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Update

Petromark enters rehabilitation after failing to raise new capital

NASHVILLE, Tenn.—Petroleum Marketers Mutual Insurance Co. A Risk Retention Group—the second-largest U.S. market for underground storage tank liability coverage—has entered voluntary rehabilitation after failing to raise $18 million in new capital from policyholders.

Contributions were "well short" of the goal, said Max Clay, president of The Planning Corp. of Reston, Va., Petromark's underwriting manager. But he

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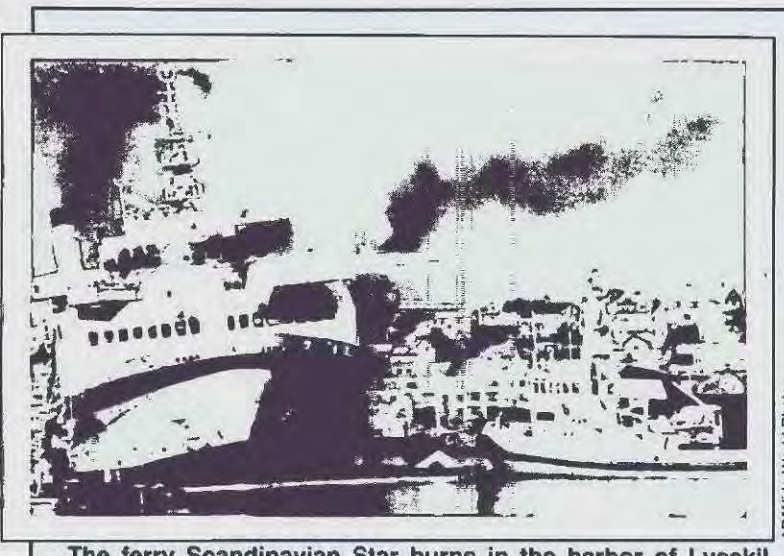

AP/Wide World Photo

The ferry Scandinavian Star burns in the harbor of Lysekil, Sweden, where it was towed after fire killed about 180 people.

Norwegian ferry fire could cost insurers $50 million in claims

By CAROLYN ALDRED

OSLO, Norway—A fire aboard a ferry off the Norwegian coast that killed about 180 people could cost insurers up to $50 million in hull and liability losses.

Police fear up to 130 people, including many children, were killed in the blaze on the Scandinavian Star ferry in the early hours of April 8.

About 500 people, including 98 crew members, were aboard the car ferry, which was traveling from Oslo to the Danish port of Frederikshavn when fire broke out in the early morning hours.

Despite a massive and immediate air and sea rescue operation coordinated from Gothenburg, Sweden, scores of people died when the fire spread rapidly throughout the ship

Many of those aboard were Norwegians traveling to Denmark for pre-Easter shopping and Danes returning to Denmark after skiing

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Maine Supreme Court denies cleanup cover

By STACY ADLER

PORTLAND, Maine—Despite pro-policyholder rulings by two other state supreme courts, Maine's high court says costs of government-ordered pollution cleanups are not covered "damages" under comprehensive general liability insurance policies.

That April 2 ruling by the Maine Supreme Judicial Court conflicts with high court decisions earlier this year in Washington and North Carolina in which hazardous waste cleanup costs were ruled covered damages (*BI*, Feb. 19; Jan. 15).

Continued conflict between state courts could create a legal "patchwork" in which lawsuits over cleanup coverage may turn on which state court hears them, attorneys say.

"There is a real possibility that there will be different decisions in a large number of states," said insurer attorney Thomas Brunner of Wiley, Rein & Fielding in Washington, D.C.

The Maine ruling "is unfortunate and disappointing," said Dave Steuber of Hill, Wynne, Troop & Meisinger, a Los Angeles firm which represents policyholders in pollution coverage litigation. He said that comprehensive general liability policies were intended to be applied uniformly.

The Washington, North Carolina and Maine supreme courts are the first to rule on insurance for hazardous waste cleanups. Supreme courts in California, Iowa, Massachusetts and Minnesota are reviewing similar cases.

Attorneys also say a ruling in California, which is seen as a leader among state courts, will be highly influential in this area.

"A (pro-policyholder) ruling from California could cause this Maine decision to be viewed as an aberration," said policyholder attorney Mr. Steuber.

The Maine ruling could influence the Supreme Court of Washington,

Continued on page 28

Wyoming commissioner allegedly bribed

Feds arrest ex-regulator

By DOUGLAS McLEOD

CHEYENNE, Wyo.—Former Wyoming Insurance Commissioner Gordon W. Taylor Jr. faces federal criminal charges that he took thousands of dollars in bribes from officials of three insurers in exchange for favorable regulatory treatment.

A criminal complaint filed April 6 in U.S. District Court in Cheyenne—believed to be the first ever against a state insurance commissioner arising from his actions in office—accuses Mr. Taylor of accepting bribes from officials of Commercial General Insurance Co. of Casper, Wyo.; Lloyd's U.S. of Dallas; and Laramie Insurance Co. of Laramie, Wyo.

Mr. Taylor granted licenses to Commercial General and Laramie after he was appointed insurance commissioner in 1986. Both insurers have since been ordered liquidated.

Lloyd's U.S. was never licensed in Wyoming but had expressed an interest in moving its operations from Texas, where it is licensed.

The complaint also charges Commercial General owner Roy E. Thigpen III and Lloyd's U.S. principal Robert Davis with conspiring to pay bribes to Mr. Taylor.

Mr. Taylor, who resigned his post in December, was arrested April 6 and released after appearing before a federal magistrate and posting a $20,000 personal recognizance bond, according to Assistant U.S. Attorney Vincent J. Horn.

Mr. Thigpen and Mr. Davis ap-

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U.S. reinsurance market not yet ready to tighten

By DOUGLAS McLEOD

NEW YORK—The U.S property/casualty reinsurance market is showing few signs of tightening despite the continuing deterioration in reinsurers' underwriting results.

While combined ratios for U.S. reinsurers climbed last year in the wake of Hurricane Hugo and other catastrophe losses, reinsurance prices have changed surprisingly little—if at all—and little firming is expected in the near future, reinsurance executives say.

The London retrocessional market already is contracting and some officials say that may eventually trigger tightening in U.S. reinsurance and direct insurance markets (see story, page 33).

However, the timing and extent of such a turn is uncertain, and some reinsurance executives say they won't believe it's happening until they see it.

"I do not see any basis for improvement at this point. There hasn't been any firming of rates," said Steven J. Bensinger, executive vp and chief financial officer for Skandia America Reinsurance Corp. in New York.

This year "will not be a good year for the reinsurance industry. It will be worse than 1989, but not bad enough to cause a change in direction" in the market, predicted Mark D. Mosca, vp-treaty underwriting with NAC Reinsurance Corp. in Greenwich, Conn.

"Things are sort of static right now," observed Michael G. Fitt, chairman and chief executive officer of Employers Reinsurance Corp. of Overland Park, Kan. "I

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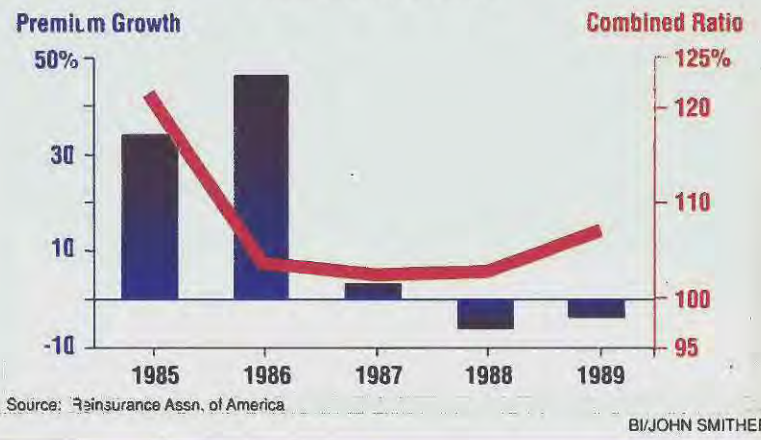
Reinsurers in doldrums

The soft market continued to plague U.S. reinsurers in 1989, as their combined ratio shot higher and premium growth remained non-existent.



Source: Reinsurance Assn. of America

BI/JOHN SMITHER

INSIDE NEWSPAPER

Court awards Owens-Illinois $960 million in asbestos cover Page 2

Wellness programs trim fat from firms' health care costs Page 3

Government, industry debate value of product liability reform Page 3

Update

Petromark enters rehabilitation

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said he did not have an exact figure. The capital had been in escrow and is being returned to the policyholders.

Petromark had set an April 9 deadline to raise the capital after two actuarial reviews found it severely underreserved (*BI,* March 26). A study by the Tillinghast division of Towers, Perrin, Forster & Crosby Inc. last month generally confirmed a Wyatt Co. report that estimated the reserve deficiency at $20 million. This shortfall would cause the risk retention group's surplus to drop from a reported $9.5 million at year-end 1989 to a deficit of $10.5 million.

Elkhorn sale ruled fraudulent

NEW YORK—Quantum Chemical Corp. says it may appeal a U.S. District Court order to pay Delta Holdings Inc. about $37.3 million in damages related to Quantum's 1983 sale of Elkhorn Re Insurance Co., now known as Delta America Re Insurance Co.

Finding that Quantum committed fraud and breached its contract with Delta Holdings by misrepresenting Elkhorn's value, U.S. District Judge John Keenan on April 10 rescinded the purchase contract and returned ownership of now-insolvent Delta America to Quantum.

The judge ordered Quantum to pay Delta Holdings $18 million to cover the purchase price, plus $13 million in interest and $6.3 million that Delta Holdings says it contributed to Delta America after the acquisition.

The court ruled that Quantum—formerly known as National Distillers & Chemical Corp.—misrepresented Elkhorn's worth during the sale and violated federal securities laws by falsifying Elkhorn's financial records.

Elkhorn was nearly insolvent in 1981, said David Klingsberg of Kaye, Scholer, Fierman, Hays & Handler, a New York law firm that represented Fort Lee, N.J.-based Delta Holdings.

Delta America was ordered into liquidation in September 1985 and is estimated to be insolvent by $150 million to $175 million (*BI,* May 15, 1989).

31.6 million uninsured: Census

WASHINGTON—More than 63.6 million Americans, or 28.1% of 226.5 million people surveyed nationwide, lacked health care insurance coverage at some time during a 28-month period between 1985 and 1987, according to a recent U.S. Census Bureau report.

The Census Bureau also found that 31.6 million people, or 13% of an estimated 243 million people surveyed, did not have any health insurance during the fourth quarter of 1988.

However, 63.1% of Americans, or about 153.3 million, received coverage from their employers; 14.4%, or about 40 million, had private health insurance; and 9.5%, or about 23.1 million, received only government health care benefits during the fourth quarter of 1988.

The report provides updated figures on the number of uninsured Americans at a time when Congress is examining several proposals designed to ensure that all Americans have some form of health care coverage. Among those measures is a bill, S. 768, introduced last year by Sen. Edward Kennedy, D-Mass. (*BI,* July 17, 1989), and the recent recommendations of the U.S. Bipartisan Commission on Comprehensive Health Care (*BI,* March 5).

Bill would ease state mandates

SPRINGFIELD, Ill.—Legislation introduced in the Illinois Legislature would reduce state-mandated health care benefits for small employers that offer their workers insured health care plans.

Under the legislation, H.B. 3323, called the Affordable Health Care Act, firms employing 150 or fewer employees would not have to offer the 22 health care benefits—including maternity and podiatry benefits—that larger employers with insured health care plans must offer. Instead, the legislation would require insured plans offered by small employers to cover hospital inpatient and outpatient care, surgery, physician care, and 20 days of inpatient mental health care and 25 outpatient mental health care visits annually.

Lifetime benefits would be $1 million per covered life.

Any employee who works at least 125 hours per month for a single employer for at least three months would be eligible for coverage, along with his or her spouse and dependents.

The legislation, if enacted, would save the average small business more than 20% of the cost of currently mandated health care coverage, said Jay Shattuck, chief operating officer for the Associated Employers of Illinois in Springfield.

Business groups, including the Illinois Manufacturers' Assn. and the National Federation of Independent Business, agree that passage of the legislation would encourage small employers to provide their employees with health care insurance.

Washington Gov. Booth Gardner has signed a law reducing mandated benefits for small employers, while Virginia Gov. L. Douglas Wilder signed a similar measure last week (*BI,* April 2; March 26).

Blame for jet accident leveled

WASHINGTON—Federal investigators blame a lack of timely corrective action by the Federal Aviation Administration, The Boeing Co. and United Air Lines Inc. for a fatal incident aboard UAL Flight 811 over Honolulu in February 1989.

The FAA, Boeing and United each had "several opportunities" to correct a cargo door locking mechanism problem that caused the door on the Boeing 747 to burst open in flight, said the National Transportation Safety Board in its final report on the accident. After

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Errors & omissions

• CIGNA Bond Services last year wrote $9 million in miscellaneous bonds, not including fidelity bonds. The company also wrote $13.8 million in fidelity bonds last year, down from $20 million in 1988 (*BI,* April 9).

Rising losses show need for comp reform: NCCI

By MICHAEL SCHACHNER

NEW YORK—Mounting losses by workers compensation insurers reflect a dire need for increased rates as well as substantial system reform, workers comp experts say.

"Workers compensation faces both long- and short-term problems that must be repaired," asserted William Watt, senior vp of Aurora, Ill.-based Royal Insurance Co. of America and outgoing chairman of the National Council on Compensation Insurance.

"Perhaps the most urgent short-term problem is the persistence of broad and chronic rate inadequacies, magnified by the burden of the involuntary market," Mr. Watt said at the NCCI's annual Issues Symposium April 4 and 5 in New York.

Mr. Watt and other conference speakers said rate inadequacy was the major reason workers comp insurers' combined ratio in 1989 hovered around 120% for the sixth straight year.

But, experts also blamed rising work comp loss ratios on increased workers comp benefits; soaring medical costs; a growing residual market, in which 21.8% of all workers comp premiums were generated last year; and costly litigation of many workers comp claims.

Conference speakers, though, emphasized the importance of conveying to state regulators that NCCI rate filings are neither capricious nor indulgent of the organization's underwriting constituency.

The NCCI files annual proposed rate changes on behalf of insurers in 36 states plus the District of Columbia (*BI,* March 19).

Other independent rating organizations perform this function in about 10 states, while several states operate monopolistic state funds that are the sole source of work comp insurance in those states.

"Our methods (for computing rate filings) follow previously agreed-upon standards, and the results are not wishful thinking but rather objective assessments of what the industry needs," Mr. Watt said.

The NCCI last year filed for average rate increases of about 15%.

However, "regulators have usually disagreed with the actuarial methodology we have used to derive our filings. In addition, more and more employer groups and consumer advocates have protested against our filings," explained Richard Jaeger, senior vp and an actuary with the NCCI.

"There's a tendency for regulators not to approve full filings because the numbers are too large. They express disbelief that the situation is that bad, and they think that if they approve some or part of the filing they can step back and wait for things to improve, but generally they don't," he said.

"Then the next time around we need what we didn't get plus what has become worse," he said.

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Agent/broker responses due soon

Business Insurance will publish its 19th annual directory of agents and brokers in the June 18 issue. This issue also will contain a spotlight report on the commercial retail insurance brokerage business and profiles of the largest brokers in the United States and around the world.

The directory is published as an editorial service and there is no charge to be listed; however, to be included brokers must request and return a questionnaire supplied by *Business Insurance.*

If your company generated at least $500,000 of its 1989 gross revenues from commercial retail brokerage and you have not yet received a questionnaire, please request one by writing Sara Harty, Editorial Assistant, *Business Insurance,* 740 N. Rush St., Chicago, Ill. 60611-2590; or by calling 312-280-3195.

The deadline for returning completed questionnaires to *Business Insurance* is May 7.

$960 million in asbestos coverage

Owens-Illinois wins dispute

By STACY ADLER

NEW BRUNSWICK, N.J.—Insurers say they will appeal a trial court ruling allowing Owens-Illinois Inc. to tap as much as $960 million in liability insurance to pay asbestos bodily injury and property damage claims.

The decision—which adopts the triple-trigger coverage theory—ranks second among policyholders' asbestos coverage victories, exceeded only by the coordinated asbestos coverage case in San Francisco, policyholder and insurer lawyers say.

In that case, California Superior Court Judge Ira A. Brown Jr. ruled that four major asbestos producers could recover tens of millions of dollars from the largest number of insurers possible (*BI,* Sept. 12, 1988; June 1, 1987).

The Owens-Illinois decision "is the largest single declaratory judgment for a single policyholder," said policyholder attorney Andrew Berry of McCarter & English in Newark, N.J., who represented the Toledo, Ohio-based manufacturer.

But the significance of the size of the award is difficult to judge because most coverage disputes are settled out of court, said policyholder attorney Jerold Oshinsky of Anderson, Kill, Olick & Oshinsky in New York.

Including settlements made through Asbestos Claims Facility—the revolutionary claims-handling organization that was dissolved in 1988—about 90% of all such disputes are settled out of court, he said (*BI,* May 30, 1988; April 11, 1988).

Owens-Illinois formerly was a member of the Asbestos Claims Facility, but is not a member of the ACF's successor, the Center for Claims Resolution.

While the the size of the Owens-Illinois award is noteworthy, the decision will have limited impact on other asbestos cases because trial court decisions do not create precedent, note lawyers for both sides.

Owens-Illinois initially filed suit

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Inside

✔ There's no excuse for not having a light-duty program to get an injured employee back to work as soon as possible, says this week's editorial. **PAGE 8**

✔ Multiline insurers will refocus on niches in the '90s, says an insurer at the Russell Miller National Insurance Symposium-Leadership Conference. **PAGE 11**

✔ Government must take the lead in the fight against AIDS, a business leader argues. **PAGE 20**

✔ Congress has changed the rules for ESOPs, says attorney Bernard Stebel in Perspectives. **PAGE 23**

✔ Firms that 'carve out' mental health cost-containment services may lose some control, says Susan R. Prest of Intracorp in Speaking Out. **PAGE 24**

✔ The future holds many new challenges for risk managers, say attendees of the Assn. of Insurance & Risk Managers in Industry & Commerce's annual conference. Coverage begins on **PAGE 29**

✔ West German insurer Allianz is looking to Eastern Europe for new premium growth. **PAGE 29**

✔ A pipeline company says it has adequate liability insurance to cover claims stemming from an oil spill in a branch of the Allegheny River. **PAGE 38**

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Firms tout wellness savings

Programs trim fat from health care budget

By LOUISE KERTESZ

While employers for years offered piecemeal wellness programs to help trim their health care costs, comprehensive employee health management programs are trimming large amounts of fat from some companies' health care budgets.

Now, instead of just offering weight reduction and smoking cessation classes or a workplace exercise center, employers increasingly are offering workers and their families a full range of wellness activities—including health risk assessments—to reduce their need for more costly medical care.

