomesticating their profits, because they prefer to take the tax hit evenly, Mr. White said.

And, if they elect to be taxed as U.S. corporations, they don't pay a 1% excise tax on their reinsurance premiums, Mr. White noted.

Among all of the advice for agencies considering captives, the common thread is to be patient and develop a well thought-out and long-term business plan.

"The alternative market is not something to do when it's fashionable," observed Mr. Welch of Charter Partners.

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AGENT/BROKER TOPICS

Hard market offers opportunities for eager agents

By SALLY ROBERTS

Although agents and brokers may be working harder to place business and generate more commission revenue per account, now is not the time to ignore the abundance of new business opportunities that exist in the hard market, agency consultants say.

In fact, at a time when double- and triple-digit premium increases are increasingly common, most frustrated insurance buyers are willing to switch to a new agent, consultants say.

But while smart agencies are actively pursuing this new business, some are focused on their existing clients. In some cases, these firms have producers who are selling insurance in a hard market for the first time and are too overwhelmed to aggressively pursue new business. In other cases, agents are so content with rising revenue streams from increased commission income on existing business that they aren't concerned with finding new business.

"What I've seen so far in the last 12

months is really a black-and-white world," said Chris Burand, president of Pueblo, Colo.-based agency consulting firm Burand & Associates Inc.

"A number of agents tell me, 'Why bother going out and trying to write new business when we can make a lot of money by just holding on to what we've got?' And I have other agent clients saying, 'This is absolutely the best time in the last 15 years to go out and get new accounts.' Those agents have done so and are succeeding incredibly well," Mr. Burand said.

"What I'm finding is there is a bigger and bigger chasm between the really good agents and the OK ones or the ones that are just hanging on," said Carol Hammes, president of The Middleton Group in Pine, Colo.

"That's what's really coming out of this marketplace—the really good agencies, the ones that are definitely going to be the survivors, are going after the new business and see a fantastic opportunity to do that."

"Everybody's upset with their incumbent agent at this point" because of rate hikes, Ms. Hammes said. As a result, "this is a good time

to go in and prove that value added—where you can show that maybe you can't save them a whole lot of money, but what you can do is find a way to do some self-insured retention or some other constructive approach to loss control. That's the approach the good agents are taking to get the new business," she said.

Timothy J. Cunningham, a partner with OPTIS Partners L.L.C. in Chicago, agreed. "The firms that are really growing organically are going out to the marketplace with a story to tell: 'I may have a solution for you...,'" he said.

"The competition that competed on price previously and have no value added and no depth within the organization are being crushed a bit," allowing other firms to step up and "show their wares," Mr. Cunningham said.

Ms. Hammes said that, in some cases, agencies don't have the staff to respond well to the hard market. Some producers have become so overwhelmed by trying to get their renewals done that they are not aggressively seeking out new business, she explained.

An estimated 60% to 65% of the people in the insurance business today "have never seen a hard market before," Ms. Hammes said.

In addition to pursuing additional market share in existing lines of

business in the hard market, agencies should be developing a new niche or program, consultants say.

"Programs and niches are one of the best ways to go," Ms. Hammes said. In the *Business Insurance* ranking of the most productive agencies (*A/BT*, Oct. 7), those agencies with programs and niches are at the top of the list, she said. If an agency has a program or niche with the right expertise and reputation, "it's a good way to get new business," she said.

Bill Schoeffler, a partner with Oak & Associates in Glen Ellen, Calif., said he would advise agents to develop a niche. "You'll be able to gain more market share from other agents that don't have a company that's writing in that area," he said.

Although he acknowledged that developing a new niche in a risky line of business—such as medical malpractice liability insurance—could be challenging, there are more accessible opportunities in the personal lines market. He noted, for example, that a number of direct writers are pulling back from writing personal lines coverage in certain states, giving independent agents an opportunity to gain greater market share.

One new business opportunity agents can explore is employee benefits business, Ms. Hammes said,

noting that agents can use benefits to round out their property/casualty accounts.

Professional liability also is a lucrative niche, she said, citing medical malpractice and architects and engineers errors and omissions business as particularly ripe growth areas.

Ms. Hammes warned, however, that with specialty business, agents become dependent on particular insurers to underwrite the accounts.

"When ever you get out into a specialty, you are out on a limb and you can make a lot of money and you can sell a lot of business, but when that limb cracks or breaks off, you've got a problem," she said.

Although agents with existing niches have been able to seek new customers in those niches or programs, now isn't necessarily the time to create a new program, according to Mr. Cunningham of OPTIS. Underwriters and reinsurers may not be as interested in expanding into new lines as agents, he said.

"A lot of underwriting and alternative risk transfer entities are not necessarily looking to expand," he said. "They are so focused on maintaining what they've got."

"My sense is that even reinsurers—even though there's finite reinsurance capital now—are allocating that reinsurance capital to fairly benign things," he said. "They see so much demand they can pick and choose where they want to be."

Study finds more agencies with young principals IIABA finds youth is serving

By SALLY ROBERTS

Although the total number of independent agencies in the United States is on the decline, the number of young agency principals is growing, as is the size of the average agency, according to a new study.

Future One, a collaboration of the Independent Insurance Agents & Brokers of America and 19 insurers, released the preliminary findings from its 2002 Agency Universe Study at IIABA's recent annual convention in New Orleans. First published in 1987 on a quadrennial basis, the study is now being published every two years. The full study, which is based on about 1,700 responses from agency principals, will be released by the IIABA sometime this month.

Among the preliminary findings, the study found the total number of agencies in 2002 had decreased to 40,000, from an estimated 42,000 in 2000, due to extensive consolidation activity during that time. Of the agency respondents, 14% said they were involved in mergers or acquisitions between 2000 and 2002, while only 3% said their agencies were founded between mid-2000 and mid-2002.

While the number of agencies may be decreasing, the size of the firms is increasing, the study found. In 2002, 11% of the agencies responding had revenues of at least \$2.5 million, which the study refers to as "large" and "jumbo" agencies. Only 8% of the agency respondents in 2000 fit

that category.

The study notes that the growth may reflect increased premiums per client as well as increases in the number of clients that agencies serve.

More young agents are becoming agency principals, according to the study. Of the respondents, 30% said their agency principals were younger than 45 years old, while 8% said their principals were younger than 35. Seventy-one percent said, though, that their agency principals who were new to the position within the past two years were younger than 45, and 33% said their new agency principals were younger than 35.

Of all the agents younger than 45, 25% are women, the study found. And, on average, agency principals younger than 35 work in smaller agencies—45% are in agencies with revenues of \$250,000 or less.

Not surprisingly, the study found that agents under 35 years old assign a higher importance to the role that technology plays in building a strong and prosperous future for their agencies. Seventy-three percent of the responding younger agents, for example, said they see the use of technology to access education, research and agency management information as an important application, compared with only 53% of those agents older than 35. At the same time, 67% and 49% of the younger agents said they think using the Internet to access markets and to provide 24-hour customer service, respectively, are important applications, compared with 54% and

32% of the older workers, respectively.

On the agency/insurer relationship front, the study found that 42% of the agencies responding this year had one or more insurer relationships end in 2001. In most of the situations—54%—the insurer initiated the breakup, the study said. In other instances, the relationship ended due to premium volume demand—as reported by 26% of the respondents. Twenty-two percent said their relationships ended due to underwriting and policy problems, while 15% said it was due to pricing.

About 30% of the agencies that responded said they use insurer customer service centers for personal and/or small-commercial lines accounts. Attitudes toward the service centers from agents using them, though, are lukewarm at best, according to the study.

Only 29% of the agents who use service centers said they are worth the cost to their agency. Thirty-six percent said they use personal lines service centers only because their insurers require their use, and 33% said the same with regard to their small-commercial lines service centers.

Just 52% of the agents voiced satisfaction with their personal lines service centers, and only 46% responded that they are satisfied with their small-commercial lines customer service centers.

Copies of the complete study, when available, can be obtained from the IIABA Web site, www.independentagent.com, under the "What's New" link.

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AGENT/BROKER TOPICS

Consumerism can help bring down health care costs

By Neil Waldron

As plan sponsors absorb yet another round of double-digit health benefit cost inflation, an alternative type of coverage offered by insurers is drawing their attention.

Known as "consumer-directed health plans," this plan model puts greater choice and decision-making into employees' hands and ultimately contains benefit costs



through increased consumer accountability.

Although consumer-directed plans vary, they typically feature a discretionary fund such as an individual health reimbursement account—or HRA—funded by employer contributions that participants can use to pay for routine medical expenses. These accounts are generally offered in conjunction with comprehensive high-deductible health insurance.

Rising costs spur demand

Producers searching for growth opportunities in the health benefits market should rank consumer-directed plans as a high priority. Benefit consultants report that employers nationwide are displaying a voracious appetite for presentations about these types of plans. According to a recent Towers Perrin survey of corporate executives, just under one-third have already introduced or expanded some form of health care consumerism within their traditional plan structure, and another 36% intend to do so in 2003. Over half of the respondents agreed that consumerism is effective in reducing costs.

Year-over-year increases in health care costs are stoking interest in consumer-directed plans. Health insurance premiums jumped by an average of 12.7% last year, the highest increase since 1990, according to the Kaiser Family Foundation annual employer survey. Midsize employers—those with 200 to 999 employees—were squeezed even harder, absorbing increases in health benefit costs of 16.8%, according to research conducted by Mercer Human Resource Consulting.

New medical technologies, increased drug spending and rising demand from an aging population continue to drive up health care costs, fueling higher group health insurance premiums for the foreseeable future. Hewitt Associates Inc.'s Health Value Initiative projects that the cost of providing health care benefits will increase an average of 15.4% next year, and expenses for plan sponsors will double in five years if

current trends continue.

Engaging the consumer

Not surprisingly, employers are responding to premium increases by shifting more costs to their employees, through higher employee premium contributions, co-payments and deductibles. Consumer-directed plans, though, go beyond mere cost-shifting. They offer employers an effective way to share costs and maximize the value of their benefit dollars by combining consumerism—

Perspectives

engaging employees to take more responsibility for their care decisions—with more-traditional financial protections against the costs of serious illness.

Consumers remain very insulated from the full cost of their medical care consumption. Many think of health care costs only in terms of their co-payments. They don't realize that a prescription

drug that costs them only \$10 may really cost \$100. The overwhelming majority of co-payments are just \$15 or less for physician visits, according to Hewitt. With the advent of managed care programs, the percentage of health costs paid out of pocket by consumers has actually declined in the past two decades.

Consumer-directed health programs depart from traditional approaches to health coverage. While employers still choose the plan design, employees assume a greater financial stake than they do

under conventional managed care plans. And employees also get access to the support resources they need through toll-free nurse lines, disease management programs and Web-based tools such as online provider directories and hospital comparisons.

