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Update

California commissioner seizes junk bond-laden life insurer

LOS ANGELES—Concerned about the declining value of Executive Life Insurance Co.'s extensive junk bond holdings, California Insurance Commissioner John Garamendi seized control of the Los Angeles-based insurer last week.

"I have found Executive Life to be in a hazardous condition and today am seeking a court-supervised conservatorship of the company so I can exert a firm regulatory hand to protect the public interest," Mr. Garamendi said during an

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Justice Dept. targets fraud in insurance

By DOUGLAS McLEOD

WASHINGTON—The U.S. Justice Department's formation of a new unit to prosecute cases of insurance fraud and corruption that threaten insurer solvency is drawing praise from regulators and industry groups.

As part of a larger reorganization of its criminal division, the Justice Department is forming a special unit in its fraud section to focus on insurance fraud as part of a "national enforcement initiative."

The unit now consists of two attorneys but will expand to six. It will investigate cases of insurance or reinsurance fraud and corruption that threaten the solvency of insurers or state guaranty funds, according to Karen Morrissette, deputy chief of the fraud section.

In addition to investigating and prosecuting cases on its own, the unit will train U.S. attorneys across the country in insurance fraud cases, she said.

Formation of the unit was recommended by the Economic Crime Council, which advises Attorney General Richard Thornburgh on issues related to white-collar crime, Ms. Morrissette said.

The vulnerability of the insurance industry to fraudulent activity, along with widely publicized fraud and corruption cases, spurred the unit's formation, according to a Justice Department spokesman, who cited as an example the recent bribery conviction of Doug Green, the former Louisiana insurance commissioner (*BI*, March 16).

"When you have that combination of circumstances, it raises a few eyebrows here," the spokesman said.

He added, though, that the new

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Health system is flawed: CEOs

Few say employers can fix problems on their own: Study

By COLLEEN JOHNSON

Big changes are needed in the U.S. health care system, agree nearly all of the top executives responding to a recent survey.

Eleven percent of the executives agreed that "our health care system has so much wrong with it that we need to completely rebuild it." And 80% agreed "there are some good things about our health care system, but fundamental changes are needed to make it work better."

While the surveyed executives remain divided over how those changes can best be accomplished, many advocate some form of government intervention.

These are among the findings of "Business Leaders' Views on American Health Care," a survey of 384 chief executive officers, presidents or chairmen of industrial and service companies conducted through phone and written inquiries by the Gallup Organization in the second half of 1990.

The poll, which contacted 330 respondents by phone and received 54 responses by mail, was commissioned by The Robert Wood Johnson Foundation, a Princeton, N.J.-based health care philanthropy.

"By and large, the most surprising thing was the depth of feeling change was needed," said Joel C. Cantor, senior program officer with the foundation.

Indeed, 70% of executives said the nation is not "getting good value for what is spent on health care."

When asked if a solution to the "health care cost problem faced by American companies today can be achieved with each employer working on its own," 73% said no, while 17% said "partly."

But, nearly half of those execu-

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THE SALE OF SOUTHERN AMERICAN

FBI probes deal

Businessman buys Crump insurer using company's own money

By DOUGLAS McLEOD

The deal Victor Borcherds presented to The Crump Cos. Inc. in 1987 sounded simple.

Mr. Borcherds, a hard-driving Utah entrepreneur and self-described bankruptcy expert, would buy Crump's Southern American Insurance Co. unit for $5.75 million, financed with a letter of credit from a large London bank.

Crump, a Memphis, Tenn.-based broker acquired the previous year by Sedgwick Group P.L.C., was eager to sell Southern American, an exclusive market for Crump brokerage clients, including Fortune 500 companies.

Tennessee insurance regulators quickly approved the transaction.

Then, things got complicated—and the complications have triggered an FBI investigation into possible criminal wrongdoing in the Southern American purchase, Business Insurance *has learned.*

* * *

When Mr. Borcherds finally closed the deal in March 1988—after being sued by Crump for trying to back out—the financing bore little resemblance to what Tennessee regulators had approved.

Instead of drawing on an LOC from a London bank, Mr. Borcherds engineered a complex series of transactions in which he used $5.75 million of Southern American's own money to pay Crump for the insurer, documents obtained by *Business Insurance* and interviews reveal.

One of these transactions, a $3 million redemption of Southern American preferred stock, violated Southern American's own corporate charter.

In addition, Mr. Borcherds never informed Tennessee regulators the financing had been changed, an apparent violation of Tennessee law.

Tennessee Insurance Department officials say they were unaware of any change in the financing proposal until contacted by *Business Insurance*.

Former Crump officials who were involved in the sale also say they didn't know how Mr. Borcherds paid for the company.

The former general counsel for Sedgwick James

Provo Daily Herald photo

Victor Borcherds

Inc.—the unit into which Crump was subsequently merged after it was acquired—said he didn't find out the financing had been changed until last year.

Southern American has since run into regulatory problems under Mr. Borcherds' management.

After acquiring the insurer, Mr. Borcherds moved Southern American to Utah, liquidated much of its bond portfolio and reinvested millions of dollars of the insurer's assets in mortgage loans to Provo resort developments that Mr. Borcherds owns with his wife, including a water slide park, golf course, ski resort and hotel.

The insurer also loaned several million dollars to a Kentucky dairy farm in bankruptcy reorganization and a Louisiana oil and gas drilling company.

While concluding Southern American was solvent, the Utah Insurance Department last year decided several of the loans are "not consistent" with prudent investment policies. Regulators have given Mr. Borcherds until the end of this year to replace the loans with more acceptable assets.

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Revisions to fronting proposal generate renewed criticism
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NEWSPAPER

Update

Regulator seizes Executive Life

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April 11 press conference.

"Of Executive Life's $10.1 billion in assets, approximately $6.4 billion is invested in junk bonds," he said.

The insurer, a subsidiary of First Executive Corp. of Los Angeles, has 170,000 life insurance policies in force with a face value of $38 billion, creating a $2.5 billion statutory reserve liability; 75,000 individual annuitants comprising $2.5 billion in reserves; approximately $1 billion in group annuity contracts; and more than 300 guaranteed investment contracts worth more than $3 billion, according to an Insurance Department spokesman.

One of those GICs covered a revenue bond insured by MBIA Inc., the Armonk, N.Y.-based municipal bond insurer announced last week.

If First Executive becomes insolvent, MBIA would become responsible for about $14.4 million in principal and interest payments scheduled between 1991 and 1995 on the bond, which was issued in 1985.

The bond became part of MBIA's insured portfolio when it acquired Bond Investors Insurance Co. in 1989.

The California regulator's action suspended negotiations between First Executive and Hartford Life Insurance Co., which had considered buying $2.3 billion in individual life insurance liabilities from Executive Life, sources say.

However, Mr. Garamendi said a consortium led by Altus Finance, a major French financial services company connected with Credit Lyonnais, has presented a program to rehabilitate the company.

Executive Life of Los Angeles wrote $637.1 million in net premiums in 1989, including $154.4 million in annuities and fund deposits and $57.3 million in group life, accident and health. Group annuities issued during the year totaled $22.9 million, according to A.M. Best Co.

The insurer, which is licensed in all but five states, wrote most of its business in California.

In a related move, the New York Insurance Department earlier this month ordered affiliate Executive Life Insurance Co. of New York to increase loss reserves by $125 million and to cease writing new business in the state until it "satisfactorily demonstrates that such new business is self-supporting" (*BI*, April 8).

Gulf pension order appeal eyed

HOUSTON—Chevron Corp. plans to appeal a federal court ruling under which former Gulf Oil Corp. employees could receive as much as $180 million of surplus pension plan assets.

The case involves two contributory Gulf plans that had not accepted new participants since 1970 and were later merged into a larger Gulf plan. That larger plan was merged in 1986 into a plan sponsored by Chevron, which purchased Gulf in 1984 (*BI*, Feb. 11).

In his decision last week, U.S. District Court Judge Simeon Lake in Houston noted that the descriptions of the two contributory Gulf plans contained language that showed Gulf intended that surplus plan assets be allocated to plan participants, not the employer.

Because membership in the two plans "has been closed for 20 years, the plans are substantially overfunded with respect to all future demands and the trust assets cannot revert to Chevron," Judge Lake ruled.

The judge ruled that the plans should be terminated with a June 30, 1986, effective date.

However, Judge Lake ruled that about 40,000 participants in a larger Gulf plan were not entitled to surplus assets—estimated to exceed $500 million—because that plan made clear that surplus assets belonged to the employer.

Plaintiffs' attorneys say the more than 19,000 participants in the two plans could receive a total of between $150 million and $180 million in surplus assets. "We are delighted at being able to provide relief to contributory plan members. Their pensions have not been that generous, and they certainly can use the money. This decision is a fair one," said plaintiffs' attorney Evelyn Jo Wilson of Susman & Godfrey in Houston.

Chevron said it will appeal the ruling to the 5th U.S. Circuit Court of Appeals in New Orleans.

Ruling 'devastating': PBGC

NEW YORK—The Pension Benefit Guaranty Corp. will appeal a U.S. Bankruptcy Court ruling in New York rejecting the methodology the PBGC used in valuing liabilities of a LTV Corp. pension plan the agency terminated in 1986.

The PBGC said that if the ruling is allowed to stand, it would cut the agency's recoveries in bankruptcy proceedings by as much as 50%. "If upheld, this ruling would have a devastating impact on PBGC, decreasing claims and, therefore, recoveries in bankruptcy by as much as 50%," said Executive Director James B. Lockhart III.

The PBGC estimated the plan's unfunded liabilities at about $230 million. The plan is not one of three terminated LTV plans that the U.S. Supreme Court last ordered returned to LTV (*BI*, June 25, 1990).

Italian maritime disaster

LEGHORN, Italy—Marine hull and liability insurers expect large claims after fire engulfed a ferry that collided with an anchored oil tanker in thick fog off Italy's western coast last Wednesday.

All 72 passengers and all but one of 68 crew on board the ferry Moby Prince were killed when oil from the tanker AGIP Abruzzo gushed on to the ferry through a gash in the tanker's side caused by the collision. Sparks from the clashing metal ignited the oil almost immediately.

An insurer of the tanker contends that any claims should be filed against the ferry's owner, which the Associated Press identified as Navarma Lines, because the Abruzzo was properly at anchor.

The Moby Prince has 20 billion Italian lira ($16.2 million) in "hull

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Errors & omissions

• A story in the March 4 edition incorrectly identified the title of Don MacMeekin. He is a senior manager with the Deloitte & Touche casualty actuarial and risk management consulting services.

Work comp worries

Reserve increase may cut capacity

By MEG FLETCHER

Workers compensation insurance capacity may diminish following a decision by the nation's largest workers comp reinsurance pool to boost reserves by $1.4 billion, or about 15% on an undiscounted basis.

The board of directors of the National Workers Compensation Reinsurance Pool now is notifying the pool's 450 insurer members that they must boost reserves for the fourth quarter of 1990, said Reginald Beane, vp-residual markets for the National Council on Compensation Insurance in Boca Raton, Fla.

The NCCI administers the pool, which reinsures workers comp coverage written in residual markets —or assigned risk pools—in 31 jurisdictions.

"What you are seeing is a strengthening of reserves as a result of the inflation in the indemnity and medical costs for 1988 and 1989," Mr. Beane said. The "root cause" of the shortfall, he added, is "rate inadequacy."

Residual markets are designed to be markets of last resort for employers that cannot find workers comp coverage elsewhere. Individual insurers' contributions to residual market losses reflect their share of the volume written in the voluntary market.

"As rates have become increasingly inadequate, the predictable has occurred—the percentage of market in the (assigned risk) pools has grown and grown drastically," according to William Hager, the NCCI president, at a council meeting earlier this month. Employers are forced into the residual market when insurers refuse to write coverage at inadequate rates.

Residual markets accounted for an estimated 23% of total premiums in 1990, up from 5.5% in 1984, according to Mr. Hager in a statement.

Workers comp residual markets posted net losses of $2.2 billion last year. This equaled 15.5% of total premium volume in the voluntary market in 1990, up from 4.2% in 1983.

The bolstering of reserves—coupled with increased litigation and other problems facing the workers comp system—could dampen insurers' willingness to write workers comp coverage in some states.

For example, the reserve bolstering will have a "very measurable" effect on the amount of premium that Liberty Mutual Insurance Cos.—the nation's largest workers comp insurer with roughly 10% of the national market—will write, said Paul Mattera, vp and assistant general counsel.

Increasing reserves reduces an insurer's surplus and its ability to provide capacity, he emphasized. Regulators typically want insurers to maintain a 3-to-1 net premium-to-surplus ratio. Liberty Mutual's premium-to-surplus ratio stood at

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BI to print loss control consultant directory

The deadline is approaching for companies to return questionnaires to be listed in the fifth annual *Business Insurance* directory of property loss control consultants.

The directory will appear in the June 3 issue, which will also contain a Spotlight Report on property loss control topics. Insurers, brokers and other firms that provide loss prevention inspections, building plan reviews, loss prevention research, training seminars and other loss control consulting are eligible to be listed if their services are provided on a fee-for-service basis.

The directory is published as an editorial service. There is no charge to be included, but organizations first must complete and return by April 30 a questionnaire provided by *BI*.

If your organization provides property loss control services on an unbundled basis and you would like a questionnaire, please contact Karen Armaganian, Editorial Assistant, *Business Insurance*, 740 N. Rush St., Chicago, Ill. 60611-2590; 312-280-3195.

Indemnity plan costs to increase 15% in '91: Study

By JERRY GEISEL

NEW YORK—Insured and self-insured employers expect medical indemnity plan costs for employees to increase more than 15% this year, a new survey finds.

Monthly indemnity plan costs for individual coverage are expected to rise 15.6% this year to an average of $148 per employee, up from $128 a month in 1990, according to a survey by TPF&C, the benefits and actuarial consulting division of Towers, Perrin, Forster & Crosby Inc. of New York.

In addition, the monthly cost of indemnity plan coverage for an employee with one dependent is expected to rise 15% to an average of $299 from $260 in 1990. The monthly cost of family coverage—coverage for an employee plus at least two dependents—is expected to increase 16.8% to an average of $403 per employee from $345.

These anticipated increases are based on a TPF&C survey of 134 large employers—generally with at least 2,000 employees. Self-funded employers estimated their 1991 costs, while insured employers made their calculations based on premiums insurers were charging in January.

The costs reported in the survey include both employer and employee contributions.

The expected indemnity plan cost increases "are certainty not good news. Health care costs continue to be a drain on corporate profitability," said Rich Ostuw, a vp with TPF&C in Cleveland.

An expected rise in health care costs this year—following double-digit increases over the last several years—should reinforce the need for greater cost control efforts, Mr. Ostuw said.

"There are still a lot of employers who have taken only relatively modest steps" to control costs, he explained. More companies need to consider techniques like establishing managed health care networks, improving utilization review programs and auditing their third-party claims administrators, he said.

Surveyed employers also expect retiree health care costs to increase, with substantially bigger increases in indemnity benefits provided to retirees under 65, who are not yet eligible for Medicare benefits.

For example, employers predict that the monthly cost of indemnity

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Inside

✓ This week's editorial urges those considering insurance regulatory reform to look at the adequacy of regulation governing the sale of insurance companies. **PAGE 8**

✓ In Perspectives, Harvey Sobel of William M. Mercer Inc. looks at some of the myths surrounding the implementation of FASB accounting rules. **PAGE 19**

✓ Developing or refining employee benefit plans will be a priority item on corporate agendas during the 1990s, a recent survey shows. **PAGE 21**

✓ A clause in U.N. cease-fire terms bars Iraq from holding anyone liable for failing to complete contractual obligations because of the U.N. trade embargoes. **PAGE 23**

✓ A Japanese consortium has filed a $68 million claim with the Japanese government for a never-completed petrochemical complex in Iran that was damaged in the Iraq-Iran War. **PAGE 23**

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Revised fronting proposal attacked

By MEG FLETCHER

Revisions to a proposed model law that would ban many fronting arrangements are sparking nearly as much criticism as regulators' original proposal.

The original draft, which was severely criticized by policyholders, insurers and brokers when it was unveiled last year, would have banned nearly all fronting arrangements (*BI*, Dec. 10, 1990).

A working group of the National Assn. of Insurance Commissioners that drafted the proposal then modified the proposal to, among other things, allow fronting programs that are reinsured by captives owned by large companies (*BI*, April 8).

Risk managers, brokers and insurers, however, say the revision does not contain enough changes from the original proposal to meet insurance buyers' and sellers' primary concerns, though some minor changes made by the regulators were welcomed.

The revised draft on "Limitations on Reinsurance Activities of Insurers," prepared by a working group composed of regulators from Florida, Illinois, Missouri, Nebraska and New York, is scheduled to be presented to other state regulators today at the NAIC's Spring Zone meeting in Charleston, W.Va.

Regulators favor a model fronting law to ensure the solvency of fronting insurers and to reduce the use of non-admitted reinsurers.

The revisions to the original proposal includes three exemptions to the earlier proposed ban on most fronting arrangements. The revised proposal would permit:

- Fronted programs reinsured by a policyholder's captive, as long as the policyholder maintains net worth of at least $50,000 and agrees to indemnify the fronting insurer for losses the captive is unable to cover.

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Photo by Mary Herlehy

Fannie Mae mortgage guarantees may encourage companies to help their workers buy homes.

Plan may spur employers to offer housing benefits

By ADRIENNE C. LOCKE

WASHINGTON—A new Federal National Mortgage Assn. plan could encourage more employers to offer housing benefits to attract and retain workers.

In an attempt to increase the availability of mortgages from banks for workers who cannot find affordable housing, publicly owned and federally sponsored Fannie Mae is beginning to guarantee the secondary market for mortgages obtained through employer plans.

Fannie Mae has committed $1 billion over the next two years to purchase from lenders mortgages that employees obtain through employer-sponsored housing benefit plans if that assistance meets Fannie Mae's newly created national standards.

The goal of Fannie Mae's new "Magnet" program is to meet the housing needs of workers who could not otherwise afford to purchase a home, said Gerald R. McMurray, vp of the housing initiative at Fannie Mae.

"The high cost of housing in many areas of the country has made it almost impossible for many employees to have affordable housing close to where they work," he said.

"Employees are coming to (employers) saying that the local housing is too expensive and the commute is too long," he said.

This has made recruiting new employees and retaining current workers very difficult for employers that must do business in those areas, Mr. McMurray said.

Benefit consultants and employers agree that high housing prices in many areas have made attracting and retaining professional staff a difficult task for some employers.

And, some of the small number

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Employers rate tomorrow's tools to control costs

By DEBORAH SHALOWITZ

Some of the most promising ways to control health care costs in the future are not working that well today, while some of the least promising methods currently are helping employers contain costs, a new report notes.

For example, the report notes that a survey of human resource managers says that making employees more cost conscious and emphasizing preventive care are promising cost-control measures.

But, among employers that already have implemented programs to educate employees or that emphasize preventive care, less than one of five found the programs are effective, the report says.

Among the measures that human resource managers consider least promising are reducing total benefits and limiting insurance company profits, according to the report, "Managing Care and Costs: Strategic Choices and Issues."

However, more than one-third of employers that have reduced benefits found the tactic effective, the report says.

The 132-page report was compiled by accounting and consulting firm Deloitte & Touche of Wilton, Conn., and Health One Corp., a non-profit health care provider based in Minneapolis.

The report is based on statistics, survey results and evaluations from a wide variety of sources on health care public policy, how hospitals are restructuring because of financial pressure, the health care professional labor force, demographics and health care marketing in the 1990s, and quality and managed care issues.

The report is intended as a strategic planning tool for health care organizations.

Estimates of health care spending at the end of the century underscore the pressure on employers to hold the line on health care costs, say the report's authors.

National health care spending will soar 177.8% to $1.5 trillion by the year 2000 from $540 billion in 1988, the report estimates.

And, health care costs are projected to rise by 11% to 12% annually in each of the next five years, more than double the projected 5% general inflation rate.

In the last five years, health care costs rose about 9% annually, outpacing annual general inflation of about 5%, the report says.

As costs keep rising, employers will continue pursuing a variety of cost-containment alternatives.

The report noted companies' growing interest in managed health care programs as a cost containment mechanism.

"Experts predict that managed

Continued on page 27

Retiree health changes

Survey finds 80% of firms modify plans due to FASB, rising costs

By STACY ADLER

NEW YORK—The vast majority of employers—80%—are modifying their retiree health care plans because of rising costs and impending accounting changes, a new survey finds.

Among the changes employers are considering making are: changing eligibility requirements, changing provisions for dependent coverage and linking the level of benefits to an employee's years of service at retirement, according to Buck Consultants Inc., a New York-based employee benefit consulting firm.

In addition, the survey found, many employers are considering implementing an overall managed care program or increasing deductibles in their retiree health care plans.

"Employers are considering a spectrum of alternatives" to control rising retiree health care costs, explained Marsha Venturi, a consulting actuary with Buck in Secaucus, N.J. "There is no one solution."

Previously, employers wishing to control retiree health care costs "made simple changes" like requiring hospital precertification or preadmission testing, Ms. Venturi said.

Now employers are making more substantial changes, she said. Specifically, many are looking at an overall managed care program for their retiree health care plans, Ms. Venturi said.

Part of the motivation to change retiree benefits has been recent changes in accounting rules.

Financial Accounting Standard 106—approved last year by the Norwalk, Conn.-based Financial Accounting Standards Board (*BI*, Dec. 17, 1990)—will require employers to accrue as an expense against earnings non-pension retiree benefit liabilities from the date employees are hired until they become eligible for benefits.

Employers now only report as an expense item their pay-as-you-go costs for retiree benefits.

In addition, FAS 106 will require employers to either fully recognize their accumulated retiree liabilities in the first year after the rule takes effect, or to amortize them over up to 20 years.

Differences between accrued expenses and actual payments also would have to recognized as a liability on balance sheets.

International Business Machines Corp. last month became one of the first companies to take a charge against earnings for its accumulated retiree liabilities, even though it did not yet have to do so under FAS 106 (*BI*, April 1).

FAS 106 is scheduled to take effect in 1993 for most companies, although small, non-public employers and those with fewer than 500 participants in their retiree health care plans have until 1995 to comply.

These accounting changes combined with rising health care costs are causing many employers to take a hard look at changing retiree benefits, according to the survey.

Some 80% of the 246 employers responding to the Buck survey offer some form of non-pension benefit to retirees. Of those offer-

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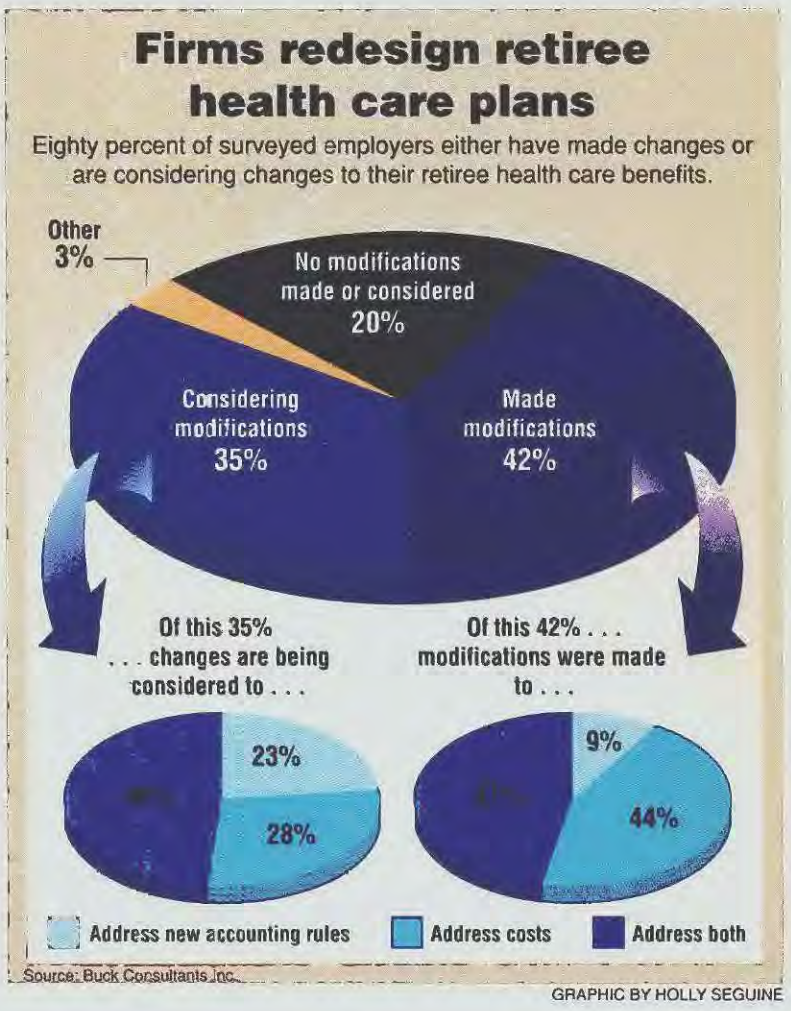

GRAPHIC BY HOLLY SEGUINE

Alliance lends hand to McCarran reform

By JERRY GEISEL

WASHINGTON—The Alliance of American Insurers will actively work with other insurance trade groups and legislative staffers drafting proposals to overhaul the McCarran-Ferguson Act, its president says.

Alliance President Franklin W. Nutter said last week the Alliance will stake out what he describes as a middle-of-the-road position on the McCarran-Ferguson Act, the 1945 law that gives insurers limited immunity from federal antitrust law and leaves primary regulation of insurers with the states.

Also last week, a Marsh & McLennan Cos. Inc. executive said the brokerage is drafting model legislation that would authorize federally chartered insurers and reinsurers. The legislation would establish federal solvency standards for insurers and reinsurers of large commercial risks while exempting them from state regulations.

Mr. Nutter said that unlike some other trade groups, notably the American Insurance Assn. and the American Council of Life Insurance, the Alliance will not draft its own McCarran-Ferguson reform proposal. Instead, it wants to provide advice and suggestions to other organizations that are drafting proposals.

That is a change from the traditional Alliance position that no changes to McCarran-Ferguson should be considered, he said.

In the wake of a new political climate, the Alliance believes it no longer can afford to stay on the sidelines, Mr. Nutter said.

That new political climate includes a high-profile effort by the AIA to develop its own McCarran proposal and the ability of House Judiciary Committee Chairman Jack Brooks, D-Texas, to get his McCarran reform bill, H.R. 9, through committee and to the floor of the House (*BI*, Jan. 7).

In this new environment, "you want to be at the table to protect members' interests," Mr. Nutter explained, adding that those interests include the development of common policy forms and maintenance of a collective data base.

The Alliance board felt "it was well-advised to work with other trade groups. The environment was such we could not take the same position (of no discussion of McCarran changes). We ought to participate in the dialogue. We want to be part of the process," he said.

AIA President Robert E. Vagley said he is encouraged by the Alliance's new position and looks forward to working with the group.

"We certainly can learn more from others and want to hear from" the Alliance, he said.

Developing an alternative to the McCarran-Ferguson Act is the responsible thing to do, Mr. Vagley said. "If you do nothing, you run the risk of losing it all. You run the risk of passage of H.R. 9.

"The best opportunity to protect essential industry interests and defeat H.R. 9 is to develop an alternative," Mr. Vagley said, adding that the AIA expects to unveil its McCarran alternative next month.

However, another industry trade group—the National Assn. of Independent Insurers—says it will not propose changes to the McCarran.

"The line has been drawn. As far as we're concerned, a change in the status of McCarran is non-negotiable," said Lowell Beck, president of the Des Plaines, Ill.-based NAII.

Mr. Nutter stressed that the 170-member Schaumburg, Ill.-based property/casualty trade group continues to believe that the McCarran-Ferguson Act has been beneficial to consumers and the industry.

And, he said the Alliance will continue to strongly oppose Rep. Brooks' H.R. 9, and a similar bill, S. 430, introduced in the Senate by Sen. Howard Metzenbaum, D-Ohio (*BI*, Feb. 25).

Those proposals are "onerous" and counterproductive to promoting competition, Mr. Nutter said.

During a press briefing in Washington, he said the Alliance does not have a "doctrinaire" opposition to a federal role in solvency regulation. But, he said he is skeptical that a case has been made for such a role.

States have been taking significant action to improve solvency regulation, Mr. Nutter said. Dozens of proposals have been introduced in state legislatures to implement financial regulation standards recommended by the National Assn. of Insurance Commissioners, he said.

"With each passing day, states are enacting this legislation. For example, comprehensive packages containing many of the NAIC models have been enacted in Arkansas, Georgia, Nebraska and North Dakota and are nearing enactment in Maryland, Missouri, New Hampshire, South Carolina, Tennessee, Vermont and West Virginia," Mr. Nutter said.

If this spurt of legislative activity continues, it is possible that by 1994 about 75% of states may be accredited by the NAIC (*BI*, Dec. 3, 1990). So far, two states, Florida and New York, have been accredited.

"This is an exciting and dynamic movement of legislation," said David Farmer, vp-federal affairs for the Alliance in Washington, D.C.

"I don't think a federal role (in solvency regulation) is inevitable," Mr. Nutter said, suggesting that congressmen will be less likely to move on any federal solvency proposals in the face of state action.

Meanwhile, M&M's proposal to modify insurer regulation was announced last week by M&M Inc. President David Holbrook at the Russell Miller Inc. National Insurance Symposium-Leadership Conference in San Francisco.

The broker's proposal would free commercial insurers "from rate and form regulations" and exempt them from "unresponsive state guaranty fund and residual market mechanisms," he said.

The proposal would supplant the current "fragmented, cumbersome, outmoded and protectionist" structure that "contributes to the insolvency crisis," he said.

"Large, sophisticated insureds will gain both cost savings and stronger solvency protection" under the proposed legislation, which would set up "a Federal Insurance Office to enforce federal solvency standards, more stringent than those applied by the 50 state regulatory bodies," Mr. Holbrook said.

Under the two-tiered structure proposed by M&M, personal lines and small commercial buyers would be afforded "entirely appropriate regulatory protections," he said.

In an interview, Mr. Holbrook said it would be "premature" to provide further details on the M&M proposal, which will be introduced this year through "appropriate legislators in Washington."

M&M, the world's largest brokerage, will seek support for the proposal from organizations like the National Assn. of Insurance Brokers, the AIA and the Risk & Insurance Management Society Inc., he added.

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Associate Editor Louise Kertesz in Los Angeles contributed to this story.

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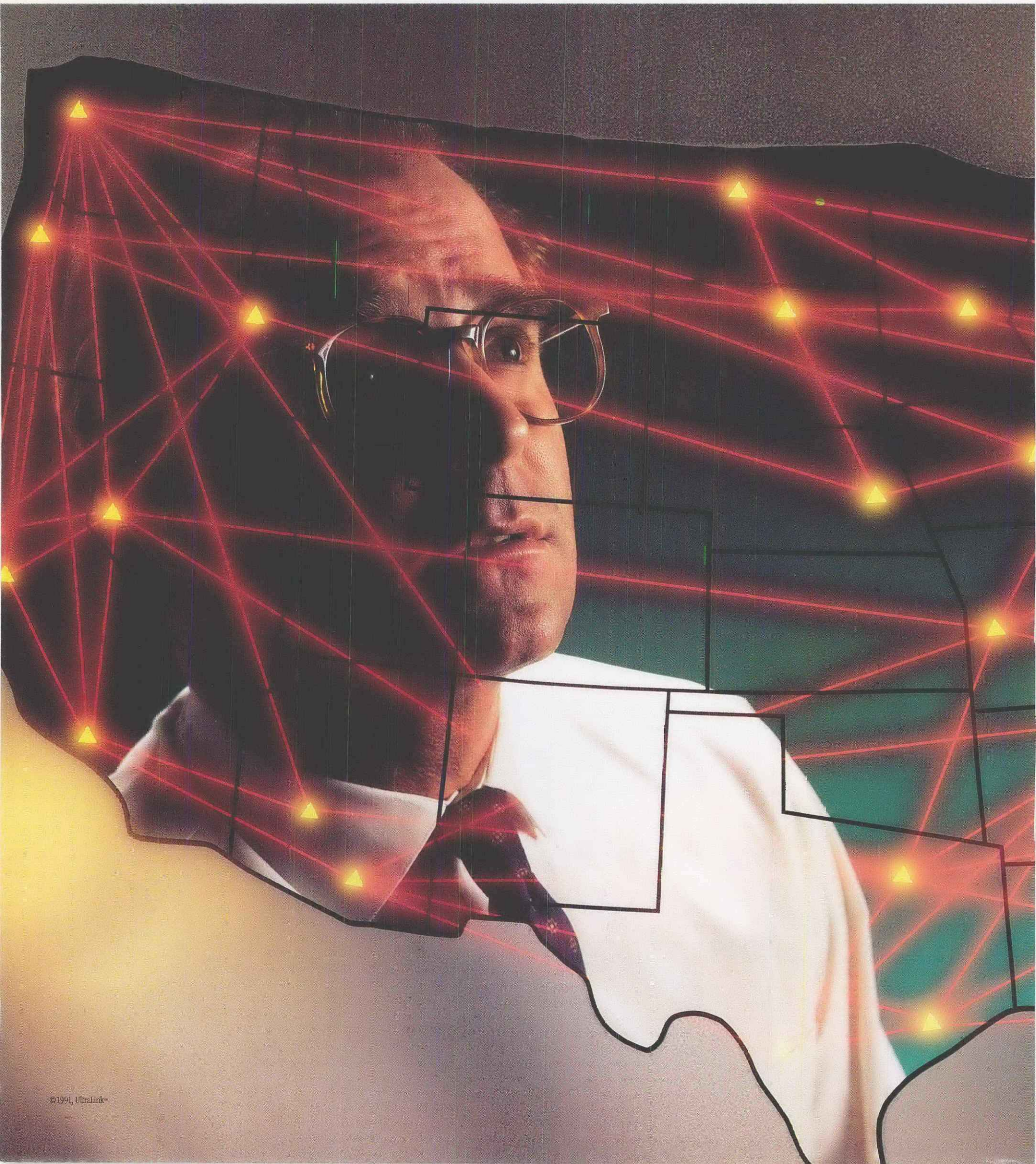

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Opinions

Insurer sale review needed

ADVOCATES OF strengthening the regulation of insurance companies will find anecdotal evidence that reform is needed in the articles detailing the sale of Southern American Insurance Co. (see story, page 1).