And, while many employers have not tracked the effectiveness of the wellness programs they provide, some of the companies that have are reporting impressive savings.

For example, a 1988 study by Coors Brewing Co. of Golden, Colo., showed that health insurance costs for participants in the wellness programs Coors offered were 13% less than non-participants' costs, said Mark Wright, Coors' director of health services.

Coors' wellness programs saved the brewing company $3.2 million in 1988, he reported.

And, a 1987 survey of wellness programs conducted by the Health Research Institute of Walnut Creek, Calif., found that employers that measured their wellness programs' savings reported a 22.3% decrease in absenteeism and a 21.7% decrease in medical care costs (*BI*, Feb. 16, 1987).

"There's been an increased interest from just about every employer in wellness," said Scott Ziemba, a benefit consultant in the Woodlands, Texas, office of Hewitt Associates.

Because other health care cost management strategies, such as hospital precertification and utilization review programs, are not curbing health care inflation, "there aren't a lot of other options," Mr. Ziemba said.

In addition, employers are emphasizing wellness programs because Americans are more health-conscious than they were 10 years ago and are "more concerned about the quality of life," said Richard Sinni, director of the health management practice at Buck Consultants Inc. in New York.

But equally important, "many mature companies have an older population," which translates into higher absenteeism and greater health care costs. Companies have found that offering wellness programs cuts absenteeism and health care costs, Mr. Sinni said.

And, wellness programs are a benefit appreciated by workers, according to employers.

"What we've come to realize is that today's worker wants more than just a paycheck, more than just a job. They're looking for a healthy environment to work in as well," reported Cathy McComas, associate director of corporate health promotion at Texas Instruments Inc. in Dallas, which is expanding its comprehensive wellness program to sites across the United States.

The programs offered by Coors and Texas Instruments evolved from smaller ideas, such as company softball games and jogging tracks and the occasional lecture on nutrition.

"Good health and well-being of Coors employees has been an important aspect of the company from the beginning. Our compre-

Continued on page 17

Ken Paul

Employees of Coors Brewing Co. work out in an on-site fitness center.

Hyatt Legal Services told to pay damages for firing AIDS victim

By MEG FLETCHER

PHILADELPHIA—Hyatt Legal Services must pay $158,000 in damages—including $50,000 in punitive damages—for the illegal 1987 firing of a regional partner in Philadelphia shortly after he told his superior that he had AIDS.

The case marks the first time a federal court in Pennsylvania has defined AIDS as a non-job related handicap or disability covered by the state's Human Relations Act, attorneys say.

That law allows for "significantly broader relief for victims" than does Title VII of the federal Civil Rights Act of 1964, which also covers employment discrimination, according to the April 3 court ruling.

In addition, the ruling reflects a growing trend among courts to award damages in AIDS-related employment discrimination cases, legal experts say. However, not many cases have gone to trial because they have not had time to move through the courts or because the plaintiff dies and the suit is subsequently dropped.

The firing was a "corrupt assault on the dignity" of the attorney, Clarence B. Cain, then age 35 and who is now living in the Washington, D.C. area, wrote Judge Raymond J. Broderick of the U.S. District Court in Philadelphia.

"In utter disregard of Cain's rights," Hyatt "summarily removed the plaintiff from his position while he lay in the hospital, just days after he had honestly confided to them he had AIDS," wrote Judge Broderick.

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Agencies split on need for product law reform

By ADRIENNE C. LOCKE

WASHINGTON—Product liability reform is not one of the most urgent measures needed to improve the competitiveness of U.S. businesses with foreign markets, representatives of the Office of Technology Assessment told a Senate subcommittee.

However, the U.S. Commerce Department and a manufacturing industry representative disagreed with the OTA, a congressional research arm, in testimony before the Senate Consumer Subcommittee hearing.

The Commerce Department said that product liability reforms proposed in S. 1400, introduced by Sen. Robert Kasten, R-Wis. (*BI*, July 31, 1989), would eventually lead to reduced product liability insurance rates. As a result, U.S. companies would be able to compete better against foreign companies, which do not face high product liability insurance costs.

The industry representative testified that product liability insurance costs have prevented many companies from introducing new and improved products into the consumer market and have forced them to stop selling other safe products.

But, representatives from both the insurance industry and a consumer insurance group agree—for different reasons—that enactment of S. 1400 would have no effect on product liability insurance costs.

The April 5 hearing, which focused on how the product liability reform legislation would affect how U.S. businesses compete with foreign rivals, was the second of three subcommittee hearings on the Kasten bill (*BI*, March 5). The final hearing is scheduled for May 10.

Sen. Kasten introduced the legislation shortly after Rep. Tom Luken, D-Ohio, introduced similar legislation in the House last year (*BI*, June 26, 1989).

At the Senate subcommittee hearing, Julie Gorte, project director at the OTA, testified that a report the OTA submitted to Congress in March noted that the business community does not believe product liability reform is the key to improving competition between U.S. and foreign companies, though such reform could help.

Instead, the report, 'Making Things Better: Competing in Manufacturing," found that U.S. manufacturers believe four other factors are key to improving their competitiveness:

- Reducing the cost of capital in the United States so it is more affordable to invest in manufacturing.
- Educating the workforce better so it can keep up with new technology.
- Improving smaller and medium-sized companies access to technology.
- Creating more government-industry ventures to develop new technologies.

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HMO enrollment grows, despite fewer plans

By JERRY GEISEL

WASHINGTON—Enrollment in health maintenance organizations is increasing, while the number of HMOs is falling, according to a new study.

HMO enrollment increased 6.4% to 34.7 million at year-end 1989 from 32.6 million at the end of 1988, according to the Group Health Assn. of America, an HMO trade group in Washington, D.C.

At the same time, the total number of HMOs shrank 2.8% to 597 from 614, reflecting the ongoing consolidation of the HMO industry, said Marsha Gold, director of research and analysis at the GHAA.

Indeed, there were a slew of HMO mergers and acquisitions last year. Among the largest, Rutgers Community Health Plan, a Somerset, N.J.-based HMO with 80,000 enrollees, was acquired by the Health Insurance Plan of Greater New York, while HealthWays Systems Inc., a Tarrytown, N.Y.-based HMO with 150,000 enrollees was acquired by PARTNERS National Health Plans, a unit of Aetna Life Insurance Co.

And, the consolidation of the HMO industry is continuing on an even larger scale this year. Last month, Philadelphia-based CIGNA Corp. completed its acquisition of EQUICOR Inc., the joint health care venture of Equitable Life Assurance Society of the United States and Hospital Corp. of America. EQUICOR has about 450,000 enrollees in its HMOs.

During the past year the number of smaller plans declined. For example, the number of plans in 1989 with fewer than 20,000 enrollees fell to 242, down 11% from 272 in 1988, the study found.

On the other hand, the number of plans with at least 100,000 enrollees climbed 23.6% to 89 last year, from 72 in 1988.

The experience of two groups of medium-sized plans—those with between 20,000 and 49,999 enrollees and those with between 50,000 and 99,999 enrollees—was split.

For example, the number of plans with between 20,000 and 49,999 enrollees increased

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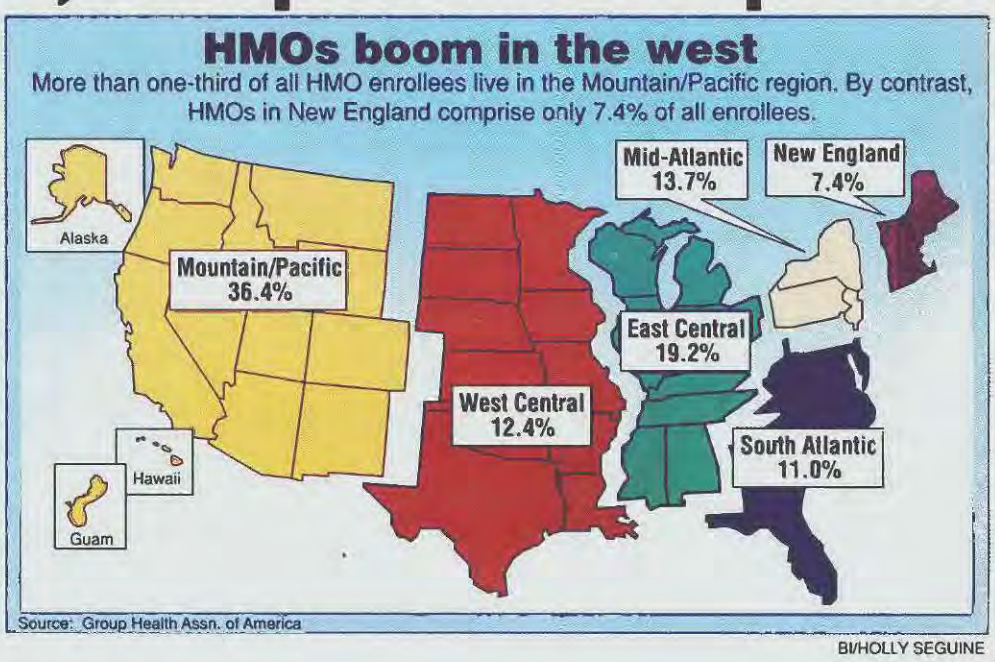

BI/HOLLY SEGUINE

Airline names Sater insurance manager

Gail B. Sater, 41, has been named insurance manager at Northwest Airlines Inc. of Minneapolis. Ms. Sater is responsible for all property/casualty insurance, workers compensation, health insurance, budgeting and allocation of premiums for the airline. She replaces **Dick Pryer**, who left Northwest Airlines, and reports to Gordon Gilbert, director of insurance. Prior to joining Northwest, Ms. Sater was a risk manager at Super Valu Stores Inc. of Eden Prairie, Minn. She also previously held risk management positions at Cenex Ltd. in Spring Grove, Minn., and at Control Data Corp. of Minneapolis. Ms. Sater holds a bachelor's degree from the University of Minnesota in Minneapolis and has earned the Associate in Risk Management designation. Ms. Sater is a former vp of the Minnesota Chapter of the Risk & Insurance Management Society.

* * *

Jon H. Schmieden, 30, has been named manager-risk management and insurance at Alcon Laboratories Inc. in Fort Worth, Texas. He is responsible for the administration, coordination and management of Alcon's worldwide risk management, insurance and loss prevention functions. He reports to Larry B. Long, director of corporate risk management and insurance. Mr. Schmieden, who joined Alcon in 1987, most recently served as senior analyst-risk management and insurance. Before joining Alcon, which manufactures pharmaceuticals, surgical instruments and ophthalmic goods, Mr. Schmieden was a staff consultant at T.E. Brennan Co. in Milwaukee, a risk management consulting firm. He holds a bachelor of business administration degree in risk management and a master of business administration degree in finance, risk management and insurance from the University of Wisconsin in Madison. He holds the Associate in Risk Management designation and is a deputy member of the Risk & Insurance Management Society. He is working toward obtaining the Chartered Property & Casualty Underwriter designation.

Mr. Schmieden

Comings & Goings: buyers

* * *

John A. Spies, 32, has been named director-risk management at Harnischfeger Industries Inc., a manufacturer of heavy equipment with headquarters in Milwaukee. He handles corporate insurance, loss control and claims handling, as well as corporate fleet administration. Mr. Spies reports to Ian Lambert, Harnischfeger's vp and treasurer. Before joining Harnischfeger, Mr. Spies was director of corporate services at Nicolet Instrument Corp. in Madison, Wis., and corporate risk manager at DataCard Corp. in Minnetonka, Minn. Mr. Spies holds a bachelor's degree from St. John's University in Collegeville, Minn. He holds the Associate in Risk Management, Associate in Loss Control Management and Certified Safety Professional designations. Mr. Spies is a deputy member of the Risk & Insurance Management Society and a member of the Society of Chartered Property & Casualty Underwriters and the American Society of Safety Engineers.

* * *

Debbie Roberts has been named risk manager of Mosler Inc., a manufacturer of fabricated metal products and alarm and signalling systems in in Hamilton, Ohio. She handles the company's property/casualty insurance program, including self-insured workers compensation, risk control and risk financing programs. Ms. Roberts replaces **Steve Johnson**, who left for a position at The Boeing Co. in Seattle, and reports to John Tamashasky, vp of human resources. Before joining Mosler, Ms. Roberts was an insurance analyst at Federated Department Stores Inc. in Cincinnati. She also worked in the risk management department at Sencorp, also based in Cincinnati. Ms. Roberts, who attended the University of Cincinnati, is a deputy member of the Risk & Insurance Management Society and a member of the Self-Insurance Association of Ohio.

Ms. Roberts

* * *

Donald R. Whitting, 46, has been named assistant director of corporate risk management of W.R. Grace & Co., the New York-based manufacturing giant. He is responsible for the company's foreign property and casualty, excess liability, marine and oil and gas insurance programs. He also will handle selected acquisitions and divestitures and special projects. He replaces **Edward J. Belz**, who left the company, and reports to Jeffrey M. Posner, assistant vp and director of corporate risk management. Before joining W.R. Grace & Co., Mr. Whitting had been a risk management consultant at Elf Aquitaine Inc., a Stamford, Conn., company with interests in petroleum and agricultural and industrial chemicals. Mr. Whitting has a bachelor's degree in economics from Boston University and holds the Chartered Property & Casualty Underwriter designation.

* * *

Shevaun S. Macari has been named corporate risk manager-projects of Asea Brown Boveri in Stamford, Conn. She is responsible for risk management, contract review and insurance pertaining to approximately half the company's exposures. She reports to Charles J. Salek, assistant treasurer-risk management. Before joining Asea Brown Boveri, a manufacturing company, Ms. Macari was vp-risk management since 1984 at Security Capital Corp. in New York. Ms. Macari holds a bachelor's degree in history and a master of business administration degree from Pace University in New York.

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We'd like to report on staff changes in your company's risk management, safety and employee benefits departments. Just drop a note to Nancy Johnson, Copy Editor, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611-2590, or call 312-649-7784. Please send a photograph, too.

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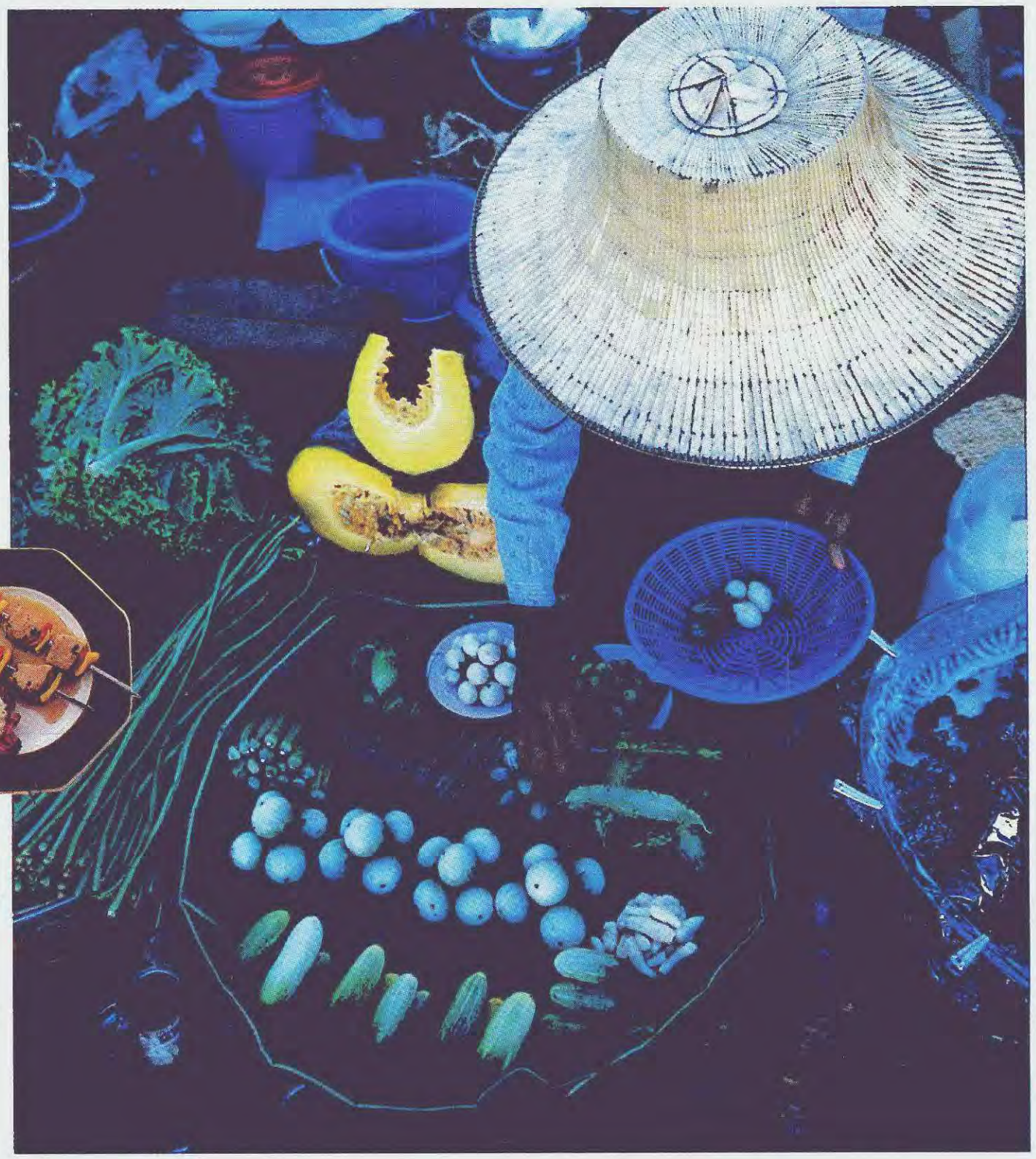

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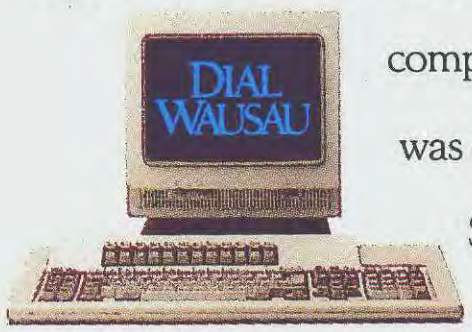

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Wells Fargo adopts managed care plan

By MICHAEL SCHACHNER

Under a self-insured managed care plan to be introduced Jan. 1, Wells Fargo & Co.'s California employees will pay only minimal copayments for medical care instead of current deductibles.

The new plan will be administered by Hartford, Conn.-based Travelers Corp. and is expected to eventually help curb health care costs, which currently are soaring under the San Francisco-based bank's self-insured indemnity plan.

Wells Fargo's will terminate that indemnity plan on Jan. 1.

Martha Clark, vp and manager of compensation and benefits, said health care costs under the indemnity plan have been rising 30% to 40% a year.