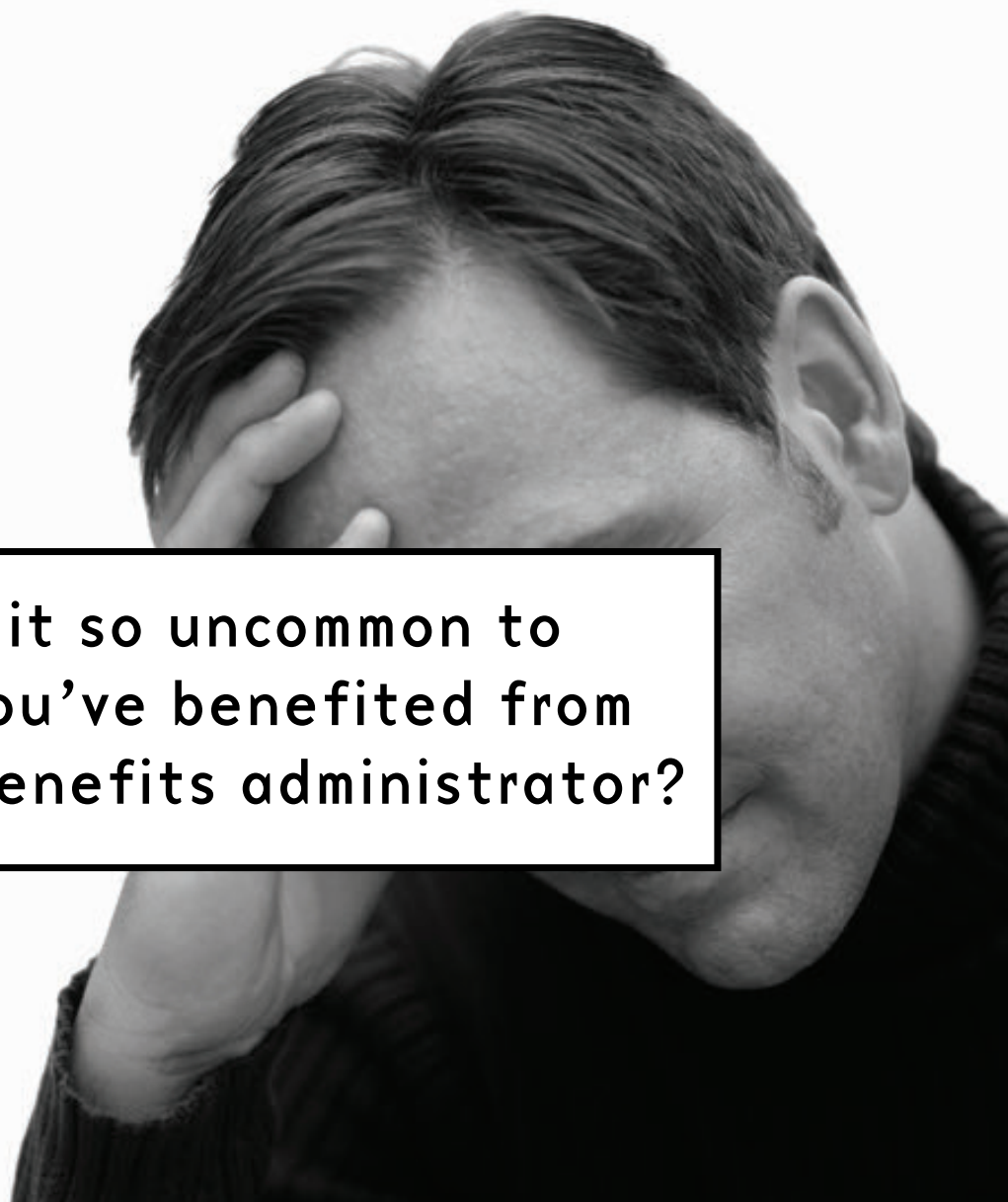
As consumers become more engaged, it is expected that they will play an important role in controlling utilization, because they will be spending their own dollars. Accordingly, it is hoped that consumers will pay more

See **CONSUMERISM**/page 20F

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Why is it so uncommon to feel you've benefited from your benefits administrator?



AGENT/BROKER TOPICS

Consumerism: Can help save health care dollars

Continued from previous page attention to the difference between brand, generic and formulary drugs and be more sensitive to provider costs. Consumerism has already made inroads in the health care arena: three-tier formularies have encouraged employees to think twice before selecting the most-expensive medication.

Market forces

Rising health care cost trends are not the only market force driving interest in consumer-directed plans. Employers are much more willing to experiment with alternative models than they have been in years past. At the same time, consumers are becoming more informed and active in their health care, due in part, to the avalanche of direct-to-consumer advertising by the pharmaceutical industry and providers. Consumer-directed plans also respond to both employer and employee demands for a more-flexible health benefits alternative.

The Internal Revenue Service also gave consumer-driven designs a shot in the arm last summer. It ruled that employer-sponsored personal spending accounts—such as HRAs—used to pay medical bills are not taxable. The ruling also allows unused account balances to be rolled over from one year to the next and lets plan participants accumulate savings within these accounts to pay for medical expenses in later years, without facing the “use it or lose it” limitations of flexible spending accounts.

Flexible plan design

Consumer-directed plans are still new and will continue to evolve to meet employers' and employees' needs. They may be structured on a self-funded basis or as a full-risk plan, depending on the employer's risk tolerance level. Plan design is flexible enough to include varying levels of HRA funding, deductibles and co-payments.

The first generation of consumer-directed products typically pairs an

employer-paid HRA with a high-deductible preferred provider organization or other managed care program. Prescription drug and dental care costs may also be included as covered medical expenses payable out of HRA funds. Full-risk plan sponsors typically pay a single premium that covers both the HRA and the managed care plan.

Participants receive comprehensive coverage for serious illnesses or other high-cost services, subject to co-insurance and an annual deductible. In a typical plan, claims for covered services are initially deducted from the health fund balance. If participants use all available dollars in the fund, they must then meet the deductible before receiving coverage under the balance of their benefit.

Employers wishing to promote workforce wellness may include first-dollar coverage of preventive care such as mammograms, well-child care and annual physicals not subject to either the health fund balance or the plan deductible. Another, less-expensive option for

employers who want their employees to have “more skin in the game” upfront requires participants to meet their deductibles before accessing the HRA.

Although consumer-directed health plans are generally installed as an option alongside traditional managed care plans, producers may also find opportunities to offer them as replacement plans. For example, an employer might be willing to replace its existing PPO with a consumer plan featuring relatively low deductibles, high HRA funding levels and coverage comparable to the PPO. The rationale would be to introduce the consumer mechanism—the HRA, consumer health information Web sites and other online tools—into the equation.

A company based in the South with approximately 700 employees spread over several locations recently replaced its self-funded PPO with a consumer-directed plan. Tired of absorbing yearly medical trend increases in excess of 20% and even 30%, the company

projected savings of approximately 10% by making the switch. It chose to do a total replacement out of concern that adding the less-expensive consumer plan as just another option might encourage its younger, healthier workers to migrate to it, while frequent health care system utilizers would remain in the richer PPO.

To gain maximum credibility with prospects and customers, producers should position consumer-directed plans realistically. Neither claims nor costs will drop dramatically overnight. But consumer plans are an important vehicle to begin getting employees educated and engaged in the game.

Over time, as employees become more cost-conscious, that engagement is likely to help contain future costs.

Neil Waldron is the head of sales and marketing for Aetna Inc.'s middle-market segment. Mr. Waldron is based in Hartford, Conn.

CPCU Society annual conference

Unethical behavior tarnishes image of industry

By **RODD ZOLKOS**

Insurance is based on trust, so unethical behavior by insurance professionals hurts everyone in the industry, according to one insurance industry trainer and ethics expert.

In contrast, “in the long run, ethical behavior pays off,” said

Catherine H. Gates, training coordinator for Montgomery Mutual Insurance Co. in Sandy Spring, Md.

“People who score high on ethics tests...tend to do better from a long-term professional standpoint,” Ms. Gates said at the annual meeting of the CPCU Society, held Oct. 19-22 in Orlando, Fla.

“We are an industry that is based on trust,” she said. “We trust that the information that the insured gives us is correct.”

At the same time, she said, the insurance buyer trusts that the company has provided the appropriate coverage.

“The insured trusts that the company is going to be there when they have a claim,” Ms. Gates said. “And the customer also trusts that the agent is working in their best interest.”

Not only does unethical behavior tarnish the image of the insurance industry but it can hurt the company employing the individuals who are guilty of unethical acts directly, through increased errors and omissions premiums and decreased customer retention.

Ms. Gates noted that the business community is particularly aware of the ethics issue, given the large number of well-publicized business failures over the past year that stemmed from alleged unethical behavior by company executives.

“All over corporate structures today, people have problems with ethics,” Ms. Gates said. What's critical is a how a company deals with those ethical issues, she said.

Ms. Gates noted that the word “ethics” refers to the rules or standards that govern the conduct of a person or a member of a profession, while being “ethical” means acting in accordance with

the accepted principles of right and wrong that govern the conduct of individuals or a profession.

“If everybody acted ethically, we wouldn't need laws,” she said. In fact, according to Ms. Gates, laws emerge from the breakdown of ethics.”

“Self-regulation is ethics.

Imposed regulation is law,” she said. “If you're not going to take care of it yourself, we will take care of it for you.”

Insurance regulation exists, in part, to guard against unethical behavior by companies and their employees and to protect

policyholders “from unscrupulous companies and producers who take advantage of the complexity (of insurance) in order to sell policies that are not needed,” Ms. Gates said.

Among the other goals of insurance regulation is to protect against unfair discrimination. “Our industry is based on discrimination,” she said. “All discrimination is not necessarily bad. What makes it bad is when the discrimination is based on things that can't be changed, like your sex or race.”

Ms. Gates reminded the Chartered Property Casualty Underwriters to “keep in mind that, in addition to the laws that apply specifically to the insurance industry, we're also held to all the general trade protection laws that apply to any business.”

Ms. Gates suggested to the

underwriters that participation in a professional society could be an aid to ethical behavior; to speak with authority, she said, a professional society must maintain a set of high standards for membership and work continuously to improve its profession.

In “most professions, by being in a professional association, it enhances your ability to serve the community in which you live,” she said, adding that the association can serve to reinforce a code of ethics for its members.

Discussing ethical values, Ms. Gates said that “honesty is the cornerstone of ethical behavior. Obviously, it goes hand in hand with trust.”

Meanwhile, “having integrity means being incorruptible, no matter what,” Ms. Gates said. “That's a real tough standard to live up to.”

Of responsibility, she said, “our insureds trust us and rely on us to do what's best for them.”

“One of the core ethical values that you can live your life by is courage,” Ms. Gates said, “because it takes courage to do the right thing. It takes courage to live with integrity.”

“Ethics is doing the right thing for the right reason,” Ms. Gates said. “It's a code of standards that you judge your conduct by.”

Ms. Gates conceded that “we have all, at some point, made decisions that we are not proud of.” But the key, she said, is to learn from those situations and to go forward keeping in mind moral standards and trying to lead a life that is more ethical.

Compliance
2 column x 5”



AGENT/BROKER TOPICS

CPCU Society annual conference

Reinsurer sees hard market lasting for several years

Low investment returns, corporate failures add pressure to pricing

By **RODD ZOLKOS**

Heading into the Jan. 1 renewal period, at least one reinsurance company executive expects hardening to be a fundamental feature of the marketplace for some time to come.

"There's a number of factors at play here at renewal," said Patrick Mailloux, president and chief executive officer of Swiss Re America Corp. in Armonk, N.Y., speaking as a member of a panel examining the current state of the reinsurance market at the CPCU

Society's annual conference, held Oct. 19-22 in Orlando, Fla.

Low investment returns are still a problem for reinsurers, and the impact of recent corporate failures on directors and officers reinsurance adds pressure for a continued hard market, Mr. Mailloux said. "I think some lines

'I think some lines of business were so seriously underpriced that you'll need several years of rate increases to get you back to where you need to be.'

*Patrick Mailloux
Swiss Re America Corp.*

of business were so seriously underpriced that you'll need several years of rate increases to get you back where you need to be," he said.

"When you add all these factors together, when you have people talk about probable softening in 2003 or 2004, I don't think that's very realistic," Mr. Mailloux said. "I think we're looking at a hard market for several years."

Another panelist, Sean F. Mooney, chief economist and

research director for reinsurance broker Guy Carpenter & Co. Inc. in New York, pointed to a "divergence" in the current insurance marketplace. "The reinsurers are getting hurt much worse than the primary companies," he said.