For starters, Southern American was purchased in 1988 by an individual with Southern American's own funds—unbeknownst to state insurance regulators.

The regulators did not know of this financing arrangement until almost three years later when Douglas McLeod, *Business Insurance's* New York bureau chief, brought it to their attention..

Whether there was any illegality in that transaction is for the authorities, not for us, to decide.

But, we—and insurance consumers—have to ask how effective insurance regulation is when the financing behind the acquisition of an insurance company is unknown to the regulators who are supposed to oversee these transactions.

Owners of insurance companies—whose product includes the promise to pay in the future—owe an obligation to current and past policyholders to do their best to ensure that promise will be fulfilled.

While it has not occurred in the Southern American case, an insurance company purchased with its own funds ultimately could be depleted of policyholder surplus to the point that the insurance company goes broke—leaving the policyholders with unpaid claims.

Another important issue raised by Mr McLeod's report is the responsibility of an insurance company's owner—particularly an insurance broker—when it sells the insurer.

We're not suggesting that the seller of an insurance company should be held responsible for how the company is managed after it is sold. Too many circumstances can change after the sale of the company.

But, we do believe that owners of insurance companies—whose product includes the promise to pay in the future—owe an obligation to current and past policyholders to do their best to ensure that promise will be fulfilled.

More important, an insurance broker that placed its clients' policies with its own insurance company subsidiary has a duty to its clients when selling the insurance company to seek out a buyer whose finances and management expertise ensure, as well as possible, that the insurer will be in business for years to come to pay claims on old insurance policies.

Again, Southern American is paying its claims. But, the seller of Southern American—then The Crump Cos. Inc. and parent Fred S. James & Co.—relied heavily on the findings of the Tennessee Insurance Department to proceed with the sale of the insurance company to Utah entrepreneur Victor Borcherds.

As sellers, they did not investigate his background.

The Tennessee Insurance Department, though, did not delve into the quality of the assets Mr. Borcherds reported in the balance sheet he filed with the department or into his track record as a business owner.

If it had, it would have found that a large portion of Mr. Borcherds' assets were in a company that he operated that had emerged two years earlier from bankruptcy and which auditors said might not survive as a going concern.

Now, three years after the sale, insurance regulators in Utah, where Southern American is now domiciled, have given the insurer until the end of the year to improve the quality of its assets. Due in part to loans to organizations owned by Mr. Borcherds, the liquidity of Southern American's assets deteriorated to the point that Texas has removed the company from its list of approved surplus lines insurers.

Finally, there is the issue of regulation of insurance company investment practices.

Southern American has been able to lend money to affiliated enterprises, weakening its balance sheet, in the determination of the Utah Insurance Department.

Shouldn't regulation of insurance company investments more effectively prevent these extensive holdings in affiliates, instead of ordering remedial action after the fact?

No policyholder has been hurt by the sale of Southern American, and we are thankful for that fact.

But, it's not hard to imagine how the same activities, while legal, could have led to disastrous results if the amount taken out of surplus to buy the insurer had been larger or if the new investments in affiliates had gone sour.

We urge the National Assn. of Insurance Commissioners and those in Congress considering insurance regulatory reform to add to their deliberations the adequacy of regulation governing the sale of insurance companies.

At issue

Where does your risk management department fit into the corporate hierarchy?

Terry A. Reiff
Director-Corporate Risk Management & Insurance
The Mead Corp.,
Dayton, Ohio

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Donald W. Ungemah
Associate Corporate Counsel and Director-Risk & Insurance
Manville Corp.,
Denver

We report to the general counsel. The risk management process directly applies to every level of decision making in an organization. Each decision maker, no matter what his or her job is, is a risk manager. If professionals in our business have knowledge and credibility, they will impact the decision making along the way.

Sara J. Burns
Manager of Financial Services
Central Maine Power Co.,
Augusta, Maine

Currently we're in the finance department and I report to the treasurer. The more interactive risk management becomes with benefits at this company, the more it is debated which officer the risk management department should report to.

Compiled by Sara Harty

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Maryland County adopts point-of-service plan

By MICHAEL SCHACHNER

A Maryland county is following the lead set last year by several other Washington, D.C.-area public entities by replacing its traditional indemnity health care plan with a point-of-service program administered by a unit of New York Life Insurance Co.

Prince Georges County, located just outside Washington, is set to kick off a self-insured dual-option health care plan for 7,500 active employees, retirees and dependents on July 1.

Under the Health Plus Select program, which runs through June 1994, New York Life will share in costs—or savings—if claims experience is worse or better than expected.

Benefit beat

In addition, the plan sets standards for the timeliness and accuracy of claims payments.

The program could save the county as much as $1 million from what it would have spent by continuing a self-insured indemnity plan administered by CIGNA Corp., said Kathy Colbert, county employee benefits manager. That program is expected to cost the county $22 million in fiscal year 1991, a 37.5% increase from $16 million in fiscal 1989, when the county had about 1,000 fewer employees, Ms. Colbert said.

The county and New York Life would share any health care costs exceeding 105% of a targeted amount in each of the program's three years, she said. If costs total 95% of the target level or less in any year, then both will share the savings.

New York Life also has guaranteed its administrative fee for the contract term, Ms. Colbert said.

New York Life also will pay at least 80% of all claims within 10 days or pay 25 cents per day per late claim. And, at least 95% of all claims will be accurately paid with proper coding or the administrator pays 25 cents per inaccurate claim.

The maximum the insurer could pay in penalties is 5% of its overall administrative fee, she said.

These standards could have been enhanced, but not reduced, during final negotiations last week.

Employees and retirees in the program can receive care through a provider network or pay a much higher price to use other doctors and hospitals.

Physician care through the network requires that beneficiaries pay only a $10 copayment per office visit. Care provided by network member hospitals is fully covered by the plan.

Employees and retirees with individual coverage who opt out of the network at the point of service must pay a $300 deductible plus 20% of all subsequent expenses up to 4% of salary. Out-of-pocket maximums start at $1,000.

Those with dependent coverage opting out of the network are subject to the same deductible and copayment requirements as for individual coverage, while the out-of-pocket maximums are determined by the employee's salary.

Retirees no longer living in Prince Georges County and who do not use network physicians are subject to a per-person deductible of $100 and must pay 20% of costs up to $1,000.

The county's current indemnity plan provides two options of coverage. The high option requires a $100 per person deductible, after which nearly all expenses are covered by the county. The basic option requires employees to pay a $200 per person deductible and 20% of expenses up to 2% of salary.

The county's commitment to the plan comes nine months after four other local public entities and a governmental association began a similar Health Plus Select program.

Last July, the towns of Falls Church, Va., and Greenbelt, Md., along with the Falls Church and Alexandria, Va., school districts, joined through the Council of Governments, a regional association of public entities, to enroll in Health Plus on an insured basis.

The five entities' 2,500 employees and their dependents are now insured through Health Plus, said Susan Swain, the council's director of personnel services. She did not know how much the entities have saved to date but said the plan is expected to save 20% to 40% in the first year compared with previous programs.

All five entities had provided employees with coverage through a combination of insured indemnity plans and health maintenance organizations, she said.

In addition to being an insured program, the council's plan differs from Prince Georges County's plan in the level of copayments, deductibles and out-of-pocket maximums employees must pay.

Under the plan, employees pay only a $5 copayment for doctor visits within the network. To see other doctors, employees pay a $250 per person deductible up to $750 per family. Out-of-pocket maximums are $1,750 per person up to $5,000 per family.

Ms. Swain said her association, the municipalities and the two school districts sought out the point-of-service program because "we were all in jeopardy of losing the indemnity option altogether. Costs were rising by as much as 60%, and this area has heavy HMO penetration, which creates a death spiral for indemnity plans" because of adverse selection.

As many as a dozen more council members may soon join the Health Plus Select program, she said. ■

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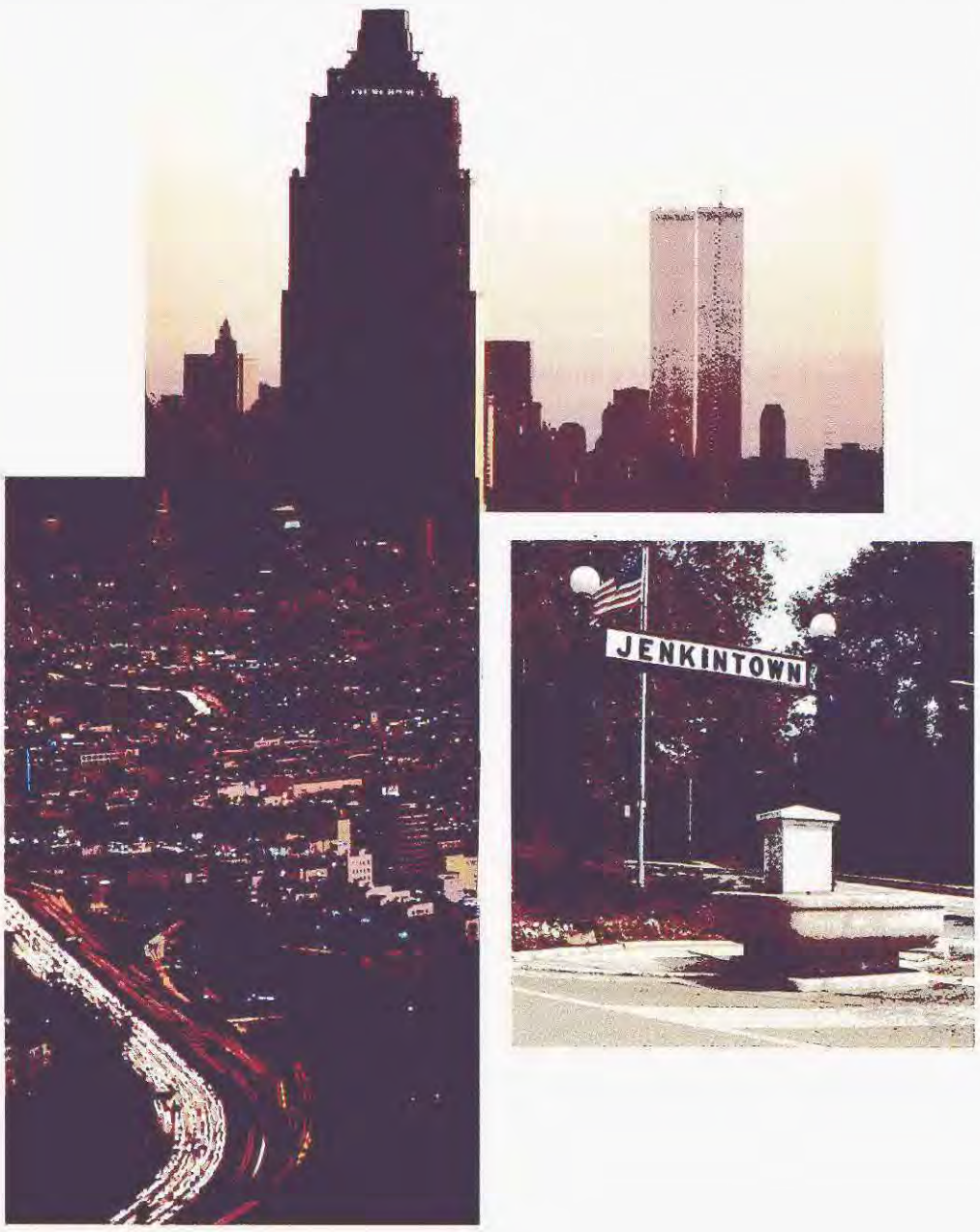

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THE SALE OF SOUTHERN AMERICAN

Continued from page 1

Based on a Utah department examination report, regulators in Mississippi—one of four states in which Southern American is licensed—refused to renew the insurer's certificate of authority last year.

In addition, regulators in Texas, one of Southern American's biggest sources of business, removed the insurer from its list of approved surplus lines markets as of Feb. 1. Texas regulators stated in a letter to Mr. Borcherds that "the company's ability to pay all claims expediently and remain solvent is questionable."

Southern American wrote $15 million in 1990 direct premiums, largely in surety and asbestos abatement liability coverages. The insurer finished the year with $10.3 million in policyholders surplus, up from $7.4 million at year-end 1989.

The company now is trying to upgrade its investment portfolio to comply with the Utah department's order, according to Mr. Borcherds.

However, Mr. Borcherds' first attempt to solve the problem failed. Late last year, he proposed a recapitalization using Government National Mortgage Assn. securities, but dropped the idea after the Utah department warned him about the difficulty of confirming ownership of the securities.

A similar infusion of questionable GNMAs contributed to the collapse earlier this year of Commercial Surety & Insurance Co., another Utah insurer formerly headed by Mr. Borcherds and later operated by Robert V. Murton, a former Southern American officer and associate of Mr. Borcherds (see story, page 16).

Mr. Borcherds said he plans to replace a portion of Southern American's mortgage portfolio with a package of bank loans secured with the mortgages, but is waiting for interest rates to fall further before consummating this deal.

Lax oversight?

Crump's sale of Southern American to Mr. Borcherds raises questions not only about the adequacy of state regulatory oversight, but also about Crump's role in evaluating Mr. Borcherds as a buyer for an insurance company subsidiary that insured many of Crump's own clients, including numerous Fortune 500 companies.

A Tennessee Insurance Department official concedes the department did little to check certain biographical and financial data submitted by Mr. Borcherds, but says such a check would not necessarily have had any bearing on approval of the purchase (see story, page 14).

Crump itself checked into Mr. Borcherds "only to the extent to make sure he was going to pay for what we were selling," said Albert A. Skwiertz Jr., former senior vp and general counsel for Sedgwick James who represented Southern American during an Insurance Department hearing on the sale.

Crump would have had second thoughts about selling to Mr. Borcherds had it known where his money was coming from, Mr. Skwiertz maintained.

"I think it would be unlikely that we would have closed the transaction," Mr. Skwiertz said. "We would have gone back and gotten the imprimatur from the (insurance) department. If that would not have been forthcoming, then we would not have closed."

However, Donald A. Thomas, a retired Crump executive vp and Southern American's president at the time of the sale, expressed no such doubts.

While denying he knew of Mr. Borcherds' revised financing arrangements at the time, Mr. Thomas asserted that Crump was "not a bit worse off" because of the way the deal finally closed and suggested that he had no objections to the way Mr. Borcherds structured the transaction.

"We certainly did everything we could to satisfy the regulatory authorities involved and. . .to find out who (the buyers) were," said Richard M. Page, who was ousted as chairman of Sedgwick James in a top management shuffle last December.

"As far as we were concerned, it was a straightforward transaction between a willing buyer and a willing seller," Mr. Page said.

A Sedgwick James spokesman noted that the Tennessee Department specifically found that the financial condition of Mr. Borcherds and his wife was "not such as might jeopardize the financial stability" of Southern American and that they had "the competence, experience and integrity" to run the company.

"Sedgwick, through its affiliate, The Crump Cos. Inc. . . . cooperated fully with the Tennessee commissioner in her review and relied upon the findings of the commissioners in proceeding with the transaction," the spokesman said in a statement.

For his part, Mr. Borcherds, a native of South Africa who moved to the United States in 1979, denies any intentional wrongdoing in the acquisition, saying he considered Southern American a Utah company at the time of the acquisition and that he had the prior approval of the Utah department's chief examiner.

However, the now-retired Utah chief examiner says he never formally approved the deal.

Mr. Borcherds also noted that Southern American reported the preferred stock redemption and other elements of the financing arrangement in its financial statements.

"Maybe we did make a mistake. Maybe we did screw up," Mr. Borcherds said of the acquisition financing. "What we did, we did. There's nothing secret about it. If we did something wrong, then I guess somebody can kick my ass."

The background

Founded by Crump in 1934, Southern American operated for many years as a surplus lines market for Crump affiliates, writing primary and excess general liability and professional liability coverages for many of the largest manufacturing, utility, railroad and financial service companies in the nation.

Policyholders included Consolidated Rail Corp., General Electric Co., Coopers & Lybrand, Warner Lambert Corp., Johnson & Johnson, Dart Industries, CSX Corp., E.I. Du Pont de Nemours & Co., Dow Chemical Co., Ortho Pharmaceutical Corp., Allied-Signal Inc., Syntex Corp., Mobil Corp. and Squibb Corp., according to a former executive of Southern American.

Southern American also assumed reinsurance business through

'Maybe we did make a mistake. Maybe we did screw up,' Mr. Borcherds says of the financing.

Crump agencies, participating at various times in Mission Insurance Co.'s loss-plagued Pacific Reinsurance Management Corp. pool and in an excess-of-loss reinsurance pool managed by Princeton, N.J.-based E.D. Sayer Inc. The Sayer pool, led by American Centennial Insurance Co., has been in runoff since 1983.

Until the early 1980s, Southern American also participated on the now-defunct H.S. Weavers (Underwriting) Agencies Ltd. line slip.

Gross premium volume fluctuated widely over the years but hit a peak of $33.8 million in 1985, when Crump's surplus lines brokerage and underwriting operations placed about 6% of their total business with Southern American.

However, Southern American's future as a Crump subsidiary became clouded when London-based Sedgwick, then the world's third-largest broker, acquired Crump in August 1986 and subsequently began to merge it with Fred S. James & Co. Inc., the New York-based broker that Sedgwick had acquired the previous year and that has since evolved into Sedgwick James.

At the time Crump was acquired, Mr. Page, Sedgwick James' former chairman, reported no plans to dispose of the insurer, but added that "every broker who is in underwriting has to periodically review whether it is strategically acceptable to remain in underwriting."

When the acquisition was announced, though, Crump reported it would restate its first- and second-quarter 1986 earnings, taking $4.2 million in charges to bolster Southern American's reserves for reinsurance assumed through pools between 1973 and 1982.

Hit hard by the 1986 Tax Reform Act—which denied Southern American several million dollars in tax benefits from the reserve strengthening—the insurer saw its surplus dwindle to $9 million at the end of 1986, a nearly 40% decline from $14.9 million a year earlier.

By December 1986, the company had discontinued virtually all new and renewal underwriting and by 1987 was looking for a buyer.

Several potential buyers looked at Southern American, but none moved faster or came up with a better offer than Mr. Borcherds, sources familiar with the sale say.

One potential bidder, Coastal Group Inc. of Durham, N.C., reviewed Southern American's operations briefly and decided "early on" that any deal would have to include a Crump guarantee of the adequacy of the insurer's reserves, said Barry Snipes, Coastal's chief financial officer.

"There was too much risk associated with that book of business," Mr. Snipes said. "We just couldn't see a way to put it together without a lot of warranties and representations and contingencies."

Midland Risk Insurance Co.—formerly known as Memphis Fire Insurance Co.—offered Crump $6.5 million to $7 million for Southern American, but would have required about $4 million of this amount to be placed in escrow for three years to cover potential reserve inadequacies and unrecoverable reinsurance, said Charles H. Gray III, Midland's president and a former Crump chief financial officer.

Unlike these potential buyers, Mr. Borcherds—who had recently formed Commercial Surety in Utah with Mr. Murton—did not insist that Crump guarantee Southern American's loss reserves.

The offer

In an agreement in principle dated Dec. 1, 1987—and in a later definitive sale agreement—Mr. Borcherds and his wife committed to pay $5.75 million for Southern American and agreed that Crump would provide no representations or warranties regarding the liabilities or status of the insurer "either now or in the future."

The agreement in principle followed what former Southern American officials describe as an extremely limited due diligence review, consisting mainly of a brief visit to Southern American's offices by Mr. Murton before the deal was struck.

Asked how much time Mr. Borcherds and his associates spent on the review before agreeing to take over the company, Mr. Thomas, Southern American's former president, replied "not much."

Mr. Borcherds said Mr. Murton spent three or four days examining Southern American's records before the offer was made.

Mr. Borcherds added he examined an actuarial review of the insurer's reserves performed before Sedgwick acquired Crump, along with a draft of another review under way at the time, though the sale was not conditional on the outcome of the review.

"What due diligence is there to do? You either accept the reserves or you don't," Mr. Borcherds commented.

Meanwhile, the sale agreements carefully spelled out the Southern American assets to be transferred in the deal, including $33.7 million in bonds, securities and other investments and $3.2 million in statutory deposits.

In the agreements and in a sworn statement filed with the Tennessee Insurance Department, Mr. Borcherds said his funding for the acquisition would be provided through a letter of credit issued by Hill Samuel & Co. Ltd., a large London bank.

The department received a copy of a draft LOC on Hill Samuel letterhead, and Mr. Borcherds testified at an Insurance Department hearing on the acquisition that he had secured the LOC by pledging real estate and the proceeds of another LOC issued by an offshore institution he did not identify.

Crump had asked for the LOC because "we wanted assurance, I guess is the right way to put it, that these folks could pay that money," Mr. Thomas testified at the Jan. 25, 1988, hearing.

Southern American would repay Hill Samuel with excess surplus or earnings on that surplus at a rate of $810,000 per year, Mr. Borcherds told regulators at the hearing.

"And you have no intention of taking any funds out of Southern American above $810,000?" Mr. Borcherds was asked by Bill Hosea, the department's director of financial affairs.

"That's correct, sir," he replied.

A change in plans

However, an LOC was not used to finance the sale.

The Tennessee department approved the sale on Feb. 2, 1988, a week after the hearing, but Mr. Borcherds failed to close the acquisition within five days as required by the sale agreement.

Crump filed suit against Mr. Borcherds and his wife, Suzanne K. Borcherds, in U.S. District Court in Memphis on Feb. 16, 1988, seeking to enforce the agreement.

Settlement talks followed, and the two sides set a new closing date: Friday, March 25.

"We were either going to get specific performance or we were going to get damages," said Mr. Skwiertz, Sedgwick James' former general counsel. "And I guess we were so persuasive we convinced him to close."

By March 25, when the parties gathered at the National Bank of Commerce, a Memphis bank where Southern American maintained its accounts, Mr. Borcherds' financing arrangements had changed dramatically.

National Bank of Commerce documents obtained by *Business Insurance* show that Southern American sold $7.1 million in U.S. Treasury notes on March 24, the day before the closing, and that the proceeds of the sale were deposited

Continued on next page

Victor and Suzanne Borcherds' holdings

Southern American Insurance Co. has made loans to several of the Borcherds' other operations following its March 1988 acquisition by the Borcherds.

Source: Southern American Insurance Co. annual statements

GRAPHIC BY HOLLY SEGUINE

THE SALE OF SOUTHERN AMERICAN

Continued from previous page
in the insurer's checking account the following day.

On March 25, the checking account was debited a total of $5.75 million to purchase three cashiers checks in the amounts of $3 million, $2 million and $750,000, bank records show.

Nearly all of the remaining balance in Southern American's account—$1.3 million—was wired on March 28, the Monday following the closing, to an account Mr. Borcherds established for the insurer at a Provo bank.

A National Bank of Commerce official refused to comment on the transactions.

In an interview, Mr. Borcherds said the cashiers checks had been made out to him and that he endorsed the checks over to Crump to pay for Southern American.

Mr. Thomas, who attended the closing, confirmed that he authorized the $7.1 million sale of Treasury bills. He said Mr. Borcherds requested the liquidation because Mr. Borcherds wanted to reinvest the money in higher-yield, long-term investments

"There was no discussion that that money was going to be used to purchase the company," added Mr. Skwiertz, who was not present at the closing.

'Here's the stock'

As Mr. Borcherds described the roughly two-hour closing, Crump officials first resigned as directors and officers of Southern American and turned over all of the insurer's common and preferred shares to Mr. Borcherds before Crump received payment.

"They gave me the company with no pay," he said. "They said, 'The company's yours, guy. Here's the stock, you pay for it. . . .We don't want it."

With the shares in hand, Mr. Borcherds says he formed a new board that included himself; his wife; Mr. Murton, newly appointed Southern American senior vp; and Stephen P. Yeoman, newly appointed executive vp and treasurer.

The board then approved a series of corporate resolutions authorizing National Bank of Commerce to issue the three cashiers checks to Mr. Borcherds, who then signed them over to Crump, Mr. Borcherds explained.

"It happened within 10 minutes," he said. "Nobody got up from the table."

Mr. Thomas, Southern American's former president who attended the closing, said he could not recall which changed hands first: the stock or the cashiers checks.

"We are talking about a very fine line in time," he said.

However, Mr. Thomas said he believed that Mr. Borcherds had arranged with the bank prior to the closing to issue the three cashiers checks in accordance with pre-prepared corporate resolutions.

Mr. Borcherds maintains, though, that the resolutions and checks were prepared at the closing. "Everything had to be done at the closing after the shares were transferred," he said.

Still, Mr. Thomas expressed little reservation about how the transaction was handled.

"If I knew you were going to write me a check on my account, I would object to that," Mr. Thomas observed. But "if I knew that you were going to write me a check on my account that you were going to cover in about 10 seconds, I would not object.

"Whether regulators have a different view of that, that's their problem," Mr. Thomas said.

According to Mr. Borcherds, the three cashiers checks made out to him represented:

- A $3 million payment to redeem 15,000 of Southern American's 25,000 shares of preferred stock. The insurer subsequently reported the redemption in its quarterly and annual financial statements, taking a $3 million charge against its surplus.

'That's how the deal gets done,' Mr. Borcherds says. 'I don't know what the problem is.'

- A $2 million payment to acquire a building in Provo from one of Mr. Borcherds' other companies, S.A.I. Property Inc. S.A.I. had itself acquired the building the day before from Stansbury Mining Corp., now known as Stansbury Holding Corp., a publicly traded mining company Mr. Borcherds headed at the time.

The building—a converted barn that now serves as Southern American's headquarters—was later valued at $1.25 million by a Utah Insurance Department appraiser, and Southern American has been allowed to carry the building as an admitted asset for only that amount.

In its 1988, 1989 and 1990 financial statements, Southern American incorrectly reported that the building had been acquired from Heller Financial Inc., a unit of Fuji Bank of Japan that was owed money by S.A.I. as a result of the Stansbury transaction.

Mr. Borcherds said that reporting Heller as the previous owner was "purely somebody's screw-up internally" and that the mistake had been corrected.

- A $750,000 payment to assume a construction loan Mr. Borcherds had made previously to Provo Aquatic Park Inc., a water slide park he owns with his wife.

"That's how the deal gets done," Mr. Borcherds observed of the financing arrangement. "I don't know what the problem is. I don't know what the confusion is."

Mr. Borcherds also explained that he didn't use the Hill Samuel LOC because his original plan for Southern American—to write gasoline tax bonds—fell through when federal legislation that would have required the bonds died in Congress.

He explained that he didn t want to draw on the LOC without a large volume of gas tax bond business to support the payments.

Charter violations

The revised financing arrangement violated provisions of Southern American's corporate charter and the Tennessee Insurance Code, *Business Insurance* has learned.

Southern American's Tennessee charter forbade any redemption of preferred stock if the redemption reduced Southern American's surplus below $12.5 million.

At the time of the sale to Mr. Borcherds, the insurer's surplus stood at about $8.6 million, meaning that no redemption would have been allowed under the charter's terms, Utah and Tennessee insurance regulators agree.

The company's Utah charter also contained the $12.5 million surplus limitation until Mr. Borcherds and the other Southern American directors reduced it to $5 million in a charter amendment dated Aug. 15, 1988. The Utah department did not receive and approve the amended charter until Nov. 14, 1989, documents show.

In addition, the Southern American board's resolution authorizing the preferred stock buy-back—and the corporate minutes recording the resolution—are both dated April 1, 1988, a week after the closing, according to Billy W. Lovelady, the Utah Insurance Department's chief examiner.

Mr. Borcherds said a resolution authorizing the redemption was executed on March 25 but was replaced by an identical resolution dated April 1 as part of its redomestication to Utah.

Meanwhile, the stock redemption and other elements of Mr. Borcherds' financing package were never reported to the Tennessee department, a violation of the state's insurance code, Tennessee regulators say.

Tennessee law requires the buyer of an insurance company to file a statement with regulators revealing, among other things, "the source, nature and amount of consideration" to be paid for the company, confirmed Tennessee Assistant Commissioner David Kumatz, who as a staff attorney represented the department in the 1988 Southern American acquisition hearing.

If the information provided in the statement changes, the law also requires the buyer to make an amended filing reporting the change.

Regulators not notified

The Tennessee department was never notified of any change in the original LOC financing that it had approved, Mr. Kumatz said.

If they had been told of the revised financing plan, both Mr. Kumatz and Mr. Hosea say they would have reviewed each element of the plan to assess its impact on Southern American.

Among other things, Tennessee regulators say they would have examined the preferred stock redemption to determine whether Southern American could have afforded a $3 million reduction of surplus; required an appraisal of the building being acquired from S.A.I. Property; and evaluated the ability of Provo Aquatic Park to repay the loan assumed from Mr. Borcherds.

The Tennessee department also would not have allowed the preferred stock redemption under the insurer's charter as it existed at the time, Mr. Hosea suggested. "We would not have approved them to violate their charter," he said.

Mr. Borcherds acknowledged he has learned since the closing that the preferred stock buy-back violated Southern American's Tennessee charter, and says he would have financed the acquisition differently if he had known.

He also asserted, though, that the original version of the insurer's Utah charter—which contained a limit on preferred stock redemptions identical to that in the Tennessee charter—was a mistake.

The Utah charter from the beginning should have included only a $5 million surplus limit on redemptions, but instead erroneously duplicated the provisions of the Tennessee charter, he explained.

"That was a pure oversight on the part of the lawyers, on the part of the (Utah) department, on the part of everyone," he said.

When the mistake was discovered, it was corrected in the Aug. 15, 1988, charter amendment, Mr. Borcherds said, adding that he and

Continued on next page

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THE SALE OF SOUTHERN AMERICAN

Continued from previous page
his wife have pledged to repurchase the preferred stock from Southern American if the insurer's surplus ever falls below the statutory minimum.

Asked why he didn't inform Tennessee regulators of the financing changes, Mr. Borcherds said that he believed Southern American to be a Utah insurer as of the day of the closing and that he had obtained prior approval for the financing arrangement from Hyrum Gentner, the Utah department's chief examiner at the time.

"I never discussed it with Tennessee. I discussed it with Utah. As far as I'm concerned, we were buying a Utah company," Mr. Borcherds said. "I breathe and sleep in Utah."

But, Mr. Gentner, who is now retired, denied ever formally approving the transactions.

Mr. Borcherds may have "passed information by" Mr. Gentner and "he may have thought he had approval from the Utah department, but he didn't have it in writing. And if he didn't have it in writing, it's not true," Mr. Gentner said.

However, Mr. Borcherds maintained, "the Utah department never put anything in writing. . . .The fact of the matter is it was approved, it was discussed."