Benefit beat

Wells Fargo's health care expenditures this year are expected to be approximately $67 million, with employees picking up $13 million of the cost, she said. Wells Fargo will spend about $2,176 per person on health care in 1990, while employees will be asked to contribute about $727 toward the cost of their health care, she said.

The new managed care plan, called SelectCare, will establish a network of health care providers for all 15,000 Wells Fargo employees throughout California.

Under the new plan, Wells Fargo employees who use network providers will pay no deductibles for health care, though employees will pay a 10% copayment on all hospital charges and $10 per outpatient visit.

Annual employee payments are capped at $2,000 for individuals and $4,000 for family coverage. Lifetime benefits are capped at $1 million.

Employees who go outside of the network will pay 20% of expenses plus a deductible.

Under Wells Fargo's existing indemnity plan, employees pay 10% of expenses up to a variable out-of-pocket maximum if they seek care through a network of providers. Employees who choose to go out of network pay 30% of expenses in addition to deductibles, Ms. Clark said.

Under the existing plan, employees can select a $200 individual deductible or $500 family deductible with a $2,000 annual out-of-pocket maximum. Or, they may select deductibles of $300/$750, with an annual out-of-pocket maximum of $2,500, or deductibles of $400/$1,000, with an annual out-of-pocket maximum of $3,000.

Ms. Clark said annual employee contributions for individual coverage under the existing plan are $726 for the low-deductible plan; $479 for the medium-deductible plan; and $330 for the high-deductible plan.

She added that family contributions are based on the number of dependents.

Ms. Clark said Wells Fargo has not determined what annual or monthly employee premiums will be under the new plan. She did say, however, that they will be competitive with what most California HMOs are charging.

In addition to its indemnity plan, Wells Fargo currently offers several HMO options.

Ms. Clark said 70% of Wells Fargo employees currently are enrolled in the HMOs, and the bank expects many of those employees to switch to SelectCare after the network is set up.

After SelectCare is introduced, the bank will offer its employees only HMOs operated by the Kaiser Permanente Medical Care Program of Oakland, Calif.

Ms. Clark said the decision to replace the indemnity program with a managed care plan was spurred by rising health care costs as well as by employee dissatisfaction with Wells Fargo's current indemnity plan.

"We found that our health care costs were going up and the healthier employees were all moving to the HMOs. The indemnity plan was no longer an option because it wasn't suited for our healthier population. So many of our employees were forced to the HMO by cost," Ms. Clark said.

In addition, she said employees were also unhappy with the lack of wellness features provided by the HMOs.

"Our female employees (70% of the bank's workforce) especially were finding that the HMOs didn't cover wellness. There was no coverage for annual pap smears or mammograms, etc. The coverage wasn't competitive with what the others (in the indemnity plan) were receiving. HMOs were great when they were well, but no good if they really got sick," according to Ms. Clark.

She said Wells Fargo does not expect to realize immediate savings on the program because SelectCare will provide greater benefits and is generally a richer plan than what currently exists, especially through the HMOs.

"We don't expect short-run savings. We'll save some money on managed acute care" because of the plan's gatekeeper system and precertification requirements, she explained. But real savings will come over the long-term by switching employees from HMOs to SelectCare, added Ms. Clark.

Small business plans

Only a few more small businesses will begin providing employee health insurance in the 1990s, according to a new study by Reliable Corp., a mail order office supply company in Chicago.

Of 3,100 executives of business with fewer than 100 employees surveyed, 78%—or 2,418—said they plan to offer employees health care insurance in the 1990s. But 76.8%—about 2,381—already offer the coverage.

In addition, the 1990 Small Business Outlook Survey reports 73% of respondents, or 2,263, do not believe the federal government should require employer-provided health insurance for full-time workers.

Seventy-seven percent—or 2,387—of respondents do not plan to begin pre-employment drug testing, while 11%—or 341—said they plan to begin such testing in the 1990s.

Some 1,600 respondents—or 51.6%—said workplace drug or alcohol abuse has had "a direct effect" on their businesses.

Free copies of the survey are available from Reliable Corp., Public Relations Department, 1001 W. Van Buren St., Chicago, Ill. 60607. ■

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Opinions

Light-duty programs a must

DO YOU HAVE A light-duty, return-to-work program for injured employees?

Do you enthusiastically promote it, making sure that every employee that should return to work on light duty is doing so?

And do you properly monitor employees in the program, to be sure they return to their former duties as soon as possible?

If so, congratulations. And, you need not read any farther.

But, there are many employers that do not even have a light-duty program for injured workers. And, even among those that say they do, too many employees who could benefit from the program are instead staying home feeling sorry for themselves and angry with their company for an injury they suffered at work.

There's no excuse for not getting an injured employee back to work as soon as possible to perform productive services for an employer.

As Susan M. Werner wrote last week in her "Ask a Risk Manager" column (*BI*, April 9), light-duty programs produce benefits for both injured employees and their employers.

Employees who are returned to light-duty work after an injury feel useful and cared for by their companies. No one likes to be ill or feel disabled, and light-duty work promotes the positive emotions that help heal. Light-duty programs also allow people recovering from injuries to stay in touch with the work site and stay in the routine of working—not developing the habit of watching "Love Boat" reruns every morning.

On a strictly monetary basis, light-duty programs can save employers real dollars. Ms. Werner found employers with light-duty programs reduced their workers compensation costs by a minimum of 28% one year after the programs were implemented. That potential savings alone should be encouragement enough to adopt a light-duty program.

But, you can't just announce that you have a light-duty program and expect those kinds of savings.

Management has to impress on supervisors that they must find light work for injured employees. "There is no light duty," cannot be accepted as an answer. In any company, there must be filing to do, information to be input into a computer, letters to stuff, phones to answer and special projects waiting to be tackled.

Once assigned to light duty, the employee's rehabilitation progress must be as closely monitored as if the employee were on temporary disability, and a return-to-work date must be set. The employee, the doctor and the physical therapist have to be

strongly encouraged to meet that return-to-work date.

Otherwise, the injured employee can stay too long on a light-duty assignment.

A light-duty program also must be managed by someone with compassion and sensitivity for people. This manager has to be able to recognize the employee who really doesn't want to come back to work—either for personnel reasons, or personal reasons or simply because he or she detests the offered assignment.

These employees, unless supervised very closely, invariably will allege a reinjury, according to those with experience managing light-duty programs. They may even actually reinjure themselves if, out of frustration with the light-duty assignment, they try to assume their former responsibilities too soon.

A successful light-duty program also requires that the local medical community know of your company's commitment to the program. Doctors will release patients to light-duty only when they know that such light-duty programs exist and are well managed.

Finally, doctors who are aware a company has a light-duty program will be less inclined to order three or four days of bed rest for an employee looking for time off from work. Instead, the doctor will release the employee to light duty.

If you don't have a light-duty program, now is the time to develop one. If you do have a light-duty program, now is the time to analyze it to determine if you are making the most of it—for your employees and your company.

BI staffers honored for design, editorial

Two *Business Insurance* staff members won awards in a recent competition sponsored by the Chicago Chapter of the American Society of Business Press Editors.

Graphics Editor Jeanne M. Bartels won a first-place award in the tabloid front-page category for her cover design for the Aug. 28, 1989, edition of *Business Insurance.*

Ms. Bartels also took a third place in the non-photo front cover category for her design of the cover of *BI*'s 1989-1990 Directory of HMOs and PPOs, which was published last December.

Senior Editor Jerry Geisel received honorable mention in the editorial writing category for "Preserve ERISA's Legacy" (*BI*, Sept. 11, 1989), which advocated regulations allowing private pension plans to grow instead of being stifled by restrictive laws.

Letters

Is CIGNA shifting costs?

To the editor: I have found the three-year "trial marriage" of Allied-Signal Corp. and CIGNA Corp. a most interesting endeavor. After reading many articles and attending a seminar that included an in-depth discussion of the managed care program by a representative of Allied-Signal, it made me wonder if now the insurance industry, namely CIGNA, is becoming a member of the "cost-shifting" fraternity.

If CIGNA is experiencing a less than 1% net income factor from their "trial marriage" (*BI*, March 19), could it be that recent 15%-50% increases by CIGNA in the private sector (*BI*, March 26) might be illustrative of a type of cost shift—because of a lack of sufficient profit—to their other alternative health care delivery accounts? The question is: Is this a "good" cost shift or a "bad" cost shift?

Ronald W. Wuensch
Executive Director
Indiana Optometric Assn.
Indianapolis

Letters continued on page 10

Business Insurance welcomes letters from its readers. Please keep your comments as brief as possible. We reserve the right to edit letters for clarity or space. We will not publish unsigned letters. Send your comments to Letters to the Editor, Business Insurance, 740 N. Rush St., Chicago, Ill., 60611.

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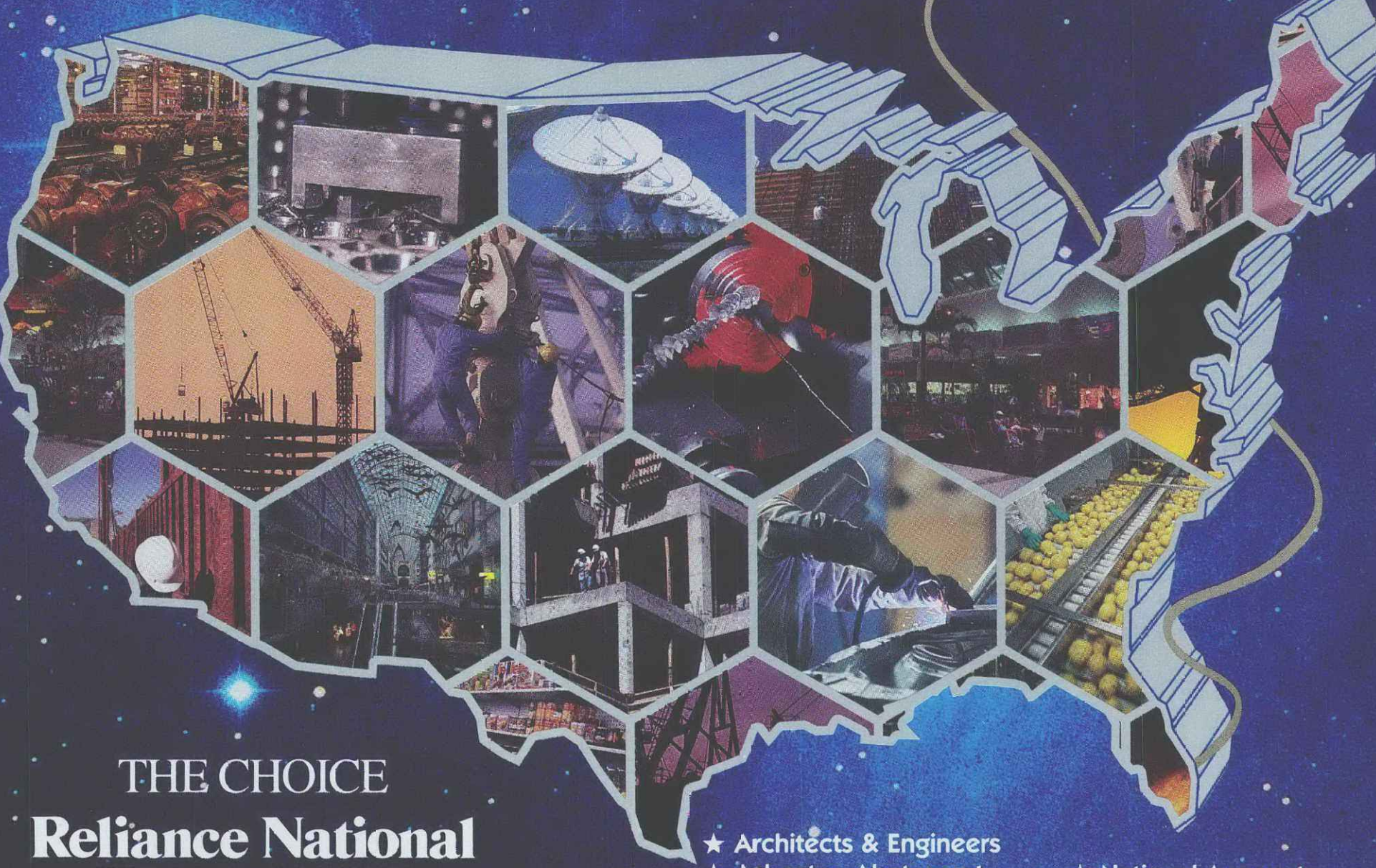

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Letters

Employers liability 'crisis' overstated

To the editor: The article by Douglas N. Smith in the Nov. 13 issue of *Business Insurance*, "Employers Liability in Ireland," has generated a considerable amount of comment in this country and, as one of the largest insurance brokers in Ireland, we feel we should respond in regard to some specific points.

Mr. Smith's reference to the absence of competition must have raised many eyebrows. In 1987, the total net liability premium in this country was 130 million punts ($219.3 million at year-end exchange rate) and this produced an underwriting loss of 18 million punts ($30.4 million). Notwithstanding this substantial loss, the total liability premium in 1988 increased by only 1% to 131.4 million punts ($197.4 million at year-end 1988 exchange rate), which in turn produced an underwriting loss of 17.6 million punts ($26.4 million). So much for the absence of competition!

It is certainly true to say that, for whatever reasons, the incidence of employers liability claims has been increasing in recent years, but this phenomenon is not peculiar to Ireland. Judged by U.S. standards, the Irish courts are parsimonious in their attitude toward liability claims, and juries were abolished two years ago for personal injury actions.

We really must rebut the outrageous suggestion that Irish employers risk a strike if they dismiss employees who are suspected of deliberately injuring themselves. No Irish trade union would allow itself to be associated with such a spurious reason for an industrial dispute.

While one must sympathize with anyone attempting to summarize the Safety, Health and Welfare at Work Act 1989, it is misleading to suggest that the new law imposes criminal liability on managers without adding that employees too can be prosecuted and fined.

Mr. Smith also seems to imply that the doctrine of strict liability operates in relation to employers liability claims. This is not so. The plaintiff must prove negligence and/or breach of statutory duty to succeed in his claim. Claims are defended successfully every day on the grounds that the employer took all reasonable precautions and complied with his statutory obligations.

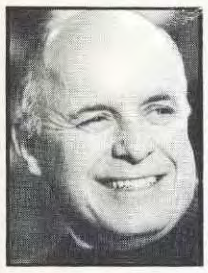
The article also implies that there are no social welfare benefits in this country for workplace accidents. This is incorrect. The Social Welfare (Occupational Injuries) Act 1967 provides for the payment of compensation under the state-funded Social Welfare system to employees who are injured in occupational accidents.

Finally, we do not agree that the term "crisis" is appropriate to describe the employers liability insurance situation in Ireland. It may be true to say that premiums are too high, but this is a problem, not a crisis, and positive measures are being taken to address the problem.

Hugh D. Governey
Managing Director-Corporate Broking
Coyle Hamilton Ltd.
Dublin, Ireland

At issue

How will the Medicare cap on doctors' fees affect your health care costs?



Loren Allen
Benefits coordinator
University of Northern Iowa,
Cedar Falls, Iowa

It will have almost no effect on UNI's costs because our health plan is primary for active employees. At UNI the retiree pays the entire cost for health insurance. The cost for retirees will increase because about 60% of the physicians in Iowa do not accept the Medicare assignment as payment in full.

Edward J. Brady
Employee benefits programs manager
Digital Equipment Corp.,
Concord, Mass.

In the short term, Digital's health costs will be minimally affected. However, I am concerned about the implications of this governmental cost shifting for the future.

Mary C. Calteaux
Employee benefits administrator
Pittway Corp.,
Northbrook, Ill.

It will have an immediate impact on our self-insured medical plan because we currently do not have any PPO arrangements. We'll see a delayed impact on our employees enrolled in HMOs—at renewal time. I feel the HMO industry will shift costs proportionately to recoup lost revenues from Medicare patients in their HMOs or in their private practice.

Gerald Rudd
Senior vp-human resources
Albertsons Inc.,
Boise, Idaho

It's too early to assess the impact on our costs. Medicare caps could have a negative effect on private employers if providers are allowed to shift costs to make up for losses they incur because of the caps. In this event, employers may be forced to adopt caps or maximum payment limits for their plans—ultimately resulting in additional cost shifts to employees.

Compiled by Christine Woolsey

Increased niche underwriting foreseen

Multiline firms face competition: Insurer

By LOUISE KERTESZ

SAN FRANCISCO—Property/casualty insurance buyers will see many national multiline insurers retrenching in the next decade along with other major changes in the insurance industry, an insurer executive predicts.

The federal government, meanwhile, will increase its scrutiny of the property/casualty insurance industry, insurer and broker executives say.

Competition from several sources will force many multiline insurers in the 1990s to refocus on niches, pointed out Joseph W. Brown Jr., president and chief operating officer of Fireman's Fund Insurance Co., a unit of Fund American Cos. Inc. in Novato, Calif.

"The big companies are like the dinosaurs in their last mating dance, and another type of provider is emerging," Mr. Brown said at the Russell Miller National Insurance Symposium-Leadership Conference, held April 1-3 in San Francisco.

"The day of the national company that provides all product lines in all states to all customers is very rapidly nearing an end," he said.

One reason: "The foreigners are coming," Mr. Brown said.

"They are not yet here in the insurance business, but the global economy we live in is going to affect our business," he said.

In addition, banks will continue to seek to enter the insurance market, especially "when national banking really does reach where it is going in the '90s," Mr. Brown said.

By the end of this decade, "five of the top 10 insurers are not there. Foreigners will make up 20% of our market, direct writers will lose up to half of their current market share, and the regionals or specialty companies will move from their current market share of 20% to over 35%," he predicted.

Mr. Brown also noted that insurers' capital position is not as strong as many believe.

Insurance industry reserves, Mr. Brown said, are short "from about 15% to 20% for the easy-to-predict stuff, and for the harder stuff, who knows?"

And, if "predictable business" continues to leave the commercial insurance marketplace for alternative risk financing mechanisms, the proper premium-to-surplus ratio by the end of the decade should be 0.75-to-1 instead of 2-to-1, he said.

"I think we actually have only $65 billion in real surplus out there if you adjust the liabilities and the assets," he said, compared with the $133.7 billion in surplus at year-end 1989 as reported by A.M. Best Co.

"There is not too much capital in this business. I don't think we have estimated how much surplus is needed for things such as Agent Orange, asbestosis and pollution claims. Dollars are needed to handle those shocks, yet where are those dollars in anyone's calculations for how much surplus this industry needs?" he asked.

Mr. Brown

Mr. Brown also said that reinsurers' capital is not being used properly.

"The reinsurance mechanism has failed this industry tremendously in the last 20 years. The top reinsurers are risk averse. They do not want to put their capital on the line, and they have an inability to deal with the things where we really need capital: the big shocks, the unpredictable business," Mr. Brown said.

In the meantime, the insurance industry will be under "major federal scrutiny," he predicted.