Mr. Mooney added that he expects the Jan. 1 property reinsurance renewals generally to be flat, though there will be continued upward pressure on casualty reinsurance pricing.

Regarding the new capital that has come into the market since the Sept. 11, 2001, terrorist attacks and its impact on reinsurance pricing, Mr. Mooney said that "so far, the (new) capital has been disciplined."

The real test is going to be the Jan. 1 renewals, said Swiss Re's Mr. Mailloux. "It's a bit of a question mark of how are they going to be able to write effectively across all lines of business," he said.

The new companies obviously got their capital by making certain promises about returns to their investors, Mr. Mailloux said.

Regarding the overall impact of the Sept. 11 attacks, Randy J. Maniloff of the Christie, Pabarue, Mortensen & Young P.C. law firm in Philadelphia, said, "It's going to be interesting to see what happens if we have another terrorist event."

Mr. Maniloff speculated that the

next terrorist attack would not have the same "shock value" as that on Sept. 11, adding that he wonders whether there would be the same interest in creating a federal victim's compensation fund, and whether the response to

'History shows that when you have a very, very protectionist government in terms of any time the public is harmed, the government responds with more regulation.'

*Randy J. Maniloff
Christie, Pabarue,
Mortensen & Young P.C.*

the Sept. 11 attack created an environment in which every victim of terrorism would expect to receive some sort of government compensation.

Wondering how the industry should react to current uncertainties in areas such as terrorism, Pamela E. Davis, president and CEO of Nonprofits' Insurance Alliance of California, said she thinks that, in general, the industry should be able to get pricing right, yet some lines, such as auto coverage, that are very predictable are still subject to price fluctuations.

"Part of it is our industry really lacking discipline," Mr. Mailloux said. The key, he said, is "going back to the basics." He said that if, as an industry, "we get a little bit

better at execution, a lot of our problems will be solved."

In terms of insurance cycles, Ms. Davis said there is an inherent conflict in insurance in that the policyholder is thinking long term in terms of coverage, while the stockholder is thinking short term in terms of return.

Asked to consider how the reinsurance market will look in five years, John W. Smithson, president, CEO and director of PMA Capital Corp. in Philadelphia, said he expects it to be a small market in terms of the number of sellers, with capital continuing to go toward those reinsurers that are strongly capitalized and have solid track records.

Mr. Mailloux said his view is that "in five years, we'll just be coming out of the fifth straight year of hardening reinsurance prices."

Mr. Maniloff, meanwhile, said, "I think that the reinsurance industry will be far more regulated than it is right now."

"History shows that when you have a very, very protectionist government in terms of any time the public is harmed, the government responds with more regulation," he said.

But Mr. Smithson suggested that reinsurance already is a highly controlled business sector, supervised for solvency even if rates and forms aren't regulated.

Sandra L. LaFevre, vp and assistant secretary of the Reinsurance Assn. of America in Washington moderated the session.

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2,600 attend CPCU annual convention

More than 2,600 CPCU Society members attended this year's annual conference of the society, held Oct. 19-22 in Orlando, Fla.

During the conference, The American Institute for CPCU conferred the CPCU designation on its 2002 class of 1,034 graduates of the Chartered Property Casualty Underwriter program. This year's graduating class brings the total number of CPCU designations conferred since 1943 to nearly 54,000.

The 2003 CPCU Society annual conference, the organization's 59th annual meeting, is scheduled for Oct. 11-14, 2003, in New Orleans. Next year's event will begin with a leadership conference Oct. 9 and 10, giving attendees a chance to enhance their management skills.

For information on next year's conference, visit the CPCU Society's Web site at www.cpcusociety.org.



PHOTO: ORLANDO CONVENTION AND TOURISM BUREAU

The CPCU Society held this year's convention in Orlando, Fla.

Online training offers savings, convenience, security

By MICHAEL PRINCE

As more individuals become comfortable using computers, an increasing number of employers are turning to companies that provide online training in risk management and safety to employees.

Companies today can turn to a variety of service providers that offer a full range of online risk management, health and safety, and employment law training services.

About 30% of all risk management training comes through online services, said Robert Delamontagne, the chairman of EduNeering

Inc., an online training company based in Princeton, N.J., and located on the Internet at www.eduneering.com. Mr. Delamontagne said he expects that figure to rise to about 70% in coming years.

Some online training providers specialize in just one area of education, while others have huge course listings covering many fields.

One specialty firm is EnviroSpectrum.com Inc. of Annandale, Va., which provides the type of hazardous materials safety training that the Occupational Safety and Health Administration requires for more than 7 million workers. Located at

www.envirospectrum.com, the company's Web site offers an eight-hour refresher course that workers are required to take every year, said Thomas Carchia, EnviroSpectrum.com's director of business development.

The big advantage of online training compared with in-person training is lower costs. For an organization with multiple locations, gathering all of its employees for in-person training often requires extensive travel and lodging expenditures, in addition to the cost of the live instructor. And such training often requires a company to shut

down its operations for the day, Mr. Carchia said.

Another advantage to online training is its ability to track employees' training. This is particularly important for training in employment issues, such as sexual harassment training, noted Shanti Atkins, the head of content and business development at Employment Law Learning Technologies, an employment law training organization based in San Francisco whose Web site is www.elt-inc.com.

Ms. Atkins noted that three U.S. Supreme Court rulings from the late 1990s provide employers with a

strong incentive to provide sexual harassment training to eliminate or reduce their liability. But to be an effective litigation tool, the training system must verify that employees have actually taken and completed the instruction. "None of this matters unless you can prove people completed the course," she said.

The ELT system, which offers 10 courses on a variety of employment-related topics, keeps track of when each trainee logs on, logs off and completes the training, she said. Such training, in addition to preventing injuries and discouraging litigation, can also prove very helpful if a lawsuit should be filed.

It's not enough that a company provides training for its employees, Ms. Atkins said; the company must also be able to demonstrate that it trained its employees effectively with a high-quality program. The use of high-quality training can indicate to a jury that the company made a serious effort to train its workers.

Nonetheless, Ms. Atkins advises that a company limit the information recorded by its training system.

Online training systems can verify that employees have actually taken and completed the instruction.

She said that capturing the actual scores of workers can come back to haunt the company; during employment litigation, a plaintiff could use the existence of low scores to show that the company had a problem with people understanding the law. "So the training creates liability for you," she warned.

The ELT training became available in October to more than 3,000 companies that are members of AeA, a high-tech trade group in Newport Beach, Calif., said Nicole Simon, AeA's director of product marketing. Online training was selected because it provides cost advantages and can help employers stave off employment suits, Ms. Simon said. "It gives companies a way to defend themselves," she said.

Another advantage to online training is that it can use the multimedia capabilities of the Internet. Online training services often use graphics, pictures and narration to tell their stories, providing a learning environment that is more entertaining than a mere lecture presentation.

For example, one ELT program tells the story of a woman who has been receiving sexual advances from a co-worker. The story is narrated and shows photos of the different characters in the various scenes. At one point, the woman receives advice from some colleagues; afterward, the program user is asked to select which advice the woman should follow. The program then critiques the user's selection.

The EnviroSpectrum.com program has animated characters with

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Both Employment Law Learning Technologies (right) and EnviroSpectrum.com (above) use multimedia effects such as photographs, animation and narration in their training programs.



Online: Advantages offered

Continued from page 22
a narrator. One scene shows a barrel of leaking chemicals, while another shows a man poking a stick into a bubbling pool of toxic waste.

CyberSure University, whose site is located at www.cybersure.com/cybersure/syntrio/frontdoor.asp, is a joint project between Syntrio Inc. of San Francisco and ABD Insurance & Financial Services, an insurance broker in Redwood City, Calif. CyberSure University offers more than 65 courses, covering such topics as OSHA regulations, driver training, hazardous materials handling and employment law issues, said

Stephen Henderson, the director of marketing at Syntrio Inc., which provides the content and technology for the site.

The courses are available for free to clients of ABD, Mr. Henderson said, with course tracking and recordkeeping services costing extra. He noted, though, that only six courses are available online at any one time, with the selection changing every three months.

In addition to costing less than live training, online training is more conducive to learning, Mr. Henderson said, because it takes place at the trainee's own pace and

in his or her free time.

CyberSure University was launched in May with the goal of helping ABD's clients better address their risks. "It's an excellent risk management tool," Mr. Henderson said.

Another varied program, www.trainingweb.com, comes from Liberty Mutual Insurance Co. The insurer started offering online courses to its customers in 1999, after it determined that some policyholders might find online training more convenient than other types of training, said Connie Bayne, manager account consulting for Liberty Mutual in Boston.

For example, the site offers a course for truck drivers. Online training is especially helpful for them, because they spend lots of time on the road and it's difficult to gather them in one place for a day of training. With the online system, the drivers can access the training at computers set up in break rooms at loading docks, Ms. Bayne said.

The Liberty Mutual program has been effective in training more than 6,000 employees on driver safety, said George Chedraoui, health and safety program manager for International Business Machines Corp. in Research Triangle Park, N.C. Mr. Chedraoui said he was particularly impressed that his company's employees could receive their training from any location. "When this was installed, it gave us a single source where any employee can go to this platform and get their training," he said.

For an even greater variety of courses, employers can turn to EduNeering, which offers almost 500 courses in areas such as health and safety, compliance with Food and Drug Administration regulations for drug and medical device makers, energy company regulation compliance and courses for health plans, Mr. Delamontagne said.

While the implementation of online training can lower a company's training costs, an employer's biggest savings lie in its lowered exposure to risk, he said. This is especially true for highly regulated industries and those with employees in far-flung locations. These companies "had better be doing something to deal with that risk profile," he added.

Still, in spite of the growing popularity and advantages of online training, few expect in-person training to disappear completely.

"There will always be a need for a number of different training venues," Ms. Bayne said.

Online training is great for teaching about regulatory or legal issues, but it can't match in-person training for hands-on demonstrations, Mr. Delamontagne said.

"If you need an expert and you are teaching a skill, you need a classroom, he said.

Even online training is often augmented by access to instructors. For example, at EnviroSpectrum.com, Mr. Carchia said that a trainer is available by either e-mail or telephone, "so you can always have access to an instructor."

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BI12/02

Rivera: Industry must face challenge of 'event risk'

Continued from page 3

years ago for exposures that, at the time, were totally unknown or appeared to be excluded."

Insurers, therefore, must begin to "think the unthinkable" when addressing such risks, Ms. Rivera suggested, and recognize the risks "we may be assuming either explicitly, or implicitly, going forward."

Ms. Rivera said that although the emergence of event risks is a new challenge for risk managers, captives and insurers, some things are little changed from the hard market of the 1980s that spawned risk financing innovations.

"We appear to be in the same market we were when ACE was originally formed," said Ms. Rivera. "ACE was created only 17 years ago and was originally conceived to be a solution provider to the excess capacity crisis of 1985."

In less than 20 years, she said, ACE has grown to become a global insurer, with offices in more than 50 countries.

"The innovators of the mid-'80s proved that when new solutions are urgently needed, seemingly insurmountable hurdles can indeed be overcome," Ms. Rivera remarked. "And I think that's the marketplace

in which we live today."

Looking ahead, Ms. Rivera said: "It is clear that our new reality and the breadth of event risk will make capital committed to our industry more precious. We think that there's a good chance that the quality and quantity of capacity committed to the U.S. market will be next year's major issue." That means, she added, that insurers must produce consistent and attractive returns on equity in order to attract investors.

David Mair, former director of risk management for the U.S. Olympic Committee in Colorado

Springs, Colo., said during his portion of the presentation that the new reality of risk requires "a new view of business. And it is a new view I choose to characterize as an understanding of strategic risk."