Southern American also wasn't officially considered a Utah-domiciled insurer until March 31, 1988, six days after the closing, when its Utah license became effective and Utah and Tennessee regulators recognized the redomestication, insurance department documents from both states show.

In addition, the Tennessee Insurance Code requires the buyer of an insurance company to notify regulators of any material change in the acquisition plans within two days of learning of the change, which in Southern American's case presumably would have been before the closing.

Thus, it was the Tennessee department that should have been notified of the revised financing plans, Tennessee and Utah regulators agree.

"We closed it assuming it was a Utah corporation, and that was not the case," Mr. Borcherds conceded in an interview. "There was no intent to screw anybody or do anything that was not kosher."

Mr. Borcherds maintained that he relied on Crump to deal with the Tennessee department.

"We were keeping Utah informed and we thought Crump" was keeping Tennessee informed, Mr. Borcherds said, noting that he had no contact with the Tennessee department after the Jan. 25 acquisition hearing.

'Clean as a whistle'?

In another interview, though, Mr. Borcherds appeared uncertain whether Crump officials even knew how he was financing the acquisition.

"Hell, I have no idea," he said. "Remember, that was an adversary situation. It was not a friendly, hunky-dory situation."

But "it's not like this closing took place in some little corner," he added. "As far as I know, all the lawyers knew what we were doing. . . .It was right there on the table in front of everybody."

The Utah department's Mr. Lovelady also questioned whether Crump knew how Mr. Borcherds was paying for the company, noting that a closing like the one Mr. Borcherds described—in which an insurer's stock changes hands before the seller receives payment—would be "very unusual."

"It may be clean as a whistle," he added. "But the appearance just doesn't look good."

Tennessee and Utah regulators, are uncertain about what—if anything—to do about the violations connected with the sale.

"We can't undo something this far down the road," Mr. Hosea said, pointing out that Southern American is no longer a Tennessee-domiciled insurer.

If Mr. Borcherds' application contained misstatements, "our only recourse at this late date is probably to suspend their license," he said, adding that the Tennessee department is not considering any such action.

Mr. Lovelady said the Utah department could consider fining Southern American or, in the worst case, revoking its license for violating its charter and for filing a false document if the corporate resolution on the preferred stock redemption didn't show when the redemption actually occurred.

However, the department proba-

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lady said the notes "should not have been allowed" in full and will be re-evaluated in light of Commercial Surety's insolvency.

Mr. Borcherds pointed out that the larger of the notes is still secured by the mortgage on Stansbury's vermiculite property.

Surplus increases

Not all of the news in the Utah department's report was bad.

The examination in fact produced a $791,573 net increase in Southern American's year-end 1989 surplus to $8.2 million from $7.4 million.

This resulted from Southern American's mistaken reporting of $1.9 million in surety bond premiums as unearned. Noting that surety premiums are considered earned upon receipt, examiners reduced the insurer's unearned premium liability by this amount.

The exam report also noted that Mr. Borcherds has taken several steps to deal with problems inherited from Crump.

By year-end 1989, for example, Southern American had commuted reinsurance agreements; negotiated reinsurance treaties covering amounts that may prove uncollectible from other "financially insecure" reinsurers; and negotiated the $10 million loss portfolio transfer to Scandinavian Re.

Southern American has commuted reinsurance contracts with the Mission/PRMC pool, Fremont Indemnity Co. and American Centennial, according to Mr. Borcherds.

An actuarial review of Southern American in conjunction with the exam report also concluded that the insurer is adequately reserved for losses on its past and present business.

"I was impressed that the reserves carried by Southern American were quite good," said Robert F. Lowe, an official of Casualty Actuaries Inc. of St. Louis, who performed the actuarial review.

Mr. Borcherds said he is working to resolve the Utah department's objections to Southern American's investment portfolio, adding that by year-end 1990, the insurer's liquidity ratio—one of the IRIS tests—was already back in the normal range.

A new holding company, SAIC Holdings Inc., will be formed for Southern American, according to Mr. Borcherds.

SAIC Holdings will then arrange a package of bank loans to be contributed to the insurer in return for the transfer of several of Southern American's mortgages to the banks as security, he explained.

"We can do that anytime we're ready to do that," he said, explaining that Southern American already has loan offers from three banks but is waiting for a possible drop in interest rates before finalizing the package.

Other states concerned

Meanwhile, the Utah exam report has caused trouble for Southern American in other states.

The Mississippi Insurance Department refused to renew Southern American's license last August, citing the Utah examination "and the absence of valuations on certain assets."

Meanwhile, the Texas State Board of Insurance, citing the exam report and the insurer's 1989 annual statement, removed Southern American from its approved list of surplus lines insurers as of Feb. 1, leaving Southern American unable to write business in Texas.

"The majority of assets are in the form of mortgage loans, and the company's ability to pay all claims expediently and remain solvent is questionable," the Texas department said in a letter to Mr. Borcherds.

Southern American is less concerned about the loss of its Mississippi license than Texas' revocation of its surplus lines authority, Mr. Borcherds said. Asked if he will seek to regain approval in Texas, he replied, "You bet." ■

Utah insurer's failure triggered by GNMAs

By DOUGLAS McLEOD

PROVO, Utah—The president of Southern American Insurance Co. last year considered replacing some of the insurer's assets with Government National Mortgage Assn. securities at the same time a Utah insurer he founded was collapsing because its GNMA investments could not be verified.

Commercial Surety & Insurance Corp. was ordered liquidated Jan. 7 by a Utah judge after state insurance regulators were unable to confirm that the insurer actually held $4.8 million in GNMAs that formed the bulk of its assets (*BI*, Feb. 4).

Victor Borcherds, Southern American's president, had proposed a similar infusion of GNMAs for his company but dropped the idea after the Utah Insurance Department warned him about the difficulty of confirming ownership of the securities.

GNMA, an agency of the U.S. Department of Housing and Urban Development, guarantees principal and interest payments to holders of mortgage-backed securities.

The securities are often held in "book entry" form, meaning that no actual certificates change hands. This makes it difficult to confirm ownership, since the financial institutions that keep records of securities transfers are often unwilling to disclose investors' holdings to state regulators.

The GNMAs were offered to both Commercial Surety and Southern American by Robert H. Wyshak & Associates Ltd.

Commercial Surety was formed by Mr. Borcherds and Robert V. Murton in November 1987, shortly before Mr. Borcherds agreed to buy Southern American from The Crump Cos. Inc. (see story, page 1). However, Commercial Surety was not licensed until 1989.

Mr. Borcherds, originally Commercial Surety's chairman, had planned to assign ownership of Southern American to Commercial Surety, merging the two companies or making Southern American a Commercial Surety subsidiary, documents filed with the Tennessee Insurance Department show.

The merger never took place, though. Mr. Borcherds resigned from Commercial Surety in early 1989 and operated Southern American as an independent company.

Mr. Murton—who also was a Southern American senior vp until his resignation in 1989—continued to operate Commercial Surety with various titles, including president and vp. Mr. Murton could not be reached to comment on Commercial Surety's operations.

Commercial Surety was licensed in Utah in August 1989. Its stock was issued to Mr. Murton in consideration for a bond portfolio that capitalized the company, Utah department documents say.

A dispute later arose over ownership of the bond portfolio, though, and Mr. Murton agreed to recapitalize Commercial Surety with new

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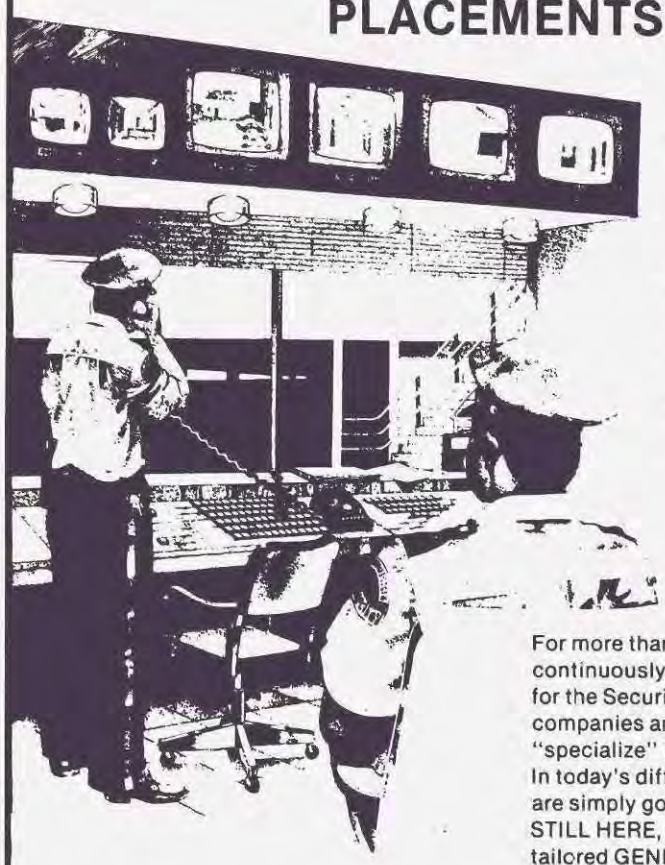

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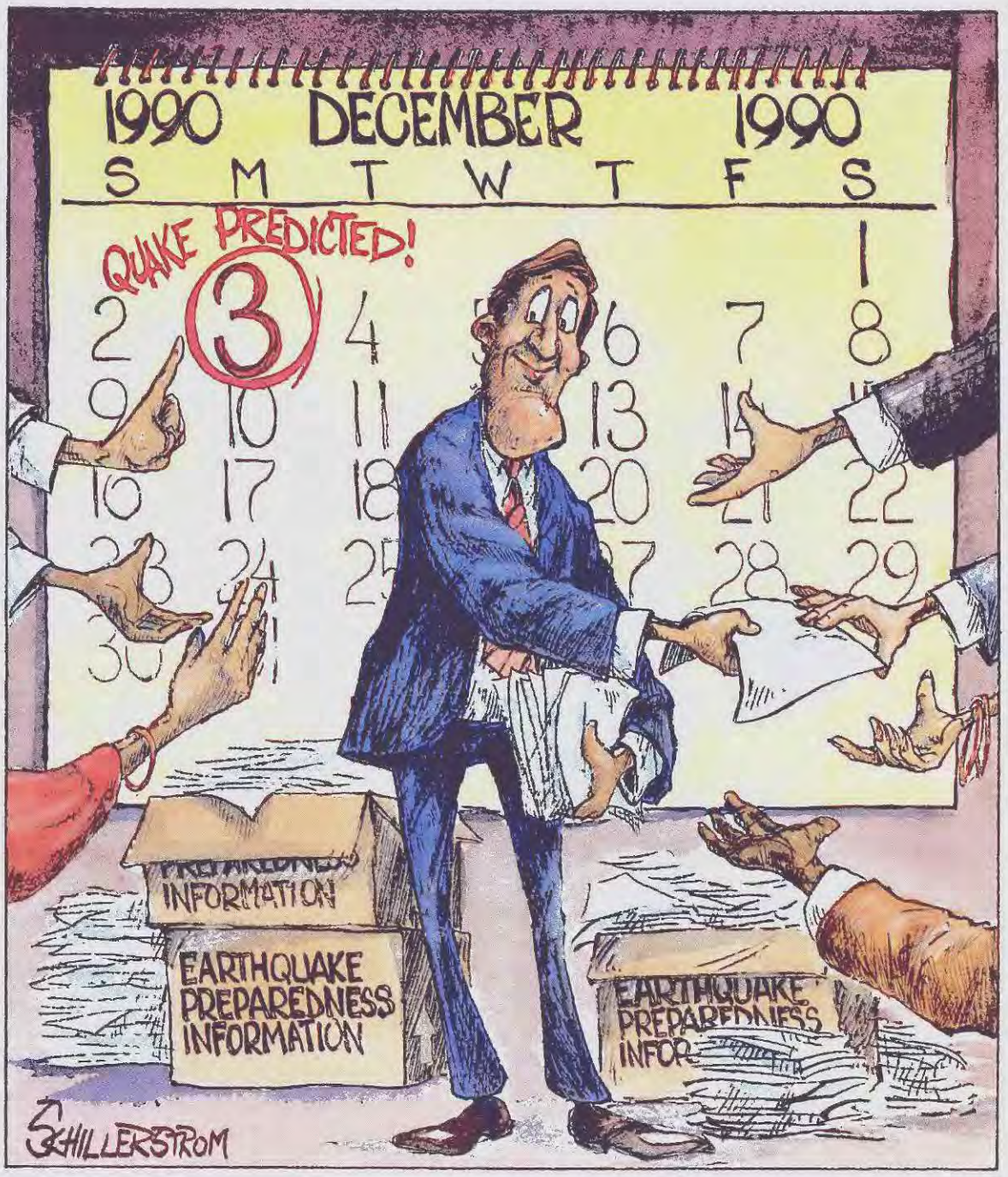

By MARK A. HOFMANN

The big quake struck St. Louis during morning rush hour on Dec. 3, 1990, the same day a maverick climatologist named Iben Browning had "projected" that a major earthquake would probably occur along the Mississippi Valley's New Madrid fault.

The earthquake, the worst to strike the central United States since the great New Madrid earthquakes of 1811-1812, buckled roads, collapsed buildings, ruptured gas pipelines and set off a conflagration that devastated downtown St. Louis.

Iben Browning, the scorned prophet, had the grace to refrain from saying "I told you so" as he became the first person in history to receive the Nobel Prize for both physics and economics in 1991.

The death toll exceeded 1,000. Property damage was estimated at more than $5 billion. Much of the damage was insured because insurers had used Browning's prediction as a means of promoting earthquake coverage sales. As lawsuits were filed, it became evident that the liability claims stemming from the quake could exceed the property claims by many times.

In addition, ruptured transcontinental natural gas pipelines cut off energy to other areas of the country, worsening the recession as millions of Americans spent a cold and decidedly less-than-merry Christmas.

Insurers initially won praise for their handling of the situation, but as the depth of the destruction became evident, the public sought a scapegoat. As insurance rates rose steadily throughout the winter and spring of 1991, cries of price-gouging arose.

Both House and Senate committees investigated the property/casualty insurance industry's practices. Although absolutely no evidence of wrongdoing or collusion could be found, Congress passed the Federal Insurance Review Act the next summer. The act repealed the McCarran-Ferguson Act, created a federal insurance review board to be headed by a presidential nominee and required detailed financial data reporting from insurers.

Although he made no attempt to hide his distaste for the review act, President Bush did not veto it. After having been forced to recall National Guard and reserve units from the Persian Gulf to deal with the situation in Missouri, the president was in no mood to expend what little political capital he retained on such a measure.

The withdrawal of the troops caused an indefinite delay of the planned Jan. 16 Allied attack on Iraq. The delay, in turn, led to a Soviet-brokered peace settlement that gave the Iraqis much of what they wanted. The president's political stock plummeted.

One of the first acts of President-elect George McGovern following the 1992 elections was to name Ralph Nader as federal insurance czar. . . .

* * *

Of course, that insurer nightmare never happened. The great earthquake of 1990 projected by Iben Browning did not occur as scheduled (*BI*, Nov. 26, 1990). In fact, Mr. Browning has had little to say publicly since about Dec. 5.

Even had Mr. Browning been correct, insurers were as prepared as they could be for an unpredictable event. Some insurers even used the Browning prediction as a spur to review their own catastrophe response plans and fine-tune them for a New Madrid quake (see story, page 16D).

Many insurers say the Browning affair may have done more good than anyone imagined when the New Mexico climatologist first warned of an impending quake in the central United States. If nothing else, Mr. Browning's projection shook the complacency of people who thought that only Californians had to worry about earthquakes, insurer loss control experts say.

"We feel very fortunate that he got these people moving in what we consider the right direction. He really helped us," said Rick Jennings, an account manager in St. Louis for Allendale Mutual Insurance Co. of Johnston, R.I.

"It's hard to believe there's a Californian who's not aware of earthquake risks," said Tom Parnell, director of property claims for Travelers Corp. of Hartford, Conn. But that's not the case in the Midwest. "We don't have a lot of track record out there."

Before the Browning prediction, protecting against earthquake exposures was low on the list of Midwestern concerns, Mr. Parnell said.

"It did sensitize a good number of people" to the fact that a large part of the country is not ready for a major earthquake, agreed Kevin Price, second vp responsible for claims for The Hartford Steam Boiler Inspection & Insurance Co. in Hartford, Conn.

The prediction "gave us a platform" from which to extol the need for loss control and disaster planning, said Allendale's Mr. Jennings.

Positive fallout from the Mr. Browning's projection continues, and it's not confined solely to earthquake mitigation. Customers have been asking for assistance in general disaster and contingency planning since the Browning prediction began receiving widespread attention last year, he said.

"It's been an ongoing process," Mr. Jennings said.

Weeks before Mr. Browning's target date for a quake came and passed, insurers began responding to customer inquiries. With information about a major quake in the Midwest scarce, some insurers drew from their experiences on the West Coast.

Transamerica Insurance Co., for instance, was able to call on its experience in California to promote earthquake awareness among its Midwestern customers, said John Walker, loss control manager at its Schaumburg, Ill., office.

Mr. Walker said the Woodland Hills, Calif.-based insurer has an earthquake safety guide containing "common sense" tips.

The safety brochures proved quite valuable in impressing upon customers the nature of the earthquake peril, he said. His office, in fact, distributed 582 brochures to policyholders either directly or through independent agents.

CNA Financial Corp. also took the opportunity for a little general earthquake education. A four-page memo on emergency planning was sent to its offices in Memphis, St. Louis and Little Rock, Ark., last November, said Tom Skibba, assistant vp-loss control for the Chicago-based insurer.

The memo addressed such matters as what to do if an earthquake should strike while a person is in a car, how to prepare family members to deal with an earthquake, what emergency items to have on hand and what not do after the quake is over.

"It helped us train our loss-control representatives" to answer client questions, Mr. Skibba said.

Dave Grupp, fire protection engineer with Long Grove, Ill.-based Kemper National Insurance Cos., said that he and other loss-control specialists found the sudden surge in interest in retrofitting—strengthening unreinforced masonry buildings—"frustrating" because the callers seemed to think that they could accomplish it almost overnight.

"They were asking what they could do to protect themselves," he said, not realizing that retrofitting is an expensive, time-consuming

Continued on page 16C

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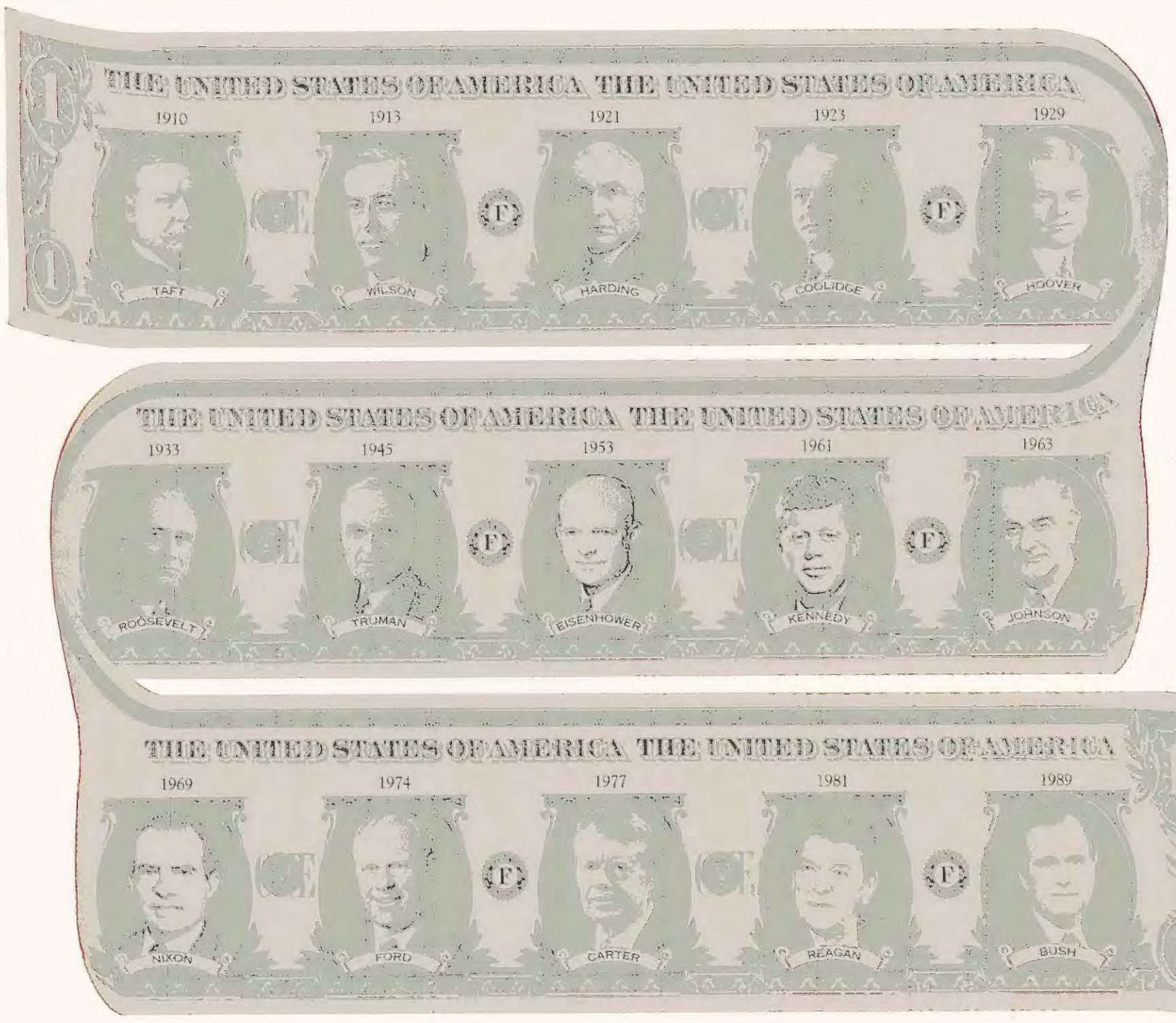

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Quake prediction

Continued from page 16A

process.

He said the insurer even received some calls from the Chicago area, hundreds of miles from the New Madrid fault. Those calls generally reflected simply curiosity about earthquakes rather than requests for advice. Such curiosity has "pretty much washed up," he said.

Gerard Rodriguez, Factory Mutual Engineering Assn.'s St. Louis-based district manager, said that his organization was able to draw on years of study of earthquakes in fielding customers' questions, which generally involved requests for basic information.

Mr. Rodriguez said that Norwood, Mass.-based Factory Mutual Engineering—which is owned by Allendale, Arkwright Mutual Insurance Co., and Protection Mutual Insurance Co.—also used the heightened awareness to educate its own people.

For example, the engineers found that roughly 150 earthquakes occur along the New Madrid fault each year, but most are so weak that they aren't noticed, he said. Mr. Rodriguez also noted that the engineering organization had begun examining the New Madrid peril in the early 1980s, but that "attention really started picking up with the San Francisco quake" in 1989.

The engineering organization also drew up a contingency response plan to run its St. Louis-area operations out of its Kansas City, Mo., office, he said. The Browning prediction "forced us to think in terms of catastrophe and contingency planning," he said.

Mark Harmon, West Coast property product manager for Novato, Calif.-based Fireman's Fund Insurance Co., said that the New Madrid prediction "generated very significant interest in earthquake coverage" in the fault area, although he was not certain how much new earthquake insurance business Mr. Browning's prediction had sent the insurer's way.

Mr. Harmon noted, however, that before the 1989 San Francisco earthquake, about one out of every five commercial policyholders in California carried earthquake coverage. After the quake, that figure grew to one in four.

"It's still tending to hold up at this point," he said. He added, however, if "all remains quiet on the earthquake front," policyholders may begin to question whether they need the coverage.

Mr. Harmon also said the San Francisco quake and the Browning prediction stirred more interest in preventive measures. Clients have been asking about retrofitting buildings to better withstand the impact of a quake, he said.

He said that Fireman's Fund has been working with EQE Engineering Inc.—an earthquake engineering firm headquartered in San Francisco—to provide the insurer with "some insights on retrofitting." But Mr. Harmon also said that when clients want specific recommendations on retrofitting, Fireman's Fund representatives recommend they contact earthquake engineering specialists.

Not all insurers tied loss control programs to the Browning prediction.

At Hartford Steam Boiler, "we did nothing unusual" to promote loss control in the earthquake zone, in large part because customers were already aware of the potential problem, said Mr. Price.

"We didn't do anything any differently," said Stan Couvillon, vp-loss prevention for Hartford, Conn.-based Industrial Risk Insurers. The property insurance pool conducts routine checks for structural soundness, and policyholders are sophisticated enough to recognize the earthquake peril, he said. In fact, Mr. Couvillon said that he had not heard of any special requests from clients in the New Madrid fault zone.

But, like other loss control professionals, Mr. Couvillon said that the Browning prediction was "probably very good" in alerting Midwesterners to the potential for an earthquake.

Loss control experts wonder, though, how long the heightened awareness brought on by the Browning scare can be expected to last. Already, signs of complacency are returning.

"The Midwest has really underestimated the kind of construction damage and utility damage" a major earthquake could cause, said Mr. Grupp.

Stirred by the Browning prediction, interest in strengthening

The Browning prediction 'forced us to think in terms of catastrophe' plans says Mr. Rodriguez.

safety codes has "evaporated very quickly," said Mr. Grupp. California codes, he pointed out, spell out the specifics of earthquake-resistant sprinkler systems that must be used in commercial buildings—something not found in Midwestern building codes.

Keeping public awareness up is difficult, agreed CNA's Mr. Skibba. Because the Midwest has been fortunate in avoiding a major quake for generations, "there isn't any hard data that shows all the value of loss control," he said.

Fireman's Fund's Mr. Harmon said the Browning prediction could have served as a spur for the industry's "Earthquake Project" legislation, which would establish a federal program for both primary earthquake coverage and excess-of-loss reinsurance (*BI*, Oct. 23, 1989). But although an industry-supported bill was introduced in Congress in 1990, no action has been taken (*BI*, April 9, 1990).

"The thing we need is something along the lines of the Earthquake Project," Mr. Harmon said. He added, however, that sometimes a catastrophe must occur before safety laws are passed. As an example, he cites regulations requiring hotel rooms to have sprinklers, rules that were only written in the wake of devastating hotel fires like the 1980 fire at the MGM Grand Hotel in Las Vegas.

So loss control experts remain cautious in their assessment of the long-term positive effects of the Browning prediction.

"It certainly got the attention of a lot of regulators and media in the Midwest," said Travelers' Mr. Parnell. But keeping that attention focused will be no easy task, he said. Because the earthquake didn't happen, warnings about the earthquake exposure ring of crying wolf, he said.

Allendale's Mr. Jennings agreed. With the passage of time, the interest in earthquake mitigation has died down, he said. He also wondered whether the prediction of a future earthquake would have the same impact, particularly if the prediction came from last December's prophet.

"If it comes from Browning, I think it would be received a little more coolly," he said. ■

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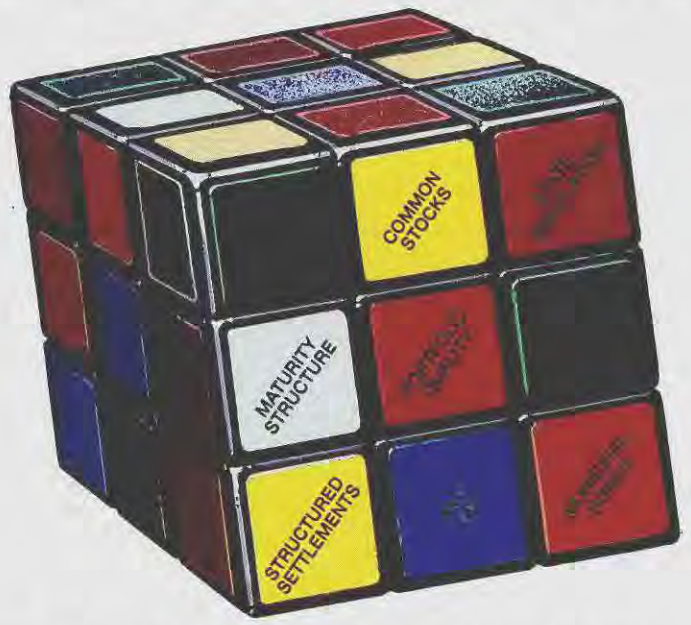

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Insurer Topics

Prediction of quake hones Kemper's plan for quick response

By MARK A. HOFMANN

LONG GROVE, Ill.—Had an earthquake ravaged portions of the Mississippi or Ohio River valleys in December, as Iben Browning had predicted, Kemper National Insurance Cos. believes it would have been ready to deal with the disaster.

In fact, Mr. Browning's prediction of a quake along the New Madrid fault played a key role in the insurer's decision to devise a disaster response plan for its Midwest claims operations, said Tim Huseholder, property claims manager for the Long Grove, Ill.-based insurer.

"From a claim side, it forced us to evaluate our disaster response scenario," he said.

The catch was working out a plan to respond to a New Madrid earthquake while avoiding the appearance of panicking and lending credibility to Mr. Browning's prediction that a quake would occur on or about Dec. 3, 1990, Mr. Huseholder said (*BI*, Nov. 26, 1990).

As a result, Kemper officials developed a far more complete earthquake response plan for the Midwest, he said.

The aftermath of an earthquake along the New Madrid fault would differ from temblors in California in many ways, he pointed out.

One of the most significant differences would be the potential size of the affected area, he said.

For example, the Oct. 17, 1989, San Francisco Bay area earthquake hit a handful of counties, and most damage was sustained within a relatively small area around the epicenter, he said.

But because of different soil conditions, different geological conditions and the lack of building codes for earthquake resistance in the Midwest, a New Madrid earthquake could result in "discernable" damage in more than 20 states, Mr. Huseholder said.

He pointed to the fact that the series of earthquakes along the New Madrid fault in 1811 and 1812 rang church bells as far away as Boston, or about 1,200 miles from St. Louis, which was severely damaged during the quakes.

Mr. Huseholder said that even though a significant New Madrid quake probably would affect portions of only six or so states, he still wonders what he would do if Kemper policyholders in New England began requesting that claims adjusters be dispatched to examine windows broken because of a New Madrid quake.

"The thing that was a little strange about this was not knowing where you are going to have to respond," Mr. Huseholder said. Even with the probable impact area encompassing six rather than 20 states, Kemper personnel would have to be deployed over tens of thousands of square miles.

"Our biggest concern was our ability to service customers in a relatively short time over what could be a large geographic area," he said.

After a hurricane, for example, insurers descend upon the affected area with a large contingent of claims personnel, he said. And, the same tactic would be used to respond to California earthquake damage, he said.

But assessing the damage from a New Madrid quake would require a less focused approach.

"The initial response would look weaker and look slower," Mr. Huseholder said. Instead of a massive onslaught of adjusters, Kemper probably would dispatch small teams to key areas in the quake zone where the insurer's exposure would be greatest, like St. Louis; Memphis, Tenn.; and Evansville, Ind.

At the same time, other adjusters would receive a crash two- or three-day course in assessing earthquake damage, Mr. Huseholder said. The course would rely on both in-house expertise and the services of outside adjusters and vendors, he said.

The necessity for an earthquake-specific adjusting course is simple: While most adjusters have the opportunity to get plenty of hands-on training for hurricanes and windstorms, they have far less opportunity for adjusting earthquake damage because earthquakes occur relatively infrequently, he said.

Another area in which Kemper officials discovered they had little experience was in dealing with a disaster that knocked out the insurer's ability to deal with claims from local claims offices.

For example, while Kemper has offices in Memphis and Nashville, Tenn., and St. Louis, a New Madrid quake could have damaged the infrastructure—telephone links, electronic data processing and maybe even an inhabitable office—needed to service customers from those offices for weeks, he said. Kemper "could be a victim and a service provider at the same time," he observed.

But, after a detailed examination of its local claims handling operations, Kemper concluded that its "own physical ability to bounce back would be very, very good," Mr. Huseholder said.

"We were really less concerned about physical damage than we were with our communications grid," he said. "Could we recreate the Memphis claim office in Peoria?" he wondered, and found that it could be done within 24 hours.

Kemper's corporate computing system has the ability to recreate files that existed at any individual office, Mr. Huseholder explained.

But one particular gap in Kemper's —or any insurer's—knowledge of the impact of a New Madrid quake remains troubling for Mr. Householder. He said that no one can assess the effectiveness of Midwestern building codes on mitigating earthquake damage.

Building code requirements for earthquake resistance for new structures in the Midwest generally are weaker than those in California, he said.