Most customers and regulators "believe we are operating as a cartel today," Mr. Brown said. "I don't think there's any question that the first half of the decade is going to be brutal in the regulatory arena."

With prices low and "another major rate rebound" expected, "it's clear the regulator is going to play a major role in the first half of the decade," he said.

In addition, "the lengthening of the tort tail has destroyed what used to be a predictable market," Mr. Brown said. "No longer can (buyers) count on us to continue to offer the product for any reasonable length in the future, and they're turning to the regulators and asking why," he explained.

Insurers also invite stepped-up regulation when they fail to solve the problems in workers compensation systems and fail to offer affordable automobile insurance to a growing minority of policyholders, according to Mr. Brown.

And the highly critical treatment of insurers in the House Oversight and Investigations Subcommittee report on insurer insolvencies (*BI*, March 5; Feb. 26) is evidence that Congress wants to regulate the industry, pointed out Richard Miller, chairman and chief executive officer of Corroon & Black Corp. in New York.

"I agree that policyholders and shareholders must be protected," Mr. Miller said. "Regulation is deficient and must be improved."

But he cites the savings and loan industry bailout as evidence that federal regulators' track record is "not good," and calls instead for improved regulation by the states.

State insurance department budgets should be increased "to provide a strong enforcement mechanism" as the size and number of insurer insolvencies rise, he said.

"There is no incentive for the state regulators" to prevent major insolvencies, Mr. Brown asserted, referring to the fact that most regulators are not elected.

"It is inevitable, to me, that we're going to see a major change in the way insolvency is regulated in this country. Hopefully, it is one we will introduce or we can live with," he said.

Mr. Miller predicted that the U.S. insurance industry "will rise to the challenge of policing its own ranks."

While criticizing the subcommittee report's harsh language, E.W. Blanch Jr., chief executive officer and general partner of E.W. Blanch Co., a Minneapolis-based intermediary, conceded the subcommittee's report was accurate in its doubts about reinsurers.

"I can come up with 200 companies that are operating today that are insolvent," he said. That makes regulatory changes inevitable, he said. ■

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M&M helps establish high excess facility

SAN FRANCISCO—A U.S. brokerage established a new excess liability insurance line slip in London because a "fair portion of the Fortune 500 (companies) and beyond have a real need for additional protection," according to a brokerage official.

Broker Marsh & McLennan Inc. established the line slip when it determined that buyers wanted increased liability insurance limits, said Robert L. Peretti, Los Angeles-based managing director of M&M.

The Bowring Slip, named after M&M's London affiliate Marsh & McLennan Bowring Ltd., was formed March 1 and provides $100 million of liability coverage excess of $200 million (*BI*, March 5).

In offering the slip M&M sought to capitalize on the "appetite" of insurers to reach beyond their traditional boundaries for business, Mr. Peretti told the Russell Miller National Insurance Symposium-Leadership Conference.

Companies participating on the slip include:

- Lloyd's of London syndicates underwritten by Stephen Merrett.
- Lloyd's syndicates underwritten by Richard D. Hazell.
- Gerling-Konzern Globale Reinsurance Group of Cologne, West Germany.
- Swiss Reinsurance Group of Zurich.
- Commercial Union Assurance Co. P.L.C. of London.
- Tokio Marine & Fire Insurance Co. Ltd. of Tokyo.
- Various Scandinavian underwriters.
- A.C.E. Insurance Co. Ltd. in Bermuda.

The participation on each risk is approximately $60 million coming from the London market, $30 million from the Continental European markets, $10 million from A.C.E. and Tokio Marine having a small share, Mr. Peretti said.

The facility, which is open to all agents and brokers, will use an A.C.E. claims-made policy form "rather than. . .some of the more restrictive London claims-made forms," Mr. Peretti said.

M&M did not market participation in the facility to U.S. insurers "since our markets have already provided the bulk of the excess liability coverage," according to Mr. Peretti.

—By Louise Kertesz

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Conference draws 113

SAN FRANCISCO—About 113 insurance industry executives attended the second annual Russell Miller Inc. National Insurance Symposium Leadership Conference, held April 1-3 at the Portman Hotel in San Francisco.

About 64% of participants were either chief executive officers or presidents of brokerages or insurance companies.

At a formal dinner during the meeting, West Virginia Gov. Gaston Caperton III, founder and former chairman of United Capital Corp. and former chairman of McDonough Caperton Insurance Group, urged the executives to use their leadership roles in industry to make a difference in society. He encouraged them to consider more than financial returns and to ask what they could return to society.

John Gardner, a founder of Common Cause and former secretary of health, education and welfare, urged executives at a luncheon to get to "know people outside your jurisdiction."

A leader's role is also to encourage "the release of human talent and energy," half of which is "untapped and unsuspected" in most people, said Mr. Gardner, now a professor at Stanford University in Palo Alto, Calif.

"There are barriers (to growth) we're just beginning to understand," he said.

Another Russell Miller symposium and leadership conference is planned for the first week of April in San Francisco next year.

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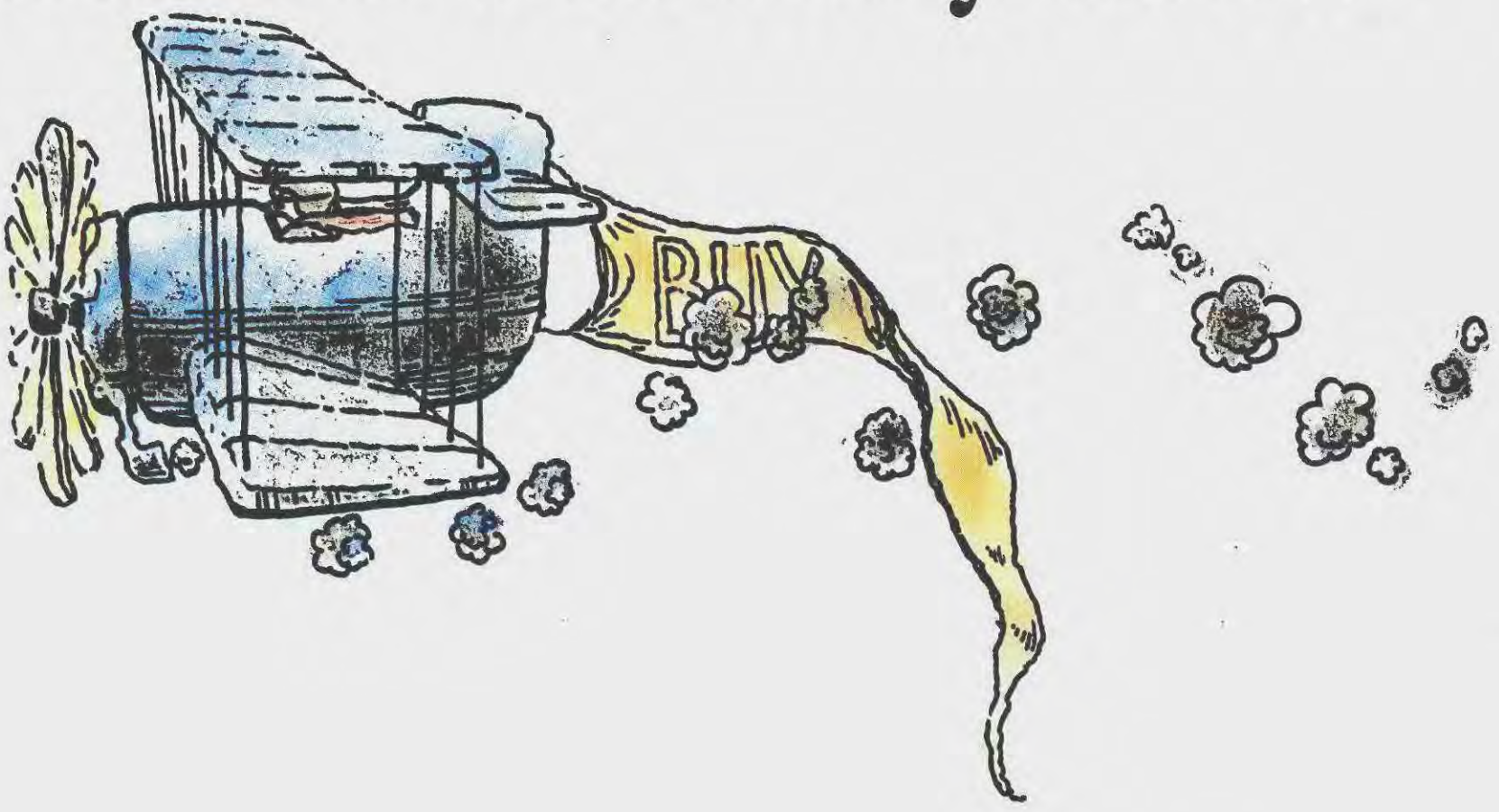

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Brokers seek better ties with clients

By LOUISE KERTESZ

SAN FRANCISCO—Retail insurance brokers and reinsurance brokers will try to strengthen their relationships with their clients in the 1990s, according to brokerage executives.

Retail insurance brokers will have to demonstrate the value of their services to risk managers of multinational companies preparing for the July 1 removal of insurance trade barriers between European Community nations, one brokerage executive said at the Russell Miller National Insurance Symposium-Leadership Conference, held April 1-3 in San Francisco.

If brokers don't demonstrate their value to insurance buyers in the next hard market, buyers will turn to alternative risk financing mechanisms, others say.

Meanwhile, reinsurance intermediaries are emphasizing client service in the wake of increased misinterpretation of reinsurance contract wording and worries about financially unstable reinsurers, intermediary executives say.

As July 1 approaches, retail insurance brokers that cannot demonstrate the value of their services to multinational risk managers will be out in the cold, predicted Richard Miller, chairman and chief executive officer of Corroon & Black Corp. of New York.

Charles L. Ruoff, senior vp and director of broker Sedgwick James Inc. in New York, agreed.

"Clients need a true international broker" as the global market emerges, he said.

Sedgwick, which has offices in all European Community countries, will follow developments in Europe closely as markets become more liberalized in the wake of the EC directive, Mr. Ruoff said.

Under the directive, insurers need not be based in an EC country to write business there. Instead, insurers only must have an office in that country.

"One (insurance) company, one broker will be able to serve them without regard to the various legal and territorial differences that exist today," Corroon & Black's Mr. Miller said.

"For U.S. globals, there will be access to new (insurance) companies. However, I must say that I find it difficult to see more competitive pricing, at least on the U.S. portion of their business," Mr. Miller added.

But "risk management in Europe is still in the Dark Ages," he said. And, "given the opportunity," policyholders will turn to brokers for counsel, "providing we can show value added," he said.

To prepare for freer insurance trade among EC nations, as well as the possibility of a hardening domestic insurance market, C&B is emphasizing training and education as "two areas of critical importance" to brokers, he said.

Brokers must become more knowledgeable both in insurance and in risk principles, he asserted.

They must also "nurture a deep knowledge of clients' business, both locally and globally."

On the domestic front, "the concept of value added is what will propel us through the next hard market" as well, said Mr. Miller, referring to the expected flight of insurance buyers to alternative risk financing mechanisms in the next hard market.

Buyers will turn to "the creative and the innovative" brokerages, Mr. Miller said, adding that he sees no evidence the market is hardening now.

Among the services risk managers will need, brokers said, are tailoring policies to clients and encouraging product development.

Meanwhile, reinsurance brokers are re-emphasizing customer service, intermediary executives said.

"What should be happening in reinsurance is not happening," said E.W. Blanch Jr., chief executive officer and general partner of E.W. Blanch Co. of Minneapolis.

The wording of many reinsurance contracts dilutes the basic principle of reinsurance—that risk is transferred and losses are paid, Mr. Blanch said.

In addition, many reinsurers' ability to pay losses is inadequate, but ceding companies do not realize this because some reinsurers do not report their assets accurately, he said.

Clients are "in the dark" about their reinsurers, "which is very bad in an age of consumerism," and is certain to lead to new regulatory requirements, Mr. Blanch said.

As a result, E.W. Blanch has improved customer services, he said. New staff has been hired, unproductive personnel eliminated and senior staff returned to production.

In addition, intermediaries "should find ways to deliver the product less expensively and make everyone involved understand the transaction or what should be going on," he said.

"Gone are the days where a ceding company had 30 reinsurers," said Hussein A. Enan, chairman and chief executive officer of Enan & Co., an intermediary in Burlingame, Calif.

"Brokers will now choose three or four reinsurance companies who are 'right' for the insurer," he said.

Cedants should expect reinsurance brokers to do more than place reinsurance. The broker must reach a level of respect and service similar to a client's outside counsel and auditors, he said.

As a result, reinsurance brokers specialize more in areas such as client size and geographical area.

Intermediaries and reinsurers in the 1990s will survive by assuming more "responsibility" for clients' needs, Mr. Enan concluded. ■

PARTNERS CAN COMBINE
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AIDS bias suit

Continued from page 3

In a written statement, the company said it would pay the damages and that, "in retrospect, Hyatt Legal Services may have mishandled this matter."

Robert Bray, a spokesman for the National Gay & Lesbian Task Force in Washington, D.C., called it a "textbook case of how not to treat someone with AIDS."

A University of Virginia Law School graduate, Mr. Cain had nearly 10 years of legal experience when the Cleveland-based national law firm hired him as a managing attorney in its "Fast Track Regional Partner Program" in April 1986.

Later that year, he was promoted to regional partner and assigned to improve the unprofitable Philadelphia office, which had about 70 staff members.

Mr. Cain, "a brilliant attorney with a promising future," had his annual salary raised 10% to $44,000 in May 1987, the judge wrote.

In a social setting, Mr. Cain later criticized his firm and its senior partners, four of whom he named as defendants in his suit. His supervisor, Robert Croyle, warned him not to make such remarks and Hyatt later cited his "past conduct" as part of the reason for his firing, according to the ruling.

Mr. Cain learned he had contracted acquired immune deficiency syndrome when hospitalized in mid-July 1987 with pneumocystis pneumonia, court papers say.

"Within days of learning Cain had AIDS, the defendants switched this young lawyer onto another fast track-one calculated to remove him from the organization," Judge Broderick wrote.

Although they knew Mr. Cain's condition was improving, Hyatt executives refused "to attempt even the most meager form of accommodation or endeavor to ascertain whether he could do the work of regional partner," the judge wrote.

And other than two conversations with Mr. Cain's physician, Hyatt did not consult medical experts, discuss its plans with Mr. Cain or allow him to use up his sick time, the judge said.

Mr. Cain had been conducting business by phone from his hospital bed, but became "increasingly distraught" when Hyatt staff members stopped calling following a visit from his supervisor, Mr. Croyle.

Mr. Cain's doctor told Mr. Croyle that it was too early to evaluate appropriate treatment programs, the judge wrote.

During the trial, medical experts testified that Mr. Cain could have returned to work as regional partner by September 1987 and fully performed his duties until mid-June 1988.

But on Aug. 3, 1987, as Mr. Cain was recuperating at home, his supervisor told him "that because he had AIDS and because of his past conduct, 'under no circumstances' would the firm allow him to return to his former post," Judge Broderick wrote.

Mr. Croyle explained that Mr. Cain's doctor said that Mr. Cain would not be able to return to his job and that Hyatt already had replaced him, the decision says.

Mr. Croyle, the court said, then gave Mr. Cain three options: accept a $12,000 severance package, take a staff position in Virginia at about half his current salary or secure placement, with Hyatt's assistance, in an experimental AIDS treatment program.

A "hysterical" Mr. Cain requested his job back, but later in August was placed on a three-month medical leave of absence and removed from the payroll, the decision says.

He later refused Hyatt's offer of an administrative post in Kansas City, according to the decision.

By the end of August, the judge wrote, Mr. Cain was taking azidothymidine, or AZT, and his health had "improved markedly." AZT is an antiviral drug credited in recent studies with helping to extend the lives of some AIDS patients.

He later moved to the Washington, D.C., area and is now hospitalized in Virginia, said his attorney, Richard Silverberg of Gordin & Berger in Philadelphia.

Mr. Cain filed for bankruptcy after he was dismissed by Hyatt, Mr. Silverberg added.

After Mr. Cain subsequently filed a discrimination complaint with the Pennsylvania Human Relations Commission, Hyatt offered to remit his full back pay, including benefits, according to the ruling.

The position of regional partner had been eliminated in a Hyatt reorganization, but the firm offered him a comparable position at the same salary. That agreement would not have required Mr. Cain to drop all legal claims against Hyatt, but he rejected the offer, the judge wrote.

Judge Broderick awarded Mr. Cain $157,888 in damages: $65,000 for "mental anguish and humiliation," $50,000 in punitive damages and $42,888 in back pay plus interest.

In its statement, Hyatt said it had "serious questions about the validity" of the decision, but would not elaborate. "Hyatt Legal Services believed that its conduct with Clarence Cain was a fair and honest balancing of its responsibilities not only to him but to other employees and to the firm's thousands of clients in Philadelphia."

A Hyatt spokeswoman would not say whether insurance would cover any of the damages.

Defendants named in Mr. Cain's lawsuit were the firm, Mr. Croyle and four senior partners: Joel Hyatt; Susan Metzenbaum Hyatt, Mr. Hyatt's wife and the daughter of Sen. Howard Metzenbaum, D-Ohio; Wayne Willis; and William Brooks.

A federal court heard the case because the parties were based in different states.

Employers that respond to AIDS cases as Hyatt did are losing more of these cases, mostly due to state laws banning discrimination based on non-job related handicaps or disabilities, said Mr. Bray of the Gay and Lesbian Task Force.

"The tendency is to award higher and higher punitive damages," he added.

But the $50,000 award in this case is "not an unusually high amount," said Judith Levin, litigation coordinator of the American Civil Liberties Union's AIDS Project in New York.

Proposed federal legislation—the Americans with Disabilities Act—would provide punishment for discrimination people who have AIDS or who are HIV-positive in areas like transportation and housing, as well as the workplace, Mr. Bray said.

The proposal, H.R. 2273, is currently before a House of Representatives committee. The U.S. Senate approved a similar bill in September (*BI*, April 9). ■

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Product liability

Continued from page 3

Product liability reform is important, "but it is not among the things that we regard as the most important things Congress can do to improve competitiveness," Ms. Gorte testified.

But, Commerce Secretary Robert A. Mosbacher told the subcommittee that the product liability reform measures in the Kasten bill would improve competitiveness of U.S. companies by "adding uniformity, certainty and predictability" to the current tort system.

Among other things, the Kasten bill would place time limits on when a product liability suit can be filed based on the age of a product.

As a result, "I don't think there is any doubt in the long term that insurance premiums will go down, just as they went up," Mr. Mosbacher said.

In turn, U.S. manufacturers would be encouraged to develop new, more technologically advanced products.

And, manufacturers would not have to fear lawsuits arguing that the company's new technology proves the lack of safety of its older products.

"This bill should encourage U.S. business innovation and improve U.S. international competitiveness," Mr. Mosbacher said.