Strategic risk management, often called enterprise risk management, is "clearly the closing of the circle," said Mr. Mair, who acknowledged being a late convert to the philosophy. Risk management pioneer Douglas Barlow in 1960 remarked that "all management is risk management," Mr. Mair explained, "and here we are talking about it again in 2002 under the banner of

enterprise risk management."

The need for enterprise risk management is driven by three fundamental principles, according to Mr. Mair.

First, "business takes place more in space than it does in a physical place," he said. Delivery of products and services over the Internet means businesses operate in areas that they never would have been in 50 years ago, Mr. Mair explained.

Second, there is a "strategic integration of formerly disconnected business practices," he said, which means all of a business' operations function more closely. The "feudal kingdoms" of old are disappearing, Mr. Mair said, and departments as different as marketing and shipping are more often sharing ideas.

Third, Mr. Mair said, "risk managers have to be involved in those formerly segregated processes, and we have to understand the ideas that are being developed." That calls for a change in perspective on the part of some risk managers, he said.

Often, "in spite of changing conditions around us, we choose to do exactly what we did before," he pointed out, rather than adapting and doing what is needed to be successful at managing risk. For example, some insurance buyers hesitate to investigate alternatives to coverage with rates that insurers promise "are only going up 100%," Mr. Mair noted. Instead of simply accepting the increases, buyers need to say, "I should be looking at new ways to be dealing with this," he said.

Mr. Mair stressed that risk managers should be looking at several "critical domains of risk" as a way to adjust their worldview and make sure all risks are being measured.

Among those domains is the political arena, in which knowledge of such matters as tort reform is critical to insurance buyers. In the area of finance, the boom and bust of economic cycles affects the amount of capital that flows to risk bearers, and an understanding of global economics is crucial to gauging the impact of such faraway influences as a shaky Argentine currency, Mr. Mair said.

An understanding of geopolitics is vital as well, he emphasized, because global political forces exert a significant influence over the business community. And, a change in the "temporal" aspect of risk management means overcoming the tendency to "take a very short focus on issues that take longer to understand," Mr. Mair said. "Long-range strategic plans for companies, despite many of their protestations to the contrary, are about as long as the time to the next earnings statement."

Risk managers also must face the responsibility of protecting the reputation of their companies, Mr. Mair emphasized. "In the area of brand and reputation risk, where, in many cases, that's all our companies have, it becomes critical for risk managers to deal with," he said.

The presentation was moderated by Paul D. Winston, editor of *Business Insurance*.

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Fronting: Companies becoming harder to find

Continued from page 3

Captive owners need to bear in mind that fronting companies are in business to make a profit, Mr. Torpey said. "If we're not profitable, we're not going to continue," he explained, adding that profitability is necessary to keep a high rating from A.M. Best Co.

Mr. Curio said fronting companies are aware that much is at stake in how they perform.

He pointed out that AIG has "a \$3 billion book of risk management business. Clearly, from year to year, 25% of our business comes from captive insurance companies. That's a big slug of money. This year, we're expecting it to go up by 5% on our overall book...It is certainly important to us that we keep this business intact and that we serve it well."

Fronting is a "very, very complex

transaction," Mr. Curio said. "Certainly the easiest is the single-parent captive," he noted, in which the front deals with just one parent. Such arrangements are the most common in AIG's fronting portfolio, he said.

Group and association captives, on the other hand, are "by far, the hardest," Mr. Curio said, because they issue multiple policies. Fronted programs for such captives likely will be the hardest to place in the current marketplace, he warned.

Rent-a-captives are somewhere between single-parent and group captives, he said. Although such arrangements not as complex as a group captive front, they still can be tricky, because there are three parties involved—the front, the reinsurer and a cell company—he explained. "The cell company needs to put up a participation agree-

ment," which is essentially a mirror image of the reinsurer's agreement,

'Clearly, from year to year, 25% of our business comes from captive insurance companies. That's a big slug of money. This year, we're expecting it to go up by 5% on our overall book.'

Michael Curio

AIG Risk Management Inc.

Mr. Curio stressed.

Sometimes, fronting arrange-

ments are dismantled if one side feels the relationship isn't working out. That was the case with Steel Tank Insurance Co., an association captive formed in 1988 that entered a fronting relationship in 1996. The company, whose members include petroleum tank manufacturers, has since become a risk retention group.

Brian Donovan, STICO's president, said fronting arrangements offer benefits because they provide insurance-related support services and help with policy forms, and because the captive has coverage that is issued by a highly rated insurer. "Very frankly, we entered into a fronting arrangement for the A rating," which met the requirements some of STICO's members faced from their clients.

The decision to end the fronted relationship was made because "we

were losing underwriting control," Mr. Donovan explained. The front was placing restrictions on endorsements that STICO members needed and was uncooperative on retro dates the captive wanted for its claims-made policies, he said. The fronting insurer also implemented claims-handling rules that pushed the captive out of the process.

STICO switched to a different fronting insurer earlier this year, and that insurer began to implement rules regarding how STICO's reinsurance was written. "That started disrupting a long-term relationship with our reinsurer" and the decision was made to abandon the arrangement with the fronting insurer, Mr. Donovan said.

The session was moderated by Katherine Allen, senior vp with Discover Re Managers Inc. in Farmington, Conn.

12th Annual World Captive Forum

Segregated cells again being used as profit centers

By MICHAEL BRADFORD and RODD ZOLKOS

NAPLES, Fla.—Setting up a segregated-cell company as a profit center is an idea whose time has come—again.

Indeed, there are a variety of advanced possibilities for using cells to finance risks, some cell captive experts say.

The profit center trend resembles the 1990s explosion of rent-a-captives that were established mainly by agents and brokers to write program business, said Michael Murphy, president of RiskCap Inc. in Denver. He said an informal survey of independent captive managers in Cayman and Bermuda showed that many of the cell companies being formed today have the same business plans as did rent-a-captives and cell companies of the last decade.

"It's the same profit center play that we saw in the '90s," Mr. Murphy pointed out. "And therein lies the rub."

Speaking at the 12th Annual World Captive Forum in Naples, Fla., last month, Mr. Murphy explained that when cell companies are set up as profit centers, they present "substantial threats and opportunities."

The threats, he said, come from both external and internal forces.

The scarcity of fronting services is a very big external problem, Mr. Murphy noted. But an even larger external threat is "the issue of collateral," he said. "The collateral piece is the problem that the proposers of these profit center programs are facing today."

Lisa B. Lacey, Amherst, N.Y.-based director of alternative risk at First Niagara Risk Management and president of Collateral Resources, agreed during the panel discussion that "one of the biggest challenges we're facing today in setting up segregated-cell captives is the issue of collateralization."

Specifically, the problem is collateralizing the "gap," or the exposure that lies between the cell's loss fund and the attachment point of the aggregate reinsurance, Ms. Lacey explained. The gap exists, she said, because reinsurers want some distance from the projected loss activity. Fronting companies want to make sure the exposure is covered.

"If you could find reinsurance" for the gap, said Ms. Lacey, "in all likelihood, you couldn't afford it."

Ms. Lacey pointed out that the gap often is funded with letters of credit. Fronting companies want to see the gap collateralized in full at the inception of the program year, she said. The collateral requirement will change each year and is not tax-deductible. If claims pile up, the collateral can be exhausted to pay them.

There is a way to avoid some of those collateralization issues, Ms. Lacey suggested, by treating the gap as "exactly what it is—just another area that requires an insurance solution."

A primary stop-loss policy can cover the gap exposure, Ms. Lacey remarked. Premium for the coverage is based on the "perceived risk exposure, historical loss payout pattern and investment income," she explained. "At the end of the program year...any unused premium is credited back to the insured with an amount of earned investment income."

An added advantage to the stop-loss solution is that, because it is true risk transfer, there should be some tax advantages, according to Ms. Lacey.

However, the tax implications of segregated-cell companies can be difficult to sort out, said Richard E. Irvine, tax partner with PricewaterhouseCoopers in Bermuda, who was a panelist at the session.

There are no U.S. statutes, regulations, rulings or other guidance for dealing with segregated-cell captives, Mr. Irvine noted. Instead, tax

issues have to be worked out by studying analogous statutes, regulations and rulings dealing with related-party insurance transactions, he said.

The gap issue plays a part in determining whether a cell is an insurer for tax purposes, Mr. Irvine said. Because the gap exists, "there's insurance risk," he pointed out, which would seem to qualify the company as an insurer.

'This is a huge industry. We have underwriting profits from third-party business, we have investment income, we have the ability to create a new asset base.'

Michael Murphy
RiskCap Inc.

But how the gap is funded can have implications for the company's tax liability, Mr. Irvine noted. If the gap is funded by "some kind of guarantee from the owner of the cell, we know that doesn't work," he said. "We have a whole bunch of cases out there that say we can't have a parental guarantee."

"I think you have a better case with a contractual arrangement," such as insurance to fund the gap, rather than equity funding from a parent, Mr. Irvine said.

Mr. Murphy pointed out that, despite the potential pitfalls of operating profit-center cells, "the opportunities are enormous....This is a huge industry. We have underwriting profits from third-party business, we have investment income, we have the ability to create a new asset base."

If the cells are "done properly, they are significantly more protected than the old model," Mr. Murphy said. "The old model was that you had segregated cells, but legally you didn't have a segregated sys-

tem," he said. Instead, the old arrangements usually involved the same treaty reinsurers and fronting company for all cells. "If you had a large cell go south," Mr. Murphy explained, the ripple effect would have an impact on the others.

The session was moderated by Nicholas Dove, president of Quest Insurance Solutions Ltd. in Hamilton, Bermuda.

In another cell captive session, moderated by Judy Lindenmayer, a producer at Hobbs Group L.L.C. and former director of the worldwide risk management group for Fidelity Investments, panelists outlined a number of imaginative risk financing strategies involving cell captives.

For example, a cell could be used to provide coverage for natural catastrophe-related losses that wouldn't necessarily be covered under a traditional property catastrophe policy, said Gerry Fahrenthold, vp-financial products at AEGIS Insurance Services Inc. in Jersey City, N.J.

"Traditional insurance is going to tie the loss to physical damage, but that's not the only loss you have," Mr. Fahrenthold said. For example, losses associated with a "near miss," such as the cost of boarding up windows before a hurricane or the loss of business due to a narrowly averted disaster could be covered through a contract written through the cell, he said.

A contract also could be structured under which a cell captive could be used to insure a company's stock price, Mr. Fahrenthold said. In such a situation, the cell could purchase and hold the company's stock to hedge its price if the stock's price falls relative to the overall stock market due to a fortuitous event.

Nicholas Leighton, director of insurance services at Grand Cayman, B.W.I.-based Caledonian Insurance Services Ltd., said cell captives also could be used to run off the long-

term liabilities of a captive, or as a "windup" vehicle for a captive in the event of the merger of captive events.

A cell captive also could be an ideal vehicle for short-lived one-off deals or could be used to write such coverages as key-person insurance for a company, Mr. Leighton said.

Cell captives also could be a way to address such balance sheet exposures as weather, residual value or political risks, he said.

"If you already have a captive, having a cell in a non-owned cell captive probably isn't a bad idea as well," Mr. Leighton said, suggesting that the cell could be used for non-standard coverages that, if done in the company's own captive, might result in audit qualifications due to reserving, solvency or transfer pricing concerns.

Christopher J.N. Towner, chairman of the Towner Management Group in St. James, Barbados, said he expects to see cell captives increasingly used for such advanced risk financing activities.

"I think, in the future, we are going to see the use of these types of entities as almost a specialty area, if it's not already," Mr. Towner said.

And, in trying to determine where a company might be able to use a cell captive for some of those purposes, the best way is probably to develop a "Christmas wish list" and shop it to managers in various domiciles, he said.