For example, a considerable percentage of housing stock and commercial buildings were built decades ago without steel reinforcement of masonry, he said. No one knows just how much less sound these buildings are than their West Coast counterparts, Mr. Huseholder said.

This is particularly critical, because whereas the deductibles in earthquake policies written in California are expressed as a percentage of a structure's insured value, earthquake coverage in the Midwest often has a flat dollar-figure deductible, Mr. Huseholder said. Flat-dollar deductibles would almost always result in larger claims.

Kemper also considered the unique psychological burden of adjusting earthquake claims in devising its disaster response plan, Mr. Huseholder

Continued on next page

May

Automation: Underwriting & Policy Management

From underwriting to marketing strategies, insurance company executives have the advantage of technology to help them sharpen their skills. Editors will report on the emerging technologies — like expert systems and image processing — and how insurers are putting these to good use.

Issue: May 20
Ad Closing: May 8

June

Advertising, Marketing & Sales Promotion

Recession. A slumping commercial property/casualty insurance market. BI editors analyze how these current conditions affect marketing strategies for insurance companies. They'll report on traditional forms of advertising as well as non-traditional marketing alternatives including special events promotion.

Issue: June 17
Ad Closing: June 5

July

Lobbying/Government Relations

Workers compensation and health care reform ... Superfund and other pollution problems ... congressional efforts to tighten regulation and to amend the McCarran Ferguson Act ... these are just some of the important issues before government that are having a direct impact on insurers. BI editors will examine the kind of lobbying efforts insurers are making and on what level of government. And they'll look at what services are available through membership in insurance trade groups or other associations.

Issue: July 15
Ad Closing: July 2

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Insurer Topics

Fiery deaths, in cruel irony, precede insurer safety talk

By MARK A. HOFMANN

WALTHAM, Mass.—A few months before a spectacular fire gutted a Philadelphia skyscraper, Arkwright Mutual Insurance Co. scheduled a seminar on preventing high-rise fires to be given next month in Philadelphia.

According to Thomas M. Campbell, director of customer training for the Waltham, Mass.-based insurer, it was purely coincidental that Arkwright planned such a seminar to be presented in Philadelphia May 1-2. However, Mr. Campbell pointed out that in an even more ironic twist, Arkwright loss-control experts were making a separate presentation on preventing and dealing with high-rise fires for a West Coast customer as flames ripped through the Philadelphia skyscraper and killed three firefighters (*BI*, March 4).

Mr. Campbell said that Arkwright's "High-Rise Fire Prevention and Protection" program stemmed from customer need and an awareness that non-customers could profit from learning how to deal with fire exposure to skyscrapers. In fact, no other insurer offers non-customers a loss-control program tailored to high-rise fires, he said, although Arkwright and Factory Mutual Engineering & Research had offered training to customers. Factory Mutual Engineering & Research is owned jointly by the three Factory Mutual companies—Arkwright, Johnston, R.I.-based Allendale Mutual Insurance Co. and Park Ridge, Ill.-based Protection Mutual Insurance Co.

Interest in high-rise fire protection grew after a fire gutted the First Interstate Bank Bankcorp building in Los Angeles in 1988, (*BI*, May 16, 1988; May 9, 1988).

As customers and others sought more information on how to deal with the exposure, "we realized this was a thing we needed to do," said Mr. Campbell.

Arkwright decided to stress the nuts-and-bolts aspects of fire prevention. Its program is designed for people who are not necessarily fire safety engineers, but who have building management, security or fire protection responsibilities for buildings at least 75 feet tall, he said.

He said that the program, which Arkwright plans to present in at least six cities this year, mixes technical advice with videos of a simulated high-rise fire.

The videos include test burnings of office and hotel rooms at the Factory Mutual Engineering test center in West Glocester. R.I., as well as videos of actual high-rise fires.

Videos from the test center show how quickly poisonous gases and smoke spread through a room when temperatures become dangerous, as well as how sprinkler systems work.

The program also teaches the 10

Continued on next page

Quake planning

Continued from previous page

said.

Kemper discovered this strain on adjusters in the aftermath of the 1989 San Francisco Bay area earthquake.

Many adjusters who were reassigned to San Francisco from the area struck by Hurricane Hugo a month earlier requested to be sent back to the Carolinas to deal with hurricane claims after adjusting claims for only a few days on the West Coast.

Other adjusters flown into the San Francisco Bay area from other regions of the country also asked to go home relatively quickly, he said.

Kemper was puzzled because all of the adjusters were experienced and rarely complained about working long hours for weeks at a time in hurricane-devastated area, he said.

Mr. Householder said the reason for the malaise was evident: Kemper found that only 7% of the California earthquake claims filed ended in payment, either because of the high deductible or the lack of coverage, while most hurricane-related claims result in payment.

"They didn't like turning down claims," he explained.

Based on Kemper's California experience, it considered instituting counseling sessions for adjusters who would be sent into the New Madrid quake zone if a quake occurred.

"It never occurred to us before about counseling our own people about motivation," he said.

Mr. Householder said Kemper's examination of a New Madrid quake's impact on its resources puts the company in a much better position from which to deal with a major Midwestern earthquake and, thus, was an "effort well-spent."

"It's definitely a win-win situation in the sense that we learned some things we didn't know or hadn't thought of before," Mr. Householder said. ■

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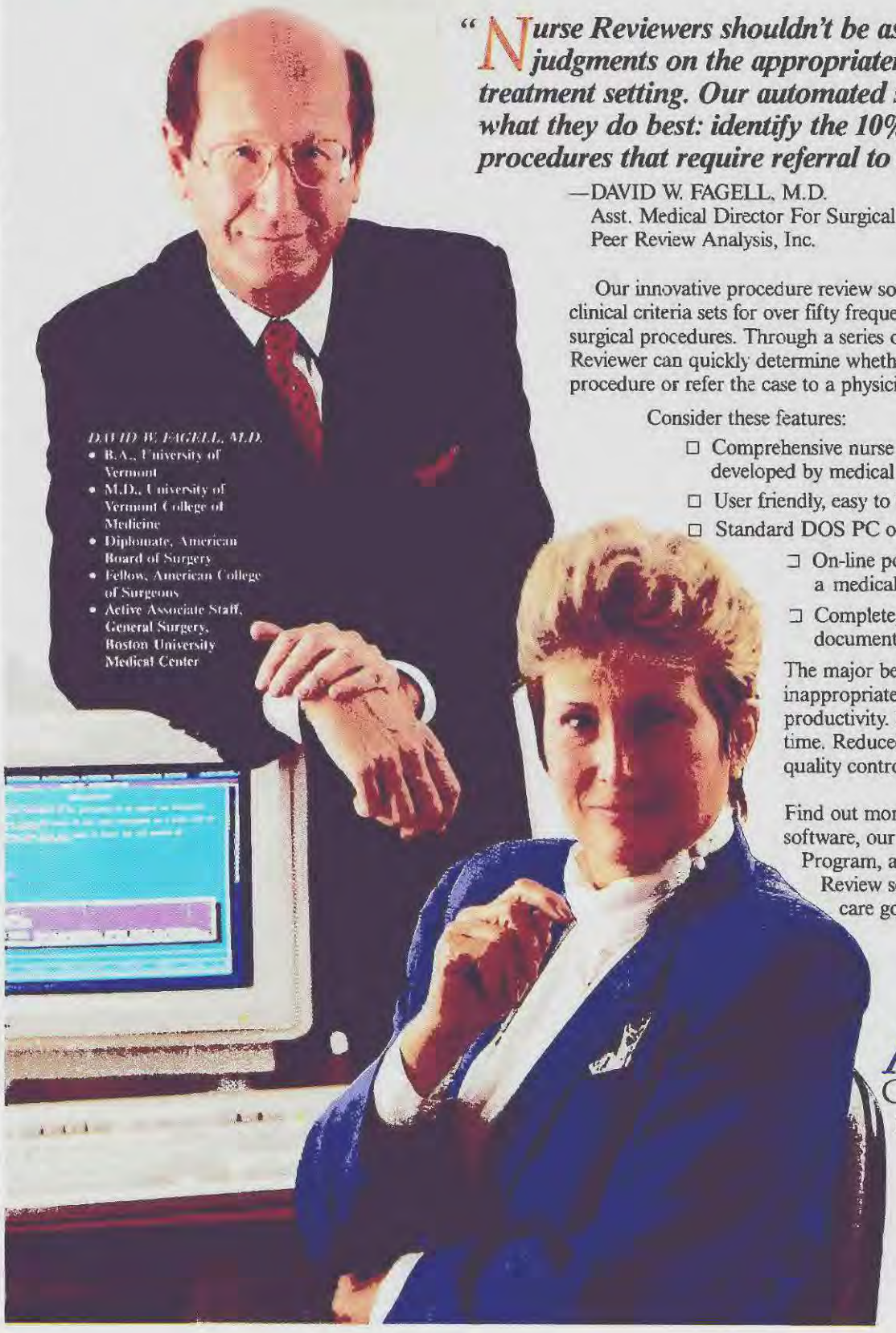

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Insurer Topics

Fire prevention

Continued from previous page
qualities of a well-protected high-rise:

- "Good solid management interest—not just lip service" in protecting the property, Mr. Campbell said.
- Suitable construction for the building's occupancy.
- Automatic sprinkler protection.
- Adequate water supply.
- Good water supply valves.
- Good emergency organization. "We're not talking about a fire brigade," he said. Instead, the emergency organization should include a disaster planning team, with each member having a specific task to perform during an emergency.
- Recognition of hazards specific to the building.
- Understanding the building's exposures, including exposure to natural disasters.
- Preventive maintenance of the physical plant.
- Good housekeeping.

Mr. Campbell said one of the most popular portions of the program is a simulated high-rise fire called "Fire on the 14th Floor," which uses an audiotaped narrative and a series of overhead projections to test reactions to an emergency. Attendees also use a workbook describing the building and its contents.

"We try to give them a real feeling of the fire situation," Mr. Campbell said.

The program, which runs 1½ hours, traces the evolution of a fire and asks attendees questions like, "What are the first four things you should do?" when a fire breaks out, Mr. Campbell said. The exercise has five possible outcomes, ranging from a successfully controlled blaze with a minimum of loss to a fire causing dozens of deaths, he said.

Other subjects discussed during the seminar include how high-rise construction features contribute to fire spread and how the spread can be controlled, the differences among automatic protection systems, fire protection programs such as safety audits and sprinkler maintenance and the theory and practice of emergency organizations, he said.

Mr. Campbell said that the response to Arkwright's first two seminars—both held on the West Coast last fall—has been positive and has drawn participants from local fire departments as well as people charged with high-rise fire safety.

"This is a good practical seminar," he said. The aim is not to make loss-control engineers out of participants but rather to provide them with useful information. "We get into the nitty-gritty of why," certain measures must be taken to minimize potential losses, he said. ■

Travelers employs artificial intelligence to track down fraud

By MARK A. HOFMANN

HARTFORD, Conn.—While insurers pride themselves on the loss-control services they provide customers, they don't overlook internal loss-control of a very specialized variety—detecting and preventing fraudulent and abusive claims.

Their interest is understandable, given the high stakes.

If, for example, only a modest 10% of the nation's health care costs represented cases of insurance fraud or abuse, those losses would still exceed $60 billion, said R. James Guzzi, director of security for employee benefits claims for Travelers Corp. of Hartford, Conn.

He is quick to point out that the best estimates of fraudulent and abusive claims put the total much higher than that. In fact, Mr. Guzzi said, some experts think that fraud or abuse accounts for up to one-quarter of the nation's $660 billion health care bill. A Travelers spokesman said that the estimates were drawn from several governmental and private industry sources.

Accordingly, Travelers has been stepping up its efforts to detect and deter fraudulent and abusive claims, Mr. Guzzi said.

The efforts have paid off, too. For every $1 invested in health care fraud detection in 1990, Travelers says it saved $10.33 in detected fraud or actual recovery of fraudulent payments.

Historically, however, Travelers has saved between $13 and $15 for every dollar invested in anti-fraud efforts. The 1990 figures reflect an unusual expense—the creation of a new artificial intelligence system to root out fraud and abuse.

He said the system stems from discussion held in the mid-1980s about fraud detection in an increasingly paperless office. Human examiners would know what to look for, but the Travelers investigators wondered how the expertise could be transferred to a computer program.

A computer could be programmed to track behavior patterns, Mr. Guzzi said. During 1988 and 1989, the company's fraud experts came up with 27 "trigger patterns" that could indicate possible fraud.

Some were relatively simple, such as noting when a provider generated an unusually high frequency of claims for services rendered on days that offices were usually closed, such as Sundays or holidays. Others were more sophisticated, such as matching a patient's ZIP code against that of a provider.

"None of this," he cautions, is an absolute indicator of potential fraud.

He also stressed that in creating health care triggers, "we are always comparing a provider to the peer group of providers," such as comparing a chiropractor to a group of chiropractors rather than comparing a chiropractor to a podiatrist.

One other potential weapon in Travelers' anti-fraud arsenal is a new video spectral comparator. Using infrared and ultraviolet light waves, the machine can pick up alterations to a claim that escape the human eye, said Mr. Guzzi. For example, a "3" could be fraudulently changed into an "8."

By picking up differences in the ink used at two stages of writing, the machine could similarly show that a $13 claim has been changed to a $113 claim. The system can pick up the use of white correction fluid or other means of altering a document.

Health insurers, says Mr. Guzzi, are "not unlike a retailer who sells socks." Knowing that a certain number of socks will be shoplifted and a certain number pilfered from the storeroom, the retailer has to try to stop the losses. Otherwise, the only way to make up the difference is to raise prices and invite customers' ire.

Travelers' efforts are not confined to the employee benefits arena, either. Since 1978, the insurer has had a special investigative unit to ferret out possible cases of property/casualty insurance crime. Begun as a two-person unit investigating auto

Continued on next page

May

Advertising, Sales Promotion & Community Relations

What affects will the growing recession have on advertising, sales promotion and marketing budgets for agents and brokers? BI editors will report on less costly, and in some cases free, alternatives such as charitable events. Plus a look at how agents can help cultivate a good image for the insurance industry in their community.

Issue: May 6
Ad Closing: April 23

June

Niche Marketing

Carving a niche — developing expertise in a particular line of insurance, targeting client classifications for business expansion, carving out geographical regions for new business opportunities — BI editors will report on how agents and brokers can improve sales profitability.

Issue: June 3
Ad Closing: May 21

July

Perpetuations/NAIB Conference Report

Perpetuation is an important topic among agents who want their legacy to endure. Insurers have a vested interest too, because they want stable outlets to distribute their products. Focusing particularly on the help insurers can provide, BI editors will examine the different — and best — ways agents can perpetuate their business. BI will also wrap up coverage of the annual National Association of Insurance Brokers conference.

Issue: July 1
Ad Closing: June 18

Agent/Broker Topics

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Business Insurance
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Insurance fraud

Continued from previous page

insurance fraud, the operation now has 95 investigators in 35 locations across the country, said Dave Ritger, second vp for property/casualty claims.

Together, the anti-fraud units accounted for savings of about $20.5 million in 1990, a return of about $9 for every dollar invested in the effort, said Mr. Ritger.

In determining Travelers' total savings, "We try to figure out what would have been paid out in each individual case" and then compare that figure with what actually was paid out.

The figure does not contain cases of abuse, because cases involving inflated claims for auto damage and the like can be rooted out when the adjuster calls and do not need to involve the anti-fraud unit, he said.

Mr. Ritger also said the figure doesn't contain the uncountable—money saved because professional thieves and scam artists look elsewhere after seeing that Travelers has an effective anti-fraud strategy.

As the economy has soured, Travelers has found certain types of fraud increasing. Arson, for example, has increased in Florida, and workers compensation fraud is "so fertile" that it has added investigators charged only with looking for those offenses, he said.

Mr. Ritger concedes that he cannot say whether increased detection of workers comp fraud is a product of enhanced vigilance or the increased instance of fraud due to economic downturn. But he adds that the area is a "natural" for increased fraud during recession.

Travelers' claims representatives and claims handlers monitor a variety of factors that could indicate workers comp fraud, he said. Suspicions are aroused by a claimant who inquires about a settlement very early in the claim; an employee who files a claim shortly after being hired; a worker who repeatedly cancels or misses claim-related medical examinations; and a worker who claims to have been injured in an area to which he or she is not usually assigned.

Some schemes can grow quite elaborate.

Mr. Ritger gives the example of a worker who had been claiming compensation for about 12 years for an injury sustained in Michigan, said Mr. Ritger. When "something didn't seem exactly right," a claims handler referred the case to a special investigative unit in Orlando, Fla., where the claimant had moved.

An SIU investigator visited the claimant's home and asked a young woman who came to the door where the claimant was. "Oh, he's at work," she said.

The claimant turned out to be working under an assumed name and Social Security number at a local company. The man, now in management, was also collecting disability benefits from another insurer, Mr. Ritger said.

Two weeks after it discovered the duplicity, Travelers received a letter from a lawyer for the claimant. He has decided he no longer wants to receive workers comp benefits, the letter said. The case is still under investigation.

In another Florida case, a man claimed to have broken his collarbone while operating a front-end loader and claimed that he could not work. His employer said that the injury had not occurred as the claimant described it.

Investigators discovered that the man had actually injured himself while rabbit hunting. He had flipped a three-wheel all-terrain vehicle and ruined his firearm as well as his collarbone.

It turned out that he was also under a court order to perform community service work following a criminal conviction.

While the man was seeking workers comp payments, he still managed to fulfill his community service by operating a front-end loader. The claim was denied.

Great imagination is by no means confined to workers compensation fraud.

One of the more bizarre cases concerns a slip-and-fall artist who claimed to represent Batman Comics.

The man would show up at an office claiming to be selling the comics, fall and file a claim against the company's liability insurer. He sometimes wore a business suit with a large Batman pin on the lapel.

Suspicions are aroused by a claimant who inquires about a settlement early in the claim, Mr. Ritger says.

Other times, he wore a Batman T-shirt. Sometimes he handed out autographed drawings of the cartoon superhero.

Travelers investigators in four states eventually unmasked the bogus Batman, who was convicted of mail fraud and sentenced to 18 months in federal prison.

"The bad guys are becoming more and more creative," said Mr. Ritger. "Everybody's getting smarter. It's kind of a leapfrog effect." Every time a new tactic to reduce fraud is introduced, perpetrators find a way to evade it, he said.

Mr. Ritger said that Travelers is considering a public awareness campaign stressing how fraud costs everyone.

He likened combatting fraud to dealing with the current drought in Southern California.

If individuals all say, "Yes, let's all fight this together" during the day and then surreptitiously water their lawns at night and secretly take four showers a day, no progress will be made, Mr. Ritger said.

People have to be made aware that insurers and law enforcement officers can't combat fraud all by themselves, he said. Perpetrators must feel that they will be caught and will pay for their crimes, he said.

"Once people realize that, I think we're going to turn the fraud situation around, but it will take a long time and a lot of work," Mr. Ritger said. ■

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Insurer Topics

Industry panel differs on federal regulatory role

By LAURA MAZZUCA

WASHINGTON—Conceding that federal involvement may bolster state-by-state insurer solvency regulation, insurance industry officials vary widely on just how involved in regulations the federal government should become.

Options like a federal self-regulating organization, a voluntary national guaranty fund and federal solvency standards—though all feasible—should only augment and not replace the current system of state regulation, argues David Pratt, vp of federal affairs for the American Insurance Assn.

At a panel discussion sponsored by the National Assn. of Professional Insurance Agents last month in Washington, D.C., Mr. Pratt echoed congressional testimony last year by Robert E. Vagley, AIA president.

Mr. Vagley criticized state regulators for lacking the "will" to act against troubled companies. He also caused a stir in industry circles by saying federal intervention may be needed to "enhance" solvency regulation (*BI*, Sept. 24, 1990).

Mr. Pratt said that recent model laws approved by the National Assn. of Insurance Commissioners, and now being considered by at least 29 states (*BI*, March 25), has helped improve state regulation.

And with state oversight improving, even Rep. John D. Dingell, D-Mich., whose subcommittee last year issued a report critical of state regulation, would not favor a total federal takeover of solvency regulation, Mr. Pratt said.

"They don't want, nor could they productively manage, the 'Federal Department of Insurance' here on the Potomac, because it would be the disaster that we all imagine it would be," Mr. Pratt contended.

A limited federal role in insurer solvency regulation was looked upon more favorably by other panelists.

A federal role could augment undeniable problems—like lack of funding and expertise—at the state level, said Peter Lefkin, vp of government affairs for Novato, Calif.-based Fireman's Fund Insurance Co.

Both the individual states and the NAIC do a credible job tracking solvency, he said. But widespread factors, like the growth of residual market mechanisms and rate rollbacks in California and other states, "have an invidious effect on solvency" and must be addressed nationally, Mr. Lefkin said.

One alternative is to greatly expand the NAIC's regulatory powers. Doing so would not solve all the problems regulators face, but it could help take out potentially insolvent insurers before problems arise, he said.

Fireman's Fund and other insurers also support the concept of a federally-chartered self-regulatory organization, separate from the NAIC. Such a body would address other national concerns, like rates and expanding liability exposures, particularly in problem lines of coverage like environmental impairment liability, he said.

A voluntary national guaranty fund mechanism—which would allow insurers to decide whether to participate in a federal guaranty fund or individual state guaranty funds—is a possible third option. Such a mechanism could prove especially valuable in complex insolvencies like that of Mission Insurance Co., which affect several state guaranty funds, Mr. Lefkin said.

However, state regulators warn against the voluntary national guaranty fund idea.

It could backfire by "skimming off the cream of the crop" and leaving state funds burdened with smaller insurers that are less able to pay assessments, argued James Long, North Carolina's insurance commissioner and president of the NAIC. The NAIC supports only a limited role in solvency regulation, he noted.

To support his case for state regulation, Mr. Long cited Rep. Dingell, who has criticized state regulation as woefully deficient.

Rep. Dingell, according to Mr. Long, points to five central areas of solvency regulation: adequate solvency standards; complete information; timely monitoring for solvency; vigorous enforcement of all laws and regulations; and effective procedures to certify the solvency of international reinsurers and excess/surplus writers.

But Mr. Long maintained that these criteria can be met on a state level with the help of the NAIC's state accreditation program. Under that program, state insurance departments have until January 1994 to meet solvency regulation standards or else they would not receive certain regulatory incentives (*BI*, Dec. 3, 1990).

Another member of the panel criticized the federal government's track record in financial regulation.

In both the savings and loan crisis and recent securities criminal prosecutions, regulators have actually weakened financial industries, contended Franklin W. Nutter, president of the Alliance of American Insurers of Schaumburg, Ill.

"We shouldn't give Congress a blank check to redefine solvency regulation" and possibly undermine the existing system, he said. ■

Survey probes auto coverage, safety issues

By MARK A. HOFMANN

OAK BROOK, Ill.—The cost of automobile insurance is a "major problem" for a growing number of consumers, according to a new survey.

However, many consumers are taking steps to reduce their auto insurance costs, the survey found.

Twenty percent of the respondents to the Insurance Research Council's "Public Attitude Monitor 1990" said that paying for automobile coverage was "a major problem" last year, compared with 16% in 1989 and 11% in 1985. Another 40% of the 1990 respondents said that paying for auto insurance was "something of a problem but not serious," unchanged from 1989, but significantly higher than 1985's 33%.

The survey, conducted for the Oak Brook, Ill.-based Insurance Research Council by the Roper Organization Inc. of Princeton, N.J., polled 1,496 adults on a variety of automobile safety and public policy questions. The IRC is a research organization supported by the property/casualty insurance industry.

The survey also found that more than half of the consumers polled—54%—had taken some action over the past three years to reduce their auto insurance costs. The most common tactic—reported by 30% of the respondents—was to shop for an insurer with lower rates. However, only 17% of the respondents reported having changed insurers.

Other popular tactics for lowering auto insurance costs included increasing deductibles, used by 16% of the respondents; arranging for smaller and more frequent payments, 14%; dropping some part of existing coverage, 10%; and dropping all of their coverage, 2%.

The latest survey found that the percentage of uninsured vehicles dropped.

Only 4% of the vehicles reported by those responding to the 1990 survey were uninsured, down from 5% in 1989 and 10% in 1983.

The survey also asked respondents questions concerning a broad range of auto safety issues.

Forty-nine percent either strongly or moderately agreed that they consider it acceptable to "drive a little faster than the posted limit on highways," though another 49% either strongly or moderately disagreed. The remaining 2% had no opinion.

However, when asked if it was acceptable to drive faster than the speed limit on local roads, the overwhelming majority of respondents disagreed, with 78% either strongly or moderately disagreeing. Only 20% either strongly or moderately agreed that speeding on local roads is acceptable, while 2% had no opinion.

Those respondents who found breaking the speed limit acceptable also tended to say that radar detectors should be legal.

Overall, 47% of respondents said that radar detectors should be legal, 43% said they should be illegal and 10% had no opinion. But 62% who found breaking the speed limit on local roads acceptable also favored legal radar detectors, as did 58% of the respondents who found breaking highway speed limits acceptable.

Fifty-two percent of the respondents who found breaking the speed limit on highways unacceptable said that radar detectors should be illegal, as did 46% of those who found breaking the speed limit on local roads unacceptable.

In another safety-related matter, more than three-quarters of all respondents agreed to some extent that drivers with blood alcohol contents above a certain limit or who refuse to take an alcohol test should have their license automatically suspended.

Fifty-two percent strongly agreed with automatic suspensions and 25% moderately agreed. Twelve percent moderately disagreed and 7% strongly disagreed, while 3% had no opinion.

Among the 24% of survey respondents who said that sometime in the past year they had driven "after having had a drink," support for automatic suspension declined somewhat. Forty-one percent of those respondents strongly agreed with automatic suspension, with 28% moderately agreeing. Seventeen percent moderately disagreed, 12% strongly disagreed, and 2% had no opinion.

Eighty-eight percent of respondents favored testing drivers involved in injury-causing accidents for alcohol. That is unchanged from a group of respondents asked the same question in 1983, the IRC found.

Sixty-one percent of the 1990 respondents favored testing all drivers stopped for moving violations for alcohol consumption, compared with 53% in 1983. And 68% of the 1990 respondents favored setting up roadblocks "at times and places when driving under the influence of alcohol is most likely to occur," compared with only 51% in 1983.

In another alcohol-related question, 79% of all respondents said they would favor a law requiring random alcohol and drug testing of truck drivers. Only 16% opposed such a law, with 5% offering no opinion.

The 1990 Public Attitude Monitor also contained the results of a survey on how various factors such as insurance costs, injury protection and potential repair costs influence auto purchase decisions.

Sixty-eight percent of the respondents said that the "degree to which a car protects people from injury in accidents" was "very important" in their car-buying decision. An additional 24% said it was "somewhat important," making it overall the most important factor surveyed.

The operating cost of the car ranked second, with 63% calling it "very important" and 28% saying it was somewhat important. The cost of insurance ranked third, with 59% calling it very important and 27% calling it somewhat important in their car-buying decision.

Other important factors cited by respondents included estimated gas mileage, repair costs, handling characteristics, bumper strength and the presence of anti-lock brakes, airbags and automatic seat belts.

•

A single copy of "Public Attitude Monitor 1990" is available without charge by contacting the Insurance Research Council, 1200 Harger Road, Suite 310, Oak Brook, Ill., 60521; 708-572-1177. Additional copies cost $4 in the United States and Canada. Copies sent elsewhere cost $5.

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Business Insurance

THE SALE OF SOUTHERN AMERICAN

Commercial Surety

Continued from previous page

assets, the documents say.

Mr. Murton and Commercial Surety Vp Mark C. Burdge then formed a new company, Burdge Murton Capital Corp., to acquire assets to contribute to the insurer.

The new assets Burdge Murton presented for the Utah department's approval in August 1990 were $4.8 million in "negotiable registered trust receipts" evidencing ownership of a pool of GNMA securities, according to Utah department documents.

The trust receipts had been issued to Burdge Murton by Wyshak & Associates, which acted as custodian for the GNMAs. Mr. Wyshak told Insurance Department officials the securities were "readily available and accessible" to Commercial Surety, and regulators approved the recapitalization on Aug. 31, documents show.

When the Utah department later tried to confirm that Commercial Surety actually owned the instruments, it hit a dead end.

Mr. Wyshak, the department found, did not have the GNMAs in his possession. Instead, he provided regulators with a copy of an account statement showing that Dallas-based Fidelity Asset Management Ltd.—unrelated to Boston-based Fidelity Investments—held 100% of the $4.8 million GNMA pool.

Fidelity Asset Management purportedly held the securities on behalf of the Gwendolyn Demond Trust, which maintained an account at another institution, Los Angeles-based Interbank Financial Ltd., Insurance Department documents say.

Interbank also did not have possession of the GNMAs, and Utah regulators' calls to Fidelity were not returned, documents say.

Gwendolyn Demond is the mother-in-law of George Eggleston, an associate of Mr. Wyshak's who also was in contact with the Utah department on Commercial Surety's GNMA holdings, Mr. Wyshak and others say.

Mr. Eggleston currently is on probation after pleading guilty in U.S. District Court in Los Angeles in 1982 to federal mail fraud charges related to a tax shelter scheme.

Mr. Eggleston served jail time after the guilty plea but was released in 1988 and remains on probation until 1993, said David Sano, Mr. Eggleston's probation officer with the U.S. Probation Office in Santa Ana, Calif.

Attempting to trace ownership of the GNMAs by the pool number on the trust receipts, Utah regulators found that New York-based Participants Trust Corp. actually held the purported Commercial Surety GNMAs for the benefit of six financial institutions.

Participants Trust would not identify the six institutions, but it told the Utah department that the largest single holding in the pool was about $1.2 million and that it would be unusual for one institution to own 100% of any pool.

On Oct. 31, the Utah department demanded that Commercial Surety deliver the GNMAs or an equal amount of cash to a federally insured bank by Nov. 2. The insurer failed to comply with this demand, though, prompting regulators to issue a cease-and-desist order.

Several days later, Mr. Wyshak and Mr. Eggleston also failed to produce the GNMAs or substitute securities as they had promised regulators they would, Insurance Department documents say.

Mr. Wyshak referred questions on this story to Mr. Eggleston, who could not be reached.

Commercial Surety was placed under state supervision Nov. 7, and a Utah judge granted the Utah department's petition to liquidate the insurer two months later.

Commercial Surety wrote about $860,000 in surety bond premiums and related fees in 1990. The company was found insolvent by about $1.5 million as of Oct. 31, 1990.

Before Commercial Surety ran into trouble with its GNMA investments, Mr. Borcherds had negotiated a similar GNMA infusion with Mr. Wyshak to resolve Utah regulators' objections to a Southern American unit's heavy investment in mortgage loans.

Southern American withdrew the GNMA proposal, though, after the Utah department warned Mr. Borcherds last October—amid the search for Commercial Surety's purported GNMAs—that the securities would not be approved without confirmation of their ownership and value, said Billy W. Lovelady, the department's chief examiner.

Mr. Borcherds confirmed that he withdrew the GNMA proposal, but he said he was already having doubts about the deal before being warned by Utah regulators.