Harry Featherstone, president and chief executive officer of Well-Burt Co., an Orrville, Ohio-based manufacturer of machine parts for original equipment, agreed that passage of S. 1400 would lead to lower product liability insurance costs and help improve U.S. companies' competitiveness with foreign companies.

S. 1400 would encourage manufacturers to be "on the cutting edge of innovation," he said.

"Instead of being sued for making a better mousetrap, we will be encouraged to design one," he said.

Fear of potential liability and the high cost of product liability insurance has hurt the growth of many U.S. businesses, Mr. Featherstone said.

For example, Well-Burt has been hit with several product liability lawsuits, and its product liability insurance costs have quadrupled to more than $200,000 from $50,000 in 1986, he said.

'This bill should encourage U.S. business innovation,' Mr. Mosbacher says of the Kasten bill.

As a result, the company was forced to discontinue research and development of new products and any plans for future expansion, he said.

And, U.S. manufacturers cannot increase prices to compensate for the increase in product liability insurance because foreign companies selling goods in the United States do not do not have the same insurance cost problems, Mr. Featherstone said.

However, Debra Ballen, vp for policy development and research at the American Insurance Assn. in Washington, D.C., said business should not expect to see lower product liability insurance costs or increased availability of coverage if the Kasten bill is enacted.

The "ultimate price and availability of insurance" depends not only on tort law but also on insurance industry surplus, an insurer's book of business, taxes and the regulatory environment, she said.

In addition, the legislation does not contain reforms that would have the greatest effect on insurance costs: the state-of-the-art defense and a defense for product misuse beyond the operator being under the influence of drugs or alcohol, she said.

And, S. 1400 would pre-empt some state product liability reform laws that are more favorable for companies, she said.

"As such, it is not likely to reduce insurance claims costs or improve the insurance market, Ms. Ballen said.

J. Robert Hunter, president of the National Insurance Consumer Organization in Alexandria, Va., also agrees that passage of S. 1400 would not affect insurance costs or availability.

However, he believes that a lack of competitiveness in the insurance market will keep rates high.

Only reform or repeal of the McCarran-Ferguson Act would lead to lower insurance prices, he said.

However, Sen. Jay Rockefeller, D-Va., cautioned the subcommittee "not to get sidetracked on the issue of insurance."

The issue is whether the Kasten bill—along with other priorities such as improving education and cutting the federal deficit—would improve competitiveness for U.S. businesses.

"When you add product liability to that mix, then you are on the right road," he said.

Sen. Rockefeller said improving competitiveness by encouraging innovation and research, and eliminating the fear of possible lawsuits over safe products is a goal of product liability reform—not just lowering the price of insurance.

Mr. Mosbacher acknowledged that S. 1400 would not remedy all of the problems with the tort system, "but it is a fair and balanced approach, and a valuable step forward."

The Kasten bill would:

- Eliminate joint and several liability for non-economic damages in product liability cases.
- Permit punitive damages only it there is clear and convincing evidence of negligence by the manufacturer or product seller. A defendant also could request that the amount of punitive damages be determined separately at a second trial.
- Encourage attempts at settlement before the action reaches trial. Either party would be able to make a settlement offer.

If the defendant rejects an offer and the subsequent verdict is for an amount greater than the settlement offer, the defendant would also be required to pay the plaintiff's legal fees.

If the plaintiff rejects an offer and the subsequent verdict is for an amount less than the settlement offer, the defendant's legal fees would be subtracted from the award.

- Shield a manufacturer from liability if the claimant was under the influence of an intoxicating drug or alcohol and that condition was at least 50% responsible for the accident.
- Bar punitive damage awards for injuries involving drugs and medical devices that are approved by the Federal Drug Administration or aircraft that have been certified by the Federal Aviation Administration.
- Reduce the amount of the product liability award by the amount of workers compensation benefits the plaintiff receives.
- Generally restrict the filing of lawsuits to within two years of the discovery of the injury or its cause.

In addition, the legislation generally would bar product liability suits involving capital goods products that are more than 25 years old.

- Make product sellers responsible only for harm caused by their own negligence. They would be responsible for the manufacturer's negligence only if the manufacturer could not be brought to trial or did not have the funds to pay an award. ■

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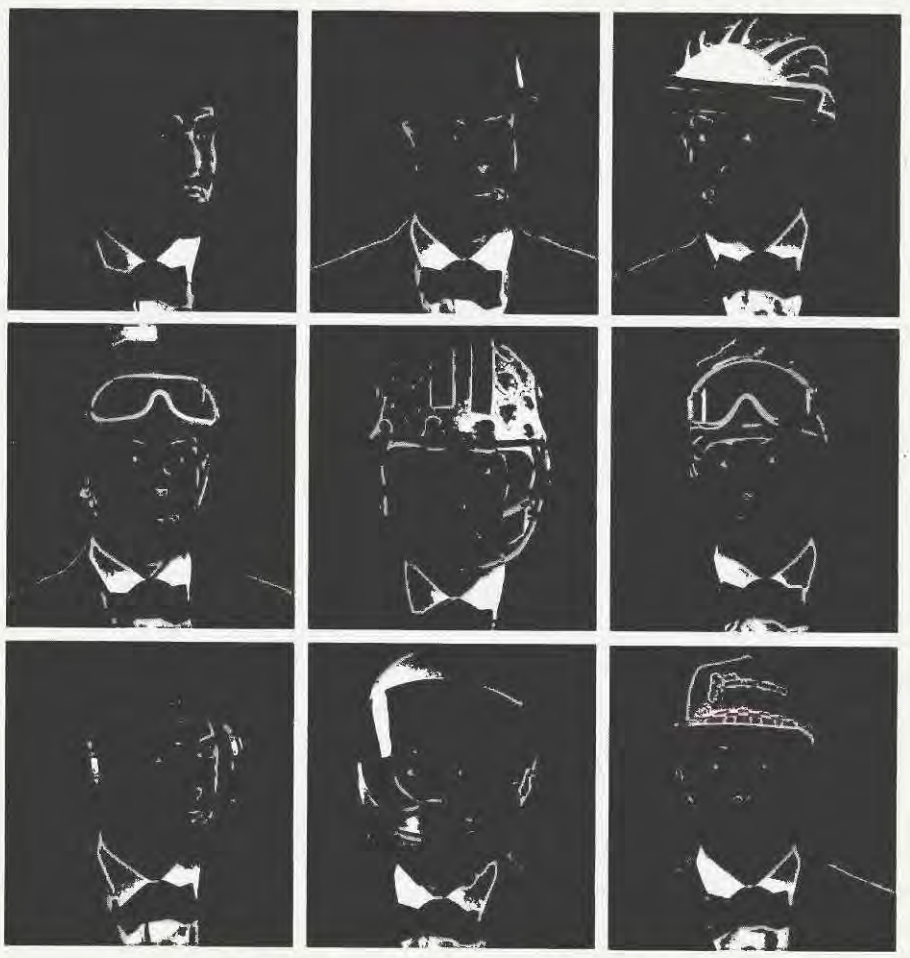

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Wellness

Continued from page 3

hensive recreation program began with the softball games, company picnics and other social events soon after the company started," a Coors document states.

The comprehensive wellness program at Coors evolved because Chief Executive Officer William K. Coors "was and still is the leader of the wellness movement in the company. He believes the company has a moral obligation to develop and maintain a work environment that encourages every employee to be dedicated to wellness," the document states.

Now, the Coors wellness program includes such diverse activities and options as a health hazard appraisal; medical screening for participants in physical fitness programs, including cholesterol screening, body fat measurements, education on the use of exercise equipment and treadmill screening; and blood pressure and breast cancer screening.

The Coors program also includes nutrition education; stress management; a coronary risk identification and behavior modification program; parenting skills; weight management; smoking cessation; prenatal programs; cardiac and orthopedic rehabilitation; and back care programs.

The Texas Instruments wellness program, which was introduced at one company site in January 1989 and is gradually being adopted by other sites, includes: a health assessment, including a blood test plus profiles of exercise activity, fitness and nutrition; exercise and nutrition activities; health education programs and screenings on such subjects as women's and children's health issues, aging, stress management, cholesterol control and health care consumerism; family programs publicized through motivational materials mailed to the home; and promotion of a smoke- and drug-free workplace.

To complement its wellness program, TI also has recently redesigned its health care plan to provide 100% coverage of preventive services, including cancer screening and prenatal and well-baby care, including immunizations.

Coors and TI are among the employers nationwide identified by the National Assn. of Manufacturers that are taking special steps in an attempt to control health care costs. Previous stories have profiled companies that have opened in-house medical clinics (*BI*, March 5), small employers that have taken special health care cost management strategies (*BI*, March 19) and joint labor-management efforts to control health care costs (*BI*, April 2).

Contact with the employee's family is integral to comprehensive wellness programs, the goal of which is to help make healthy lifestyle changes.

Traditionally, family members were peripheral in health promotion efforts, said TI's Ms. McComas.

"But, since a lot of health care costs are incurred there, we have been searching and struggling to take a more pro-active stance" in involving the family in wellness programs, she said of Texas Instruments' "Lifetrack" program.

Both TI and Coors base their programs on a thorough initial assessment of the lifestyles and health conditions of individual employees and their spouses.

"You're going to be seeing more companies doing health risk assessments in 1990," said Buck's Mr. Sinni.

"Everyone is trying to manage health care costs, and a lot of things in the past haven't worked. Now companies are trying to develop programs specific to their employee populations. To do that, you need an initial risk appraisal for each employee," he said.

"The two hottest areas" in wellness programs are risk assessment and intervention, said Hewitt's Mr. Ziemba. "Risk assessment is low-cost but has the biggest bang," since it provides needed health information to the employee and to the company for intervention purposes, he said.

"What I foresee is that once they start to evaluate the health risks in their population, companies will develop different contribution strategies depending on the risks," Mr. Sinni said, referring to the amount that employees must contribute to their health care plans.

He added that several of his clients are conducting health risk assessments with such steps in mind.

Coors already is taking that approach.

To persuade employees and spouses to undergo a health assessment, Coors reduces the copayment under the company's health care plan to 10% from 15% for employees who complete the assessment questionnaire and meet certain good health criteria. Those criteria are based on a measurement of their real age compared with their "health age."

Ninety-three percent of Coors'

Continued on next page

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Wellness

Continued from previous page
employees and spouses in the Golden, Colo., area participated in the company's health assessment program in 1988.

Of those workers and spouses, 90% have lifestyles and health conditions categorized as "not at risk," based on 11 risk factors including smoking, cholesterol levels, blood pressure and seat-belt use.

That is an improvement from the 72% of the 11,000 participants found not at risk in 1987.

"What that tells you is they have done something to change their lifestyles," observed Coors' Mr. Wright.

Those changes have been made possible by the company's comprehensive wellness program conducted at or monitored through an on-site wellness center, where in-house professional staff and equipment purchased by Coors reduce the cost of outside testing and services.

Coors workers and retirees, their spouses and their dependents aged 12 years or older may use most of the wellness activities offered by the company free of charge. And while some services require an employee contribution—for example, mammography screenings cost $5—this cost is much less than it would cost employees on their own.

After initial screenings, participants in the various wellness programs are offered services and monitoring programs in areas such as nutrition, exercise, stress management and rehabilitation.

The biggest savings from Coors' wellness program have been generated by the company's cardiac rehabilitation program, according to Mr. Wright.

"In the first six years of that program, Coors' savings (from the cardiac program) have exceeded $1.6 million through wage savings and reduced program and exercise test costs," according to a Coors document.

Mammography screening resulting in early cancer detection, a well-back program and an orthopedic rehabilitation program also have significantly contained health care costs, Mr. Wright said.

Coors determines the cost-effectiveness of its wellness programs in various ways.

For example, for the cardiac rehabilitation program, Coors determines "what it costs to do it in a hospital setting, as opposed to in our wellness center." That includes the cost of in-house vs. outside treadmill testing.

The average time lost from work due to a cardiac event is also calculated, as well as the cost of replacing an employee and training a replacement worker, Mr. Wright said.

Approximately 225 employees have participated in the cardiac rehabilitation program since its inception in 1981. "To date, 98% of these employees have returned to work, all of them to the job held prior to the cardiac event," Coors said.

Through an on-site breast screening program begun in 1985, Coors has screened more than 2,300 women: 71% of all eligible employees and 40% of spouses. Eligible women included those aged 35 and older, not pregnant and not screened within the past year.

More than 200 abnormal screenings have been recorded and four early malignancies have been detected.

While the program costs have amounted to $63,628, "estimated costs to Coors if these cancers had advanced to metastatic disease would have been $289,000" based on "direct medical costs, short-term disability costs and personnel costs," Coors said.

That is a savings of $225,372.

A certified athletic trainer evaluates orthopedic injuries and develops a rehabilitation program for Coors workers. About 10% to 15% of workers evaluated are referred to outside physicians. But some of those use the Coors wellness center for rehabilitation of their patients, thus reducing costs, Coors said.

A particularly successful program at Coors is smoking cessation.

Mr. Wright said Coors' smoking cessation program's success ratio ranges from 45% to 75% from group to group, compared with a "the national success ratio for these programs of 15%," based on the number of participants who are not smoking one year after the program ends.

Coors' smoking cessation program is successful, in part, because it includes a "two-week warm-up time," if necessary, Mr. Wright explained.

And, "if you come in with a life crisis—a divorce or a new job or whatever—that's not the time to stop smoking," he said. Such employees are encouraged to sign up for the program at a later date.

But the main reason Coors' smoking cessation program is more successful than others is because it is 12 weeks long, as opposed to typical two-week programs, he said.

"We started with the traditional two-week program and were getting a 25% success rate and feeling fat, dumb and happy," Mr. Wright said.

But the longer program—which "includes follow-up to one year and beyond" and "a support system bringing in your family, your spouse or your significant other"—has proven far more effective, he said.

Coors, like TI, has instituted a largely smoke-free workplace, with smoking permitted only in several designated areas.

TI's "Lifetrack" program—which is too young to have generated cost-benefit data—was well-received at its pilot location at a plant in Lewisville, Texas, Ms. McComas said.

Seventy-two percent of the plant's 5,300 employees participate in the program, in line with TI's target of 70% worker participation.

The program consists of three steps—orientation, assessment and presentation of results—each of which is conducted on company time.

First, TI employees complete an orientation in which they learn about the "Lifetrack" program.

"We spent a great deal of time and effort" on the presentation video and materials, "and people have told us that the initial presentation speaks to the quality and effort put into the program," Ms.

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OLD PROS ON

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McComas said.

Next, a trained technician conducts fitness assessments, which includes a wellness profile that shows the relationship between the employee's health and his or her lifestyle habits, such as alcohol and tobacco use, vehicle safety, stress management, nutrition, exercise and dental hygiene.

In addition, the assessment includes a physical fitness profile; a nutrition profile; and a personal well-being profile, which provides a general view of the employee's outlook on life.

The technician then reviews the results individually with each employee.

Employees are later given a confidential summary report of their health profile, attractively packaged and clearly detailed, with recommendations for participation in wellness activities and services available at TI.

"We use group data to create a strategic plan for each site," Ms. McComas said.

For instance, after studying group data obtained at Lewisville in 1989, nutrition habits and obesity were areas targeted for improvement. A follow-up in February at Lewisville "indicates statistically significant changes" in those areas, Ms. McComas said.

With "Lifetrack" being gradually expanded to other TI facilities, TI began for the first time in January to offer employees and their dependents full coverage for preventive care procedures under the company's self-insured health care plan.

Among the procedures for which employees can receive full coverage are cancer screening, following the American Cancer Society schedules for mammography, sigmoidoscopy (examination of the rectum or colon), stool blood test, endometrial (uterine lining) biopsy, Pap test and urinalysis; prenatal care; and well-baby and well-child care up to age 2, including immunizations.

Another form of health risk assessment is offered by Avery International Corp. of Pasadena, Calif., which provides routine physical exams—including a complete blood chemistry test—for workers at no cost through mobile medical units at the worksite.

Avery hopes that reports based on the physicals will not only prompt workers to seek necessary medical treatment, but also encourage workers to participate in company-sponsored wellness activities, explained James Bochinski, Avery's vp of compensation and benefits.

Avery "basically offers all types of wellness programs on a local basis, such as aerobics and brown-bag sessions" on a variety of health topics, Mr. Bochinski said.

But, wellness programs vary from site to site because "each site is different," Mr. Bochinski said.

And, there is no comprehensive effort to offer all the activities at all the sites. "Historically we've let them run their own programs," he said.

Among the activities the wellness programs offer are aerobics classes, nutrition seminars, smoking cessation programs, and Weight Watchers sessions. Some sites also pay employees' initiation fees for enrollment in exercise centers.

In addition, an innovative prenatal care program at Avery identifies high-risk pregnancies through ongoing evaluation provided by Tokos Perinatal Nursing Service, a national nursing company based in Santa Ana, Calif.

"We had a couple of preemies last year," Mr. Bochinski said, explaining the impetus for the program. One premature birth cost Avery $260,000 and the other cost $175,000.

Avery, which has 8,500 employees, self-insures its group health care benefits.

Through Avery's broker, Johnson & Higgins, the company selected Tokos, which provides at a physician's recommendation a belt-like monitoring device for high-risk pregnant women, Mr. Bochinski said.

The woman wears the belt at least one hour twice a day, at which time information on the fetus is conveyed to Tokos through a modem. A physician then can recommend intervention when the patient's condition warrants it.

"The objective is to carry the baby as close to term as possible," Mr. Bochinski said, noting that the cost of the Tokos service "is considerably less than if a baby is born premature." However, Mr. Bochinski would not reveal the cost of the service.

So far, Avery has used the service for only one employee.

In addition to this program, Avery has implemented a mental health advisory program that "borders on an EAP," Mr. Bochinski said.

The program is designed "to encourage people to visit a psychologist if they have some problems," he explained.

Before seeking mental health treatment, employees and dependents are steered to a coordinator employed by a mental health advisory service who assesses the problem and makes a referral for free short-term counseling. The advisory service also makes referrals for additional care, if needed.

The program has reduced mental health costs for Avery, though the exact cost savings were not available, Mr. Bochinski said.

Under the new program, Avery offers full coverage for short-term treatment with a consultant from Personal Performance Consultants, a mental health advisory service, while ongoing outpatient treatment is covered at an 80% level, up to a maximum of $70 per visit for 52 visits per year.

In addition, after a $100 deductible, Avery provides 80% coverage for PPC-approved inpatient treatment up to $1,000. The cost of inpatient care then is 100% covered.

If inpatient care is not PPC-approved, Avery provides 60% coverage above a $500 deductible.

Inpatient care for chemical dependency is limited to two periods of confinement per lifetime.

Avery formerly offered 100% coverage of inpatient mental health care, but only 50% coverage for outpatient care, which was "counterproductive to cost-savings" because it did not encourage employees to seek help before more serious problems developed.