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12th Annual World Captive Forum

Online reinsurance beneficial to captives

By **RODD ZOLKOS**

NAPLES, Fla.—In a market in which reinsurers are demanding more underwriting information and players across the industry are looking to boost efficiency, an e-commerce approach to purchasing reinsurance could benefit captives.

"With more restrictive underwriting, people are asking for much more data," said Andrew Berry, president and chief operating officer of GRX Technologies Inc. in Providence, R.I.

At the same time, in the current hard market and with companies still responding to the impact of the Sept. 11, 2001, losses, "What we're seeing is an industry that was relatively inefficient to begin with is operating under a condition of stress," Mr. Berry said.

Speaking as part of a discussion at the 12th Annual World Captive Forum last month in Naples, Fla., Mr. Berry said those inefficient processes are reflected in such areas as high expense ratios, lack of systems connectivity, inconsistent data, poor customer service, administrative errors, decentralized procurement and slow payment cycles.

E-commerce tools could make the reinsurance buying process more efficient in a variety of ways,

Mr. Berry said. Buyers could realize increased efficiency in the quantification and evaluation of loss exposures, control and mitigation of risk, procurement of reinsurance and vendor services, documenting and processing of policies and claims, and other activities, he said.

Intermediaries could benefit from increased efficiency in the identification of coverage needs and program design, the development of placement strategies, and the gathering and submission of underwriting information. In addition, brokers could profit from greater efficiency in the areas of negotiation of price and coverage, the facilitation of policy execution and in the management of accounts, he noted.

From the reinsurer's perspective, there are potential efficiencies across various activities, including risk analysis, underwriting and pricing, risk structuring and packaging, policy servicing and claims processing, Mr. Berry said.

Jean M. Stalcup, senior vp at Employers Reinsurance Corp. in Overland Park, Kan., noted that the efficient exchange of information between buyers and sellers of insurance is vital to the underwriting process. And 2001 underscored the importance of risk identification.

For insurers and reinsurers, "Ev-

erything that could go wrong did go wrong in 2001," Ms. Stalcup said. Reserve deterioration, toxic mold, asbestos, and natural catastrophe losses all hit the industry last year, even before the impact of Sept. 11, which was felt across almost all lines, she said.

A downturn in the investment market also hit the industry in 2001, and "When you take all of these together, you can see that we really had about the worst year we could have had," Ms. Stalcup said. "And what did we get for a Christmas present? Enron."

The current hard market differs from those that preceded it, Ms. Stalcup said. "In the mid-'80s, it really was a capacity crisis," she said, inspired by a major drop in interest rates that reduced insurers' investment income and a crisis in the auto liability and medical professional liability markets.

Meanwhile, in the early 1990s there was a catastrophe crisis, spurred by Hurricanes Andrew and Iniki in 1992 and the Northridge earthquake in 1994.

"In essence, this market is combining the worst of both. We've got both a capacity crisis and a catastrophe crisis," Ms. Stalcup said.

The industry experienced huge underwriting losses in 2001, Ms.

Stalcup said, though she noted that underwriting losses have been the norm for years. The industry has not made an underwriting profit since 1978, she said.

Because of all those factors, "Underwriting discipline has now become a rallying cry," Ms. Stalcup said. "People are listening to the underwriting point of view." And, going forward, "Underwriting profit is going to be critical to the viability of the insurance market," she said.

With that in mind, captives going to market for reinsurance need to know their exposures, sharing details with potential reinsurers and not hiding issues, Ms. Stalcup said.

"This is really the time to lay your cards on the table," she said. "And in order to do that, you're going to need data."

And, from a reinsurer's point of view, "what we're looking at is getting the best information that we can to make the most accurate pricing decisions that we can," she said.

As captives and other insurers look to e-commerce for placing reinsurance, the successful approaches will be those that embrace open data standards and that bring opportunities to add value to the process, said Stephen Wyckoff, a managing director at Marsh Inc. in New York.

WORLD CAPTIVE FORUM

Noting that there are several e-commerce platforms currently in the insurance and reinsurance marketplace, Mr. Wyckoff said he thinks systems are moving from strictly data-collection platforms to more collaborative approaches.

Mr. Berry of GRX said that the keys to getting "traction" on an e-commerce approach in insurance and reinsurance transactions are focusing on a particular business problem and backing up that focus with a commitment to change.

He cited Chubb Corp.'s decision to place its U.S. facultative reinsurance through insurance and reinsurance e-commerce technology company eReinsure.com Inc. as an example of such a commitment. Chubb is using the eReinsure platform as part of a broader strategy to use technology to increase its efficiency and reduce costs.

Brian Kawamoto, executive vp and managing director of Lockton Cos. Inc. in Kansas City, Mo., moderated the session.

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12th Annual World Captive Forum

Deductibility of captive premiums a taxing question

By **RODD ZOLKOS**

NAPLES, Fla.—For a company seeking to qualify for a tax deduction for insurance premiums paid to a captive, the key requirement is that the risk financing be clearly identifiable as an insurance transaction, according to one insurance tax expert.

Essentially, "insurance premiums are deductible and self-insurance reserves are not," said James R. Cameron, a partner with the Baker & McKenzie law firm in New York. Although there are several theories under which premiums paid to a captive could qualify for deductibility, Mr. Cameron said there is a common thread to all of them—"it needs to be insurance in a commonly accepted sense."

Mr. Cameron discussed tax issues related to captives last month as part of a panel at the 12th Annual World Captive Forum in Naples, Fla.

Among the requirements to qualify for premium deductibility under the so-called "unrelated business theory" is that more than 30% of the captive's premiums be derived from business unrelated to the parent company.

"That is a line that the courts have sort of drawn," Mr. Cameron said, though it's possible that less than 30% might still pass muster with the Internal Revenue Service.

"Where the line is, even though we call it 'the 30% test,' we don't know yet," he said.

Under the "brother-sister theory," separate operating subsidiaries could deduct premiums paid to a captive owned by the parent company. "This theory, unlike the 30% test, does not give you a parental deduction," Mr. Cameron said. "The deduction is for the subsidiary companies."

'Here the real issue is, do we have an insurance policy covering the insured that involves real risk shifting?'

*James R. Cameron
Baker & McKenzie*

Shareholders in a group captive also could qualify for premium deductibility if coverage placed in the captive involves genuine risk transfer. "Here the real issue is, do we have an insurance policy covering the insured that involves real risk shifting?" he asked.

Pooling arrangements also can provide premium deductibility, giving captives participating in the pool a way to acquire unrelated business if they are truly taking on risks of other pool participants. The IRS "has recognized pooling as be-

ing insurance," Mr. Cameron said, "the caveat here being that we have real shifting of risk."

"Some participants in a pool don't want to take too much risk, and the trick is getting the right amount," he added.

Not every company is concerned about deductibility and shaping its captive's activities to meet IRS tests.

Panelist Michael D. Phillipus, former manager of risk management at Pennzoil-Quaker State Co. in Houston, said his former company did not seek the deduction.

"We actually elected not to treat our captive for tax purposes as an insurance company," he said. Such an approach might seem conservative, he conceded, but "you have to know your management, and you have to know what their expectations are."

Conversely, C. Jeffery Triplette, vp of risk management-insurance at Duke Energy Corp. in Charlotte, N.C., said his company does make an effort to earn the deduction.

"There's a lot of opportunity in captives, and from Duke's standpoint, we take the deduction," said Mr. Triplette, who moderated the panel.

"We do look for the opportunity to, obviously, maximize, if we can, the deductibility of premiums using the 30% test," he said. In Duke Energy's case, the company meets that unrelated-business requirement by

insuring some of its joint venture partners through its captive.

Companies looking to make the case that their captive activities are insurance in a commonly accepted sense also have to be careful about engaging in such practices as making loans back to the parent company.

"If you're going to do this, do it intelligently," Mr. Cameron said. "Don't just take all the money and wire transfer it back to your parent company." Instead, the company should think of such activities in terms of making intelligent investments for the captive, he said.

Again, that consideration might not be an issue for companies that are not interested in premium deductibility.

Mr. Triplette suggested there are captives that get approval from their domiciles' regulators "to lend back tons of money to their parent because they're not even trying to get the insurance deduction."

Mr. Cameron also discussed the "self-procurement taxes" many states intended as a substitute for the state premium tax on out-of-state placements of insurance. While those taxes are often ignored by risk managers and their captives, they could be significant in some cases, he said.

Mr. Cameron said that captive parents should be aware of the taxes, particularly as the issue grows in importance with insurance departments as states seek to recoup lost revenue.

Forum attendees explore captive insurance trends

NAPLES, Fla.—The 12th World Captive Forum attracted approximately 330 people to The Registry Resort in Naples, Fla., Nov. 18-20.

The annual event, co-produced by *Business Insurance*, Tillinghast-Towers Perrin and Quest Group of Cos., featured a variety of sessions and discus-

sions on trends in captive insurance and risk financing alternatives.

Next year's forum will be held Nov. 17-19 at The Registry Resort in Naples.

For more information, contact Conference Director Lisa Ferrier at lferrier@harringtoncompany.com.

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Europe gets tougher on aging oil tankers

By EDWIN UNSWORTH

BRUSSELS—The break up of an aging oil tanker last month off the coast of Spain is focusing the attention of European governments and insurers on tanker safety and oil-spill compensation.

Spanish Prime Minister Jose Maria Aznar and European Union Transport Commissioner Loyola de Palacio are leading the call for a clampdown on unseaworthy tankers and for bringing forward an international ban on aging single-hulled tankers. The 26-year-old *Prestige*, which suffered a breach in a storm and then broke apart and sank during salvage efforts (*BI*, Nov. 25), was a single-hull vessel.

France and Spain last week together adopted a tough new policy of requiring single-hulled tankers age 15 or older carrying oil or other hazardous cargo to submit to inspection when passing through their territorial waters.

The European Commission's public position is that shipowners—and, thus, their insurers—should shoulder more of the cost of spill cleanups and compensation. It cited the example of the *Erika*, a 24-year-old single-hulled tanker that in 1999 spilled 3.8 million gallons of oil off the northwest coast of France. Of the \$156 million paid in compensation for that disaster, \$145 million came from a mutual



PHOTOS: AFP

Volunteers clean oil slicks on a Spanish beach caused by oil from the sunken tanker *Prestige*, left.

fund of oil companies and only \$11 million came from the tanker's insurers.

Placing more responsibility on shipowners for their pollution would bring Europe much more into line with the United States, where the Oil Pollution Act of 1990 puts considerably more burden for oil cleanup costs on shipowners.

Marine insurers say that they could adapt to such pollution liability changes if they contain reasonable limitations, though they maintain that tampering with current oil spill compensation procedures is

unnecessary.

The Nov. 19 sinking of the tanker *Prestige* and the spill of around 3.2 million gallons of her cargo of 22.6 million gallons of crude oil is causing an ecological and financial disaster for the northwest coastal region of Spain.

The Spanish government estimates that the environmental costs alone of cleaning up the spill at 42 million euros (\$41.9 million), while the incident also will result in a threat to the jobs of more than 4,000 fishermen and the livelihoods of businesses dependent on

local tourism.

Stephen James, London-based chairman of the International Group of P&I Clubs, the umbrella organization for the mutuals that provide liability protection for shipowners, pointed out that protection and indemnity clubs have already responded to tougher liability requirements for tanker owners under OPA '90.

Mr. James also noted that liability limits for tankers operating in European waters are already due to go up by 50% in November 2003 under amendments made in 2000 to the Civil Liability Convention for Oil Pollution Damage 1969, an international pollution convention applying outside the United States.

Mr. James said he believes that, because the P&I clubs, to a large extent, reinsure their exposures, their ability to respond to provide increased liability limits would be very dependent on reinsurer support.