"We wasted two damn months on that," he said of the proposal. ■

1990 1991

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Mar 4	Feb 19	International Captive & Reinsurance Forum	Bermuda
Apr 29	Apr 16	Risk & Insurance Management Society	New Orleans
May 13	Apr 30	Public Risk Management Association	Atlanta
May 27	May 14	National Association of Insurance Brokers	Sea Island, GA
Jun 10	May 29	National Association of Insurance Commissioners	Indianapolis
Jun 17	Jun 5	National Association of Insurance Women	Grand Rapids, MI
Jun 24	Jun 11	Group Health Association of America/GHI	New York
Jun 24	Jun 11	Human Resource Management/SHRM Conference	Cincinnati
Jul 1	Jun 18	World Insurance Congress	London
Aug 19	Aug 7	American Risk & Insurance Association	San Diego
Sep 2	Aug 20	Monte Carlo Rendez-Vous de Septembre	Monte Carlo
Sep 30	Sep 18	Independent Insurance Agents of America	Honolulu, HI
Oct 7	Sep 24	National Assn. of Casualty & Surety Agents & Executives	Greenbrier, WV
Oct 7	Sep 24	AEAI/RIMS	Monte Carlo
Oct 14	Oct 2	Self-Insurance Institute of America	Orlando, FL
Oct 21	Oct 8	Baden-Baden Conference	Baden-Baden, W. Germany
Oct 21	Oct 8	Chartered Property & Casualty Underwriters	New Orleans
Nov 4	Oct 22	National Association of Independent Insurers	New Orleans
Nov 18	Nov 5	National Association of Professional Insurance Agents	San Francisco
Dec 9	Nov 26	National Association of Insurance Commissioners	Houston

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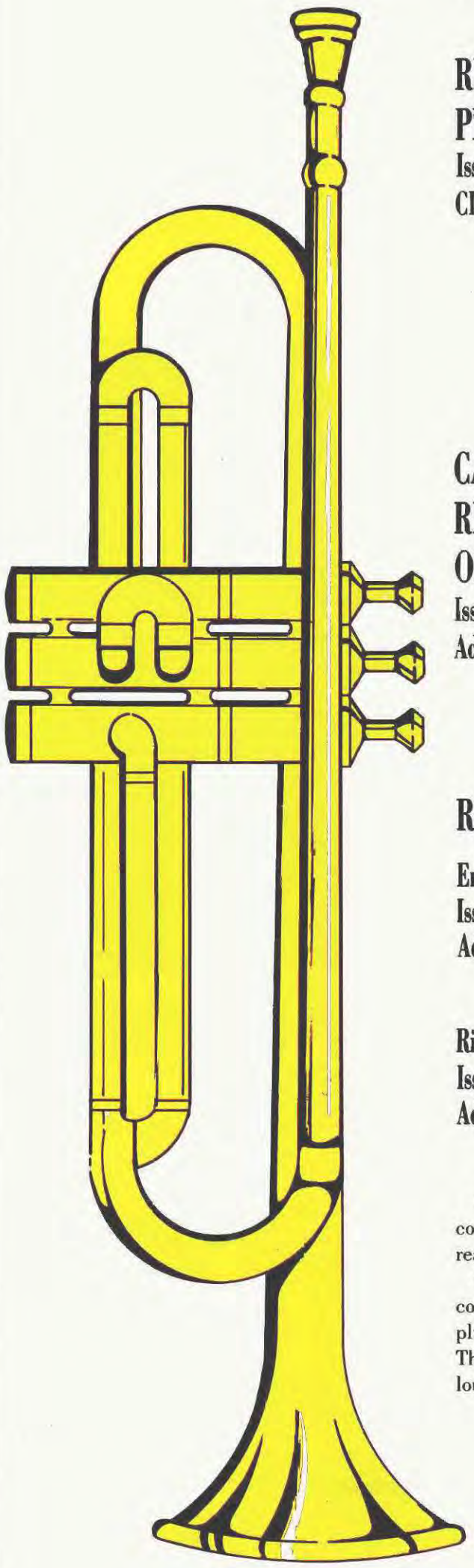

RIMS PREVIEW
Issue: April 22
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The first note on RIMS '91 will be played by Business Insurance in its annual RIMS Preview 'take-out' section.

Leading with last minute details and updated program and speaker changes, BI's 'take-out' section will contain valuable notes for everyone heading for New Orleans: a floor plan and list of exhibitors; a map of Conference hotels; transportation info; a message center phone number; a New Orleans entertainment and restaurant guide; and weather watch. There will also be highlights on the Spencer Educational Foundation's silent auction, the RIMS softball game, and other major hospitality functions.

Plus — increased exposure — the RIMS Preview 'take-out' section will be distributed from BI's booth #1024-1026.

CAPTIVES/ RISK MANAGER OF THE YEAR
Issue: April 29
Ad Closing: April 16

Business Insurance plays an important role — getting news and information into the hands of decision makers whether they're in their offices or attending the RIMS conference.

BI's feature on Captives will announce the 14th annual Risk Manager of the Year and the Risk Management Honor Roll. This issue also includes BI's exclusive Directory of Captive Managers.

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RIMS REPORTS

Employee Benefits
Issue: May 6
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BI readers responsible for their companies' employee benefits will rely on this issue. From new perspectives to industry insights, BI editors will detail all the vital information covered at the RIMS employee benefits sessions.

Risk Management
Issue: May 13
Ad Closing: April 30

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Business Insurance
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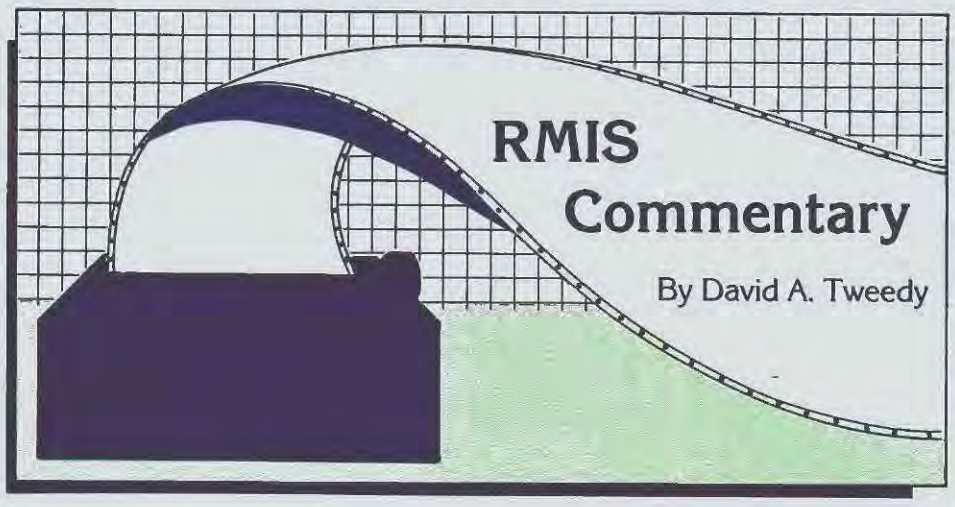
Risk management tools

Using an RMIS to facilitate individual case reserve analysis



LAST MONTH, I discussed how a risk management information system can greatly aid risk managers in performing vital diagnostic checks on their claims management program. Case reserve analysis, one of the most important elements in evaluating the efficiency of a claims operation, is another area where an RMIS can be of inestimable value. Today, I'd like to explore how, in more detail.

One note before I start: When I use the words reserve analysis, I do not mean that from an actuarial perspective, but from an individual case perspective. There are several outstanding vendors in software available for aggregate claims reserve analysis. However, for this column, my focus will be on individual case reserve analysis.

When performing a reserve analysis through use of a system, there are four important checkpoints:

- Reserve change frequency.
- Reserve change justification.
- Closure analysis.
- Unusual patterns.

We will look at each separately:

Reserve change frequency

Here, the risk manager will want to check the number of times a reserve amount is changed over the life of a claim. Typically, focus should be on the indemnity claims for workers compensation or the bodily injury claim for auto and general/product liability since these typically are the most long-tailed and high-severity type of claims. If there are multiple changes in the reserves over the life of the claim (i.e., six times per year), the claims organization may be guilty of a practice known as "stepladder reserving." Such a practice usually indicates the inexperience, over-optimism, or excessive caseload of the claims professionals.

They may not have enough experience, skill or time to do the necessary investigation on a claim to properly set its value. Therefore, they will just place enough money on it until the next time the case comes up on their diary. When the total paid approximates the total incurred, they just "bump" the reserve again.

The problem is that the claims values are understated and they send an overoptimistic message to the risk manager, who wonders why (especially if he or she is on a retrospective-rated program) there is adverse loss development as the claims get worse. The problem is further exacerbated when actuaries get involved because they see a rather stable payout pattern until a change is made in the claims management process (i.e., caseload is reduced, a more experienced adjuster is assigned, or a new claims organization comes into play), thus noting a marked increase in the reserving practice.

The reverse could be true, as well. There may be only one reserve but that may be so overstated in the claims organization's attempt to be conservative so as to inflate the claims value beyond its true, reasonable value. The claim is then settled or closed out far below the initial reserve; the claims organization may look like "heroes" but, again, it can cause many problems for the risk manager. The RMIS can help in both areas, but especially in detecting the stepladder reserving problem.

Reserve change justification

A useful report, usually on an ad hoc basis, is a printout of all reserves changes for open and closed claims with a description of why the reserve change was necessary. Many insurer claims systems require such a justification, especially when an individual claims adjuster's authority is being exceeded and requires the approval of supervisory or management personnel.

Unfortunately, I have not seen many commercially available, "off-the-shelf" systems with a mandatory reserve change justification column on a report. However, it should not be a difficult customization request to make to those vendors and I would highly recommend one.

Forcing the claims professional to provide a reason for a reserve change (i.e., a new medical report indicates a ruptured disc) is not an unreasonable request to make of the claims organization. After all, it must justify the reserve changes internally to their management (I hope they have to); why shouldn't this be true for the client, as well?

Another useful report to document a reserve change justification is a printout of the diary dates that claims examiners and supervisors review those reserves.

Many systems mandate that the

Continued on next page

Destroying pre-FASB myths

Not all firms cut benefits or increase retirees' costs in light of new FASB rule

By Harvey Sobel

THE RECENT ACCOUNTING standard promulgated by the Financial Accounting Standards Board will require corporations to accrue the costs of providing retiree medical coverage (as well as life insurance, dental and other postretirement benefits) over each retiree's working career (*BI*, April 1; Dec. 17, 1990).

No longer will Corporate America be able to defer accounting for these retiree benefits until they are paid. When the accounting standard becomes effective in 1993, many companies will see their retiree medical expenses increase by a factor of five to 10.

Lots of publicity has been generated about how companies have either taken steps to control their retiree medical obligations or are about to. Left unpublicized are the employers who have actually liberalized their retiree medical plans. While some employers have done so after careful analysis of the financial implications, others have ignored the long-term cost impact and have buried their heads in the sand.

Let's deflate the myth of "cutbacks only" by looking at the various actions employers are taking.

Myth: All employers are reducing benefits.

Even before the new accounting standard becomes effective, the soaring cost of health care has already led many employers to raise deductibles, increase coinsurance and require further cost sharing on the part of their employees. In the process, retirees have not been spared. Some companies, such as Bankers Trust Co. and Ball Corp. (*BI*, Nov. 26, 1990), went so far as to eliminate retiree medical coverage altogether (generally for employees retiring after a certain date), instead allowing employees to fund their eventual retiree costs on a tax-effective basis.

Yet there are companies which, for one reason or another, have increased their retiree medical benefits. Consider the following examples:

- A steel company agrees to provide its unionized workforce with hearing benefits, coverage of chiropractic services and an increased benefit maximum; retirees are also granted the benefits.
- A large corporation establishes a new prescription drug plan. Previously, drugs were covered under the company's major medical program. Because Medicare does not reimburse prescription drug expenses, drugs become one of the greatest cost components for retirees.
- Most retiree medical plans pay for physician charges to the extent that they are not paid by Part B of Medicare. When the federal government reduces Medicare coverage—the recent increase in the Part B deductible from $75 to $100 is a good example—employers automatically are granting retirees age 65 and over a benefit improvement.
- Last year, International Business Machines Corp. offered employees and retirees the opportunity to purchase long-term care insurance. They may be reimbursed up to 20% of the premium from their employer-provided spending account.
- Frequently, when one company acquires another, the buyer seeks to consolidate benefit plans and eliminate redundant administrative expenses. In the case where the buyer provides its workers with retiree medical benefits but the acquired company does not, consolidating medical plans means de facto granting of retiree medical benefits to the employees of the newly acquired company. An employee of the newly acquired subsidiary who already is fully eligible to retire will receive a windfall easily worth $100,000.

Myth: All employers are increasing retiree contributions.

Employers in virtually all industries are asking medical plan participants—both active employees and retirees—to contribute more to retain their coverage. American Airlines Inc., in a novel move, asked its employees to contribute toward their retiree coverage while still working in an effort to pre-fund the benefits (*BI*, Dec. 4, 1989).

Yet other employers are moving in the opposite direction. Consider the steel industry. Many hourly

Continued on next page

Case reserve analysis

Continued from previous page
claims professional enter a date on which they will next review the file and force them to initial their names in the system, commenting on the reasonableness of the reserves at that particular time, based on the information in the file. It would be interesting for the risk manager to see the frequency of file review for reserving accuracy, especially in the first several months of a claim's life: the most volatile time period.

File closure analysis

In this special report, the risk manager can analyze the accuracy of the reserving process. For example, on all closed claim files, how close did the total paid come to the total incurred? The closer to zero the claims organization gets on the addition of outstanding indemnity, medical and expenses, the more accurate they have been in their initial claims reserving.

Assuming that a claims organization has not been practicing stepladdering (in which case there is likely to be a small amount since they are always bumping up the reserves a little), this is a pretty accurate indicator.

Another key check here is when the claim file was actually closed and entered into the system. I have seen many situations where a claim has been settled or otherwise ended but failed to be closed and the outstanding reserves are still there to be picked up on the calculation of the experience modification factor and the retrospective rating calculation for the upcoming year. It is vital that as soon as the claim file is closed that the total incurred equals the total paid and that information becomes available for proper loss data to be supplied to underwriting and marketing.

Unusual patterns

There are a variety of other reports that can be requested to check reserve accuracy. According to Mike Herberger, the corporate claims manager in the workers compensation department at Safeway Stores Inc., who performs many of the previously described diagnostic checks, he also performs an ad hoc report that evaluates all open claims at nine to 12 months in age to see what the payout patterns have been. If in any of those cases, 75% to 80% payout has already been achieved, he will identify and analyze each of these claims.

According to Mr. Herberger, they may be perfectly fine but the reserves may be somewhat light if 80% payout has already been achieved at the end of the first year. It is a good diagnostic check.

These are just a few of the reports that can be used to gauge the accuracy of the reserving process. Obviously, they are not foolproof. However, conducting several of these diagnostic checks may provide a certain pattern of reserving problems in a certain region of the country, a certain claim office or certain claims adjuster. Identifying that problem quickly may save an employer thousands of dollars if the correct action is taken right away. That is the value of a good RMIS.

In the next column, I will continue my discussion of claims management analysis and the use of the RMIS. ■

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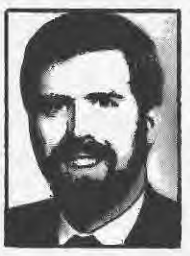

Retiree medical benefits

Continued from previous page
steelworkers receive full hospitalization and medical/surgical coverage at no cost when they retire. In the past, they paid the full cost of their optional major medical plan, which primarily covers prescription drugs and physician office visits. When their labor contracts expired, the United Steelworkers of America successfully negotiated an improvement in the major medical programs; instead of retirees paying the full cost, some steel companies now pick up half the cost.

Myth: All employers are asking retirees to pay more for covering their dependents.

While they may feel somewhat paternalistic toward their retirees, some employers do not feel obligated to continue providing full or subsidized medical coverage to their retirees' spouses or children. Some corporations have begun increasing dependent contribution rates proportionately more, with the ultimate goal of having dependents pay for the full cost of their coverage. In contrast, a large, international employer headquartered in Europe recently modified its U.S. retiree medical plan to liberalize coverage of retiree widows and widowers. Previously, this employer's plan provided that should the retiree die, the surviving spouse's subsidized medical coverage was quickly terminated. The firm now allows widowed spouses to remain in the plan—until they either marry or die—by paying the retiree contribution rate. This was done to be more consistent with European social security systems.

Myth: All employers are restricting eligibility for coverage.

A number of employers have already modified their retiree medical plans to restrict who is eligible for coverage. For example, Data General Corp. changed its plan to require a minimum of 10 years of service for all new retirees, at the same time varying retiree contributions by length of service. Previously, retirees could receive full benefits at age 65 without satisfying any service requirement.

Yet the Borough of Fairview, N.J., went to the other extreme. Over the opposition of the local homeowners association, it recently voted to extend full lifetime medical benefits to all of its municipal employees when they retire with 25 years of service; previously, only police officers and department heads were eligible for these benefits. This may not come as a surprise to anyone who is familiar with the government budgeting process, especially since the new accounting standard will generally not apply to public entities. Yet, it is sad to see public officials state that the cost of liberalizing eligibility is not that great since only two additional retirees are expected to benefit immediately at a cost of only $4,000 per retiree per year.

In deciding whether to expand, reduce or not change their retiree medical plans, employers are guided by their overall human resource objectives, with cost being an important—but not the sole—consideration. Many of the employers referred to as having liberalized their plans did so with full knowledge of the financial consequences of their actions. Unfortunately, other employers did not, lulled into shortsighted thinking by the small current cash outlays. In 1993, with the new accounting standard in effect for most large employers, this thinking will not do. ■

Harvey Sobel is a principal and consulting actuary with William M. Mercer Inc. in New York. The views expressed in this article are not necessarily those of Mr. Sobel's employer.

Party smart: special event risk management

"The Special Event Risk Management Manual"
By Alexander Berlonghi
Published by Alexander Berlonghi, 34052 LaPlaza Drive, No. 103-314, Dana Point, Calif. 92629
$135

By Kevin M. Quinley

SPRING IS BEAUTIFUL, but it can be a nervous season for risk managers. Spring brings parades, festivals, concerts and many special events. These happenings present unique risks and offbeat challenges for those who manage such risks. As a resource in this specialized field, "The Special Event Risk Management Manual" by Alexander Berlonghi is a cornerstone.

Mr. Berlonghi is a consultant in special events risk management. In addition to writing on the topic, he conducts seminars for clients on how to make special events newsworthy for reasons other than mayhem and disasters. In a sense, he is a professional party pooper: His job is to think of all the things that can go wrong with festive occasions—and guard against them.

Hence, this is not exactly the type of book to sit down and read from cover to cover. Its slant is practical, not theoretical. Though the book is expensive, Mr. Berlonghi believes that it contains at least $1,000 worth of advice, and he is probably guilty of understatement.

Books & ideas

On the surface this looks like an esoteric field, but for those risk managers who plan special events, this manual is a must-read. Risk professionals who can put this book to good use include police departments, parks and recreation directors, concert organizers and promoters, sporting event promoters and municipalities.

Many risk managers may be tempted to quickly pass over this manual, figuring that if they don't work for Disney or Ringling Brothers they have nothing to learn here. But much of what any active business does is a special event. Consider the annual employee and family picnic outing at the lake, the company-sponsored executive retreat or the broker-sponsored footrace formerly held at the Risk & Insurance Management Inc. convention.

Mr. Berlonghi divides the book into 12 sections, each full of specific tips and checklists. His focus is on the loss control and prevention side, but he does not exclude insurance as a risk management tool. Some segments include risk analysis, crowd management, security and risk financing. The chapter on security—pertinent in these nervous times—is the most detailed, covering topics from hostage situations to bomb threats.

One useful dimension of this manual is its constant tie-in with real-life examples. At the end of each chapter there is a series of news clips that illustrate some of the points previously discussed.

If the manual has a weakness, though, it lies in its shallow coverage of insurance as a means for addressing special event risks. In true risk manager form, Mr. Berlonghi offers a disclaimer: "Do not use this section as a basis for making decisions regarding purchasing insurance." This is sound advice. Also, he devotes a disproportionate amount of space to risk identification and prevention.

For those outside of the special events field, it is hard to believe that there is that much to say about risk management of special events. Mr. Berlonghi proves that it is a broad—and fascinating—subject unto itself. ■

Kevin M. Quinley is vp of risk services for MEDMARC Insurance Co. Risk Retention Group Inc. and subsidiary Hamilton Resources Corp., both of Fairfax, Va. Mr. Quinley holds the Chartered Property & Casualty Underwriter and Associate in Risk Management designations.

Health system

Continued from page 1

tives—44%—said they believed companies working together in coalitions could successfully contain health care costs.

In contrast, a recent survey of top business executives by The Wyatt Co. found that 50% of respondents believe individual employer initiatives aimed at their own programs are the most effective way to combat rising health costs.

However, in a separate Wyatt study of health care industry executives, however, only 20% of respondents felt individual employer initiatives were the best way to control costs.

Dan Carpenter, a benefits analyst with Wyatt in Washington, D.C., said it is difficult to reconcile those different findings.

"I think what you can say for it is everybody's confused, and they don't know what to think," he said.

Regarding the Wyatt respondents who said they believe individual employer initiatives are the best way to control health care costs, "in the context of what you can do in 1991, it's probably correct," said Kenneth Sperling, a consultant with Hewitt Associates in Rowayton, Conn.

But individual initiatives would not be a good long-term solution because individual employers generally don't have enough leverage in a community to influence overall charges for medical care, he said.

Even if an employer arranges a deal through which it obtains discounts on health care services, the provider may just increase charges for other clients, Mr. Sperling explained.

In the Johnson Foundation survey, nearly three-quarters of executives responding—72%—said they believed the U.S. health care system should remain primarily structured around employer-based insurance. Twenty-four percent said it should be based on some other system. The remainder did not answer.

However, more than half of the executives—53%—said they felt health care costs could not be controlled without some form of government intervention. Thirty-eight percent said government intervention was not required, while the remainder gave some other answer.

The survey then suggested a variety of courses government intervention could take and asked executives whether they should be considered, including:

- Require all employers to provide health benefits. Twenty-nine percent said this step should be taken now, while 24% said it should be considered, and 46% said it should not be considered. The rest did not answer.

Only 9% of the executives think a universal health insurance system should be set up.

- Encourage small business, through tax incentives, to provide health benefits to workers. Half—50%—said the government should act now on such a proposal, 26% said it should be considered for the future and 22% said it should not be considered. The remainder did not answer.
- Control health care expenditures through regulation of payments to health care providers. Twenty-six percent said this should be done now, 33% said it should be considered for the future and 36% said it should not be considered. The rest did not answer.
- Replace the existing system with a universal health insurance system. Only 9% said this should be adopted now, 23% said it should be considered and two-thirds—66%—said it should not be considered. The remainder did not answer.

Similarly, the Wyatt surveys found that 64% of business executives would oppose a tax-financed universal health care system, while 50% of health care executives would oppose such a system.

Wyatt's Mr. Carpenter suggested the surveys illustrate that employers acknowledge the current health care system isn't working but want to maintain control of the delivery of health-care coverage.

"There's a call for reform and there's a call for government intervention," Hewitt's Mr. Sperling agreed. "There's not necessarily a call for government control."

Meanwhile, the Johnson Foundation survey found that only 13% of executives believe they will be able to bring their health care costs mostly under control in the next two years. Another 13% thought they would not be able to bring costs under control within that time, while 73% believed they could partially do so.

"They're not particularly optimistic about their prospects for getting a handle on costs, at least for the short run," observed Mr. Cantor of the Johnson Foundation.

The survey also looked at a variety of other issues.

For example, 69% of the executives say they think employees don't pay enough out of their own pockets for their health care.

In addition, the survey also found that 85% believe business leaders should be more active in the health care debate. However, only 15% said they think business leaders are well-prepared to do this.

About half—55%—of the executives said they are attempting to decide where their company stands on national health policy issues.

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A free copy of the survey is available from Bess Lee, The Robert Wood Johnson Foundation, College Road, P.O. Box 2316, Princeton, N.J. 08543-2316; 609-243-5954.

Wyatt's "Management U.S.A." and "Health Management U.S.A." surveys are available without charge from Gary Swegle, The Wyatt Co., Research & Information Center, 601 13th St. N.W., Suite 1000, Washington, D.C., 20005; 202-508-4645.

Benefits grab more firms' attention

A top corporate priority, 80% of human resource execs say

By SARA J. HARTY

Developing or refining employee benefit plans will be a priority item on management and corporate planning agendas during the 1990s, say eight of 10 human resource executives in a recent survey.

Only a quarter of the executives said employee benefits were important in corporate planning during the 1980s, reports Buck Consultants Inc. of New York.

In addition, 60% of the 215 respondents predicted that accounting for retiree medical liabilities also will be a priority for employers in the 1990s.

Only 18% said retiree medical liabilities were a top management and corporate concern during the 1980s, according to "Benefits in the '80s vs. Benefits in the '90s."

The shift in emphasis from other issues to planning for employee benefits and accounting for retiree medical liabilities has been dramatic since the 1980s, the survey found.

For example, planning for employee benefits in the 1980s was ranked behind corporate restructuring, which 56% of respondents said was a major concern, acquisitions, 39%; "union prevention," 37%; and union negotiations, 35%.

Accounting for retiree medical costs ranked behind those concerns as well as takeovers or corporate raiders, which 22% of the respondents ranked as a priority item.

Corporations' concerns about employee benefits and accounting for retiree medical costs in the 1990s is not gaining impetus because of any drop in concern about other issues, the survey found. Indeed, 57% of the respondents say corporate restructuring is a major concern; 42% said a top issue is acquisitions; and 41% are concerned about "union prevention."

After years of taking a "patchwork" approach toward planning for employee benefits in the past, "employers are now taking a long-term view and putting together comprehensive packages," said Mary Adams, a consulting actuary at Buck Consultants.

"Employers are now looking at their overall benefit plans and the costs to them as a percentage of after-cost profits," said Richard Sinni, director of health management practices at Buck. "They are recognizing the need for a strategy to address" these issues, he said.

Of the 1,200 benefit managers and human resource executives who received questionnaires, 215—or 18%—responded.

In addition to asking about overall planning concerns, the survey asked the executives to identify their concerns in three areas: health and welfare, pensions and other benefits.

Planning for employee benefits is nearly as important for small employers as it is for large employers, respondents indicated.

Eighty-six percent of executives from firms with more than 5,000 employees ranked it as a major concern, while 78% of employers with 1,001 to 5,000 employees said it was important and 75% of those with fewer than 1,000 employees said it is a major issue.

No more than 30% of the executives in any of the size categories ranked employee benefits as a major concern in the 1980s, the survey found.

There also was little difference among industries, the survey found. Developing or refining a strategic plan for employee benefits in the 1990s is a priority for 80% of industrial firms, 78% of service companies and 81% of other companies, according to the survey.

In the 1980s, 29% of industrial employers, 20% of service companies and 26% of other companies said that employee benefits was a top priority.

And, between 78% and 80% of employers in different geographical regions are emphasizing employee benefits in corporate planning.

Accounting for retiree medical liabilities in the 1990s was more important for large and mid-sized companies than for small firms, the survey found.

Sixty-four percent of executives at companies with more than 5,000 employees and 65% of executives at companies with 1,001 to 5,000 employees said it is a top issue in corporate planning in the 1990s, while 49% of executives at companies with fewer than 1,000 employees said it is a top issue.

Among the two large employer groups, only 23% and 17%, respectively, said accounting for retiree medical liabilities was a major concern in the 1980s, while 12% of small employers addressed the issue during the last decade, the survey found.

Greater interest in accounting for post-retirement benefits stems from recent Financial Accounting Standards Board rules on recognizing retiree health care liabilities on financial statements (Dec. 17, 1990). "This is one of the largest items to hit corporate planning—and I do mean hit—for years," Ms. Adams said.

Employers currently report only their pay-as-you-go costs for retiree benefits as an expense item on income statements.

But under FAS 106, employers must accrue as an expense against earnings retiree health care liabilities from the date employees are hired until they become eligible for benefits. Differences between accrued expenses and actual payments for retiree health care also would have to be recognized as a liability on balance sheets. The rule takes effect in 1993 for large employers and in 1995 for small employers.

Among health and welfare plan issues, cost containment is a major concern, a whopping 96% of executives say. A large majority—85%—said cost containment also was a major concern in the 1980s.

Executives' second biggest concern is substance abuse in the 1990s: 73% say that is a top concern, compared with 45% during the 1980s.

Employee benefit executives at mid-sized companies are somewhat more concerned about substance abuse, with 83% saying it is a top concern, compared with 72% of those at large companies and 67% from small firms.

Interest in flexible benefits also has grown tremendously, with 67% of respondents naming it a priority in the 1990s, compared with 37% in the 1980s.

Flexible benefits were considered more important at mid-sized and large companies: 80% of respondents at mid-sized firms and 70% at large companies said it was a priority, compared with 57% of those at small companies.

Government mandates also continue to be a major concern, with 66% of employee benefit executives ranking them as a top issue in the 1990s, compared with 50% in the 1980s, the survey found.

Post-retirement medical care ranked fifth among the executives' top concerns for the 1990s, with 64% saying it is major issue, compared with 31% in the 1980s.

The issue is much more important for executives at large companies, with 82% saying it is a major concern. For mid-sized and small companies, the figures were 60% and 56%, respectively.

Other health and welfare issues that employee benefit executives said are major issues in the 1990s include:

- Long-term health care, 56%, compared with 12% in the 1980s.
- Mental health care, 52%, compared with 29% in the 1980s.
- AIDS policies and practices, 48%, compared with 23% in the 1980s.

Among pension issues, most respondents—78%—said they are concerned about improving employee communications during the 1990s, up from 46% in the 1980s.

Improving employee communications was only slightly more important among employee benefits executives at large companies, 82%, than at mid-sized and small companies, 76% each.

In the past, "companies have spent millions and million of dollars to provide excellent benefits and then a pittance to communicate these benefits," Ms. Adams said. The result is that employees did not properly appreciate and utilize their benefits, she said.

The second-largest percentage of respondents—66%—said defined contribution plans will be a top issue in the 1990s, compared with 58% in the 1980s.

Half of the respondents said investment management is a priority during the 1990s, compared with 38% in the 1980s.

Only 44% of respondents said that a major issue for the 1990s would be defined benefit plans. In the 1980s, the figure was 62%, making defined benefit plans the top concern.

Other pension concerns the executives identified included:

- Improving or revising reporting systems, 42%, compared with 30% in the 1980s.
- Profit sharing, 34%, compared with 27% in the 1980s.
- Pension portability, 32%, compared with 8% in the 1980s.
- Early retirement windows, 23%, compared with 29% in the 1980s.

Among other benefits concerns, the survey found that:

- Changing demographics topped the 1990s priority list, with 70% of respondents saying it is a major issue, compared with 23% in the 1980s.

This issue was more important for large employers, 80%, and mid-sized companies, 78%, than for small firms, 51%.

- Sixty-five percent said child care benefits would be a top issue in the 1990s, compared with 25% last decade.

This issue also was more important for large employers, 74%, and mid-sized companies, 69%, than small firms, 55%.

- Fifty-four percent of respondents said elder care would be a top issue in the 1990s, compared with 6% in the 1980s.
- Family and parental leave was named as a priority in the 1990s by 55% of the respondents, compared with 18% for the 1980s.
- Fifty-five percent of the respondents said flexible hours would be a major issue during the 1990s, compared with 28% in the 1980s.

"The majority of families have dual spouses working," Mr. Sinni said. This is creating a greater need for issues like child care, elder care, family and parental leave and flexible hours to be addressed, Mr. Sinni said.

The survey also found little change in respondents' attitude about employee assistance programs: 54% said EAPs will be a major issue during the 1990s, compared with 53% in the 1980s.

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A copy of "Benefits in the '80s vs. Benefits in the '90s" is available for $50 from Carolee Martin, Manager of Marketing, Buck Consultants Inc., 500 Plaza Drive, Secaucus, N.J. 07096-1533; 201-902-2555.

Retiree benefits

Continued from page 3

ing a benefit, 91% provide medical benefits for the duration of the retiree's life and for the life of the retiree's dependents, while the remaining 9% provide medical insurance only for a temporary period.

Of those offering non-pension retiree benefits, 42% have already modified their retiree health benefits. Another 35% are considering changes. And 3% already have modified their plans to cope with rising costs and now are considering additional modifications in light of the new accounting rule.

The other 20% are not considering any modification.

Of the 42% that have already modified their retiree health benefits, 44% did so to address rising costs, 9% did so to address the new accounting rules and 47% did so for both reasons.

In the last three years, employers have already taken several steps to redesign retiree health care plans to control costs, according to the Buck survey. Among the most prevalent are:

- Requiring hospital precertification, adopted by 49% of those companies making changes.
- Increasing deductibles, 41%.
- Requiring preadmission testing, 39%.
- Requiring a second surgical opinion, 33%.
- Increasing the out-of-pocket limit, 30%.
- Increasing retiree premium contributions, 30%.

Employers also are considering additional plan design modifications in the future, according to the survey. Among the most prevalent modifications being considered are:

- Changing eligibility requirements, mentioned by 21% of those considering changes .
- Linking the level of benefits to years of service at retirement, 21%.
- Increasing deductibles, 18%.
- Reducing retiree health care benefits, 17%.
- Adopting an overall managed care/cost containment program, 17%.
- Changing provisions for dependent coverage, 14%.

Besides plan design changes, many employers also are changing or considering changing the amount retirees must contribute to the cost of their health care benefits. Among the most prevalent premium contribution modifications made in the past three years are:

- Increasing retiree contributions, mentioned by 30% of those making changes.
- Requiring retiree contributions for the first time, 27%.
- Relating retiree contributions to age at retirement, 23%.
- Relating retiree contributions to years of service at retirement, 13%.
- Tying employer contributions to a fixed percentage of plan costs, 9%.
- Capping employer contributions at a fixed dollar amount, 9%.