Avery caps lifetime mental health benefits at $75,000 for employees and $25,000 for their dependents. ■

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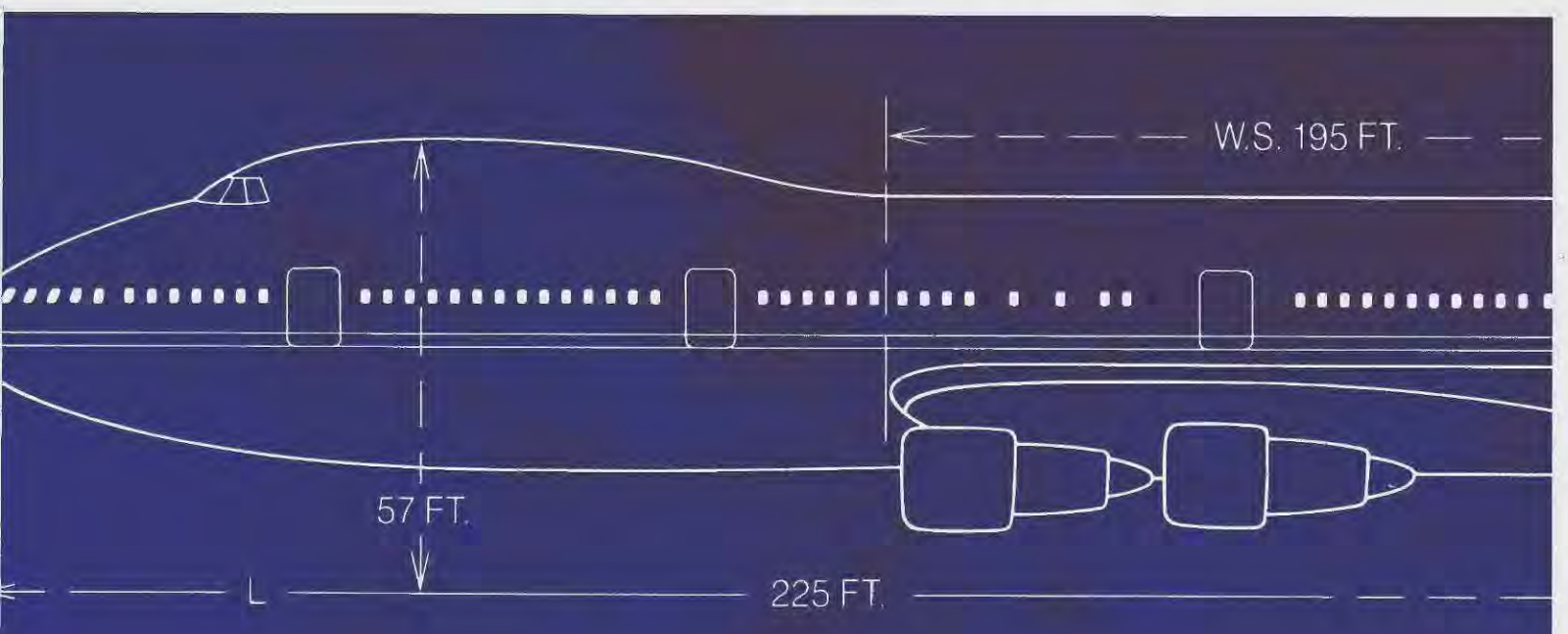

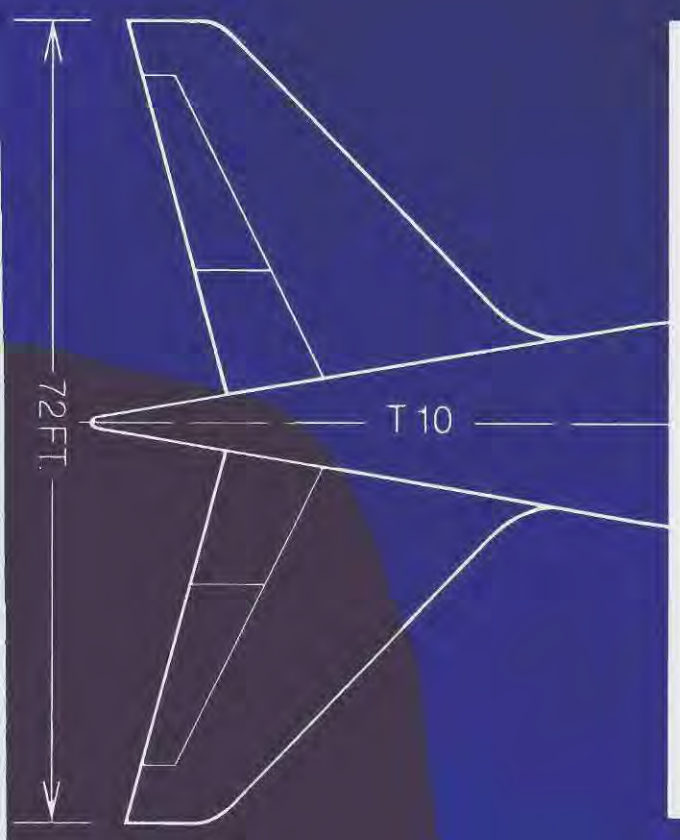

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A NEW TEAM

Employers, others join to fight AIDS

Levi chief blasts federal response

By ADRIENNE LOCKE

ARLINGTON, Va.—Workplace AIDS education efforts in San Francisco and employers' support of community AIDS programs in that city illustrate a model business response to the epidemic, contends a corporate executive active in the city's AIDS programs.

However, the federal government must "take the lead" in fighting the epidemic, said Robert D. Haas, chairman and chief executive officer at Levi Strauss & Co. of San Francisco, who strongly criticized the Bush administration's AIDS policy at the National Leadership Business Conference on AIDS in Arlington last month.

Investing now in the fight against acquired immune deficiency syndrome not only will protect employee health and productivity but also will help those who are already infected, he said.

From a humanitarian standpoint, business should share the responsibility for combating AIDS and the spread of the human immunodeficiency virus, which leads to full-blown AIDS, Mr. Haas said.

With oil spills and political turmoil in Eastern Europe dominating headlines in the United States, AIDS could fade into the background even as the epidemic rages on, he warned. "At the front lines, the situation is grim."

For example, in San Francisco, AIDS has claimed more than 5,000 lives—three times the number of city residents who died in both world wars and the Korean and Vietnam conflicts combined, Mr. Haas pointed out.

The loss of life to AIDS is similar in New York, Chicago and Los Angeles, he said.

And, while the disease is less visible in smaller cities and rural areas, it still is destructive, he said.

"The HIV virus has all of our communities on its travel itinerary," Mr. Haas observed.

But, San Francisco—where the rate of new HIV infection among homosexual and bisexual men has decreased—proves that businesses and community groups together can help curb the spread of AIDS and the HIV infection, Mr. Haas pointed out.

In 1986, some local business leaders developed on-the-job AIDS educational programs and began supporting community organizations that could educate additional people, he explained.

Since then, those programs have been adopted by other businesses and have gained broad support from private citizens, religious and other community groups, said a spokesman for the San Francisco AIDS Foundation in an interview. Mr. Haas is the honorary director of the foundation, which is supported by employers, community groups and citizens.

'The HIV virus has all of our communities on its travel itinerary,' says Mr. Haas.

In addition, some community organizations help employers develop AIDS education programs for their employees.

Local employers also have made sure their personnel policies do not discriminate against employees and applicants who are HIV-positive or who have AIDS.

In addition, many San Francisco employers have ensured that employees with AIDS receive adequate, affordable health care.

Businesses also have encouraged employees to do AIDS-related volunteer work and have spoken out against "ill-considered political initiatives"—aimed at people with AIDS or those with HIV infections—that were "inspired by hate or ignorance," he said.

The AIDS programs implemented by employers in San Francisco can serve as a model for employers nationwide, said Mr. Haas, though he acknowledged that what works in one city may not always work elsewhere.

Indeed, an AIDS task force appointed by Mayor Art Agnos last year recently made 53 recommendations to fight AIDS, including seven specifically for business—many of which employers in San Francisco already have adopted. The report says employers should:

- Participate in AIDS workplace education programs.
- Make sure health care benefits cover the cost of AZT (azidothymidine) and other drug treatment programs.
- Encourage employees to do volunteer work at agencies providing AIDS-related services.
- Support those agencies with technical and management assistance.
- Donate more money to those agencies.
- Try to curb discrimination against homosexuals and others.
- Endorse sound public health policies that direct new funding into research, emphasize meaningful preventive behavior and promote cost-effective patient care.

These measures are necessary, considering the report's "sobering and compelling assessment of the challenge that lies ahead," Mr. Haas said, noting that the findings are relevant to all cities.

More people will be infected with HIV and more will die from AIDS in the 1990s than in the previous decade, with intravenous drug users posing a "difficult new challenge," the task force reported.

And, the report said the cost of treating people with AIDS can be expected to rise dramatically.

But, business leaders also should make clear that they expect "more than just mere words" from the federal government, Mr. Haas asserted. No battle against the epidemic can be successful without solid backing from the administration and Congress, he said.

"Government must take the lead in addressing a problem of this magnitude," he said.

"We need a thoughtful and comprehensive plan of action. We need to change some existing government policies and we need a series of bold new initiatives," Mr. Haas said.

For example, President Bush has cut from the Department of Health and Human Services budget money that was to have covered the cost of AZT and other preventive treatments for people with AIDS who are ineligible for Medicaid, Mr. Haas said.

In addition, the administration cut funds to support home and community patient care projects in cities hit hardest by AIDS, Mr. Haas said.

He called for an "ambitious and expensive" federal AIDS program.

Under that program, additional federal funds should be made available to finance early intervention programs that would begin treatment of HIV infection before the onset of any AIDS symptoms. Such treatment could delay or possibly eliminate the "early and unnecessary deaths" of 1 million HIV-infected people, he said.

"No other single initiative could do more to affect the course of the epidemic," he said.

Mr. Haas also asked for increased federal funding for cities whose resources have been taxed severely by rural and suburban AIDS patients seeking care not available elsewhere.

In addition, Medicaid reimbursement for AIDS-related illnesses should be improved so more hospitals can afford to care for AIDS patients, he said.

And, a way must be found to provide all people with AIDS adequate, affordable and cost-effective health care coverage, Mr. Haas said.

"Neglecting these needs would be catastrophic," he said.

Mr. Haas also criticized the president's claim that the "war on drugs" also will be a war against AIDS (*BI*, April 9), arguing that less than 30% of the $10 billion drug budget will go toward prevention and treatment.

President Bush's emphasis on interdiction and law enforcement in fighting the AIDS epidemic "makes no sense at all. It defies logic, the laws of supply and demand and all of the experience of our recent history," he said. ■

Allstate holds AIDS forum

ARLINGTON, Va.—Reinforcing and renewing the commitment of business and labor to battle the AIDS epidemic was the focus of The National Leadership Business Conference on AIDS held March 29 in Arlington, Va.

It was the third in a series of meetings sponsored by the Allstate Forum on Public Issues. The first, "AIDS: Corporate America's Responds," was in 1987 in Chicago, with a follow-up in Washington, D.C., in 1988.

"We are here to declare that AIDS remains high on our national agenda," said Lawrence H. Williford, senior vp of corporate relations at Allstate Insurance Co. in Northbrook, Ill.

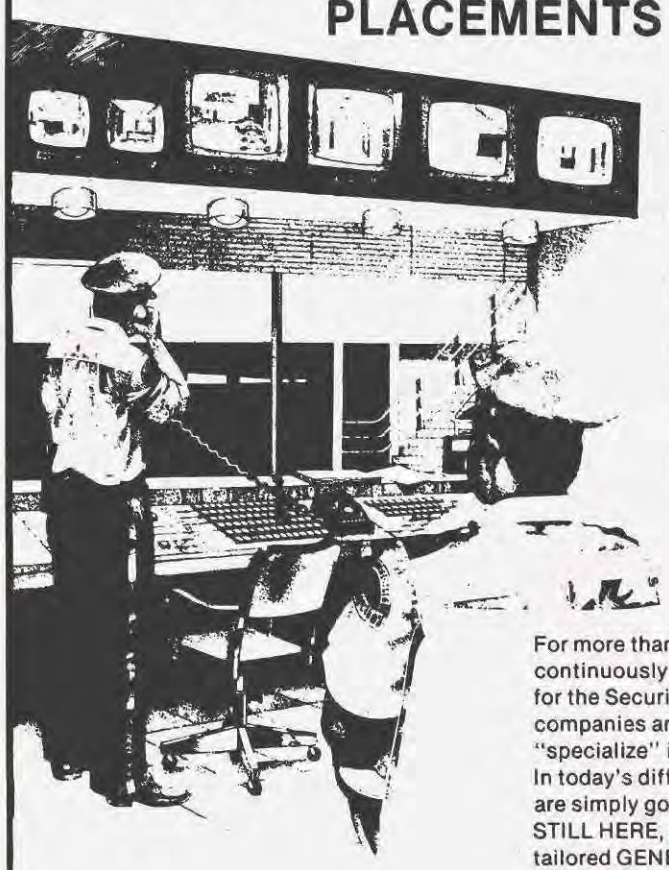
Two non-profit groups based in Washington, D.C., sponsored the meeting: the National Leadership Coalition on AIDS, a coalition of leaders from business, labor, health and non-profit groups; and the National Community AIDS Partnership, a group of corporations and foundations that provides matching contributions for community AIDS prevention and service programs.

The forums focus on improving understanding of the problems and the options businesses face in responding to the epidemic.

They also seek commitments to the fight against AIDS through private sector initiatives as well as try to help companies develop policies on AIDS.

Allstate may sponsor other conferences, though none are planned for the near future, a spokesman said.

A BRIEF MESSAGE ABOUT INSURANCE PLACEMENTS FOR



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InsurerTopics

A special editorial section
sent exclusively
to insurers and reinsurers

Do insurers perform better during a crisis?

Officials say service does not vary

By MARK A. HOFMANN

In light of the recent string of catastrophes, many insurers believe the general public is developing the impression that the worst circumstances bring out the best in insurers.

But the notion that insurer performance on disaster claims far exceeds their handling of day-to-day claims is not quite fair, insurers and their trade groups contend.

While two insurers say their informal surveys show policyholders rank insurers' claims handling ability nearly identically in routine matters and following catastrophes, insurers and trade groups say the public believes that insurers respond better during catastrophes than under routine circumstances.

For example:

- Insurance adjusters often are the first "authority figures" to contact policyholders after a disaster.
- Insurance representatives are often seen as members of the community of sorts that can develop among policyholders following a catastrophe.
- Insurers are more flexible in handling disaster claims than routine claims.

"There is a perception that we are more receptive and efficient in catastrophic situations," said Robert E. Vagley, president of the Washington, D.C.-based American Insurance Assn.

"People view (claims handling after catastrophes) differently because claims are handled differently," observed Adrian Tocklin, executive vp-claims for Continental Corp. of New York. "I also think people's expectations are different, and that's important."

However, insurers contend that the industry provides high-quality service regardless of the situation under which a claim occurs.

Steve Rogers, vp-claims for Industrial Risk Insurers of Hartford, Conn., says he doubts whether policyholders see much difference in the handling of routine and catastrophic claims.

"There may be a difference in perception, but that's only because hurricanes tend to be more visible, so claims tend to be more visible," he said.

IRI's commercial clients show no difference in their assessments of how disaster and routine claims are handled, he said.

Robert J. Mathieu, assistant vp in charge of property claims for Hartford, Conn.-based Hartford Insurance Group, agrees.

"I think we do a good job, and I think most carriers do a good job" on catastrophe and routine claims, he said.

The public's perception that insurers do their best under the worst of circumstances is curious, according to Glenn Soden, customer relations officer for Nationwide Mutual Insurance Co. of Columbus, Ohio.

If there were any time when insurer-policyholder friction should be high, it would be right after a disaster when adjusters juggle unusually large numbers of cases, Mr. Soden said.

"The reaction should be that the service isn't as good," Mr. Soden commented. But the opposite is true, he said. Customers are willing to accept slightly less service in the wake of disaster.

Two recent surveys by insurance companies found that policyholders rank claims handling about even for catastrophic and routine losses.

Fireman's Fund Insurance Co., a unit of Fund American Cos. Inc. based in Novato, Calif., has found no significant difference in how consumers rate its claims-handling in catastrophic or routine events, said Vp F.E. Ward.

In questionnaires from field offices, Fireman's Fund asked claim-

Continued on next page

Claims handling

Continued from previous page

ants to rate the company's claims handling on a 1 to 5 scale, with 5 being the highest rating.

The overall rating during the first two months of 1990 is 4.4, identical to the rating from the first six months of 1989, before last fall's catastrophes.

Claimants rated Fireman's Fund 4.3 for claims handling speed; 4.4 on the ease of reaching a claims representative; 4.7 on the representative's courtesy; 4.4 on the ease of procedure and 4.4 on the insurer's explanation of the claim payment, Mr. Ward said.

About 2,500 to 2,600 people responded to each question, he said.

Some responses reflected how insurers handled claims from Hurricane Hugo and the California earthquake, though Mr. Ward did not say how many.

Average ratings in early 1989 and 1990 are about the same for ease of reaching a claim representative, the representative's courtesy, explanation of the claim payment and speed of claim handling.

One difference: Ease of procedures in was rated 4.5 in 1989 and 4.4 in the first two months of 1990, according to Mr. Ward.

In two recent surveys, Nationwide Mutual also found little variation in customer ratings between catastrophic and routine claims, said Susan Mott, director of operational research.

Nationwide sponsored surveys of its policyholders and those of its competitors. One covered homeowners with Hurricane Hugo claims and the other automobile policyholders with routine claims.

Ms. Mott noted that nearly three-quarters of the respondents to an October 1989 survey, asked to compare Nationwide's handling of personal auto claims to a competitor's, said they were "very satisfied" with Nationwide or its competitor.

'People view (claims handling after catastrophes) differently because claims are handled differently,' observes Adrian Tocklin of Continental Corp. in New York. 'I also think people's expectations are different, and that's important.'

She would not identify the other insurer.

In a survey early this year, 80% of Nationwide policyholders with Hugo claims gave the company a "very satisfied" overall rating for claims handling. Two unidentified competitors received ratings of 75% and 71%.

"My own feeling is there really is not a lot of difference between the catastrophe claims and the routine claims," said Lowell R. Beck, president of the Des Plaines, Ill.-based National Association of Independent Insurers.

But, Mr. Beck added, the public may perceive claims handling differently following a disaster.

Often an insurance adjuster is the first representative of outside authority at a disaster scene, because police, fire and civil emergency officials might be stretched too thin to contact each victim, Mr. Beck observed.

Disasters tend to generate a feelings of community, he explained. And police and fire officials, residents and insurance adjusters all feel they are working together and empathize with each other's plight.

Under those circumstances, adjusters can really show their humanity, he said.

The larger the disaster, "the more the sense of community," said Continental's Ms. Tocklin.