One of these reinsurers, David Hipkin, marine liability underwriter for Lloyd's of London syndicate 609, said that P&I insurers could meet the challenge of higher liability limits for tanker owners if the pollution compensation system were property controlled and liability was limited.

A system that was "containable" See **MARINE**/next page

Gerling selling P/C reinsurance business

By SARAH VEYSEY

COLOGNE, Germany—Gerling Konzern Allgemeine Versicherungs A.G. is selling its property/casualty reinsurance business, which was placed in runoff in October, to a private company for 200 million euros (\$199.4 million).

The Cologne, Germany-based company, which also plans to sell its life reinsurance business, will now focus on primary insurance.

LAGO Achte, headed by former Frankona Re Chief Executive Achim Kann, is buying the property/casualty business of Gerling Global Re, which it will run off. In 2001, Gerling Global Re had net written premiums of \$4.45 billion.

Gerling said it would bear Gerling Global Re's likely loss of between 400 million euros and 450 million euros (\$398.9 million and \$448.7 million) for 2002.

The demise of Gerling Global Re follows failed attempts by Gerling to sell its reinsurance business.

In September, exclusive talks on the sale of Gerling's life reinsurance business and parts of its property/casualty reinsurance portfolio to SCOR S.A. broke down (*BI*, Sept. 23). SCOR said it pulled out of the deal over fears the buy would be harmful to its share price.

Gerling Global Re's life business

will be transferred to a subsidiary before the end of this year and put up for sale.

Gerling has launched a "New Gerling" project with plans to reposition the company as an integrated industrial insurer and to focus on industrial property/casualty business, credit insurance and occupational pension plans, among other business. The insurance units that Gerling is retaining reported net written premiums of \$3.5 billion in 2001.

"The repositioning will make our company that much more attractive and create favorable underlying conditions for the upcoming change of shareholders in the group," said Gerling Chairman Heinrich Focke.

Rolf Gerling, who has a 65.5% share of the company, and Deutsche Bank, which has a 34.5% stake, are seeking to sell their stakes in the group.

Meanwhile, Sydney, Australia-based QBE Insurance Group Ltd. announced it would pay about \$130 million Australian (\$73.2 million) for rights to renew most of Gerling's Australian nonlife business.

In 2001, Gerling's Australian property/casualty operations generated 110.8 million euros (\$110.4 million) in gross premiums.

Gibraltar growing as insurance center

Lloyd's motor syndicate attracted

By CAROLYN ALDRED

GIBRALTAR—Insurance and captive managers in Gibraltar are predicting a rapid growth of business in the southern Iberian domicile following a decision by a Lloyd's of London syndicate to move part of its operations there.

Several Lloyd's syndicates already have announced that they are moving their automobile insurance operations out of Lloyd's to Gibraltar and other syndicates are considering similar moves, insurance managers in the British colony say.

A hardening market, lower capitalization and operational costs, and an approachable and responsive regulatory regime are among the reasons cited by insurers and managers in Gibraltar for the growing interest in the domicile.

Although a recent entrant among offshore insurance centers, Gibraltar claims that its European Union membership plus a regulatory and legal framework based on the United Kingdom is attracting companies wishing to establish operations outside of London.

Haywards Heath, England-based Zenith Group announced last month that it would move its Lloyd's auto underwriting opera-

tions to Gibraltar by February 2003. The insurer plans to continue writing its commercial and household insurance through Zenith Syndicate 2002 at Lloyd's.

"One of our objectives is to stand on our own two feet and be master of our own destiny, to have certainty of our future and certainty of how much capital we have each year," said Zenith's managing director John O'Shea.

Under Gibraltar's capital requirements, which are based on E.U. minimum solvency requirements, insurers' capital must be at least 18% of their annual premiums, whereas Lloyd's has a 35% of annual premiums capitalization requirements. Also, operational costs also are cheaper in Gibraltar, several observers say.

Insurance managers in Gibraltar estimate that up to 20 Lloyd's syndicates are considering setting up operations in Gibraltar. Most of these write retail accounts, primarily auto business, but some of the operations could involve commercial risks, according to Bruno Callaghan, managing director of Willis Management (Gibraltar) Ltd.

One of the benefits of any Lloyd's syndicate moving to Gibraltar See **GIBRALTAR**/page 35

World Updates

QBE increases Lloyd's participation

QBE Insurance Group Ltd. has bought an additional 9% of the capacity in nonmarine liability syndicate 386 for the 2003 underwriting year, bringing its participation in that syndicate to about 49%. In 2002, syndicate 386 had £350 million (\$553.1 million) of capacity. QBE provides 100% of the capacity of four other Lloyd's syndicates—managed by Limit Underwriting Ltd.—with total capacity of about £530 million (\$837.5 million) in 2002.

St. Paul combines nonlife Lloyd's business

The St. Paul Cos. Inc.'s Lloyd's of London unit has set up a new syndicate to underwrite all of the company's nonlife business at Lloyd's. Syndicate 5000 will begin underwriting in 2003 and will have capacity of £435 million (\$687.4 million). It will underwrite principally marine, aviation and property business, St. Paul said in a statement.

Stakeholder pension participation low: ABI

An Assn. of British Insurers study found that 90% of the recently introduced stakeholder pension plans in the United Kingdom have no members. The study by the London-based ABI also reveals that just 9% of employers contribute to the low-cost pension plans, which aim to encourage low- and middle-income employees to save for retirement. An administrative charge cap and the small percentage of employers contributing to the programs are some of the likely reasons why the stakeholder pensions have seen so little participation, the ABI said.

Briefly noted

London-based insurance and reinsurance broker **Glenrand Ltd.** is undergoing a management buyout. Glenrand, whose specialties include professional indemnity, directors and officers, and treaty reinsurance coverages, said it plans to expand, particularly in the United States....Chris Giles has been appointed president and CEO of **Chubb Insurance Co. of Europe**. Mr. Giles, previously head of Chubb Corp.'s Asia-Pacific division, succeeds Joel Aronchick, who will become director of Chubb's international operations....Geoff Riddell has been appointed chief executive of **Zurich Financial Services Group's** nonlife insurance business in the United Kingdom, Ireland and Southern Africa. Mr. Riddell, currently managing director of ZFS's corporate and government businesses, succeeds Patrick O'Sullivan, who will become group finance director.

Marine: Attention focused on tanker safety

Continued from previous page

and predictable," thus enabling insurers to know their exposures, could be workable, Mr. Hipkin said.

While insurers have both the willingness and the capacity to respond to any such change, it would have to be at a cost to the tanker owners, Mr. Hipkin said.

Paul Hinton, chief executive of the London Steam-Ship Owners Mutual Insurance Assn. Ltd., the liability insurer for the Prestige, said

that P&I clubs are planning general rate increases of 25% at next February's annual renewals, following a similar level of increases this year.

The increase, he pointed out, is necessary not because the clubs have been undercutting one another, as commercial marine insurers have done, but because of dwindling investment returns as a result of the global equity market turmoil.

Regarding compensation for oil

spills, Mr. Hinton contends tanker owners already pay much more compensation for their pollution than is commonly believed.

Large marine pollution claims above certain levels are paid by the International Oil Pollution Compensation Funds, two funds that are generated by member countries, in which oil-receiving entities contribute in proportion to the amount of oil they import.

These funds, though, come into

play only for major spills, which are relatively rare, whereas tanker owners and their insurers contribute not only to the costs of cleaning up these larger spills but also to the costs of smaller spills that do not make the news, Mr. Hinton said.

He pointed out that, under present international regulations, the tanker owner and its insurer pay for pollution whether or not the tanker is at fault.

Mr. Hinton said that the Prestige owners and its insurers will contribute to cleanup costs, even though some experts have said the Spanish authorities exacerbated the situation by not allowing the damaged tanker into port. In the case of the Prestige, the IOPCF will kick in for claims above \$25 million.

Mr. Hinton said that, given these facts, he doesn't see much reason to change the present pollution compensation regime, "because it seems to me that this is a very favorable piece of legislation from the point of view of people who suffer damage."

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Business Insurance

Gibraltar: Growing as insurance center

Continued from page 33

tar is that they reduce their contributions to the Lloyd's Central Fund, which is based on premium revenues. Currently, auto syndicates pay 1% of premiums to the Central Fund and other syndicates pay 2%.

Gibraltar is particularly attractive to personal lines insurers, such as auto insurers, where underwriting is more formula-based than commercial property/casualty business, said Alan Kentish, managing and technical director of BDO Fidecs Insurance Management Ltd. in Gibraltar.

Mr. Kentish does not predict an exodus of property/casualty syndicates from Lloyd's, which place greater value on the Lloyd's franchise, overseas licenses, face-to-face broking, the subscription system and Lloyd's insurance ratings.

Auto insurance syndicates do write commercial risks but they also write large volumes of retail business, which does not always require access to Lloyd's brokers and a subscription market, they say.

Roger Jones, chairman of Lloyd's Motor Underwriters Assn., estimates that capacity in Lloyd's auto insurance market has declined from

£1.5 billion in 2001 (\$2.18 billion) to about £800 million (\$1.26 billion) in 2002.

The reasons include syndicates moving to the London company market and offshore and Lloyd's capacity switching into other areas of insurance, such as property/casualty, where rates are increasing dramatically, he said.

The responsive regulatory market in Gibraltar is an attraction for many insurers in the current hard market, said Chris Johnson, general manager of Aon Insurance Managers (Gibraltar) Ltd.

The reduction in capacity is creating a need to establish underwriting facilities quickly, and Gibraltar's regulatory authorities are able to respond more quickly than larger regimes, while maintaining similar regulatory standards to the United Kingdom, said Mr. Johnson. Gibraltar's Financial Services Commission is appointed by the U.K. government and licenses and supervises financial institutions in accordance with E.U. directives.

Gibraltar's growth "is a response to the current market circumstances," agreed Paul Savignon, chairman of the Assn. of Gibraltar Insurers & Insurance Managers.

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Results: Still hampered by investment losses

Continued from page 1

Other results from the *BI* survey of 17 major property/casualty insurers were:

- Due to hardening rates, net premiums written increased 17.8%, to \$82.4 billion.

- Insurers' aggregate combined ratio improved to 102.6%, compared with 115.4% for the comparable period a year ago.

- Policyholder surplus for the 16 insurers that report this data increased 1.6%, to \$53.09 billion.

'A mixed bag'

Results have been disappointing, said Michael Paisan, an analyst with Legg Mason Inc. in New York. Despite two years of rising rates, "we haven't seen anything filter down to the bottom line," Mr. Paisan said. "That's an indication of how undisciplined the market was for so long."

"It's kind of a mixed bag for the industry," said Michael Lewis, senior insurance analyst with Warburg Dillon Read in New York.

"Pricing remains very positive. The industry appears to be extremely disciplined in their underwriting approach, yet bottom-line results don't seem to be nearly as positive as top-line growth, and I guess the third quarter is a further indication of this phenomena," said Mr. Lewis.

"In the commercial lines, you're lucky if you hit the estimated results, and a number of companies fell short of targeted expectations," said Mr. Lewis. This stemmed, in part, from increases in asbestos reserves and growing claims for exposures that are a reflection of the cur-

'There's some optimism voiced about asbestos, but I didn't hear anybody saying the coast was clear on asbestos by a long stretch.'

*Chris Winans
Williams Capital Group*

rent economic downturn, such as directors and officers liability, errors and omissions and surety, he said.

And "just to top everything off...I guess we still have some shortfalls developing on the investment front," Mr. Lewis said.

Chris Winans, a principal and senior equity analyst with The Williams Capital Group in New York, said: "The main thing that's hurting the ability of insurers right now to post positive surprises...is the extremely low interest rates. And nobody's expecting that situation to change any time soon." As long as the poor investment returns continue, "everything the insurers

are doing now to improve their combined ratios has to be a little bit frustrating," he said.