Among the most popular premiums contribution changes being considered by employers are:

- Relating retiree contribution to age at retirement, mentioned by 21% of those considering changes.
- Increasing retiree contributions, 14%
- Requiring retiree contributions for the first time, 13%.
- Capping employer contributions at a fixed dollar amount, 12%.
- Relating retiree contributions to years of service at retirement, 12%.
- Reducing the employer's share of dependant care costs, 12%.

Some 59% of the employers making changes in their plans continue to offer unchanged benefits to current retirees as benefit modifications are "grandfathered in," the survey showed.

However, 82% of the employers offering retiree benefits say they have taken steps to avoid legal complications by specifying in written documents that retiree benefits are not guaranteed and can be changed or terminated.

Future surveys could reveal a trend for employers to offer retirees flexible medical benefits, Ms. Venturi said.

The current survey showed only 2% of respondents had implemented such a program, and only 9% were considering it.

However, "as more companies are forced to shift costs to retirees it is natural that they will give retirees more choice," according to Ms. Venturi.

In 1987, Minneapolis-based Pillsbury Co. become one of the first employers to create a flexible benefit plan for retiree welfare benefits (*BI*, May 18, 1987). More recently, Chrysler Corp. of Highland Park, Mich., also set up such a plan (*BI*, April 8).

•

Copies of "Postretirement Non-pension Benefit Design: A Delicate Balance" can be purchased for $75 by contacting Carolee Martin, Manager of Marketing, Buck Consultants Inc., 500 Plaza Drive, Secaucus, N.J. 07096.

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INTERNATIONAL

Claim filed for complex damaged in Iraq-Iran War

By MARIA KIELMAS

LONDON—A Japanese consortium has filed an investment insurance claim of 93.1 billion yen ($68.4 million) with the Japanese government for a never-completed $4.5 billion petrochemical complex in Iran that was damaged in the Iraq-Iran War.

The complex—owned by a joint venture of an Iranian state-owned company and Iran Chemical Development Co., the Japanese group—was about 85% complete when it was bombed by Iraqi air forces in 1980, early in the Iran-Iraq war. Construction efforts were halted in 1984.

Japan's Ministry of International Trade and Industry wrote the coverage for the consortium, which was led by trading house Mitsui & Co. of Tokyo.

Other major shareholders in Iran Chemical are Mitsui Toastu Chemicals Ltd., Mitsui Petrochemical Industries, Japan Synthetic Rubber Ltd. and Tosoh Corp., another chemical concern. There are some 100 shareholders in all, a spokesman in Tokyo confirmed.

Once the war coverage claim is settled, the spokesman said, Iran Chemical will probably be dissolved.

Formed in 1973 as a 50-50 joint venture between Iran Chemical and the Iranian company, Iran Japan Petrochemical Co., was to have built the $4.5 billion complex in a northern Persian Gulf port formerly known as Bandar Mahshahr. After the 1979 Iranian revolution, the port's name was changed to Bandar Khomeini.

Oil industry sources in London said it was well known, even before the revolt, that the Japanese consortium wanted out of the project. New complexes built in Saudi Arabia were quickly making the petrochemical facility uneconomical, sources said. The consortium had tried to negotiate an end to the project with both the Shah of Iran's government and the regimes that succeeded it.

Negotiations for a pullout began in earnest in 1984 when Japanese reports put reconstruction costs in the aftermath of the war damage at $2 billion, or about double Iranian estimates.

In February 1990, the Iranian oil minister, Gholamneza Abhazadeh, announced that the Japanese consortium had deposited 130 billion yen ($95.5 million at current exchange rates) in an Iranian bank as final compensation for abandoning the Bandar Khomeini project.

Tastuo Fujino, director of long-term insurance at the Japanese Ministry of International Trade and Industry in Tokyo, would only confirm that Iran Chemical had filed a claim under its investment policy. Specific information is not released, he said, because such public statements would affect the policyholder's stock values, which are used to calculate damages. ICDC stock is not publicly traded, the company spokesman said.

The Japanese government's investment insurance covers war risk, sovereign risk and transfer risks like, for example, the transfer of remittances, said Mr. Fujino. Damages in the case of Iran Chemical will be assessed by determining the drop in stock values and the accrued liability to the parent companies that lent to the venture. Neither material damages to the project nor business risk is included in the coverage, said Mr. Fujino.

Insurance for the project was not affected by the Iranian revolution, he said.

At the time the insurance was written in the 1970s, the ministry had no reinsurance arrangements with other insurers or agencies, according to Mr. Fujino. The ministry now has such arrangements with the Multilateral Investment Guarantee Agency of the World Bank.

The ministry is now preparing cooperation schemes with export credit insurance agencies in other countries, which Mr. Fujino would not identify. ■

AP/Wide World Photo

The U.N. Security Council says firms are not liable for work that was left unfinished due to trade embargoes against Iraq.

U.N. stops Iraq from drawing on contractor bonds

By MARIA KIELMAS

LONDON—A clause in the United Nations Security Council's terms for a formal Persian Gulf war cease-fire calls for relieving underwriters that cover the unfair calling of performance bonds from paying potentially huge Iraqi claims.

A clause in U.N. Resolution 687, which outlines cease-fire terms, bars Iraq from holding anyone liable for failing to complete contractual obligations because of the U.N. trade embargo against Iraq following the invasion of Kuwait.

Iraq announced its unconditional acceptance of the U.N. cease-fire terms on April 8, five days after the terms were offered.

But insurers and banks still are uneasy about the implementation of the resolution and steps that countries sympathetic to Iraq may take to allow Iraq to recover funds from Western contractors and countries.

In addition, political risk underwriters still face claims from policyholders that were conducting business in Iraq at the time of the invasion.

Performance bonds—financial guarantees for work to be carried out by contractors—usually cover up to 10% of a contract's value. These bonds commonly are required on projects in the Middle East.

Contractors typically will approach a bank in their own country to arrange the performance bond, explained Bob Blower of the British Bankers Assn.

That bank then arranges for a subsidiary or correspondent bank in the bondholder's country to issue the bond.

In the case of Iraq, those banks were either the Rafidain Bank or the Rashid Bank, which are both state-owned.

The Iraqi banks, through their foreign subsidiaries, then acquire a counter-guarantee issued by the contractor's own bank to fully cover their exposure—the value of the performance bond.

The contractor's bank arranges for its own protection against a claim, usually by charging the contractor's credit line with a liability or making charge against the contractor's deposits for the value of the performance bond, Mr. Blower explained.

Performance bonds are risky because the bondholder may call in the bond at any time and does not have to furnish proof that the contract has been breached, Mr. Blower said.

As a result, some contractors buy insurance to cover the unfair calling of bonds. One of the conditions for this type of insurance is that the contractor must not divulge that it has obtained the coverage.

"Officially, we don't exist," said a Lloyd's of London underwriter that writes the coverage.

The underwriter estimated that about 30% of performance bonds are insured against unfair calling.

Mr. Blower said the BBA has estimated a potential exposure on Iraqi bonds of about 400 million pounds ($707.6 million at current exchange rates) for British banks and up to 2 billion pounds ($3.5 billion) for banks in the United Kingdom, France, Germany and Japan combined.

But, he noted, those figures do not include the exposure on Iraqi bonds faced by banks in countries like Italy, Belgium, Spain and South Korea—all known to have large business inter-

Continued on page 25

New president aims to run off, sell insurer

Aneco plans outlined

By ROGER SCOTTON

HAMILTON, Bermuda—The runoff of Aneco Reinsurance Underwriting Ltd., which was Bermuda's largest underwriter of reinsurance for captives before it stopped underwriting last year, is set to enter a new phase following the appointment last week of Peter Wilson as president.

The hiring of the British financial specialist, formerly president of Forum Reinsurance Co. Ltd., ends a two-year absence from the Bermuda market for one of the executives who played a prominent role in helping the chairman of Aneco, Mark Hardy, get the company off the ground in 1985.

Mr. Wilson, a "financial problem solver," has spent several years doing real estate transactions in Europe and acquiring interests in U.K. and U.S. businesses.

Besides being named president, Mr. Wilson also has been named Aneco's principal representative, a statutory role in which he is required to inform the government if he feels the company is likely to become insolvent.

Having received the approval of both Bermuda authorities and Aneco's accountants and lawyers, the appointments signal not only Mr. Wilson's return to the island's insurance industry, but also the start of a new relationship with Mr. Hardy.

Disagreements several years ago over how Forum was being operated left relations between the two men in tatters. After resigning as president in 1988, Mr. Wilson the next year quit a non-executive position with Aneco, which Forum had taken over in 1988. He severed his final links with the group by selling Mr. Hardy his 15% stake in Forum Re.

Mr. Wilson's task is to run off Aneco's business and, eventually, sell the company—a goal that he says is attainable judging from the findings of an independent financial review.

"The review, which was carried out in the last few weeks, is not conclusive, but it does indicate that the company is viable and that an orderly runoff is possible," said Mr. Wilson.

Although reluctant to discuss the reinsurer's book of business until he completes an assessment, including a "new reserve analysis," Mr. Wilson already is trying to enlist the brokers' cooperation in running off Aneco's business.

Mr. Wilson

He also said that Jonathan Crawley, Aneco's former president, "has said his door is open to us for any advice we may need," a notable statement considering that Aneco and Mr. Hardy have filed suit in Florida charging Mr. Crawley, now president of Sphere Drake Underwriting Management (Bermuda) Ltd., with fraud, breach of contract and unjust enrichment during his time at Aneco.

Aneco Re's gross premiums from captive reinsurance in 1989 totaled about $10.5 million from 77 contracts, many of them for general and auto liability and professional liability (*BI*, April 30, 1990). In 1989, Aneco insured 39 association captives, six single-parent captives, five agency captives, 14 charitable trusts, 12 risk retention groups and one purchasing group.

No immediate changes are planned for Aneco's staff of three, including Controller Ian Carswell, who has been with the company since 1987, or its claims consultants, Jerry Gullbert Associates of Concord, Mass.

One priority, said Mr. Wilson, is to "remove Aneco from the public eye" and get on with the runoff.

And, Mr. Wilson maintains that he will manage to avoid a repeated clash with Mr. Hardy.

"Differences of opinion will simply not arise because I have authority to do what I want with this company. That includes distancing Aneco from Mr. Hardy's other operations, except in the case of shareholding links."

Mr. Wilson says he was particularly disappointed to see Forum Reinsurance Co. taken into liquidation (*BI*, March 18).

"In the early days, I and others who worked very hard on getting Forum going were really quite proud of the company," he said.

Forum Re was ordered liquidated for failing to pay a bill of about $17,000 from a local travel agent.

Despite their previous differences, Mr. Hardy said the appointment of Mr. Wilson, whom he has known since 1978, made sense. "He knows the business and I trust him, regardless of out past differences." ■

Allianz shuffles Austrian holdings

MUNICH, Germany—Allianz A.G. Holding is reshuffling its holdings in Austria via its Italian subsidiary.

Allianz subsidiary Riunione Adriatica di Sicurta S.p.A. of Milan has agreed to trade shares in several Austrian companies with Assicurazioni Generali S.p.A. of Trieste, Italy.

Generali is transferring its 55.5% stake in Allianz Versicherungs A.G. and its 45% stake in Allianz Lebensversicherungs A.G., both of Vienna, to RAS.

In return, Generali will acquire a 76.1% stake in RAS subsidiary Interunfall-RAS Versicherungs A.G. of Vienna.

Interunfall is the parent company of two German insurers: Interunfall Allgemeine Versicherungs A.G. of Hamburg and Munchener Lebensversicherung A.G. of Munich.

GLOBAL MARKETS

M&M in Hungary

NEW YORK—The world's largest brokerage—Marsh & McLennan Cos. Inc.—has set up a wholly owned subsidiary in Hungary.

The new Budapest-based unit—Marsh & McLennan Budapest Insurance Brokers & Consultants Ltd.—will service the insurance brokerage needs of Hungarian companies, as well as foreign companies that have opened or plan to open operations there, according to New York-based M&M.

In addition to brokerage services, the Hungarian firm will provide risk management services and will be able to access M&M's various consulting services worldwide.

D. Jeffrey Manners will serve as managing director of the new firm. Mr. Manners, who is also manager of M&M's Client Service Center for Eastern and Central Europe, will continue to be based in Vienna, Austria.

Mr. Manners can be reached at 431-535-6583-78.

Continued on next page

INTERNATIONAL

Radical E.C. rule proposed on service liability

By DENISE CLAVELOUX

BRUSSELS, Belgium—The European Commission's proposed rules on the liability of service providers will, if adopted, make radical changes throughout the European Community.

The proposed rules are aimed at any services that could injure "the health or physical integrity of persons or the physical integrity of either movable or immovable property," the commission said.

A range of service providers from doctors to engineers to mechanics, would be subject to the rules. Excluded are waste disposal firms and travel agents, both of which are covered by separate liability proposals.

The proposed rules would place the burden of proof on the provider to disprove that its service harmed a claimant. To bring a claim, an injured person would only be required to prove damage and the existence of a causal relationship between the service and the damage.

The provider would be exonerated only if he can prove that there was no fault on his part. Providers' fault would be interpreted very broadly in terms of the legitimate expectations of consumers about the safety of services.

However, the proposal also states that the mere fact that a better service existed or was available at the relevant time, or subsequently, would not automatically establish fault of the provider.

The proposed directive would prohibit service providers from attempting to avoid liability. It would bar all clauses in contracts that exempt a provider from liability or limit that liability.

It would limit people to filing claims within three years from when they first became aware of damage or five years from when the service was provided.

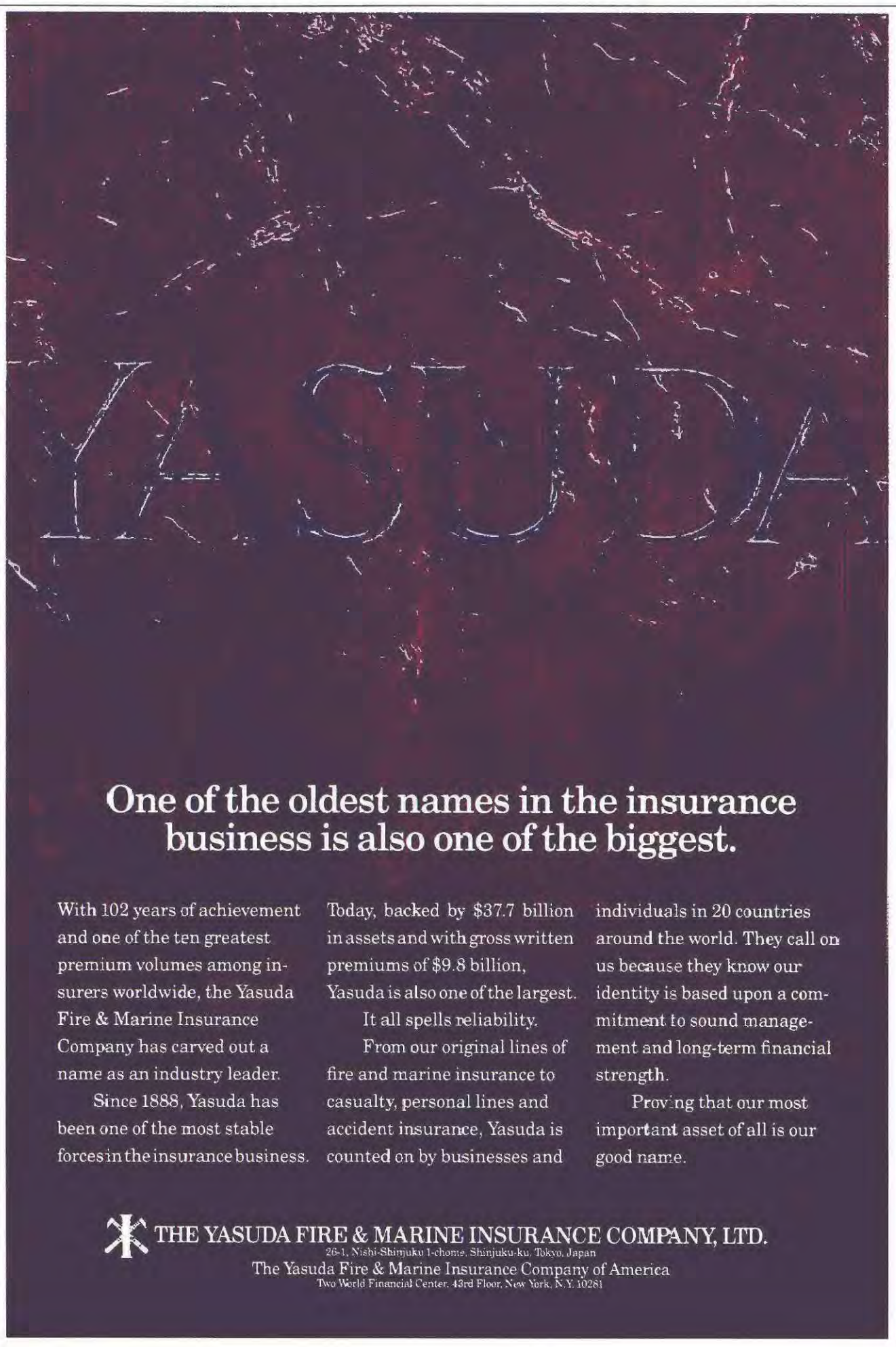
Those periods would be 10 and 20 years, respectively, for services related to building design and construction.

Although designed to establish uniform liability within the European Community, the proposal would leave the awarding of damages up to the 12 individual member states, including whether damages for pain and suffering are allowed.

Initially, the European Commission said that it wanted to establish a standard no-fault system liability for damage to "the physical integrity of persons and property." The principle underlying this proposal was that damage is a risk to society and that the cost of repairing it should be distributed fairly between all those concerned.

However, most of the interest groups consulted by the commission objected to this principle, and the commission noted that most member states' laws are based on the principle that the service provider is at fault for damage or injury, although this principle is often interpreted very broadly.

The European Commission therefore decided to issue its current proposal, which would turn the burden of proof to the advantage of the injured party. ■



GLOBAL MARKETS

Continued from previous page

New Wyatt offices

BOSTON—The Wyatt Co. has opened new offices in Germany, the Netherlands and Indonesia.

In Indonesia, Wyatt acquired a majority interest in P.T. Purbajaga, a Jakarta-based actuarial and benefits consulting firm. The remaining stake in the firm is held by an Indonesian financial services group, according to Wyatt.

P.T. Wyatt Purbajaga is headed by actuary Michael Huddart.

In the Netherlands, Wyatt opened an Amsterdam office to provide actuarial and pension fund asset consulting services as well as software services.

The Amsterdam office will be headed by actuarial consultant William S. Meijer.

And in Dusseldorf, Germany, Wyatt opened an office to provide human resources consulting. The office is managed by Ralf-Hendrick Kleb.

"The new offices enable us to provide services to our clients in these countries and better global services for our multinational clients," said Michael H. Davis, the Boston-based president of Wyatt.

Mr. Huddart can be reached at 62-21-513926; Mr. Meijer can be reached at 31-25-03-224-94; and Mr. Kleb is at 49-211-8228-0.

Kemper, SGS venture

BRUSSELS, Belgium—Kemper National Insurance Cos. and Societe Generale de Surveillance of Switzerland have formed a joint venture company to provide boiler and pressure vessel inspections outside the United States and Canada.

The new venture, Kemper SGS S.A. will be based in Brussels, Belgium.

The new company "will provide manufacturing and repair inspection of boilers and pressure vessels to see that they meet the standards of the American Society of Mechanical Engineers," according to Long Grove, Ill.-based Kemper.

The new venture will be headed by General Manager Ivo Claesen, who can be reached at 32-2-242-0300. ■

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Business Insurance

INTERNATIONAL

Iraqi claims

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ests in Iraq.

The Lloyd's underwriter estimated that U.K. insurers, including the government's Export Credit Guarantee Department, had a total exposure on Iraqi performance bond coverage of 100 million to 150 million pounds ($176.9 million to $265.4 million).

Mr. Blower said that the impetus for Clause 29 to be included in the U.N. resolution—which would bar Iraq from calling performance bonds—came from British financial institutions lobbying the U.K. government.

There initially was stiff opposition to the clause from the U.S. government, which did not want to combine commercial considerations with the political issues surrounding the Gulf cease-fire. And, European Community members are reluctant to adopt a concerted approach to denying potential Iraqi claims, Mr. Blower said.

In fact, the Brussels-based European Banking Federation last week called for a "cooling off period," so E.C. nations can examine potential Iraqi claims.

However, without the clause, there could be a massive transfer of funds from Western countries to Iraq after U.N. sanctions are lifted as performance bonds are called, he said.

Clause 29 stipulates that Iraq will have no claim against companies unable to complete work because of the U.N. trade embargo, which was established by U.N. Resolution 661.

"My own view is that this is as good as we could hope for," Mr. Alinton said.

"The problem has been how we could provide an international solution to this," he said.

However, the BBA's Mr. Blower cautioned that countries with legal systems like Iraq's that are ultimately based on Islamic Law, or "sharia," could be sympathetic to Iraqi judgments.

Indonesia and Yemen, for example, have such legal systems, he said. And Yemen along with Ecuador abstained from voting on resolution 687, and Cuba voted against it.

Given that these and other developing countries did not support the U.S.-led coalition effort to liberate Kuwait, they may be willing to enforce Iraqi court judgments by freezing or expropriating the assets of Western companies or countries involved in the dispute, Mr. Blower said.

Any court judgment in Iraq's favor could be enforced against contractors or their countries' assets in a third country friendly to Iraq, agreed Nigel Alinton, a director of Hogg Insurance Brokers Ltd. in London.

Mr. Blower also said there also is considerable uneasiness among banks about future Iraqi government policy. Even though Baghdad had accepted the cease-fire resolution, which includes Clause 29, it could renege on it.

The Lloyd's underwriter agreed that there is some uneasiness within the financial sector about the consequences of Resolution 687. He said banks fear that if they are relieved from their current Iraqi liabilities, the British government could pass similar legislation to apply to future business with other countries. This would damage the credibility of banks as security, as happened with U.S. banks following the Iranian revolution in 1979.

"But it will not affect the insurance underwriters, as we are not supposed to be in the picture anyway," the Lloyd's underwriter said.

Meanwhile, although claims against the unfair calling of bonds may not occur, political risk coverages could come into force as a result of the U.N. embargo.

Trade Indemnity P.L.C. and the U.K.'s Export Credit Guarantee Department provide coverage for nonpayment due to an embargo imposed by the policyholder's own government, said Jerry Friend, associate director of Trade Indemnity.

The ECGD referred all inquiries to the Department of Trade and Industry.

A DTI spokeswoman would only say the government is consulting various orgarizations on how to implement Resolution 687.

Since enabling legislation already has been enacted in the United Kingdom, the cease-fire resolution would become British law under executive order, the spokeswoman said.

U.S. banks and political risk insurers face negligible exposure to Iraqi claims, because there has been little business between the countries.

The U.S. state export credit insurer, the Overseas Private Investment Corp., has no exposure in Iraq, a spokesman in Washington said.

And, unlike the ECGD, OPIC never has covered claims resulting from actions taken by the U.S. government, the spokesman said. ■

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INTERNATIONAL

Kloman views impact of single European market

By GAVIN SOUTER

LONDON—To succeed in a deregulated Europe, risk managers will need to reassess risks, risk financing and the discipline of risk management, says a leading risk management consultant.

In a single market, risk managers will encounter a concentration of values, growing environmental problems, a new wave of litigation and an increased focus on personnel risks, said H. Felix Kloman, principal and vp at the Tillinghast division of Towers, Perrin, Forster & Crosby Inc.

There would also be a chaotic insurance market to contend with, more captive insurance and new relationships forged between risk managers and the insurance industry, he said at recent insurance forum in London.

"The single European economy will be a true common market in which people, goods, services and capital will move freely among the European Community nations. The reality may differ somewhat from this, but the prognosis is sound. We will have real political stability, possibly for the first time since the Holy Roman Empire," said Mr. Kloman.

Given the possibility that Eastern European nations will be admitted into the European Community, risk managers should take a new look at dangers and opportunities throughout Europe, he added.

Risk could be defined as the compound estimate of the probable frequency, severity and public perception of harm, said Mr. Kloman. In a single European market, the public perception will often outweigh the other two, he said.

"Risk management then becomes a discipline for living with the possibility that future events may cause harm. We will not get rid of risk; we have to learn to live with it," he added.

The process, according to Mr. Kloman, basically consists of three steps:

- Risk assessment—What can go wrong?
- Risk control—What can we do about it?
- Risk financing—How do pay for it?

"It is clear that global organizations need help in all three areas, and risk management is in effect becoming much more holistic," he added.

Consequently, risk managers must look at risks like finance, operations, law and politics, regardless of whether they can be transferred by insurance, said Mr. Kloman.

He advised risk managers to put environmental problems high on their list of priorities. "The Green movement is going on throughout the world," and disasters like the 1986 Sandoz A.G. chemical spill in the Rhine River and the accident at the Chernobyl nuclear plant in the Soviet Union could become symbols of the future, he said.

New pollution compensation regulations will be adopted first in Europe, simply because the region has been polluting longer than any other, said Mr. Kloman.

Litigation on an American scale also concerns risk managers in Europe, he said.

"Statutory liabilities are already increasing, and this may give rise to the spread of the 'American disease.' I regret that we are spreading this, but it is already spreading to Germany and the United Kingdom," Mr. Kloman observed.

Risk managers should question whether the legal and insurance infrastructure can handle the predicted surge in litigation, he said.

Competition in the single European market could lead to consolidation among insurers, Mr. Kloman said. "Will cut-throat competition result in a period of unrealistically low prices, thus drawing weaker insurers and reinsurers out of the market? I suspect that we are going to go through a time of some turmoil."

Such price competition could force Europe to succumb to what Mr. Kloman called another "U.S. disease": market cyclicality.

Using the European Currency Unit for insurance policies should bring both stability and risk, he said. Transaction costs could be cut by using such a currency "basket." But the risks include political objections, difficulties in matching liabilities with assets, problems for reinsurance accounting, and changing definitions of capital and free reserves, he contended.

Meanwhile, captive growth continues in Europe, Mr. Kloman said. In 1990, captives accounted for $10 billion of worldwide premiums, compared with $7 billion in 1983, he said.

Of the 3,200 captives worldwide, 16% are domiciled in Europe, and captives are growing faster in Europe than anywhere else, he added.

"As competition heats up and as regulations permit more direct business, captives and other forms of self-insurance may grow dramatically," he said. ■

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Housing benefits

Continued from page 3

of employers that have offered housing assistance benefits for years report they are effective in attracting and retaining employees.

The Fannie Mae program stems from last year's amendment of the Taft-Hartley Act to allow unions to negotiate for housing assistance in collective bargaining agreements (*BI*, April 9, 1990).

The program offers employers tax benefits in addition to recruitment advantages. Employers offering housing assistance "could still take a tax deduction either as a business expense or as (employee) compensation," said John Hoos, a consultant at Hewitt Associates in Lincolnshire, Ill.

Under the Fannie Mae plan, all employees who want to purchase a house through an employer-sponsored housing benefit plan would have to contribute some or all of the down payment.

Employees with incomes of up to 115% of the median income in their geographical areas would be able to buy a home with a minimum down payment of 5%, but the employee would have to come up with at least 3% of the down payment and the employer 2%.

Employees earning more than 115% of the median income in their areas would be required to put up the entire 5% down payment.

Fannie Mae will guarantee the secondary market of mortgages obtained through employer-sponsored plans if the plans provide at least one of six forms of assistance:

- Direct grants. Under this option, the employer gives the employee a one-time payment to cover the employer's share of the required minimum down payment and closing costs. Any leftover grant funds must be used to reduce the mortgage balance.
- Fully repayable loans made directly to employees, which the employee would repay either directly or through payroll deductions.
- Deferred payment loans. Under this option, the employee can defer repaying the principal, interest or both on an employer-provided housing loan until the end of the stated loan term, such as when employment is terminated or the home is sold.
- Forgivable loans. Under this option, all or part of the loan principal is forgiven at a specific rate over a stated period of employment. Any interest or portion of the principal that is not forgiven would be paid either directly or through payroll deductions. If an employee leaves the company before the end of the stated loan repayment period, the repayment schedule would not change.
- Monthly payment assistance, which is a loan or grant to reduce the employee's monthly mortgage payment obligations to a fixed percentage of total household income, not to exceed 28%. If the assistance is in the form of a loan, repayment by the employee would begin when —as household income rises— monthly mortgage obligations fall below the set percentage of total monthly household income.
- Guarantee of lender losses on mortgages made to employees through an employer's housing benefit plan.

Consultants say that the Fannie Mae plan could spur more employers to offer housing benefits to their employees.

Employer-assisted housing benefits now have a "great deal of potential" as an employee benefit, said Nancy Jones, a principal at William M. Mercer Inc. in New York.

"In areas like the Northeast and California, where housing prices are ridiculous, this might be a solution where they are having employee shortages," she said.

The new Fannie Mae plan "can be an incentive to employers, because local banks will be more willing to make these loans," commented David Seifried, a consultant in the Seattle office of Hewitt Associates.

Housing benefits may be a solution for areas with employee shortages, says Mercer's Ms. Jones.

Mr. Seifried believes the plan could help employers nationwide. Because real estate costs have soared in many areas of the country until recently, "in every major urban area affordable housing is becoming an issue for employers," he said.

Mr. Seifried said that housing problems also exist outside of the usual urban areas and transcend industries—like health care, colleges and high technology firms—that traditionally have had problems attracting and retaining staff because of high housing costs where they are located.

"It can be a problem that could impact on an employer in any industry (located) where housing costs have gone up. The employer is going to have to deal with it no matter what business you are in," he said.

"There has been a history of informal offerings of employer-assisted housing. However, (the Fannie Mae plan) marks the evolution where this has become more of a formal benefit," said Mark Schafer, vp of Hay/Huggins Co. Inc., a division of the Hay Group in Washington, D.C.

However, because providing a housing benefit can tie up an employer's cash flow, "I don't see that there will be a mass movement toward this type of benefit until the economy improves," Mr. Schafer said.

But, "once it is instituted it would have an immediate effect on recruitment and particularly retention, because it ties an employee into a housing commitment," he said.

Although some housing assistance options under the Fannie Mae plan—like the monthly payment assistance option—can be an expensive commitment for an employer, the Fannie Mae plan is flexible enough so that an employer could structure its housing assistance benefit to fit its own financial limitations, Ms. Jones said.

And, some options under the plan—like forgiving a portion of a loan or down payment—"pays for itself easily because of the savings in recruitment and retention costs," Mr. Seifried said.

"However, the trick is to make it affordable to the employer and helpful to the employee," Ms. Jones said.

Employers that have offered housing benefits for years report that they indeed work.

"About eight years ago, the high cost of housing was the number one reason given (by potential employees) for not accepting our offers," said William Parker, associate vice chancellor for the University of California at Irvine.

This prompted the university to create its employer-assisted housing benefit for all nationally recruited faculty and some nationally recruited staff.

Under the program the university offers mortgages at variable interest rates that are one point below the four-quarter average rate of return on one of the university's short-term investment fund pools.

In addition, the university also offers housing allowances of up to a total of $25,000 over five years.

"With the housing benefit, we have removed the high cost of housing as a barrier to recruitment. It's not gone. It's still expensive to live in Orange County, but it's now a manageable problem, and we can get the people that we want," Mr. Parker said.

About one-third of eligible employees at the Mayo Clinic in Rochester, Minn., take advantage of its 25-year old employer-assisted housing benefit plan, according to Rod Olson, head of the clinic's personal services and benefits section.

The plan currently makes available up to $40,000 in 10-year mortgage loans to newly recruited medical staff.

Many of the employees are new doctors, some of whom "have huge educational debts" and thus cannot qualify for conventional mortgages, Mr. Olson said.

Mercer's Ms. Jones recommended that employers examine their own resources as well as employee needs to determine the effectiveness of a housing-assistance benefit.

Mr. Seifried agreed.

"I'm not certain there is a huge incentive in it for employers where housing is a questionable problem for employees," he said. ■

Cost control techniques

Continued from page 3

care will be offered by 90% of employers by 1995," according to the report.

In addition, the report found that more than 60% of those surveyed by the Society for Human Resource Management expect that a promising cost-control measure in the 1990s would be making employees more health care cost-conscious.