Policyholders are more willing to accept that insurers have to set priorities in settling claims after a disaster, she said.

Some Continental policyholders in hurricane-damaged areas suggested that adjusters first help neighbors whose property had been more severely damaged than their own, she said. "In a regular time, no one would say that."

"When you get into troubled times, the multitude of people is pulling for each other," said Fireman's Fund's Mr. Ward. "They know all their neighbors are in real trouble."

"I think it's a feeling that everybody is in the same boat," said Roger Lehman, vp of Bloomington, Ill.-based State Farm Insurance Cos., the nation's largest property/casualty insurer.

"I think it's the trauma of a catastrophe. Everybody's in a devastated condition," Mr. Lehman said.

In addition, adjusters in a catastrophe situation become more than insurance company representatives —they often become helpers and friends, Mr. Beck said.

Some adjusters helped victims of Hurricane Hugo repair damage, he said. And in one case, an adjuster obtained an oxygen tank for an ill policyholder who could not reach health officials. "They were serving as social workers as well as claims adjusters," he said.

State Farm's Mr. Lehman agreed that adjusters can become friends to distraught families. He relates the story of an adjuster who had been working claims in the wake of an earlier catastrophe.

After presenting a check to a policyholder, the adjuster was invited to have dinner with the family. Even without the check, he would have been invited to dinner, because the family had begun thinking of him as a close friend, Mr. Lehman said.

And insurance companies encourage that empathy.

Before handling their first disaster claims, Continental adjusters attend a "mini-sensitivity training session" given by experienced adjusters, said Ms. Tocklin said.

Those sessions focus on listening to victims.

Under normal circumstances, a policyholder whose claim is from a kitchen fire will not talk an adjuster's ear off about the accident, Ms. Tocklin said. But catastrophe victims often give detailed accounts of how they survived the storm, want to compare their losses to others' and sometimes tell life stories, she said.

"People want someone to listen to them" and adjusters are often first to lend an ear, Ms. Tocklin said.

Also, because many people have similar claims after a catastrophe, they can see whether their insurer measures up against others, said Franklin W. Nutter, president of the Schaumburg, Ill.-based Alliance of American Insurers.

After hurricanes or earthquakes, individual policyholders compare their insurer's response to that of neighbors' insurers, he said.

Major catastrophes provide one

Continued on page 20D

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Insurer Topics

Claims handling

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of the few circumstances in which individual insurers can be measured directly against their competition, said the Alliance's Mr. Nutter. By contrast, in isolated routine claims no standards are readily available on which to compare an insurer's—or the industry's—performance, he said.

"Even though we feel that normally we provide very good service, the public doesn't have anything to gauge it against" for routine claims, Nationwide's Mr. Soden said.

Another possible reason for the generally favorable ratings of insurers handling of disaster claims is is that there is no dispute over how a loss occurred, Mr. Nutter pointed out.

Disaster damage "is obvious and apparent, and there's no question about cause," Mr. Nutter said. "There isn't any issue of fraud. You know there isn't any question this was caused by a hurricane. You write the check on the spot," agreed the NAII's Mr. Beck.

The AIA's Mr. Vagley said insurers' appear more flexible in the wake of disasters than under normal circumstances.

Because resources are limited and the demand for services is seemingly unlimited during a catastrophe, insurers' desire to serve policyholders may lead them to "blur the edges of the contract," Mr. Vagley said.

Regulators can also play a role by encouraging insurers who want to hold policyholders to the letter of a policy "to give consumers the benefit of the doubt," he said.

In South Carolina, for example, insurance regulators urged insurers to treat freezer loss claims generously in the wake of Hurricane Hugo. As a result, insurers accepted policyholders' loss estimates, even though many policyholders would have had difficulty substantiating them, he said.

Overall, catastrophes give insurers a better showcase to demonstrate how they handle handle claims, observers said.

"Whereas catastrophe episodes are very visible, the routine claims aren't," said AIA's Mr. Vagley.

"There's a certain amount of energy and drama," he said, noting the appearance of catastrophe teams and armies of adjusters who will often write checks on the spot promotes good will with the public.

Widespread public and media attention makes catastrophes "an opportunity for the industry to shine," said Mr. Nutter. ■

Bay area quake tests insurer plan for crisis response

By MARK A. HOFMANN

NOVATO, Calif.—The San Francisco Bay area earthquake last October sent some employees of Novato, Calif.-based Fireman's Fund Insurance Co. scrambling under their desks for protection.

But after the shaking stopped, they went back to work immediately, carrying out carefully designed and interlocking crisis programs developed by the Fund American Cos. Inc. property/casualty insurance unit.

The programs—which coordinated the efforts of executive, claims, communications and other departments for a unified response to a catastrophe—included an overall business recovery plan, a claim response disaster plan and a crisis communications plan.

The overall business recovery plan is based on a worst-case assumption that the company's computer center, located about seven miles south of Novato, would be knocked out by an earthquake.

There were long-standing plans to transfer data operations automatically to the insurer's second data center in Phoenix, Ariz.

The plan brims with safeguards to prevent the accidental switchover of operations to the alternate site, pointed out John Kozero, director of public relations and author of the company's crisis communications plan.

But, the computer center came through the 15-second Oct. 17 earthquake without damage. In fact, the only significant property damage sustained by Fireman's Fund was at its branch office in downtown San Francisco, according to Mr. Kozero.

However, other facets of the plans went into operation minutes after the major quake.

Mr. Ward

F.E. "Buzz" Ward, the Fireman's Fund vp responsible for property recovery, was walking through the door of his home in nearby Sonoma County when the quake hit at 5:04 p.m. Pacific Daylight Time. He began attempting to reach the insurer's three executive general adjusters—the officials in charge of teams of regional general adjusters —in other parts of the country to spell out claims personnel needs. Regional general adjusters normally handle only claims exceeding $50,000, Mr. Ward said.

He reached the executive general adjuster for the central region in Columbus, Ohio, without much difficulty.

However, Mr. Ward was unable to contact the East Coast executive general adjuster until nearly midnight. He was temporarily stationed in Charleston, S.C., to deal with claims stemming from Hurricane Hugo, which had pounded the nation's Southeast only weeks earlier.

Mr. Ward instructed the officials to get regional general adjusters on flights to Sacramento, about 100 miles east of the bay area, as soon as possible. He explained that, at that time, no one was sure how much damage San Francisco-area airports had sustained, so it was prudent to choose an alternative landing site.

"We felt we needed to get out among the insureds and see what we could do to help them," Mr. Ward said.

In the meantime, Mr. Ward booked 10 rooms in a Rohnert Park, Calif., motel for the incoming personnel.

Mr. Ward also made arrangements for rental cars to complement automobiles available from

Continued on page 20F

June

Niche Marketing

Want to increase your business? You've got to find that niche that sets you apart from your competition. BI will look at how niche marketing works for agents and brokers, how they can specialize by type of coverage they offer as well as by targeting their clients demographica ly or by nature of business.

Issue: June 4
Ad Closing: May 22

July

NAIB Conference Report

What hot topics will be discussed at the National Assn. of Insurance Brokers conference...the volctile property/casualty market...insurer solvency...or, the industry's image? Joining executives from leading insurance brokerage firms at this meeting, BI editors will report on the state of the industry and issues vital to both brokers and agents.

Issue: July 2
Ad Closing: June 19

August

Employee Development & Education

What are agencies doing to keep producers and other employees up-to-date on the insurance industry? BI editors will report on the types of in-house programs used for on the job training as well as the outside sources available for continuing employee education. In addition, this section will review the sources agents and brokers use to recruit new employees.

Issue: August 6
Ad Closing: July 25

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Insurer Topics

Fireman's Fund

Continued from page 20D

Fireman's Fund's car pool.

Meanwhile, the corporate communications director met with senior management at 7:15, only a little more than two hours after the earthquake struck, to discuss the type of communications required.

Within 45 minutes, previously prepared crisis communications messages to company officers were edited to reflect the specifics of the quake and a message went out through the corporate electronic bulletin board to all offices asking for volunteers to come to San Francisco to help handle claims, Mr. Kozero said.

A few minutes later, the insurer's toll-free claims hot line went into operation.

Mr. Ward said that during the six days following the earthquake, the telephone service received 640 calls, 216 of which came from San Francisco and most of the rest from other communities in the affected area.

And, six calls came from out of state, he said.

Mr. Kozero said that Fireman's Fund contacted the national and international press within hours of the earthquake. Fireman's Fund reached Reuters News Service shortly before midnight on Oct. 17 to assure interested Western Europeans that the insurer remained in operation.

About six hours later, Fireman's Fund contacted a Dow Jones reporter and assured the journalist that the company was up and running. The story moved across the Dow Jones news wire before the stock markets opened in New York on the morning of Oct. 18.

Throughout the morning of Oct. 18, the company worked to arrange interviews between Fund American Chairman John J. Byrne and the three major San Francisco television stations, Mr. Kozero said.

The company also reached its advertising agency in New York and ordered revisions in a previously written newspaper advertisement. The revisions included inserting the toll-free telephone number into the ad copy. The advertisements appeared in the Oct. 19 editions of several national newspapers.

One imaginative adjuster, hampered by buckled roads and debris, made his rounds by subway.

Adjusters began arriving in Sacramento on Oct. 18, and 11 of Fireman's Fund's 17 regional general adjusters reached the quake area by Oct. 20, Mr. Ward said.

During the next few days, "we continually moved people in and out" of the motel, as new arrivals from as far away as the East Coast took the places of adjusters who received long-term assignments and living arrangements in areas around San Francisco Bay, he said.

In all, about 50 additional people, including clerical support staff, were assigned to work on claims stemming from the quake, Mr. Ward said.

"Once people were able to start communicating," the number of claims began mounting rapidly, even though in some places, such as the Santa Cruz-Watsonville area near the quake's epicenter, "communications were practically nil," Mr. Ward said.

In addition, independent agents faxed claims information from their offices to Fireman's Fund Novato headquarters.

Adjusters often found the going difficult, but they responded with imagination, according to Mr. Ward.

For example, one adjuster hampered by buckled highways and debris checked to see if the Bay Area Rapid Transit system was still operating. The system had escaped serious damage and remained operational, and the adjuster made his rounds via the subway system, he said.

Meanwhile, corporate communications staffers throughout the rest of the week following the quake attended meetings of a senior management task force that reviewed developments and the deployment of claims adjusters from across the nation.

After the meetings, which took place three times a day at four-hour intervals, Fireman's Fund released to the press the latest information on damage estimates for their policyholders, among other things.

Mr. Kozero estimated that the company also fielded between 35 and 50 calls from the press each day during the week following the earthquake.

The insurer from Oct. 18 through Oct. 23 also sent messages as needed to branch offices through the company's electronic bulletin board to apprise them of events, Mr. Kozero said.

The branch offices in turn notified Fireman's Fund agents of significant developments. The branch officers reassured the agents that the earthquake had not hampered company operations. The company also emphasized that it continued to write new business.

Mr. Kozero said the company was pleased with the effectiveness of all of its crisis plans. ■

May

Automation: Underwriting/ Policy Management

Which underwriting and policy management functions are ready for the age of automation? And what are the latest electronic marvels available to insurers for streamlining those functions? BI will talk to insurers, consultants and computer manufacturers to learn which systems work ... and which don't.

Issue: May 21
Ad Closing: May 9

June

Advertising/Marketing/ Sales Promotion

When budgets are set, what can insurers do to stand out in their market and get the most for their advertising and sales promotion dollars? BI will look specifically at events sponsorship, and particularly at "second tier" events, as viable marketing investments. And, BI editors have invited advertising executives to review and critique insurance advertising in general.

Issue: June 18
Ad Closing: June 5

July

Contracting for Services

What outside services do insurers rely on, and is the trend to keep work in-house or to contract out with consultants or other vendors? In answering these questions, BI editors will examine the types of outside services insurance companies need and use, and how to select the best vendors — from hiring part time office help to engaging actuaries or consultants.

Issue: July 16
Ad Closing: July 3

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Insurer Topics

Planning helped limit earthquake problems

By MARK A. HOFMANN

NORWOOD, Mass.—Both businesses and insurers "can solve a lot of problems right at the beginning" by insisting that commercial properties be built to withstand a catastrophe, says a disaster recovery expert.

As an example, Ray Croteau, vp of Factory Mutual Engineering Organization in Norwood, Mass., cites his own organization's work with Factory Mutual System policyholders before the Oct. 17, 1989, California earthquake.

Factory Mutual's engineers helped design quake-resistant structures and organize comprehensive plans for deploying adjusters and engineers to policyholders, Mr. Croteau said.

The organization provides engineering and claims services to Factory Mutual System insurers: Allendale Mutual Insurance Co. of Johnston, R.I.; Arkwright Mutual Insurance Co. of Waltham, Mass.; and Protection Mutual Insurance Co. of Park Ridge, Ill.

To help mitigate damage, facilities insured by Factory Mutual companies must be built according to earthquake resistance standards, Mr. Croteau said.

For example, boilers holding thousands of gallons of various liquids have been known to "walk" up to five feet from their prequake position and must be adequately anchored, he said.

Sprinkler systems also must be anchored, he said. "If a building's going to move, we don't want the sprinklers to break."

In addition, FMEO engineers regularly visit facilities and promote development of emergency response plans, he said.

FMEO also has its own plans, Mr. Croteau said.

"We have a plan for every disaster. But no matter how well you plan, each catastrophe is different," Mr. Croteau said. "We take the position, 'You don't assume it won't happen.' We assume worst-case scenarios."

After the California earthquake, "our major concern was to help our policyholders," Mr. Croteau said.

FMEO's adjustment manager in Los Angeles acted as field coordinator, he said. Under the plan, adjusters nationwide are assigned to contact specific managers in the wake of a catastrophe.

And, Mr. Croteau said, staff in an affected area have a simple standing order: "If we don't call you, you call us."

FMEO officials want to make certain that staff have taken care of family needs before reporting for duty, he said.

Within seven hours of the Oct. 17 quake, 10 employees had contacted FMEO's San Francisco area regional manager, Mr. Croteau said. Another 10 adjusters across the country contacted their managers and said, "We're ready to go," he commented.

Regional managers are assigned to make arrangements for housing and rental cars, he said.

Hotel rooms were booked in San Rafael, just north of San Francisco, and San Jose, about 45 miles south of the city.

"We didn't have any problems. We were early," Mr. Croteau said.

Quick reactions in renting cars with cellular phones also served the company well, he said. "They turned out to be in high demand. Luckily, we were early."

At 4 a.m. on Oct. 18, a regional office in San Rafael opened as headquarters for quake claims adjusting and engineering surveys, Mr. Croteau said.

A satellite claims operation was set up in San Jose.

However, FMEO personnel in San Rafael that morning discovered that while they could call out, they could not receive calls. Service was restored by noon, but "those eight hours seemed like three days," he said.

Poor communications within the affected area forced FMEO personnel to canvass in the field, Mr. Croteau said. "We felt the field visits were important. If there was an impairment, we immediately sent out an engineer."

Some roads were buckled or collapsed and others just blocked off, he recalled. "It was very difficult. Transportation was really a mess."

Mr. Croteau

Nevertheless, 20 adjusters and 35 engineers visited 1,300 nearby policyholders in the next eight days, he said.

Additional personnel were on standby for deployment, he added.

Doors opened as early as 5 a.m. and "we kept the office open over the weekend," Mr. Croteau said.

All internal communications were handled by computer. Systems in San Rafael were linked to systems in FMEO's headquarters as well as the home offices of the three Factory Mutual System insurers. Claims data flowed both ways.

Within a week, adjusters and engineers were recalled and within two weeks, things were pretty much back to normal, he said.

Mr. Croteau said the teams also had some good luck. "I think one thing we're very happy about is that there was no catastrophic fire," he said, noting that many of the losses experienced by Factory Mutual policyholders were sprinkler breaks.

Mr. Croteau said that earthquakes present a triple threat to policyholders: damage caused by earth movement, fire caused by ruptured gas lines and downed wires, and flooding from broken water mains.

Two concerns topped the FMEO's list after the California temblor: getting fire protection back in service quickly and providing engineering and adjustment services.

Mr. Croteau stressed the magnitude of the fire exposure. "Earthquakes, unfortunately, can create near-perfect conditions for catastrophic fires."

Overall, Mr. Croteau rated the FMEO's catastrophe plan "extremely successful."

"In this particular catastrophe, I felt we were 100% successful," he said. ■

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Insurer Topics

Hartford was prepared before Hugo hit coast

By MARK A. HOFMANN

HARTFORD, Conn.—Two weeks before Hurricane Hugo smashed into the South Carolina coast, Hartford Insurance Group catastrophe response officials began tracking the storm on a wall map at company headquarters.

It was part of a detailed plan that involved choosing catastrophe teams—known at the company as "storm troops"—at Hartford offices days before the hurricane slammed into the mainland Sept. 22, 1989.

Days in advance, Hartford arranged lodging, rental cars and emergency communications equipment for adjusters.

But the contingency plan really was proved sound when it accommodated a sudden and significant change in the insurer's catastrophe response strategy, said Jack Brady, catastrophe coordinator.

Advance planning for a potential hurricane is not unusual at Hartford.

"We start worrying about hurricanes when they are formed and heading on a path toward the United States," explained Robert Mathieu, assistant vp in charge of property claims.

As Hugo approached, Mr. Brady says that every three hours he updated the Hartford wall map—which is broken into approximately 30-square-mile sections.

Hartford claims officials began monitoring the storm closely as it tore through the Caribbean, said Richard A. Harrington, a division manager in Hartford's claims department.

About a week before Hugo struck the continental United States, experienced claims adjusters from around the country were alerted that they might be called for storm duty.

Mr. Mathieu

Some 15 adjusters and managers—"top-flight storm personnel," Mr. Harrington says—formed the nucleus of the response team.

As the storm bore down on the mainland, regional claims managers in Orlando, Fla., Atlanta, and Charlotte, N.C.—areas likely to be hit hardest—were told to line up cars and lodging for out-of-town Hartford staffers, Mr. Harrington explained.

"We were really ready to go into three different areas," he said.

Office equipment also was being gathered in Hartford for shipment to the storm area.

Preparations were completed before landfall, said Mr. Harrington.

Hartford catastrophe team members began arriving at staging areas late in the day the hurricane struck, Mr. Harrington said.

Moving adjusters and managers into these areas before the storm had passed through would have violated company policy, said Mr. Mathieu. "We don't want to put our people in danger."

Catastrophe teams flew into Charlotte and Columbia, S.C. The Charleston airport had been open following the hurricane, but officials closed it two days later after discovering possible structural damage.

Adjusters were then dispatched from Columbia to Charleston, about 115 miles to the southeast via Interstate 26.

But "because the damage was so widespread," basic necessities like drinking water and electricity were unavailable in the Charleston area, Mr. Harrington said.

Authorities also established curfews to protect property, and certain areas within the hurricane zone were unreachable.