Reserve questions

Reserves remain a problem for insurers.

For example, Chubb Corp.'s decision to boost its asbestos reserves in the third quarter by \$625 million led to a loss of \$242.1 million for that quarter.

"There's some optimism voiced about asbestos, but I didn't hear anybody saying the coast was clear on asbestos by a long stretch," said Mr. Winans.

S&P's Mr. Coyle said he would like to be able to say the outlook for the industry is stable, "but I don't think we're there yet on the commercial lines side. We've still got significant concerns about reserve adequacy for the entire sector, and that also includes asbestos."

But Mr. Coyle added that "we're starting to see more companies put up reserves for that issue, and we expect to see more of that in the fourth quarter as well. If we're looking just at the fundamentals of the business, things are moving along. These are the best conditions we've seen in a long time."

Improvements expected

Results should improve next

year, observers say.

"We're on the rebound," said Mr. Ward. "Already, I see more good news on the horizon. I like the terrorism bill that just passed the Congress in terms of its impact on the industry. I like the discipline I see coming back into the underwriting, and it would be very reasonable to expect a turn in the investment results as well, so I think next year will be a very good year for the industry," he said.

Brian Meredith, senior property/casualty insurance analyst with Banc of America Securities in New York, said there is the "possibility of seeing some upside earnings surprises in 2003." Mr. Meredith said he is optimistic because of the pric-

'The fundamentals of the industry look like they continue to improve. I still see more positives than negatives going into the market in 2003.'

*Stephan Petersen
Cochran, Caronia & Co.*

ing outlook, particularly on casualty lines, and the industry's strong cash flow.

"I see more and more of a divergence of results by companies," said

Mr. Lewis of Warburg Dillon Read. "Those financially strong, well-capitalized, superior underwriters who are capable of getting on top of their legacy issues should be able to benefit from the ongoing favorable pricing environment that has existed over the last few years and is continuing," he said. Those companies "should be able to produce distinctly better operating results that should flow into 2004 and even beyond."

"The fundamentals of the industry look like they continue to improve," said Stephan Petersen, vp at Cochran, Caronia & Co. in Chicago. "I still see more positives than negatives going into the market in 2003."

Mr. Petersen also pointed to some increased capital raising this year.

Chubb last week raised \$525 million from an offering of common stock purchase warrants and debt securities (see story, page 39). This excludes a possible over allotment that may raise another \$75 million. And The St. Paul Cos. Inc. in July raised \$874.2 million.

There may an increased emphasis on raising capital next year. With premiums growing so quickly, insurers will seek to bolster their capital resources in order to retain their financial ratings, said Mr. Petersen. But that is "probably a good problem to have."

PROPERTY/CASUALTY INSURERS' 2002 NINE MONTH RESULTS

Ranked by change in net income. All amounts in thousands of dollars.

	Net income	Corporate Percent increase (decrease) 2001-2002	Consolidated revenues 2002	Property /casualty operations		Policyholder surplus 2002	Percent ¹ increase (decrease) 2001-2002
				Combined ratio 2002 ¹	Combined ratio 2001 ¹		
Argonaut Group Inc.	\$18,292	425.5%	\$320,112	101.7%	132.9%	\$433,904	(3.1) %
American Financial Group	80,800	274.5	2,787,200	100.8	105.2	1,501,400	(5.6)
ACE Ltd.	245,195	272.5	5,039,589	96.0	94.4	6,447,518	28.5
SAFECO Corp.	244,000	124.5	5,305,500	106.6	121.2	2,122,800	(4.4)
CNA Financial Corp.	110,000	106.8	9,560,000	109.8 ²	175.2 ²	6,150,000	3.0
Hartford Financial Services Group Inc.	742,000	104.4	11,746,000	99.2	115.2	5,865,000	14.2
Chubb Corp.	166,300	100.8	6,693,100	108.7	114.0	N/A	N/A
The St. Paul Cos.	(26,000)	92.6	6,906,000	112.7 ²	124.0 ²	5,484,000	8.6
American International Group	5,623,000	60.8	49,949,000	94.8 ²	101.1 ²	3,535,000	16.0
Royal & SunAlliance USA	(99,000)	31.7	N/A	114.1	120.7	2,292,000	(20.0)
Old Republic International	299,431	16.1	1,998,107	99.1	101.5	1,575,751	7.0
Cincinnati Financial Corp.	182,145	15.8	2,120,769	100.3 ²	104.0 ²	2,609,529	(9.2)
RLI Corp.	24,699	6.3	271,713	96.1	97.4	323,219	1.4
Travelers P/C Corp.	766,400	0.6	10,116,400	102.3 ²	110.5 ²	7,386,800	1.1
Ohio Casualty Corp.	(29,998)	(152.8)	1,262,826	114.6 ²	113.5 ²	679,879	(11.3)
Kemper Insurance Cos. ²	N/A	N/A	N/A	105.7	109.0	1,526,919	(24.4)
Liberty Mutual Insurance Co. ²	N/A	N/A	N/A	107.1	114.6	5,156,000	(14.2)
Cumulative	\$8,347,264	351.2%	\$114,076,316	102.6%	115.4%	\$53,089,719	1.6 %

¹ Dividends ² Statutory N/A- Company did not provide data
Source: *BI* Survey

WorldCom: Deal preserves D&O rights for some execs

Continued from page 1

Com resolved objections raised by New York State Comptroller H. Carl McCall, who represents a public-employee retirement fund that is a lead plaintiff in securities litigation against WorldCom officials.

Mr. McCall raised concerns that the deal would automatically void coverage of officials sued by WorldCom itself, giving the company unfair leverage in negotiations to set-

tle shareholder suits. WorldCom could threaten to sue its own officials—making them “culpable” under the agreement and voiding their coverage—to force lower settlements with investors, Mr. McCall argued.

In talks before the Nov. 26 court hearing, though, WorldCom lawyers affirmed that the deal concedes only National Union’s right to seek rescission against “culpable” officials—not to automatically rescind coverage—and that WorldCom officials can still challenge the insurer’s rescission actions.

Mr. McCall subsequently dropped his objection.

Clinton, Miss.-based WorldCom filed for Chapter 11 reorganization in July, a month after it made the first in a series of disclosures of accounting errors that now total more than \$9 billion. Two of its former officials, including former Chief Financial Officer Scott D. Sullivan, have been in-

dicted on fraud charges, while the company has been hit with scores of shareholder class-action and fiduciary liability lawsuits.

National Union notified WorldCom in mid-July that it intended to rescind its D&O and fiduciary and crime policies on the grounds that WorldCom submitted fraudulent financial statements in applying for coverage.

The AIG unit wrote a \$15 million primary D&O policy as well as the top \$10 million excess layer of the \$100 million program in effect during 2002, Mr. Steuber confirmed. Six other insurers provided the intervening \$75 million in D&O limits. They are: Starr Excess Liability Insurance Co. Ltd., a Bermuda-based AIG subsidiary; Swiss Reinsurance Co.; Associated Electric & Gas Insurance Services Ltd. of Bermuda; and units of CNA Financial Corp., Hartford Financial Services Group Inc. and Travelers Property Casualty Corp.

National Union also wrote \$10 million in primary fiduciary liability coverage, with the CNA, Hartford and Travelers units providing \$40 million in excess limits, Mr. Steuber said.

WorldCom and National Union began settlement talks and by early November had reached a proposed agreement.

Under the deal, National Union confirmed coverage for directors and officers who are not identified as “culpable” for wrongdoing at WorldCom. The coverage of these officials is several, meaning that wrongdoing by other WorldCom officers will not be imputed to them, the agreement states.

WorldCom, however, agreed to the rescission of its entity coverage and agreed that National Union may seek to rescind coverage of “culpable” officials.

The settlement defines a “culpable” director or officer as one who is convicted of a crime; is found to have committed fraud or dishonest acts in any judicial or alternative dispute resolution proceeding; or is sued by WorldCom for fraud, dishonesty or unjust enrichment.

WorldCom also agreed not to oppose any motion by National Union for bankruptcy court permission to pursue arbitration to rescind the coverage of “culpable” company officials.

As part of the settlement, National Union will also continue as a WorldCom D&O insurer.

The deal calls for WorldCom to buy a new National Union D&O and corporate liability policy covering directors and officers hired after the Chapter 11 filing, as well as additional coverage for existing directors and officers.

The policies now being negotiated would run from the date of the July bankruptcy filing to year-end 2003, a lawyer representing WorldCom creditors said at last week’s hearing.



PHOTO: MARIO TAMA/GETTY IMAGES

Former WorldCom Chief Financial Officer Scott D. Sullivan arrives for a federal hearing in New York over the company’s accounting problems.

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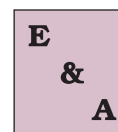
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Comings & Goings

Brokers:

Former Wisconsin Secretary of Development **Robert N. Trunzo** has joined Milwaukee-based Frank F. Haack & Associates Inc. as executive vp.

Robert M. Harrison has been named chief operating officer of The Daniel & Henry Co. in St. Louis. He was previously executive vp.

Shannon Clements and **Craig Nelson** have joined Lockton Cos. of Colorado in Denver as senior vps. Ms. Clements previously served as managing account executive for construction large accounts at Zurich North America. Mr. Nelson was national director of the telecommunications practice at Aon Risk Services Inc.

Dave Perkins was promoted to senior vp at the Needham Heights, Mass., office of S.H. Smith & Co. Inc., an excess and surplus lines insurance broker and managing general agency. Mr. Perkins previously was a vp.

Insurers:

Daniel E. Barr has been named president and chief operating officer of Harleysville Lake States Insurance Co., based in Traverse City, Mich. Mr. Barr previously led Harleysville's Minnesota operations. He replaces **Keith A. Fry**, who was promoted in August to senior vp of field operations at the insurer's home office in Harleysville, Pa.

Also at Harleysville, **Thomas W. Glancy** was appointed regional president and chief operating officer of the insurer's Minnesota operations in Edina. Mr. Glancy previously headed Harleysville's Midwest claims service center.

Elizabeth Wiesner has been promoted to executive vp and chief business development officer at Accident Fund Insurance Co. of America, a workers compensation insurer based in Lansing, Mich. Ms. Wiesner previously served as vp of eMagine, the e-business subsidiary of the



Ms. Clements



Mr. Nelson



Mr. Baldwin



Ms. Soppe

insurer.

Dr. Navneet S. Campbell was named medical director of managed care company HealthAmerica Pennsylvania Inc. in Harrisburg, Pa. Previously, Dr. Campbell was chief of the emergency room and the outpatient clinics at the Veteran's Administration Hospital in Lebanon, Pa., and was a staff physician at The Milton S. Hershey Medical Center.

Reinsurance:

Kathryn Baker was named general counsel for the global property and casualty business unit of

GE Employers Reinsurance Corp. in Overland Park, Kan. Previously, she had the position of deputy general counsel.

Other suppliers:

Kent E. Lonsdale has been named executive vp, Mid-Atlantic Region for Gallagher Benefit Services in Warren, N.J., a division of broker Arthur J. Gallagher & Co. He formerly was a senior consultant at Towers Perrin.

Torrance, Calif.-based ePolicy Solutions Inc. has named **William S. McCarter** senior vp, client engagement executive. Previously, Mr. Mc-

Carter was senior vp and chief information officer and regional chief information officer for Allianz of North America.

GuilfordPare, a financial consulting firm in Baltimore specializing in workers compensation and injury management, has added two new members to its senior management team. **Charles Baldwin Jr.** was named chief financial officer, and **Patty Soppe** was named senior vp of client relations and sales. Mr. Baldwin previously was the CFO at Direct Response Corp. in White Plains, N.Y., while Ms. Soppe was assistant vp-risk control services at The St. Paul Cos. Inc.