But, only 14% of employers with programs to improve employee awareness found the program effective, the report notes, also citing SHRM survey findings.

More than 50% of the human resource managers said emphasizing preventive care also would help control costs, but only 19% of those with wellness or fitness programs say the are effective, the report says, citing the SHRM.

In addition, nearly half of the surveyed human resource managers expect that standardizing the costs of medical procedures and treatments would help to limit cost increases.

But, no more than 30% expect any other measure will help limit health care cost inflation, though many employers that have implemented some of these measures say they are effective.

About 30% expect that changing the legal and medical malpractice systems or raising employee deductibles and copayments would control costs.

However, among employers that already have increased employee copayments, 35% say the measure is effective in controlling costs, the report says, citing the SHRM.

In addition, about 20% said limiting doctors' fees would bring health care costs under control, and less than 10% believe that either limiting insurers' profits or reducing benefits would control health care costs.

But, among employers that have reduced benefits, 34% said the measure has helped control costs, the report points out.

Still citing the SHRM, the report notes that the most popular cost-containment strategies now in use are precertification of hospital admissions, adopted by 64% of the respondents and considered effective by one-third; requiring second surgical opinions, adopted by 61% but considered effective by only 14%; and improving employee awareness of costs, adopted by 49%.

Other tactics used by at least three of 10 surveyed companies, the survey found, include: coordinating benefits procedures; utilization reviews; case management; raising health insurance deductibles for employees; and establishing pre-tax health care spending accounts.

Only 18% of surveyed employers offer PPOs, but 40% found them effective in trimming costs.

Meanwhile, some cost-containment strategies that are not widely used are considered effective by many of the companies that have implemented them, the report found.

For example, cafeteria-style plans were offered by only 17% of the companies polled, but 44% of those with the plans considered them an effective way to control costs, the report says.

And, only 18% of employers offer preferred provider organizations, but 40% found them effective.

Other options that are winning high marks for effectiveness are special pretax spending accounts, considered effective by 36% of the companies that have used them; case management, 35%; reduced benefits, 34%; and precertification of admissions, 33%.

The report also notes, citing SHRM data, that human resource managers believe that employees have come to accept health care coverage cost-shifting and benefits changes.

At companies that limit provider choices through health maintenance organizations, preferred provider organizations or other means, 76% of the managers agree that employees eventually accept those restrictions, according to the report.

Twenty-one percent did not think employees accept those restrictions, and 2% did not know.

Many human resources managers also said that most employees would rather pay more to keep their current benefits than have their benefits cut, the report said.

Of the managers at companies that have increased employee contributions to health insurance, 72% agreed that workers preferred that to cutting benefits.

Twenty-four percent disagreed, and 5% did not know.

Of the managers at companies that have reduced benefits, 72% agreed that workers would rather have paid more than had their benefits cut, while 23% disagreed, and 5% did not know.

The report also predicted a massive consolidation of health insurers over the next decade.

"With the increasing sophistication of employers about health care costs, very few U.S. group health insurance carriers (estimated at 25 of the 500) have the capabilities, finances, patient volume, management and desire to compete successfully," according to the report.

Some other findings and forecasts in the report include:

- Outpatient surgery will account for approximately 60% of all hospital surgery by the mid-1990s, up from the current 47%, the American Hospital Assn. predicts.
- Political and budgetary forces will prevent the development during the early 1990s of a national solution to the problem of providing adequate health care for all Americans, the report authors conclude.
- Approximately 40% of all U.S. hospitals will be closed or used for some alternative purpose by the year 2000, estimates the National Assn. for Hospital Development.

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Copies of "Managing Care and Costs: Strategic Choices and Issues, An Environmental Assessment of U.S. Health Care, 1991-1996" is available for $85 each from Editor, Environmental Assessment, Health One Corp., 2810 57th Avenue North, Minneapolis, Minn. 55430; 612-574-7618.

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Health care costs

Continued from page 2

plan coverage for retirees under 65 will increase 15.3% this year to an average of $181 per retiree from $157 in 1990.

In addition, employers expect monthly costs of indemnity plan coverage for a retiree under age 65 plus one dependent to increase 14.5% this year to an average of $348 from $304 in 1990. And, monthly costs for a retiree under 65 with at least two dependents are expected to increase 15.5% to an average of $432 in 1991, up from $374 in 1990.

For retirees over 65 who receive the bulk of their medical coverage from Medicare, the monthly cost of coverage and the cost increase are expected to be somewhat less.

For example, employers expect monthly costs of indemnity plan coverage for a retiree age 65 or older with individual coverage will increase 10.7% this year, rising to an average of $83 from $75 in 1990.

In addition, employers anticipate that monthly costs of indemnity coverage for a retiree 65 or older with one dependent will increase 12.8% to an average of $168 from $149 in 1990. And, they predict monthly costs for a retiree 65 or older with at least two dependents will increase 11.7% to an average of $219 from $196 in 1990.

Employers also expect monthly dental plan costs to increase in 1991, the TPF&C survey found. However, the expected monthly costs of dental benefits still are very low compared with the cost of medical indemnity plans.

'Health care costs continue to be a drain on corporate profitability,' Mr. Ostuw says.

For example, employers expect monthly costs of individual dental coverage to increase 6.7% this year to an average of $16 per employee from $15 in 1990.

The monthly cost of dental coverage for an employee plus one dependent is expected to rise 6.7% to an average of $32 from $30 in 1990. And, monthly dental coverage costs for an employee with at least two dependents are expected to increase 9.8% to an average of $45 from $41 in 1990.

Only 42 companies provided cost information on dental coverage for their retired workers and their dependents.

Those respondents expect the monthly cost of individual dental coverage for a retiree under age 65 will increase 7.1% this year to an average of $15 from $14 in 1990, while monthly dental coverage costs for a retiree plus one dependent also will increase 7.1% to an average of $30 from $28 in 1990.

And the monthly cost of dental coverage for retirees under 65 with at least two dependents is expected to increase 7.5% this year to $43 per retiree on average from $40 in 1990.

In addition, employers project that in 1991 the monthly cost of individual dental coverage for retirees age 65 and over will increase 7.7% to an average of $14 per retiree from $13 in 1990, while monthly dental coverage costs for older retirees with one dependent will increase 11.1% to an average of $30 per retiree from $27.

In addition, employers anticipate that monthly costs of dental coverage for retirees age 65 and over with at least two dependents will increase 8.3% this year to an average of $39 per retiree from $36 in 1991.

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A limited number of free, single copies of "Health Care Cost Survey Results," are available from TPF&C, Marketing Services, 100 Summit Lake Drive, Valhalla, N.Y. 10595.

Insider trading

American International Group Inc.: Koong Kai Tse, director, sold and disposed of by gift 600 shares of common stock at $82.88 per share and an unreported price per share from Feb. 1 to Feb. 26 and now directly holds 153,205 shares.

Steven Y.N. Tse, vp, sold 20,000 shares of common stock at between $78.13 and $81.50 per share from Jan. 19 to Jan. 31 and now directly holds 155,805 shares.

Richard B. Goodwyn, officer, sold 1,000 shares of common stock at $92.25 per share on Feb. 12 and now directly holds 2,128 shares.

Leslie L. Gonda, director, sold 38,850 shares of common stock at $81.18 per share from Jan. 30 to Jan. 31 and now directly and indirectly holds 2.45 million shares.

AIG stock was trading at $95.13 per share on April 1.

Aon Corp.: James D. White, vp, exercised an option for 3,000 shares of common stock at $16 per share on Jan. 30 and now directly holds 11,420 shares.

Aon stock was trading at $38 per share on April 5.

Argonaut Group Inc.: Charles E. Rinsch, president, exercised an option for 4,000 shares of common stock at $30.75 per share on Jan. 29 and now directly and indirectly holds 19,141 shares.

Argonaut stock was trading at $86 per share on April 5.

CNA Financial Corp.: Dennis H. Chookaszian, director, purchased 1,000 shares of common stock at $84 per share on March 11 and now directly holds 1,000 shares.

CNA stock was trading at $83.63 per share on April 5.

Fremont General Corp.: Lee E. McIntyre, beneficial owner, indirectly disposed of by gift 73,000 shares of common stock at an unreported price per share on Dec. 29 and now indirectly holds more than 1.43 million shares.

Fremont General stock was trading at $20.25 per share on April 5.

General Re Corp.: Walter M. Cabot, director, disposed of by gift 178 shares of common stock at an unreported price per share on Dec. 24 and now directly holds 1,209 shares.

General Re stock was trading at $100.13 per share on April 5.

Frank B. Hall & Co. Inc.: George E. Bello, director, sold 67,400 shares of common stock at $3.75 per share on Feb. 4 and now directly holds 165,045 shares.

Reliance Financial Services Corp., beneficial owner, indirectly purchased 67,400 shares of common stock at $3.75 per share on Feb. 4. In addition, Reliance Financial Services indirectly purchased 15,100 shares of common stock at between $3 and $3.75 per share from Jan. 8 to Jan 23. Reliance Financial Services now indirectly holds 24.9 million shares.

Frank B. Hall stock was trading at $3.50 per share on April 5.

The Hartford Steam Boiler Inspection & Insurance Co.: T. Skipwith Lewis, officer, exercised an option for 15,000 shares of common stock at $32.56 per share on Feb. 22 and now directly holds 22,470 shares.

Donald M. Carlton, director, sold 2,500 shares of common stock at $52.03 per share on Feb. 5 and now directly holds 19,692 shares.

Hartford Steam Boiler stock was trading at $59.88 per share on April 5.

Hilb, Rogal & Hamilton Corp.: David E. Peek, vp, sold 800 shares of common stock at $11.50 per share on Oct. 10 through Oct. 19 and now directly holds 6,457 shares.

Robert H. Hilb, president, disposed of by gift 2,000 shares of common stock at an unreported price per share on Dec. 24 and now directly holds 313,000 shares.

Hilb, Rogal & Hamilton stock was trading at $17 per share on April 5.

Humana Inc.: Michael A. Hendricks, officer, exercised an option for 6,550 shares of common stock at between $17.13 and $20.44 per share on Jan. 2 and now directly holds 6,550 shares.

David A. Jones, chairman, disposed of by gift 100 shares of common stock at an unreported price per share on Jan. 3 and now directly and indirectly holds more than 2.3 million shares.

Wynetka A. Reynolds, director, purchased 300 shares of common stock at $38 per share on Jan. 25 and now directly and indirectly holds 300 shares.

Humana stock was trading at $50.38 per share on April 5.

Marsh & McLennan Cos. Inc.: John M. Regan, director, sold 7,000 shares of common stock at between $78.50 and $79 per share on March 6. In addition, Mr. Regan disposed of by gift 5,086 shares of common stock at an unreported price per share from Dec. 7 to Jan. 15 and now directly and indirectly holds 145,502 shares.

Robert Clements, director, disposed of by gift 400 shares of common stock at an unreported price per share on Dec. 18 and now directly and indirectly holds 41,777 shares.

Richard H. Blum, director, disposed of by gift 100 shares of common stock at an unreported price per share on Jan. 22 and now directly and indirectly holds 73,242 shares.

Marsh & McLennan stock was trading at $84.13 per share on April 5.

NAC Re Corp.: Ronald L. Bornhuetter, president, indirectly disposed of by gift 5,000 shares of common stock at $37.25 per share and now directly holds 58,080 shares.

NAC Re stock was trading at $39.75 per share on April 5.

Ohio Casualty Corp.: Vaden Fitton, director, sold 3,430 shares of common stock at $32 per share on March 6 and now directly and indirectly holds 11,646 shares.

William L. Woodall, director, indirectly purchased 386 shares of common stock at $41 per share on Feb. 14 and now indirectly holds 8,942 shares.

Ohio Casualty stock was trading at $42.50 per share on April 5.

Old Republic International Corp.: Clarence J. McConville, director, sold 2,887 shares of common stock at $24.25 per share on July 19 and now directly holds 1,000 shares.

Old Republic stock was trading at $28 per share on April 5.

SAFECO Corp.: Bob A. Dickey, vp, exercised an option for 1,368 shares of common stock at $14.34 per share on Feb. 5 and now directly holds 10,450 shares.

Clifford B. Maines, chairman, exercised an option for 6,000 shares of common stock and disposed of by gift 150 shares of common stock at between $9.03 and $40 per share on March 5 and now directly holds 43,016 shares.

Roland M. Trafton, director, disposed of by gift 300 shares of common stock at an unreported price per share on Feb. 12 and now directly holds 35,984 shares.

Rodeny A. Pierson, vp, exercised an option for 1,600 shares of common stock at $16.09 per share on Jan. 9 and now directly holds 4,500 shares.

SAFECO stock was trading at $42.13 per share on April 5.

The St. Paul Cos. Inc.: Thomas W. McKeown, vp, exercised an option for 1,003 shares of common stock at $44.50 per share on Jan. 31 and now directly and indirectly holds 14,732 shares.

St. Paul stock was trading at $73.50 per share on April 5.

SCOR U.S. Corp.: Nolan Asch, shareholders, sold 1,376 shares of common stock at between $14.25 and $14.75 per share on Feb. 20 and now directly holds 17,482 shares.

Richard M. Murray, director, purchased 3,000 shares of common stock at $14 per share on Feb. 14 and now directly holds 3,000 shares.

SCOR stock was trading at $13.75 per share on April 5.

Transamerica Corp.: Howard J. Korth, director, disposed of by gift 5,110 shares of common stock at an unreported price per share on Jan. 10 and now directly and indirectly holds more than 2 million shares.

Transamerica stock was trading at $34.75 per share on April 5.

Travelers Corp.: Ann D. McLaughlin, director, purchased 300 shares of common stock at $15.50 per share on Dec. 6 and now directly and indirectly holds 951 shares.

Travelers stock was trading at $24.38 per share on April 5.

USF&G Corp.: Robert J. Hurst, director, indirectly sold 4,400 shares of common stock at $8.13 per share on Jan. 9 and now directly and indirectly holds 4,400 shares.

Linda L. Hupfer, vp, purchased 2,000 shares of common stock at $9.62 per share on Dec. 3 and now directly holds 3,924 shares.

USF&G stock was trading at $10 per share on April 5.

U.S. Healthcare Inc.: J. Walter Hyer, vp, sold 1,242 shares of common stock at between $39 and $40.25 per share from Feb. 22 to Feb. 28 and now directly holds 60 shares.

Jack A. Macallister, chairman, indirectly sold 3,000 shares of common stock at $39.13 per share on Feb. 22 and now directly and indirectly holds 148,443 shares.

Ellen L. Cass, officer, exercised and option for 5,000 shares of common stock at between $5.25 and $5.63 per share on Jan. 4 and now directly holds 5,000 shares.

Kathleen Lunemann, officer, exercised an option for 6,666 shares of common stock at between $5.25 and $5.63 per share on Jan. 29 and now directly holds 6,666 shares.

Allen Misher, director, exercised an option for 7,500 shares of common stock and sold 3,000 shares of common stock at between $5.63 and $34.75 per share from July 6 to Jan. 31 and now directly holds 13,000 shares.

Betsy Wertheimer, officer, exercised an option for 3,166 shares of common stock at $5.25 per share on Jan. 22 and now directly and indirectly holds 3,166 shares.

U.S. Healthcare stock was trading at $50 per share on April 1.

UNUM Corp.: John J. Alexander, officer of subsidiary, purchased 700 shares of common stock at $45.50 per share on Jan. 9 and now directly and indirectly holds 4,197 shares.

Francis B. William, vp, disposed of by gift 225 shares of common stock at an unreported price per share from Feb. 4 to Feb. 15 and now directly and indirectly holds 7,651 shares.

UNUM stock was trading at $67.25 per share on April 1.

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Insider Trading, compiled by Invest/Net Trading Group Inc. From reports filed with the Securities and Exchange Commission, tracks stock sales and purchases by insurance industry directors and officers. The column is distributed by Tribune Media Services Inc.

APRIL CLOSINGS

SET YOUR DATES

issue:	April 15
closing:	April 3
demographic section:	Insurer Topics: Loss Control & Catastrophe Planning
issue:	April 22
closing:	April 9
editorial feature:	RIMS Preview
issue:	April 29 — Reader Service Bonus Distribution: RIMS
closing:	April 16
editorial feature:	Captives/Risk Manager of the Year — Directory: Captive Managers
issue:	May 6
closing:	April 23
editorial feature:	RIMS Report: Employee Benefits
demographic section:	Agent/Broker Topics: Advertising/Sales Promotion/Community Relations
issue:	May 13 — Reader Service Bonus Distribution: PRIMA
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editorial feature:	RIMS Report: Risk Management

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Business Insurance
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Datebook

APRIL

APRIL 22-23. Environmental Regulation Course in Toronto, Ontario, sponsored by Executive Enterprises Inc.; $1,045. Executive Enterprises Inc., 22 W. 21st St., New York, N.Y. 10010-6904; 800-831-8333; 212-645-7880.

APRIL 22-24. Environmental Regulation Course for Federal Facilities and Government Contractors in Atlanta; sponsored by Executive Enterprises Inc.; $1,045. **Also May 6-8** in Idaho Falls, Idaho, and San Diego, Calif. Executive Enterprises Inc., 22 W. 21st St., New York, N.Y. 10010-6904; 800-831-8333; 212-645-7880.

APRIL 22-24. GIC's '91-The Fifth Anniversary Symposium in Phoenix, Ariz., sponsored by the Institute for International Research; $1,095; $695 for plan sponsors. Institute for International Research, 437 Madison Ave., 23rd Floor, New York, N.Y. 10022; 212-826-1260.

APRIL 22-24. Environmental Regulation Course in Boston, sponsored by Executive Enterprises Inc.; $1,045. **Also April 30-May 2** in Anchorage, Alaska; **May 8-10** in San Francisco; and Louisville, Ky.; **May 13-15** in Houston; **May 15-17** in Washington, D.C.; **May 21-23** in Denver; **May 29-31** in Orlando, Fla.; **June 3-5** in San Diego, Calif. and Secaucus, N.J.; **June 5-7** in Chicago; **June 17-19** in Memphis; **June 24-26** in Albuquerque; **July 10-12** in Atlanta and Boston; **July 15-17** in Washington, D.C.; **July 17-19** in Minneapolis and Dallas; **Aug. 6-8** in Baltimore and Las Vegas; **Aug. 14-16** in San Francisco. Executive Enterprises Inc., 22 W. 21st St., New York, N.Y. 10010-6904; 800-831-8333; 212-645-7880.

APRIL 22-25. Fundamentals of Public Sector Benefits Management seminar in Brookfield, Wis., sponsored by the International Foundation of Employee Benefit Plans; $840 International Foundation members; $940 non-members. IFEBP, P.O. Box 69, Brookfield, Wis. 53008-0069; 414-786-6700.

APRIL 23. Advanced Risk Management Financing Techniques seminar in Jacksonville, Fla., co-sponsored by The Society of Chartered Property & Casualty Underwriters and the North Florida Chapter; $125 for Society of CPCU members; $140 for non-members. Bonnie Kinsley, Continuing Education Coordinator, The Society of CPCU, 720 Providence Road, P.O. Box 3009, Malvern, Pa. 19355-0709; 215-251-2735.

APRIL 23. How to Identify, Evaluate and Reduce the Risks of Special Events in Dallas, sponsored by Event Risk Management; $235; $135 for manual or seminar only. **Also April 24** in San Antonio, Texas; **April 26** in Baton Rouge, La.; **May 3** in Houston; **May 16** in Parsippany, N.J.; **May 17** in Boston; **May 21** in Rochester, N.Y.; **May 23** in Norfolk, Va.; **May 24** in Baltimore; **May 28** in Philadelphia; **May 29** in New York City; **June 10** in Phoenix, Ariz.; **June 12** in Albuquerque, N.M.; **June 14** in Oklahoma City; **June 17** in Memphis, Tenn.; **June 18** Atlanta; **June 20** in Greenboro, S.C.; **June 21** in Huntington, W. Va; **June 24** in Cleveland; **June 25** in Chicago; **June 27** in Des Moines, Iowa; **June 28** in Kansas City, Mo.; **July 1** in Denver. Event Risk Management, 34052 La Plaza Drive, Suite 103-314, Dana Pointe, Calif. 92629; 714-493-0529.

APRIL 23. Pollution Liability—The Law and Available Insurance seminar in Harrisburg, Pa., sponsored by the Society of Chartered Property and Casualty Underwriters ad the Central Pennsylvania Chapter; $135 for Society of CPCU members; $155 for non-members. Tricia Hogan, Continuing Education Coordinator, The Society of CPCU, Kahler Hall, 720 Providence Road, P.O. Box 3009, Malvern, Pa. 19355-0709; 215-251-2773.

APRIL 23. Benefit Recordkeeping Strategies for the 1990s and Beyond seminar in Chicago, sponsored by GENESYS Software Systems Inc.; no charge. **Also April 24** in Minneapolis; **April 30** in Tampa, Fla.; **May 1** in Nashville, Tenn.; **May 7** in San Francisco; **May 8** in Los Angeles; **May 14** in Detroit; **May 15** in Cleveland; **May 22** in New York City. Maureen Paradis, GENESYS, 508-685-5400, ext. 3055.

APRIL 23. Employers Council on Flexible Compensation Regional Conference in Indianapolis, sponsored by the ECFC; $185 for ECFC members; $195 for non-members. **Also April 24** in New York City; **April 30** in Chicago; **May 16** in Morristown, N.J. ECFC Conference Center, Department 5063, Washington, D.C. 20061-5063.

APRIL 23. Fleet Driver Improvement Program in Rochester, N.Y., sponsored by Consolidated Service Corp.; $88; discounts for additional participants from same company. **Also April 30** in Atlanta; **May 2** in New Orleans; **May 16** in Charlotte, N.C.; **May 21** in Boston; **June 4** in St. Louis; **June 6** in Kansas City, Mo.; **June 11** in Denver; **June 18** in Sioux Falls, S.D.; **June 20** in Detroit. Ron Starr, CSC, 2500 Devon Ave., Elk Grove Village, Ill. 60007; 708-640-2666.

APRIL 23-24. 1991 Insurance Regulation Briefing conference in Washington, D.C., sponsored by Executive Enterprises Inc.; $1,045. Executive Enterprises Inc., 22 W. 21st St., New York, N.Y. 10010-6904; 800-831-8333; 212-645-7880.

APRIL 23-24. Understanding Property-Casualty Loss Reserving conference in New York City, sponsored by Executive Enterprises Inc.; $1,045. Executive Enterprises Inc., 22 W. 21st St., New York, N.Y. 10010-6904; 800-831-8333; 212-645-7880.

APRIL 24. The Fifth Annual Briefing on Workers Compensation in East Lansing, Mich., sponsored by Michigan State University, $195. Edward E. Anderson, 517-355-9591.

APRIL 24-25. Financial Reinsurance Course in London, sponsored by DYP Insurance & Reinsurance Research Group Ltd.; 450 pounds ($900) plus 15% VAT. Joy Bambrough or Caroline Atkinson, 071-236-2175.

APRIL 24-26. International Benefits Seminar in Tampa Bay, Fla., sponsored by the Aetna/Generali International Employee Benefits Network; $200. Susan Kramer, Aetna/Generali, 212-602-7640.

APRIL 24-26. Reinsurance Underwriting Workshop in London, sponsored by DYP Insurance & Reinsurance Research Group Ltd.; 625 pounds ($1,250) plus 15% VAT. Joy Bambrough or Caroline Atkinson, 071-236-2175.

APRIL 25. Workers Compensation: The Legal Perspective workshop in Chicago, sponsored by the Illinois State Chamber of Commerce; $120 for Illinois Chamber members; $180 for non-members. Illinois Chamber, 20 N. Wacker Drive, Chicago, Ill. 60606-3083; 800-621-4220.

APRIL 25-26. Fifth Annual Ohio Environmental Conference & Exhibition in Columbus, Ohio, sponsored by The Ohio Manufacturers' Assn.; $295 OMA members; $345 non-members. Mark W. Uher, Jana Lilly or Lisa Cramer, OMA, 33 N. High St., Columbus, Ohio 43215; 614-224-1722.

APRIL 25-26. Seminar for Non-Insurance Personnel in Princeton, N.J., sponsored by The College of Insurance; $495 for college sponsors; $595 for non-sponsors. **Also Nov. 14-15** in New York City. The College of Insurance, Professional Programs, 101 Murray St., New York, N.Y. 10007; 212-815-9201; 212-962-4111, ext. 201.

APRIL 25-26. Employee Benefits in Bankruptcy and Lending Transactions institute in Chicago, sponsored by the American Bar Assn.; $525 for ABA members; $550 for non-members; $495 for sponsoring section members. ABA, Division for Professional Education, Department NI617/618, 541 N. Fairbanks Court, Chicago, Ill. 60611-3314; 312-988-6200.

APRIL 25-26. The Environmental Manager's Assurance Program in San Francisco, sponsored by Executive Enterprises Inc.; $1,045. Executive Enterprises Inc., 22 W. 21st St., New York, N.Y. 10010-6904; 800-831-8333; 212-645-7880.

APRIL 26. Annual Reinsurance Update Conference in Chicago, sponsored by the Illinois CPA Foundation; $105 for members; $120 for non-members. Illinois CPA Foundation, 222 S. Riverside Plaza, 16th Floor, Chicago, Ill. 60606; 312-993-0393; 800-572-9850.

APRIL 27-MAY 1. Influencing the Future of Managed Care conference in Washington, D.C., sponsored by the American Managed Care & Review Assn.; $450 for AMCRA members; $550 for non-members. Sheri L. Singer, Director-Public Affairs, AMCRA, 1227 25th St., N.W., Washington, D.C. 20037; 202-728-0506.

APRIL 28-MAY 3. 29th Annual Risk Management and Employee Benefits conference in New Orleans, sponsored by the Risk & Insurance Management Society Inc.; full week: $595 for members, $695 for non-members; partial week: $575 for members; $675 for non-members. One-day registration, $195. RIMS, Conference Department, 205 E. 42nd St., New York, N.Y. 10017; 212-286-9292.

APRIL 29-MAY 1. Collection Procedures Institute seminar in Brookfield, Wis., sponsored by the International Foundation of Employee Benefit Plans; $555 for members; $630 for non-members. IFEBP, P.O. Box 69, Brookfield, Wis. 53008-0069; 414-786-6700.

APRIL 29-MAY 1. Pension Consultants Conference in Kiawah Island, S.C., sponsored by Charles D. Spencer & Associates Inc.; $525; $450 for subscribers to a Spencer newsletter. Spencer & Associates, 250 S. Wacker Drive, Suite 600, Chicago, Ill. 60606-5834; 312-993-7900.

MAY

MAY 1. Maximizing Coverage; Minimizing Costs seminar co-sponsored by The Society of Chartered Property & Casualty Underwriters and the Maine Chapter; $145. Bonnie Kinsley, Continuing Education Coordinator, The Society of CPCU, 720 Providence Road, P.O. Box 3009, Malvern, Pa. 19355-0709; 215-251-2735.

MAY 1. EPA workshop in Springfield, sponsored by the Illinois State Chamber of Commerce; $120 for chamber members; $180 for non-members. **Also May 14** in Chicago. Center for Business Management, 20 N. Wacker Drive, Chicago, Ill. 60606; 312-372-7373.

MAY 1-3. The Insurance Accounting and Statutory Statement Preparation Conference in New York City, sponsored by Executive Enterprises Inc.; $1,045. Executive Enterprises Inc., 22 W. 21st St., New York, N.Y. 10010-6904; 800-831-8333; 212-645-7880.

MAY 1-3. Qualified Plans: A Comprehensive Introduction seminar in New York City, sponsored by TPF&C Professional Development Institute; $950. **Also July 17-19** Dallas; **Sept. 11-13** in Washington, D.C.; **Oct. 23-25** in Chicago; **Nov. 20-22** in Boston. TPF&C, 800-253-8732.

MAY 1-3. Hazardous Waste Litigation course in Washington, D.C., sponsored by Federal Publications Inc.; $925; add $25 for registration fewer than two weeks prior to course. **Also June 19-21** in Coronado, Calif. FPI., 1120 20th St. N.W., Washington, D.C. 20036; 202-337-7000.

MAY 2-3. Financial Reinsurance for Life Insurance Companies conference in New York City, sponsored by Executive Enterprises Inc.; $1,045. Executive Enterprises Inc., 22 W. 21st St., New York, N.Y. 10010-6904; 800-831-8333; 212-645-7880.

MAY 5-7. Aviation Insurance Assn. 1991 Conference in Savannah, Ga., sponsored by the AIA; $225 for AIA members; $400 for non-members; $90 for spouses; add $50 for on-site registration. Robert D. Cannon, Executive Director, AIA, P.O. Box 245, Bellevue, Wash. 98009; 206-822-8176.

MAY 5-8. Government Intervention: A Fact of Life in the '90s workshop in St. Petersburg Beach, Fla., sponsored by the Alliance of American Insurers; $130 for members only. Charles Stonehill, Alliance of American Insurers, 1501 Woodfield Road, Suite 400 W., Schaumburg, Ill. 60173-4980; 708-330-8595.

MAY 6-7. Air Toxics Regulation Conference: 1991 in Seattle, sponsored by Executive Enterprises Inc.; $1,045. Executive Enterprises Inc., 22 W. 21st St., New York, N.Y. 10010-6904; 800-831-8333; 212-645-7880.

MAY 6-8. Washington Legislative Update seminar in Washington, D.C., sponsored by the International Foundation of Employee Benefit Plans; $555 IFEBP members; $630 non-members. IFEBP, P.O. Box 69, Brookfield, Wis. 53008-0069; 414-786-6700.

MAY 6-8. Introduction to Infrared Thermography and Infrared Nondestructive Inspection in Dallas, sponsored by American Risk Management Corp.; $995, discounts are available. **Also June 10-12** in Atlanta. American Risk Management Corp., 1 Independence Place, Suite 500, 4807 Rockside Road, Cleveland, Ohio 44131; 216-447-1600.

MAY 7. Workers Compensation—Issues in the '90s seminar in Latham, N.Y., co-sponsored by The Society of Chartered Property & Casualty Underwriters and the Northeastern New York Chapter; $75 for society members; $85 for non-members. Bonnie Kinsley, Continuing Education Coordinator, The Society of CPCU, 720 Providence Road, P.O. Box 3009, Malvern, Pa. 19355-0709; 215-251-2735.

MAY 7. Regional Conference in Chicago, co-sponsored by the Profit Sharing Council of America and the Midwest Benefits Council; $195 for PSCA and MBC members; $245 for non-members. PSCA, 312-372-3411.

MAY 7. Maximizing Coverage; Minimizing Costs seminar in Clarks Summit, Pa., co-sponsored by The Society of Chartered Property & Casualty Underwriters and the Northeastern Pennsylvania Chapter; $125 for society members; $145 for non-members. Bonnie Kinsley, Continuing Education Coordinator, The Society of Chartered Property & Casualty Underwriters, 720 Providence Road, P.O. Box 3009, Malvern, Pa. 19355-0709; 215-251-2735.

MAY 7-8. Claims Conference in Boston, co-sponsored by the National Assn. of Independent Insurers, the Alliance of American Insurers and the American Insurance Assn.; $175 for members; $250 for non-members. John Eager, NAII, 708-297-7800; Charles Berryman, AAI, 708-330-8564; Janet Beckman, AIA, 202-828-7154.

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The Datebook is compiled from notices sent to Business Insurance. Notices should be sent at least eight weeks in advance to Datebook, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611-2590. Please include the price, if any, of the meeting and information on registration for interested readers. Business Insurance reserves the right to select meetings of most interest to its readers and cannot guarantee that notices will be printed.

Work crew blamed in office fire

PHILADELPHIA—Spontaneous combustion of oil-soaked rags that a work crew stored improperly caused the massive One Meridian Plaza fire in Philadelphia Feb. 23-24, fire authorities allege.

City fire officials and investigators from the U.S. Bureau of Alcohol, Tobacco and Firearms concluded last week that the crew, employed by F.X. Griffin Co. of Manayunk, Pa., left rags soaked with linseed oil in unapproved containers in an unoccupied office just hours before the fire started.

Paint thinner and other flammable materials near the rags helped fuel the fire, said Lt. Jack Christmas of the Philadelphia Fire Department. The city fire code requires that flammable solvents and rags be stored in approved fire-proof containers, he noted. The crew had been refinishing wood paneling in the 22nd floor offices of reinsurance broker Balis & Co.

An investigation continues, but Griffin will probably not be charged with criminal negligence, said a spokeswoman for the Philadelphia County District Attorney.

Griffin has an unlisted telephone number and could not be reached.