Hughes: Integrated program shows ongoing savings

Continued from page 1

the reduced claims incidence stemming from its wellness and disease management programs, Mr. Molmen said.

That is unusual, he explained. Most employers document only the medical cost savings stemming from wellness and disease management programs and rarely track the reduced incidence of STD claims.

But obtaining a baseline measurement and documenting the results from such programs is key to their survival, said Dr. Pamela Hymel, Hughes' vp of medical services and benefits. Dr. Hymel said she regularly hears of other companies terminating similar programs when corporate budgets get tight.

"When I talk to my management, (they say), 'Why would you cut a program when we are continuing to show this kind of return on investment?'" Dr. Hymel said.

"It doesn't even hit the radar screen as a potential for being cut," she said. "By demonstrating over and over the value to both the employees and the company, programs like this can stay in place and make a difference."

The positive outcome from Hughes' efforts is particularly impressive because it came about while the company was significantly reducing the number of its employees, Mr. Molmen said. Staff reductions, he noted, often lead to a higher incidence of claims.

In 1994, Hughes first integrated the management of workers compensation with short- and long-term disability. It did so by expanding a successful nurse case-management program for workers compensation claims and adapting it to reduce non-occupational disability losses.

Hughes has since saved \$25.6 million in direct benefit expenses,

according to a recently released IBI report on the company's "Back to Work" benefits integration efforts.

Those efforts now encompass workers compensation, Family Medical Leave Act management, health benefits, short- and long-term disability programs, employee assistance programs, mental health benefits and the disease management and wellness programs.

"When I talk to my management, (they say), 'Why would you cut a program when we are continuing to show this kind of return on investment?'"

*Dr. Pamela Hymel
Hughes Electronics Corp.*

The integrated benefits efforts currently cover about 6,500 U.S. employees working in a number of divisions spread across several states. All departments under the integration plan report to Dr. Hymel.

After obtaining positive results from its earliest integration efforts, Hughes introduced Work Well in 1996. Work Well is a wellness and prevention program for employees who participate in self-funded preferred provider organization and point-of-service health care programs.

The company launched Work Well after finding that it was incurring high costs for preventable conditions and opted to do more than merely address illnesses after they developed.

Hughes now aims to identify high-risk employees, offer preventive counseling and provide additional assistance for those already

suffering from chronic conditions. The conditions that Work Well targets are a lack of self-care, hypertension, cardiovascular illness and back problems.

Under Work Well, Hughes contracts with Johnson & Johnson Health Care Systems to offer free health risk appraisals at work sites. A screening includes a cholesterol test, a blood pressure reading and a review of the individual's family medical history and personal habits.

Among other incentives, each employee receives a \$200 discount in health plan premiums if he or she participates in the appraisals and is recommended for follow-up care.

Counselors also can recommend employees to the disease management program. Hughes created that program in 1999, after a consultant compared the health of employees in the company's self-funded plans to that of employees in its insured plans. The consultant found employees in the self-funded program tended to be less healthy.

The incidence of claims is re-

duced in other ways, Dr. Hymel said. For example, Hughes offers employees a telephone help line staffed by nurses. An employee's use of the help line can, for example, prevent the individual from having to seeking the help of a doctor for a minor problem such as a cold, she said.

The programs have paid off, according to Watson Wyatt's evaluation of employee participants between 1999 and 2000. About 4% of Work Well participants filed for disability benefits in 1999. In contrast, nearly 8% of the employees who did not participate filed for benefits. Additionally, while disability costs averaged \$323 for nonparticipants, they were just \$224 for participants, a difference of 44%.

Watson Wyatt's review also found that Work Well produced positive results for health plan claim costs. Work Well generated \$481 in savings for each participating employee, resulting in a 24% decrease in average claim costs over 1999 for all medical conditions. For medical conditions specifically targeted by Work Well, savings for

participating employees averaged about \$184.

Overall, Work Well produced a 3.4-to-1 return on investment, Watson Wyatt found. While Watson Wyatt's results were for 1999 and 2000 program participants, the wellness and disease management also helped Hughes hold health plan premium increases to just 2% over 2001 costs, Dr. Hymel said.

"By having those programs in place, we definitely have been able to hold down some of the cost escalation," she said.

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December 2, 2002

For the Record

Items in the For the Record column originally appeared in *BI's* Daily News feature on www.businessinsurance.com.

Trenwick lenders extend forbearance agreement

Trenwick Group Ltd. is continuing talks to renew a crucial letter of credit facility, while its lenders have extended until Dec. 6 an agreement not to take action on the insurer's breach of a covenant in the expiring LOC facility. Trenwick breached the

TRENWICK GROUP LTD.

terms of a \$226 million LOC facility backing its Lloyd's of London underwriting operations in October when A.M. Best Co. downgraded its ratings of several Trenwick units below A-

OSHA seeks comments on beryllium safety

The Occupational Safety and Health Administration is asking for public comments and information to help the agency determine the best way to address occupational exposures to beryllium. The lightweight metal is used by various industries, including the aerospace industry and those that manufacture dental appliances, golf clubs and some tools. "The metal is also toxic and can cause lung cancer and skin disease," according to an OSHA statement. The deadline for submitting

comments on the matter to OSHA is Feb. 24, 2003.



PHOTO: AFP
Members of the longshore workers union won benefit increases in contract negotiations.

Benefits changes help end port strike

Shipping companies and the longshore workers union reached a tentative contract agreement that could end the labor strife plaguing the nation's West Coast ports. The six-year agreement would guarantee 100%-paid health benefits for International Longshore & Warehouse Union workers through the contract period, a union spokesman said. The workers also

won substantial pension increases. Specific details were not available.

Mississippi lawmakers pass tort reforms

The Mississippi Legislature has passed tort reform legislation that would restrict forum shopping and cap punitive damages. Under the measure, lawsuits must be filed in the county where the alleged wrongdoing occurred or in the county where the plaintiff lives. In addition, the bill calls for a sliding scale of punitive damage caps that range from 4% of the net worth of defendant businesses valued at up to \$50 million, to a \$20 million cap for defendant companies valued at more than \$1 billion.

Employer's bias inquiry not a bad-faith action

The fact that an employer's investigation into claims of racial discrimination did not yield any evidence of bias does not mean the inquiry was conducted in bad faith, a California appeals court has ruled. In *Northrop Grumman Corp. vs. Workers' Compensation Appeals Board*, the 2nd District California Court of Appeals determined that there was insufficient factual support for a workers



compensation judge's finding that a Northrop Grumman supervisor had sustained a compensable stress-

related injury because of Northrop's investigation, which the supervisor charged was a bad-faith action.

Ahlmann to serve as Danish Re chairman

Kaj Ahlmann has been appointed executive chairman of Copenhagen, Denmark-based Danish Re Group. Mr. Ahlmann will also continue in his role as chairman and chief executive officer of online reinsurance trading



Mr. Ahlmann

platform inreon Ltd. He previously was CEO of Employers Reinsurance Corp.

Chubb share issue to raise \$525 million

Chubb Corp. is raising \$525 million in capital through an equities issue. Chubb said it would use the proceeds for general corporate purposes, including increasing the capital of its operating units. Chubb has issued 21 million stock warrants, at \$25 each.

The warrants must be converted into Chubb stock on or before Nov. 16,



2005, within a price range of \$56.64-the Nov. 25 closing price-to \$69.10. Last

month, Chubb reported a \$242.1 million loss for the third quarter after it increased its reserves for asbestos claims by \$625 million.

ISO offers EPL reinsurance service

Insurance Services Offices Inc. has formed a marketing relationship with reinsurance broker FairBoss



Underwriters Inc. to enhance its ISO Employers Advantage employment

practices liability program. FairBoss will provide treaty reinsurance placement and claims-handling services. With the addition of these services, ISO Employers Advantage now includes an underwriting guide, policy forms and endorsements, manual rules, advisory prospective loss costs, and consulting services.

PacifiCare: Network downsizing

Continued from page 1

The employers then structure their plan design or vary employee contributions to provide a financial incentive for workers to select care from those providers, Ms. Bosley said.

The practice can be applied in a variety of ways, depending on the plan model. Employers could, for example, provide financial incentives for primary care providers that refer patients to the specialists deemed to be most efficient.

"The concept translates very well across the country," Ms. Bosley said.

Contracting with more narrowly focused provider networks also can help employers address the wide variation in the rates charged by doctors and hospitals, Ms. Bosley said. Every time Mercer conducts an analysis for employers, she noted, it finds considerable variation among provider charges for similar services. That occurs even among providers participating in the same network, and regardless of plan structure, she said.

The emerging strategy that PacifiCare's plan embodies calls for analyzing data that compares what doctors and hospitals charge for similar services. Provider charges for the same services can be compared

not only to one another but also to Medicare payments for those same services. After identifying the lower-cost providers, employers can then contract with the providers that also meet established quality standards.

PacifiCare selected hospitals to participate in its Value Network product based on quality measures provided by the Washington-based Leapfrog Group.

The health insurer selected doctor groups to participate in the Value Network based, in part, on their scores on a quality index it introduced four years ago. The index ranks medical groups based on more than 50 measures, including such factors as the number of breast cancer screenings and child immunizations they provide.

PacifiCare selected hospitals to participate in its Value Network product based on quality measures provided by the Washington-based Leapfrog Group, the PacifiCare spokeswoman said. The Leapfrog

Group is a national coalition of more than 100 public and private organizations that provide health care benefits.

PacifiCare developed its product after several of its large clients sought to move forward with the concept.

San Francisco-based Wells Fargo & Co., for example, participated in developing the Value Network plan, a PacifiCare spokeswoman said. Several other large employers—including Xerox Corp. and Pitney Bowes Inc., both based in Stamford, Conn.—immediately contracted to make the Value Network product available to their employees, too.

In all, 90 hospitals and 115 medical groups will be available to members enrolled in the Value Network, the PacifiCare spokeswoman said. That represents a 50% reduction in the number of hospitals and doctors available to members enrolled in a traditional PacifiCare HMO product available in the counties where Value Network is offered, the spokeswoman said.

PacifiCare said it expects employers to save between 4% and 15% on their premiums if they contract with the Value Network and apply certain plan design features, such as higher co-payments.

Online Poll [11/25 - 11/27]

Should single-hulled oil tankers, like the vessel that recently broke up off Spain's coast, be outlawed before 2015, as now scheduled?

Yes

91.6%

No

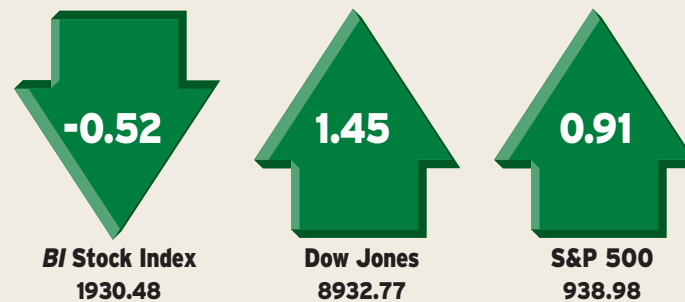
8.4%

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

BI Stock Index [11/25 - 11/27]

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

Trenwick Group Ltd. 83.58%
EMC Insurance Group 9.37%
NYMagic Inc. 9.17%
Vesta Insurance Co. 8.93%
PXRE Corp. 8.63%

Largest losses

CNA Surety -14.44%
Gainsco Inc. -10.71%
Willis Group Holdings -7.04%
Hub International -6.71%
Aetna Inc. -6.33%

Weekly change by market segment

Brokers 0.17%
Insurers/Reinsurers 1.36%
Managed Care Organizations -1.78%

Source: CNET Investor (investor.cnet.com)