The fire department also is still trying to determine why the building's primary and two backup electrical systems malfunctioned, hindering firefighting capabilities.

Three firefighters were killed and 12 others were injured battling the 19-hour blaze, which destroyed eight of the building's 38 floors. The fire is considered one of the worst high-rise office building fires in U.S. history (*BI*, March 4). The building is still closed.

As of late last week, eight suits seeking class-action status had been filed in Philadelphia County Court against building owner E/R Associates Inc., its liability insurers and several safety contractors that inspected the building's emergency electrical and water systems.

The owners have at least $100 million of liability insurance, led by Aetna Casualty & Surety Co. Aetna also is the sole writer of the owners' $1 billion blanket property policy (*BI*, March 18).

Insurance fraud

Continued from page 1
unit was not formed in response to a perceived groundswell of fraud.

"It would be incorrect to suggest there is some sort of epidemic," he said.

"You have the potential for white-collar fraud. We are trying to have people on hand who are familiar with the insurance industry so that if we have a case, we can prosecute," the spokesman explained.

"The idea behind this is not to be caught short," he said. "This is more a monitoring effort than anything else."

The anti-fraud initiative follows congressional criticism of the Justice Department's handling of savings and loan fraud cases, as well as two years of mounting concern about insurer solvency.

Fraud was a major theme in a 1990 report on the causes of several large failures by the House Oversight & Investigations Subcommittee, chaired by Rep. John D. Dingell, D-Mich. (*BI*, Feb. 26, 1990).

In a recent discussion draft outlining a possible federal role in insurance regulation, the subcommittee proposed—among other things—a federal insurance fraud statute modeled on federal bank fraud laws. The statute would make "looting an insurance or reinsurance company through mismanagement" a federal crime, according to the discussion draft.

Meanwhile, regulatory and industry observers expect the National Assn. of Insurance Commissioners also to develop a proposal for a federal insurance fraud statute at their meeting in Charleston, W.Va., this week.

NAIC's Ad Hoc Solvency Committee is scheduled to address federal criminal sanctions for fraud along with other solvency regulation issues.

James Long, the NAIC's president and North Carolina insurance commissioner, said he hopes to have a draft of the insurance fraud statute worked out "in concept if not in detail" at the meeting.

In addition to making theft from an insurance company a federal crime, the NAIC proposal might include an expansion of the federal Racketeer Influenced and Corrupt Organizations law to specifically cover insurance fraud, Mr. Long said.

Mr. Long is scheduled to testify April 24 before the Senate Permanent Subcommittee on Investigations, which is examining insurer solvency issues.

Meanwhile, other regulators and industry observers generally applaud the Justice Department's interest in prosecuting insurance fraud.

"That's great. To the extent they do anything, we would be supportive," said John B. Chesson, counsel to the House Oversight & Investigations Subcommittee.

'To the extent (the NAIC) does anything, we would be supportive,' says John B. Chesson.

"We are trying to improve the laws under which they operate so they have more options," Mr. Chesson added, referring to the subcommittee's possible new insurance fraud statute.

"It's long been troubling for regulators to uncover cases of insurance fraud and then not have anybody all that excited about pursuing them," observed William McCartney, Nebraska insurance director and NAIC vp.

"It will be a great benefit to us on the regulatory side," Mr. Long said, pointing to the success of joint efforts of the Department of Labor and state regulators to prosecute fraudulent multiple employer welfare arrangements (*BI*, March 18).

One concern Mr. Long raised, though, is the possibility that six Justice Department lawyers may not be enough to handle the case load. "There is a lot more than that small staff can handle," Mr. Long predicted. "We'll have a lot of business to send them."

Joel Wood, assistant vp-government affairs with the National Assn. of Professional Insurance Agents in Washington, D.C., echoed others' support of both the Justice Department effort and the prospects for a new insurance fraud statute.

"As agents, it's in our long-term interest that the kind of horror stories the Dingell committee uncovered are not repeated," Mr. Wood said.

"I welcome it," Gregory A. Allgeier, president of the American Assn. of Managing General Agents, said of the Justice Department unit. "Maybe this is a step in the right direction."

Mr. Allgeier, who also is president of Bolton & Co., a Louisville, Ky.-based managing general agency, added that the NAIC and state regulators should be granted immunity from defamation lawsuits arising from any information they might pass on to federal investigators.

Thomas O'Day, associate vp with the Alliance of American Insurers in Washington, D.C., offered more qualified support for the Justice Department initiative.

"On the face of it, this might give state regulators and guaranty funds some help," he observed.

While saying he has no objection to the unit pursuing "the few, but bad, apples out there," Mr. O'Day raised the specter that overaggressive federal prosecutors might pursue criminal charges in cases that amount only to mismanagement rather than outright fraud.

"We certainly would not want to see it used as RICO is being used, to abuse people," Mr. O'Day cautioned.

"Fraud is a cost that can increase insurance costs. If this unit is going to help get at fraud, it would certainly be a welcome development," said Charles Taylor, assistant vp-government affairs for the National Assn. of Independent Insurers in Washington, D.C.

Regarding the possibility of a federal insurance fraud statute, Mr. Taylor pointed out that ground may already be covered by federal mail and wire fraud statutes, state anti-fraud laws and RICO. "It makes one question if additional laws are necessary," he said. ■

Workers comp reserves

Continued from page 2
2.67-to-1 in 1990, according to A.M. Best Co.

Already in a number of states, Liberty Mutual is "very carefully" assessing its current underwriting practices and whether it should renew business it now writes, Mr. Mattera said.

In addition, The Seibels Bruce Group Inc. of Columbia, S.C., announced last week that it was restating its 1990 earnings to reflect a $6 million addition to the company's loss reserves.

Part of the reason is the additional reserves ordered by the national workers compensation reinsurance pool.

"This is a further example of the volatility of the workers compensation line of insurance and another confirmation of our decision to restrict our workers compensation writings," company executives said in a letter to shareholders.

Meanwhile, American International Group Inc. of New York, the second-largest workers comp insurer in the nation, announced last week that it has ceased writing new workers comp policies in Texas and "will selectively renew only certain risks."

AIG subsidiary National Union Fire Insurance Co. of Pittsburgh, Pa., which writes nearly all of AIG's Texas workers comp business, wrote 60 policies in Texas last year that generated $224.1 million in direct earned premium, said an insurance department spokesman in Texas.

That was up significantly from the $174.8 million in earned premium written in 1989. That made National Union the state's fourth-largest workers comp insurer with about 5% of the market.

"This decision is based on the well-known and considerable problems in that state's workers compensation system," AIG said in a statement.

"The passage of Texas State Senate Bill 1 last year, while increasing benefits for workers, failed to resolve any of these problems," the company said (*BI*, Nov. 26, 1990).

AIG's pullout could put more pressure on the Texas residual market, says Steve Millikan.

In addition, the situation has been made more difficult by legal challenges to the cost-saving provisions that were included in S.B. 1, AIG said.

AIG's pullout is likely to "put new and more pressures on the residual market in Texas," said Steve Millikan, vp-workers comp for the Alliance of American Insurers in Schaumburg, Ill.

In 1989, the Texas Workers' Compensation Insurance Facility, the state's assigned risk pool, wrote coverage for 90,278 risks and collected $1.2 billion in workers comp premium, or 24.5% of the state's total market.

AIG's action will reduce the availability of coverage in the voluntary market and also will reduce future funding for Texas' residual market, Mr. Millikan said.

"It would not be surprising if other companies came to the same conclusion," he said.

But it may not be easy. Companies could find their ability to stop writing workers comp insurance in Texas reduced by a legislative proposal that requires insurance companies doing business there to offer all lines of coverage (*BI*, March 11).

AIG is not the first insurer to withdraw from the Texas workers comp market. USF&G Corp. announced last month that it would stop writing most lines of coverage —including workers compensation —in the state (*BI*, March 18).

And Texas Employers Insurance Assn., once the state's largest work comp insurer, was placed in receivership early this year.

Meanwhile, some Texas workers comp insurers apparently have been trying to recoup increased costs by adding unauthorized fees and charges to employers' premiums in violation of state law, Phil Barnes, the state insurance commissioner, said last week in a directive sent to insurers.

He ordered a halt to such practices and emphasized that penalties could be imposed if any insurer charges more than the state-approved rates for workers comp coverage. ■

Update

Italian maritime disaster

Continued from page 2
and dispersion" coverage led by Unione Mediterranea di Sicurta in Genoa, a unit of Assicurazioni Generali S.p.A. Forty percent of the coverage was reinsured through Willis Faber & Dumas Ltd. and led at Lloyd's of London by syndicates managed by Tyser & Co.

The Moby Prince's liability insurance, written by Generali, covers claims from both passengers and crew members up to $1.5 million. Above that layer, Standard Protection & Indemnity Assn. (Bermuda) Ltd. provided $1.6 million in liability coverage and the International Group of P&I Clubs covered the next $10.4 million.

Relatives of the 67 crew killed and the one survivor will be compensated by the Cassa Maritina, a state-sponsored insurance scheme. Italian law also allows them to sue the ship owners for damages. Relatives of the 72 passengers who perished can seek compensation only from the owners.

The hull coverage for the AGIP Abruzzo was placed with Unione Italiana di Riassicurazione S.p.A. of Rome, which reinsured a "substantial proportion" of the risk in London through Robert Fleming Insurance Brokers Ltd.

The tanker's liability coverage was placed with Assuranceforeningen Skuld Gjensidig of Oslo, Norway.

However, as the tanker was properly anchored, Skuld will probably seek recourse for any claims against it from the Moby Prince owners, according to Michael Thorp, deputy director of the protection and indemnity insurer.

Proposed Proposition 103 rules

LOS ANGELES—A Los Angeles County Superior Court judge last week denied a petition by 84 insurers to halt "generic" hearings on new regulations proposed by Insurance Commissioner John Garamendi to implement Proposition 103's 20% insurance "charge" rollback.

But, Judge Dzintra Janavs ruled that insurers that seek relief from rollback orders based on regulations stemming from the generic hearings are entitled to extensive hearings.

The judge ruled that the implementation regulations issued by former Commissioner Roxani Gillespie in June 1990 were not final and that Mr. Garamendi has the authority to issue new rules.

Ms. Gillespie set a benchmark 11.2% rate of return on all insurers' combined business between November 1987 and November 1988 for determining rollbacks (*BI*, June 18, 1990). But, in January, Mr. Garamendi announced new proposed regulations on implementing Proposition 103 and a schedule of written filings and limited testimony hearings on his proposal (*BI*, April 1; Jan. 14).

Insurers petitioned to halt the generic hearings, which are scheduled to begin next month, arguing that Mr. Garamendi has no power to reconsider issues that his predecessor had decided and that Proposition 103 required adjudicatory hearings on implementing the law.

Judge Janavs ruled the generic hearings can proceed but that insurers seeking exemption from rollback orders must be granted adjudicatory company-specific hearings. These hearings allow sworn testimony, cross-examination and independent review by a superior court judge. Mr. Garamendi had proposed less extensive hearings.

Insurers have not decided whether they will appeal.

Insurer solvency ratings offered

NEW YORK—Standard & Poor's Corp.'s Insurance Rating Services today is introducing a service called Insurer Solvency Review to rate insurers' solvency based on data from insurers' annual statements and gathered by the National Assn. of Insurance Commissioners.

Qualified ratings range from a low of "Bq" to a high of "BBBq." S&P officials assigned ratings only in the B range because they have not had the opportunity to study the companies in greater depth.

The ratings for 1,600 insurers have been published in two volumes, one for property/casualty insurers and another for life/health insurers. The books, which cost $75 apiece, also include S&P ratings of 450 additional insurers whose financial data was studied in greater depth because they requested claims-paying ability ratings from S&P.

Briefly noted

International Business Machines Corp. reported a first quarter loss—its first quarterly loss ever—of $1.73 billion because of a $2.26 billion charge against earnings to recognize accumulated **retiree health liabilities**. IBM earlier said it would recognize those liabilities at once rather than amortize them as allowed under a new Financial Accounting Standards Board rule (*BI*, April 1). . . .Former California Insurance Commissioner **Roxani Gillespie** has joined the Los Angeles law firm Buchalter, Nemer, Fields & Younger as a partner. Ms. Gillespie's practice will be in insurance and business law. . . . **Alyeska Pipeline Service Co.**, a consortium of seven major oil companies, including Exxon Corp., secretly scaled back its oil spill response plan without the approval of the state or federal government, charges U.S. Rep. George Miller, D-Calif. Rep. Miller's comments were contained in a letter filed in response to the $1.1 billion settlement reached between the state of Alaska and the Dallas-based oil company (*BI*, March 18). Alyeska could not be reached, and Exxon declined to comment. . . .**Idaho Insurance Commissioner** Anthony J. Fagiano resigned March 21 for health reasons. George J. Neumayer, deputy director of the Idaho Department of Transportation, has been named acting insurance commissioner. . . .Wind, hail, tornados and flooding caused an estimated **$70 million of insured property damage** to parts of the Southeast March 28-29, reports the Property Claim Services division of the American Insurance Services Group. Georgia sustained the most damage, $30 million, followed by Alabama, $25 million, North Carolina, $10 million and South Carolina, $5 million. . . .The 9th U.S. Circuit Court of Appeals refused a request by entertainer **Wayne Newton** to reinstate a $5.3 million libel award against the National Broadcasting Co. for 1980 and 1981 broadcasts that tied Mr. Newton to organized crime. Mr. Newton appealed the award because a judge reduced it from a $22.8 million jury award (*BI*, Jan. 23, 1989). The 9th Circuit overturned the reduced award last summer, saying the broadcasts, among other things, lacked malicious intent (*BI*, Sept. 3, 1990).

Fronting proposal

Continued from page 3

• Intercompany reinsurance pooling arrangements or other "joint underwriting or joint reinsurance" subject to state regulation.

• Other arrangements that are approved by the appropriate state insurance commissioner, or are approved by the insurance commissioner in the fronting insurer's domiciliary state, as long as the state is accredited by the NAIC.

Only New York and Florida are now accredited, but many other states are seeking or planning to seek NAIC accreditation.

"I think the upcoming spring meeting in Charleston is going to cause as much controversy as the December meeting in Louisville," when the original proposed fronting law was introduced, said Gregory Allgeier, president of Bolton & Co. in Louisville and president of the American Assn. of Managing General Agents, who served on an an NAIC-appointed industry advisory committee formed after the fronting proposal was first issued.

Members of the advisory committee have a "very negative" initial reaction to the regulators' new draft, said committee member Robert Zeman, assistant general counsel of the National Assn. of Independent Insurers in Des Plaines, Ill.

The advisory committee essentially had recommended to the working group last month that the NAIC should adopt stricter reporting, disclosure and related requirements for fronting arrangements instead of banning most fronting arrangements.

The advisory committee contended their proposal would give regulators the information they need to decide which fronting arrangements to more closely scrutinize.

"The (regulators') draft is nothing more than a regurgitation of what the regulators released last year," said Paul Brown, director of governmental affairs for the Risk & Insurance Management Society Inc. in New York, who served on the advisory committee.

If the regulators' latest discussion draft were adopted as written, it would cause "a crisis" because "it would turn most risk managers' insurance arrangements upside down," Mr. Brown said.

"I was disappointed" with the regulators' new draft, said advisory committee Chairman Edmond Rondepierre, senior vp, general counsel and secretary of General Reinsurance Corp. in Stamford, Conn.

The new draft remains "unworkable" because it contains many of the same drafting errors that plagued the regulators' original proposal, he said. For example, fronting is not adequately defined and the current version appears to require that any insurer that wants to obtain facultative reinsurance through a non-admitted reinsurer for an individual risk must obtain the approval of every state in which the insurer is licensed.

In addition, he emphasized that the industry advisory committee worked hard to keep regulators informed about the progress of their discussions, including inviting regulators to attend committee drafting meetings, although none did.

The exemption for some fronting programs reinsured by captives is "a step in the right direction, but it doesn't go nearly far enough," Mr. Brown noted.

For example, the exemption as currently written would not apply to most fronting arrangements in which RIMS' members participate, Mr. Brown said. The majority of RIMS members that participate in fronting arrangements do not use their own captives to provide the reinsurance, he explained.

"The (regulators') draft is nothing more than a regurgitation of what (they) released last year,' says Paul Brown of RIMS.

And those that do may have trouble meeting the minimum net worth requirement because $50 million is an "extremely large" amount, said Lucille Gallagher, vp-risk management for Monfort Inc. in Greeley, Colo., and RIMS' vp-governmental affairs. "I think there are quite a few policyholders that would not meet that criteria."

RIMS does not believe that there should be any net worth "benchmark," Mr. Brown said.

In addition, the draft raises questions about whether arrangements like paid-loss retrospectively rated programs would be allowed, Ms. Gallagher said.

And, the requirement that a policyholder agrees to indemnify the fronting insurer for any obligations not paid by the captive also is likely to be "a real bone of contention" for risk managers, the NAII's Mr. Zeman predicted.

The current draft of the proposed model fronting law generally would prohibit fronting programs, subject to the three exceptions, by stating that no licensed insurer could:

• Cede any business to an unlicensed or unaccredited insurer that is domiciled in a jurisdiction whose laws prohibit disclosure of ownership in regard to assets or prohibit the reporting of financial transactions.

• Cede more than 50% of the risk on a piece of business to a non-admitted reinsurer that has authority over underwriting, marketing or policy services like claims handling.

• Cede business to a non-admitted reinsurer that controls, or is controlled by or affiliated with, a policyholder, producer or other person that controls the business.

• Cede business to a non-admitted reinsurer designated by the policyholder, producer or another controlling person.

In addition, the new proposal would require that an insurer receive regulatory approval before it could cede to a non-admitted reinsurers premiums exceeding 50% of its previous year's gross written premium volume.

That's "an impractical constraint," said RIMS' Mr. Brown.

Such provisions "put a straightjacket on admitted (insurance) companies" and makes them less able to compete with non-admitted insurers, said Patrick J. Foley, vp and associate general counsel with American International Group Inc. in New York.

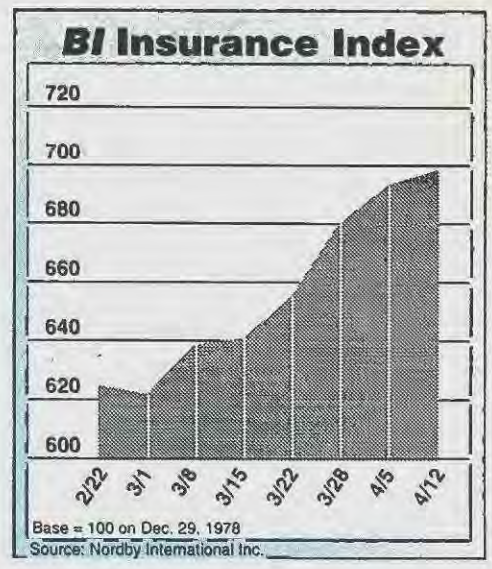
However, Mr. Zeman said the exemption for intercompany pooling arrangements contained in the new proposal, which insurance industry officials had recommended, "represents a significant step forward," especially for the small and medium-sized insurers that belong to the NAII.

The regulators' new draft also would establish minimum contract provisions for agreements with non-admitted reinsurers as well as requirements for reporting and maintaining records, many of which were recommended in either the advisory committee's majority proposal or in a minority report from Francis T. Donahue, a former regulator now associated with reinsurance intermediary John P. Woods Co. Inc. in New York.

"Some of the minimum contract provisions are worthwhile additions, said AIG's Mr. Foley.

Nevertheless, the regulators' new draft "clearly shows we have quite a way to go," said NAII's Mr. Zeman.

The working group expects that the NAIC will adopt a final version of the model law in June, according to Vincent Laurenzano, chief of the New York Insurance Department's property companies bureau and acting chairman of the NAIC working group that is studying the issue. ■



Insurance industry stocks slowed their climb last week as the *Business Insurance* Index rose 6.2 points to 699.5 on April 12, from 693.3 on April 5. Advancing issues for the week were led by USF&G Corp., up 18.8%; Safeguard Health Enterprises, up 14.6%; and Seibels Bruce Group, up 10.0%. Declining issues for the week followed Frontier Insurance Group, down 9.7%; Lawrence Insurance Group, down 5.9%; and Selective Insurance Group, down 5.9%. The most active issue for the week was Fund American Corp., with 9.1 million shares traded. The *BI* Index was up 0.9%; The Standard & Poor's 500 climbed 1.3%; the Dow Jones 30 Industrials were up 0.8%; and the New York Stock Exchange Composite rose 1.2%.

British Issues

April 11 Companies	Price pence	P/E	Div. pence	Yield %	1 Week High—Low pence	pence
Comml Union	529	N/M	30.7	5.8	531—	529
Genl Accident	560	N/M	35.7	6.4	560—	552
Gdn Royal Exch	221	N/M	15.9	7.5	212—	210
Royal	460	N/M	34.7	7.5	460—	448
Sun Alliance	383	N/M	18.7	4.9	395—	383
Brokers						
Bradstock	154	17.5	6.0	3.9	158—	154
CE Health	525	15.5	34.5	6.6	530—	525
Hogg Group	194	11.8	10.7	5.5	196—	193
Lloyd Thompson	364	24.2	10.0	2.7	365—	364
PWS Holdings	90	11.0	4.7	5.2	94—	90
Sedgwick Grp	266	25.6	16.0	6.0	270—	263
Steel Brrl Jones	298	15.5	16.3	5.5	310—	298
Willis Corroon	328	17.4	17.6	5.4	329—	323

Source: Philip Olsen, Insurance Industry Analyst London

BI Industry Stock Report

APRIL 8, 1991 THROUGH APRIL 12, 1991

		Price	Weekly % change	Year to Date % change	Annual High	Annual Low	Vol.(000)	$ Div.	% Yield	P/E	Book value	Mkt/Bk. value
BROKERS												
Alexander & Alexander	NYS	26.88	3.86	16.22	28.88	16.13	214	1.00	3.72	20	9.18	2.93
Gallagher Arthur J. & Co.	NYS	26.00	-4.59	11.83	28.38	19.75	28	0.64	2.46	19	5.33	4.88
Frank B. Hall	NYS	3.50	0.00	-3.45	4.13	2.00	59	0.00	0.00	-7	-2.80	-1.25
Hilb, Rogal & Hamilton	OTC	16.25	-4.41	10.17	16.50	11.25	234	0.36	2.22	22	4.60	3.53
Marsh & McLennan	NYS	83.75	-0.45	7.37	87.25	59.75	486	2.60	3.10	20	10.56	7.93
Poe & Associates	OTC	10.75	7.50	34.38	12.75	7.75	164	0.40	3.72	10	2.40	4.48
BROKERS	AVERAGE		0.3	10.9					2.2	12		
CONGLOMERATES & HOLDING COMPANIES												
Berkley W.R. Corp.	OTC	45.00	-0.55	20.00	46.50	28.50	171	0.48	1.07	15	25.06	1.80
Berkshire Hathaway Inc.	NYS	8000.00	-0.31	19.85	8900.00	5675.00	0	0.00	0.00	-26	2869.00	2.79
ITT (Hartford Group)	NYS	57.25	-1.03	19.27	60.88	40.25	606	1.72	3.00	8	56.33	1.02
Sears (Allstate)	NYS	36.63	8.92	44.33	38.63	22.00	4906	2.00	5.46	14	37.75	0.97
CONGLOMERATES	AVERAGE		1.7	25.9					2.4	3		
INSURERS/REINSURERS												
Aetna Life & Casualty	NYS	47.00	-0.75	20.51	54.38	29.00	1028	2.76	5.87	9	58.11	0.81
American General	NYS	40.63	1.56	32.11	50.63	23.50	1289	2.00	4.92	9	34.68	1.17
American Heritage	NYS	23.13	2.78	10.12	24.38	19.63	12	1.00	4.32	11	22.60	1.02
American Indemnity/Fin'l	OTC	6.50	0.00	100.00	7.00	2.75	0	0.08	1.23	-20	17.38	0.37
American International	NYS	98.75	0.00	28.46	102.00	57.00	1102	0.44	0.45	14	41.92	2.36
Aon Corp.	NYS	38.25	0.66	10.07	41.38	26.75	232	1.60	4.18	11	19.62	1.95
Argonaut Group	OTC	93.00	8.14	45.31	95.00	53.00	46	1.60	1.72	9	36.83	2.53
AVEMCO Corp.	NYS	33.50	8.94	32.67	32.75	21.13	33	0.44	1.31	21	9.52	3.52
Baldwin & Lyons Inc.	OTC	25.25	3.06	34.67	24.88	17.00	10	0.28	1.11	9	20.80	1.21
Belvedere Corp.	ASE	3.00	9.09	20.00	4.63	1.75	19	0.04	1.33	75	8.03	0.37
Chandler Insurance	OTC	4.00	-3.03	-41.82	9.25	2.75	26	0.00	0.00	-5	9.53	0.42
Chubb Corp.	NYS	70.13	-4.10	29.26	75.25	34.63	994	1.48	2.11	12	55.49	1.26
CIGNA Corp.	NYS	53.63	3.87	31.19	55.50	33.25	824	3.04	5.67	11	66.64	0.80
CNA Financial Corp.	NYS	86.63	3.59	26.23	92.50	49.50	118	0.00	0.00	15	54.87	1.58
Continental Corp.	NYS	28.75	0.88	15.58	31.38	15.75	381	2.60	9.04	11	41.36	0.70
Durham Corp.	OTC	28.13	4.17	0.45	34.00	23.00	37	0.92	3.27	14	26.32	1.07
Fund American Corp.	NYS	64.00	1.99	23.37	63.00	29.50	9093	0.68	1.06	26	32.74	1.95
Fremont General Corp.	OTC	21.00	3.70	44.83	22.13	10.13	328	0.80	3.81	7	19.09	1.10
Frontier Insurance Group	NYS	22.13	-9.69	16.45	33.00	15.38	30	0.00	0.00	9	7.29	3.03
General RE Corp.	NYS	99.00	-1.12	6.45	102.50	69.00	514	1.68	1.70	14	29.04	3.41
Hanover Insurance Co.	OTC	28.50	-5.79	7.55	30.75	21.00	49	0.44	1.54	11	32.03	0.89
Harleysville Group	OTC	29.25	0.00	27.87	31.50	13.50	6	0.64	2.19	9	18.94	1.54
Hartford Steam Boiler	NYS	61.25	2.30	25.64	62.25	43.50	51	1.80	2.94	16	18.94	3.23
Kansas City Life Ins.	OTC	34.50	1.47	11.74	36.50	30.00	3	1.20	3.48	9	39.22	0.88
Kemper Corp.	NYS	36.25	0.69	52.63	43.13	17.13	180	0.92	2.54	139	29.97	1.21
Lawrence Insurance Group	ASE	8.00	-5.88	14.29	9.00	6.38	2	0.48	6.00	13	4.40	1.82
Liberty Corp.	NYS	42.13	-0.30	2.43	50.25	39.00	36	0.92	2.18	14	31.82	1.32
Lincoln National	NYS	52.13	-1.42	21.22	56.50	30.75	199	2.72	5.22	12	49.19	1.06
NAC Re Corp.	OTC	42.00	5.66	27.27	42.25	25.50	244	0.20	0.48	18	22.81	1.84
Navigators Group	OTC	48.00	6.67	46.56	48.00	24.75	6	0.00	0.00	18	15.22	3.15
Nobel Insurance LTD.	OTC	3.88	6.90	29.17	4.38	2.38	31	0.00	0.00	-	7.76	0.50
NWNL Companies	NYS	28.88	-5.71	71.11	34.50	11.75	296	1.32	4.57	6	37.50	0.77
Ohio Casualty Corp.	OTC	44.75	5.29	9.15	46.50	26.75	180	2.48	5.54	10	33.30	1.34
Old Republic Int'l	NYS	28.25	0.89	23.50	28.63	17.38	182	0.68	2.41	7	30.70	0.92
Orion Capital Corp.	NYS	25.38	5.73	45.00	25.25	13.00	80	0.92	3.63	9	19.72	1.29
Phoenix RE Corp.	OTC	9.25	5.71	19.35	11.25	5.00	47	0.20	2.16	116	12.99	0.71
Protective Life Corp.	OTC	19.50	9.86	31.09	18.75	10.25	200	0.76	3.90	9	14.54	1.34
Provident Life	OTC	22.75	-3.19	30.00	26.25	12.00	214	0.92	4.04	6	23.24	0.98
Re Capital Corp.	ASE	16.88	-2.17	31.07	17.38	11.75	17	0.00	0.00	12	14.43	1.17
RLI Insurance Corp.	NYS	15.63	1.63	7.76	16.38	9.63	39	0.44	2.82	8	12.42	1.26
St. Paul Companies	OTC	71.25	-3.06	13.55	74.25	47.00	784	2.60	3.65	8	43.47	1.64
SAFECO Corp.	OTC	42.50	0.89	29.28	42.75	25.13	1201	1.36	3.20	10	24.87	1.71
SCOR U.S. Corp.	NYS	14.38	4.55	16.16	15.25	8.38	21	0.24	1.67	10	10.61	1.35
Seibels Bruce Group	OTC	8.25	10.00	94.12	11.75	4.25	196	0.36	4.36	-17	13.75	0.60
Selective Ins. Group	OTC	16.00	-5.88	20.75	18.25	12.50	224	1.04	6.50	6	15.72	1.02
Statesman Group Inc.	OTC	2.69	2.40	71.98	3.00	1.25	101	0.00	0.00	-16	4.19	0.64
Tokio Marine & Fire	OTC	49.88	-0.75	5.56	56.50	34.50	13	0.26	0.52	-	70.93	0.70
Torchmark Corp.	NYS	55.75	-4.09	14.07	58.50	38.00	262	1.40	2.51	13	13.23	4.21
Transamerica	NYS	34.75	0.00	6.51	41.00	23.25	782	1.96	5.64	11	34.63	1.00
Traveler's Corp.	NYS	24.25	-0.51	45.86	33.25	11.50	869	1.60	6.60	-13	44.85	0.54
Trenwick Group Inc.	OTC	29.50	2.61	27.57	29.50	16.25	403	0.60	2.03	12	16.91	1.74
United Fire & Casualty	OTC	53.50	0.94	52.31	58.00	28.75	7	1.32	2.47	9	22.56	2.37
USF&G Corp.	NYS	11.88	18.75	58.33	29.25	7.00	6899	0.20	1.68	-2	22.87	0.52
UNUM Corp.	NYS	68.25	1.49	46.38	68.25	32.13	221	0.80	1.17	13	31.20	2.19
USLIFE Corp.	NYS	38.00	-1.30	35.71	41.75	23.25	214	1.64	4.32	9	54.34	0.70
Unitrin	OTC	39.75	6.00	29.27	40.25	24.50	288	0.80	2.01	17	33.99	1.17
Washington National	NYS	14.00	1.82	28.74	22.63	9.38	85	1.08	7.71	-15	32.90	0.43
USLICO Corp.	NYS	18.63	0.68	17.32	22.38	14.75	36	1.00	5.37	8	27.73	0.67
Zenith National Ins.	NYS	17.50	0.00	28.44	18.25	9.88	40	1.00	5.71	-34	13.81	1.27
INSURERS/REINSURERS	AVERAGE		1.7	29.2					3.1	12.8		
HEALTH MAINTENANCE ORGANIZATIONS												
FHP International	OTC	26.25	-4.55	72.13	29.75	8.88	828	0.00	0.00	23	3.54	7.42
HMO America Inc.	OTC	16.13	1.57	148.08	16.38	4.25	1501	0.00	0.00	23	1.12	14.40
Pacificare Health Sys.	OTC	27.00	-3.57	66.15	29.50	12.00	239	0.00	0.00	19	6.35	4.25
Safeguard Health Enter.	OTC	6.88	14.58	44.74	7.63	4.00	73	0.00	0.00	21	2.99	2.30
Sierra Health Services	ASE	28.00	0.00	103.64	29.50	5.50	248	0.00	0.00	82	0.62	45.16
United Healthcare Corp.	OTC	41.88	2.45	80.11	43.50	9.75	2449	0.06	0.14	33	0.34	123.16
United Medical Corp.	ASE	10.63	0.00	32.81	11.38	6.63	7	0.20	1.88	14	5.70	1.86
U.S. Healthcare	OTC	49.75	-0.50	69.36	54.25	11.63	2319	0.48	0.96	31	3.07	16.21
HMOs	AVERAGE		1.2	77.1					0.4	31		
ALL COMPANIES	AVERAGE		1.5	31.5					2.6	14		

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