In addition, both the emergency offices and the hotel catastrophe team members were to have used were uninhabitable, said Mr. Brady.

But an alternative site was ready in Columbia and the operation proceeded as planned.

Mr. Brady cited this alternative site as proof of the plan's effectiveness. "We were able to switch gears."

However, switching response centers to Columbia from Charleston placed additional hardships on the catastrophe team. "Already long days for our folks" grew even longer, Mr. Harrington said.

The insurer set up a van pool for its workers, which eased the burden somewhat. Adjusters were on their first claims by 7 a.m. and often out in the field until 9 p.m., Mr. Mathieu said.

"It's an absolute grinder," agreed Mr. Harrington.

Operations were complicated further by the lack of food, water and telephone service. "Initially, you had to take in every day what you needed," he said.

Overall, about 90 adjusters, managers and clerical staff worked on Hartford's response team during the 12 weeks after Hugo struck South Carolina, according to Mr. Mathieu.

Staff members were rotated regularly to prevent overwork, he said.

Mr. Mathieu noted with some pride that by the time the storm operation was completed, 93% of about 11,000 Hugo-related claims were settled, and Hartford's catastrophe experts praised the work of their team.

"It's a professional crew," Mr. Brady said.

A great deal of camaraderie exists among adjusters who regularly handle catastrophe claims, Mr. Mathieu pointed out. These professionals had often worked together in the aftermath of previous disasters, he said.

"I think our people take a lot of satisfaction" in their work, Mr. Harrington said.

Hartford officials also gave high marks to their catastrophe response plan.

"In terms of concept, I think it works as well as you can expect anything to work in an uncertain and hostile environment," Mr. Mathieu said. ■

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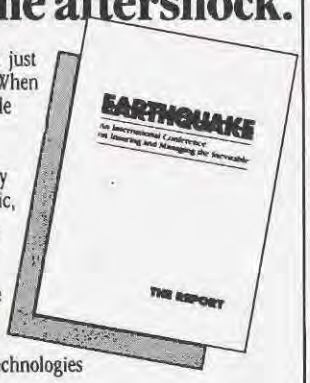

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Insurer topics briefs

Highway safety group urges Congress to adopt several safety incentives

WASHINGTON—The newly formed Advocates for Highway and Auto Safety recently presented its safety agenda to a Congressional subcommittee.

In testimony before the House Public Works and Transportation Committee's Surface Transportation Subcommittee, AHAS Co-Chairmen Gerald L. Maatman and Joan Claybrook presented a list of concerns shared by the insurers and public interest groups that comprise the group.

The co-chairmen also called for:

- Reinstating a national 55-mph speed limit.
- Combining existing federal highway safety incentive grant programs aimed at curbing drunk driving into one program that would be extended to occupant protection, motorcycle helmet use and other safety questions.
- Providing more federal funding for traffic safety law enforcement.
- Opposing wider, longer and heavier trucks and support for the installation of antilock brakes on trucks.
- New federal motor vehicle safety standards that would include light trucks and vans currently exempt from passenger car standards.
- Reauthorizing the NHTSA. A bill do so has passed the Senate but has not yet been taken up by the House.

AHAS is funded by the property/casualty insurance industry, and draws board members from insurance organizations and consumer groups (*IT*, Feb. 19). Mr. Maatman is president of the Long Grove, Ill.-based Kemper national insurance companies. Ms. Claybrook is president of Public Citizen, a consumer group in Washington, D.C., and former administrator of the National Highway Safety Administration.

Research group meeting

APPLETON, Wis.—The Society of Insurance Research will hold its 11th annual planning and economics conference at the Omni Hotel in Charleston, S.C., May 9-11.

Several topics will be discussed at the meeting. They include: designing a planning system; identifying corporate strengths and weaknesses; the use of economic information in corporate planning; general strategic planning issues; and strategies for effectively implementing plans.

Registration for the conference costs $335 for SIR members and $435 for non-members. For further information about the conference, contact Debbie Krueger, Administrative Director, Society of Insurance Research, P.O. Box 933, Appleton, Wis. 54912; 414-730-8858.

NATB elects officers

PALOS HILLS, Ill.—The National Automobile Theft Bureau elected new officers to its governing board during the group's 77th annual meeting in Atlanta last month.

Eldon A. Ziegler, vp-claims at Columbus, Ohio-based Nationwide Mutual Insurance Co., succeeds James D. Engel as chairman of the group. Mr. Engel is senior vp-property/casualty group claims at Philadelphia-based CIGNA Corp.

John W. Mullen, president-Southwest division of Atlanta-based Windsor Insurance Co., a unit of Cincinnati-based American Financial Insurance Group, succeeded Mr. Ziegler as vice chairman. Mr. Mullen also won re-election as NATB's treasurer. ■

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Business Insurance

AIDS cited in health care 'breakdown'

By ADRIENNE C. LOCKE

ARLINGTON, Va.—With the U.S. health care system "crumbling" under the expense of AIDS care, a nationalized system is needed to provide universal access to quality, affordable care, contends a labor union president.

Only through a "uniquely American national solution"—replacing employer-based health care with a national health care plan—can a crisis be averted, said John J. Sweeney, international president of the Service Employees International Union.

"As much as any single issue, AIDS exposes the dangerous breakdown of our approach to health care coverage," Mr. Sweeney told the National Business Leadership Conference on AIDS last month.

"The AIDS epidemic is dramatic proof that our nation needs an efficient national system that provides universal access to high-quality care at affordable prices," he said.

Many acquired immune deficiency syndrome victims have no health insurance and cannot afford the early and continued medical treatment that could delay the progression of the disease, Mr. Sweeney said.

And many people in the disease's final stages, unable to afford costly hospital care, depend on hospice or home care, he said.

"You know and I know that the current employer-based health care system cannot begin to pay for treating everyone the AIDS epidemic affects. And unless we begin to provide access to everyone, we will not just lose ground in the battle against AIDS, we will face total failure in our effort to end this epidemic," Mr. Sweeney said.

Continually rising health care costs for business and labor—a recent survey found total per-employee health care costs had increased about 17% from 1988 to 1989 (*BI*, Jan. 29)—have brought labor-management relations "to the breaking point," he said.

And as an increasing number of AIDS infections occur at work, employers and workers together must establish "flexible and fair" personnel policies, he said.

Workers who are at risk of contracting AIDS on the job—and those who are not—should know how employers will treat infected workers and what companies are doing to prevent the spread of HIV—the human immunodeficiency virus, which often leads to full-blown AIDS.

"Any serious discussion in our battle against AIDS must include business and labor working together to develop a private sector response," he said.

As more employees are infected from contaminated needles or other items at work and others are dismissed after employers discover they have the infection or AIDS, the need for a new policy is underscored, said Mr. Sweeney.

The federal Center for Disease Control reports 27 confirmed cases of health care workers contracting the HIV infection at work. Two of those cases have developed into full-blown AIDS, CDC said.

To ensure that employee fears and concerns are addressed in a company's policies on AIDS, workers should be involved in creating those programs, he said.

Policies should be fair and flexible and apply to all employees, rather than being targeted toward a specific individual.

In addition, employees with AIDS or HIV infection should be allowed to work as long as they are able, and should receive the full health care and disability benefits to which they are entitled, he said.

His union has endorsed the 10 principles on AIDS at the workplace developed by the Citizens Commission on AIDS, an activist group in New York.

The principles state that:

- AIDS patients or those with the HIV infection are entitled to the same rights and opportunities as people with other serious or life-threatening illnesses.
- Employment policies must, at minimum, comply with federal, state and local law.
- Such policies should be based on scientific and medical evidence that the virus is not easily transmitted to co-workers in ordinary workplace contact.
- Senior management and labor leaders should endorse unequivocally nondiscriminatory employment policies and education programs about AIDS.
- Workers should be told in simple, clear and unambiguous terms that employers and unions support such policies.
- Employers should provide employees with sensitive, accurate and up-to-date education about risk reduction in their personal lives.
- Employers have a duty to protect the confidentiality of employees' medical information.
- To prevent work disruption and rejection by co-workers of an employee with AIDS or HIV infection, employers and labor should undertake education for all employees before such an incident occurs and as needed thereafter.
- Employers should not require HIV screening as part of pre-employment or general workplace physical examinations.
- In specific occupations where workers potentially are at risk of exposure to HIV—such as health care workers handling blood or blood products—employers should provide specific, ongoing education and training, as well as the necessary equipment, to reinforce appropriate infection control procedures.

But Mr. Sweeney also argues that business should go beyond endorsing these policies to develop a plan to prevent on-the-job AIDS transmission.

Safety standards on blood-borne diseases proposed by the Occupational Safety and Health Administration are a laudable step in the right direction for ensuring employee protection, said the labor union leader.

OSHA's standard would protect workers who may be directly exposed to blood, blood products or any other potentially infectious bodily fluids (*BI*, May 29, 1989).

One-third of the Service Employees International Union's 925,000 U.S. and Canadian members are health care workers.

Mr. Sweeney also advocates strengthening the proposal to require use of needles and IVs designed to reduce risk of accidents and infections.

His union also favors required AIDS and HIV infection training for non-medical workers in a health care setting, such as hospital housekeeping staffs, who suffer many of the accidental injuries from needles mistakenly discarded in dirty bed linens. ■

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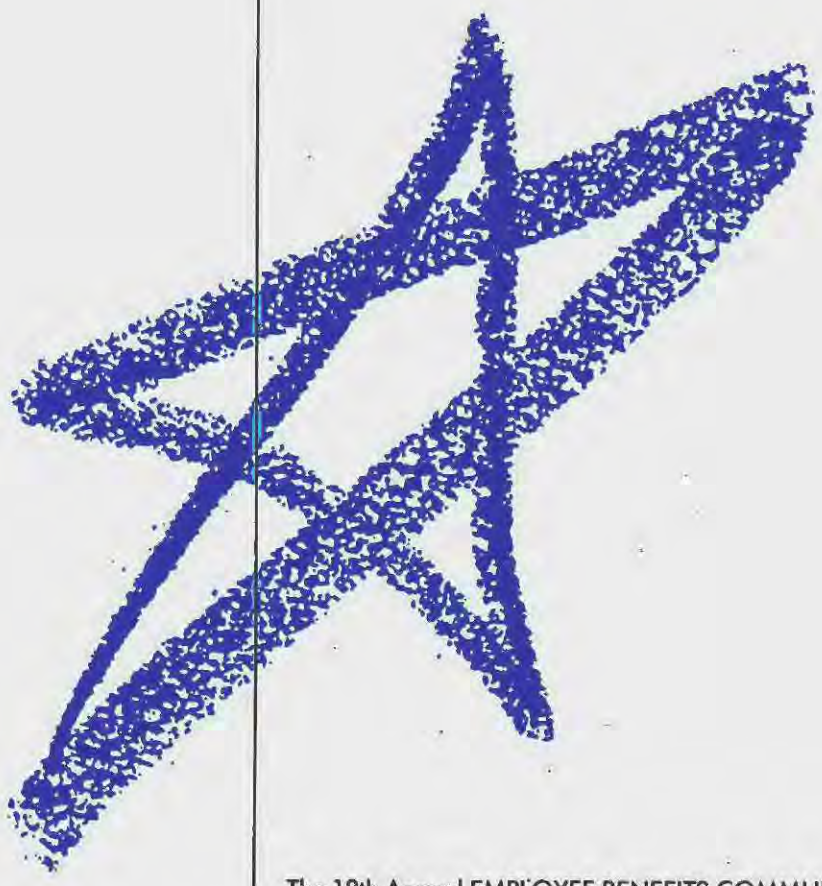

The 18th Annual EMPLOYEE BENEFITS COMMUNICATION AWARDS will be presented on August 13th during a luncheon, in Chicago, sponsored by Business Insurance, honoring excellence in communicating employee benefits.

The Competition is open to all companies in the U.S. and Canada, and has no restrictions as to the size of the company.

A panel of benefit managers and communication specialists will select winners from a variety of categories.

Entries will be accepted beginning April 2nd. No entry will be accepted after April 30th.

For Competition rules and entry forms, or for details and reservations for the Awards Luncheon, write to the EBC Registrar at the address below, or call (212)-210-0780.

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Re-evaluating ESOPs

Congress restricts some of the plans' tax benefits

By Bernard Stebel

UNTIL RECENTLY, employee stock ownership plans looked like the hottest trend in business. In 1989, $19 billion was poured into ESOPs, compared with only $6.5 billion in 1988. Large public corporations turned to ESOPs not only for tax advantages, but because of their significant potential for preventing hostile buyouts. The current estimate of companies with ESOPs numbers more than 10,000, according to the Washington, D.C.-based ESOP Assn.

Now, however, Congress has changed the rules. Retroactive to July 1989, the interest income exclusion formerly available to commercial lenders will apply only to those plans where the ESOP fund owns more than 50% of each class of the employer's outstanding stock, or more than 50% of the value of all such stock. As a practical matter, only ESOPs involving employee buyouts will attract the low interest rates that the interest income exclusion makes possible.

In the wake of these late 1989 changes, businesses—public and private, large and small—will be re-evaluating the role and worth of the ESOP to their particular aims.

Although the advantages that attracted large companies to ESOPs have been reduced, it's important to note that ESOPs have been around for some 15 years, and that by far the vast majority of ESOP companies have been small to mid-sized businesses.

Starting with 16 federal laws that introduced tax incentives for employee stock ownership plans in 1974, which were increased by Congress in 1984 and 1986, ESOPs expanded to offer a broad range of benefits attractive to both companies and workers.

Smaller companies were the first to identify and adopt the advantages of a plan offering distinct tax benefits, access to loans at lower interest rates, partial liquidity, continuity and the smooth transference of company ownership in the instance of retiring key personnel and, of course, the increased employee motivation that accompanies ownership.

But what, exactly, is an ESOP? It is an employee-benefit plan in the form of a trust fund that invests primarily in employer-company stock. More specifically, it is a defined-contribution plan that acts either as a stock-bonus plan or as a combination stock-bonus and money-purchase plan. Employees participate in the ownership of the operating company, according to salary level and length of service, through a form of deferred compensation.

Where leveraged purchases of the employer's securities are involved, the ESOP trust borrows money from a lending institution, with the proceeds used to purchase stock for employees. The operating company then makes annual contributions to the ESOP adequate to service the ESOP loan.

While employees long have been interested in ESOPs as a method of gaining a share of ownership in the companies for which they work, corporate officers frequently have found ESOPs tempting because of their tax advantages. A 50% exclusion on interest income allowed to the ESOP commercial lender benefits the company by enabling it to borrow significant amounts of money at lower rates, usually 10% to 20% below prime.

In addition, companies that borrow to create a qualifying ESOP can deduct interest and principal from taxable income. The ESOP buyer, in other words, is entitled to use pretax dollars for the purchase of stock shares. Meanwhile, the employee receives the stock at no cost and the purchased shares accumulate tax-free as long as the employee remains with the company.

Only ESOPs involving employee buyouts will attract the low interest rates that the interest income exclusion makes possible.

The Revenue Reconciliation Act of 1989, however, restricts the tax break on the purchased income deduction for ESOPs formed after July 10, 1989. To qualify under terms of the new act, which was signed into law last Dec. 19 and is retroactive to July, employees have to own more than 50% of each class of outstanding stock or more than 50% of the total values of the corporation, and secure full voting rights on the stock acquired with the loan.

The 1989 legislation comes on the tail of an IRS ruling allowing ESOP bond sales for the first time. Before the ruling, ESOP financing was strictly private and limited to a select group of investors. Soon, however, public sales of ESOP debt could become commonplace. The advantage of the announced ruling is that it will enable ESOP companies to borrow money at lower rates, and for a longer term since institutional buyers will be more willing to buy such debt knowing they can easily sell it.

Additional tax advantages remain intact following the recent changes. The dividends earned by an ESOP on both the allocated and unallocated shares may still be used to repay an ESOP loan. When a plan uses dividends for this purpose, the sponsoring company gets a deduction, with certain qualifications, for the amount of the dividend that was used to satisfy the debt. Public companies with ESOPs will be able to make use of the dividend deduction to pay off the ESOP loan faster than would otherwise be possible.

Private companies whose key personnel will be retiring shortly will probably continue to find the ESOP "rollover" provision attractive. A retiring owner, for example, can "roll over" the proceeds from the sale of stock to the ESOP fund into other qualified investments, thereby deferring taxes on the owner's gain. (This applies solely to ESOPs that are at least 30% employee-owned.) The only change introduced last year is that the securities transferred to the ESOP fund must have been held a minimum of three years.

The initial costs of an ESOP are quite high. These include the professional fees of such key players as the company attorney, the bank attorney, the trustee, the trustee's lawyer, the appraiser, and the pension consultant who ensures that the plan qualifies.

Once in place, ESOPs generally cost between $10,000 and $15,000 for the first year, and about a third of that for each year thereafter. However, many companies, particularly those whose shares are not publicly traded, find that the required annual valuation adds significantly to these costs.

The most significant cost, however, is the ESOP fund debt. No matter how attractive the rate of interest, or the tax deductions allowed, borrowed principal and interest must still be repaid. A company has to ensure that it will be able to carry the debt incurred and that its future earnings will allow for payment.

In the case of leveraged ESOPs, a further concern exists. Annual allocations to the employee accounts will fluctuate with changes in the value of employer securities purchased by the plan. Therefore, the amounts allocated may actually be less than the dollars contributed to the plan and used to repay the bank debt incurred for the purchase of those securities.

In addition, an ESOP company has to plan and prepare for the outlay of funds needed to buy back stock of retiring employees. In time, as account balances become significant, this outlay could have a serious effect on the company's cash flow.

Most analysts recommend against using an ESOP as a substitute for a defined benefit pension plan. The theory of a pension plan is to provide "safe" money, a diverse pool that can be depended upon to protect against dramatic losses from market fluctuations and not tied to the fate of any one company. Typically, pension assets and company assets are kept strictly separate.

More and more, however, companies are using ESOPs to supplement a pension plan. Employees, in this instance, retain some fixed benefit plan plus an open-ended investment which allows for a share in the company's growth. On the other hand, substantial ESOP contributions may compel termination of defined benefit plans, since the benefits cannot be used to reduce those from the defined benefit plans. In such cases, senior employees could find that they actually have had their overall benefits reduced.

Another option adopted by some companies is the floor-offset plan, which guarantees a minimum level of benefits should company stock drop below a certain value.

Financial analysts agree that companies and employees who choose to adopt ESOPs usually do so for reasons other than tax benefits. Since the expense and debt attached to an ESOP is considerable, and not without risk, there is usually additional motivation when a company decides to undertake an ESOP.

One common motivation is to facilitate company ownership transference. ESOPs provide an easy way for private owners of companies to be bought out, a compelling motivation in the instance of key personnel retirement.

In the case of publicly held companies, management was most recently—before the new restrictions—interested in ESOPs as a preventive measure against hostile buyouts. Although management can no longer hope to secure its own role through an ESOP, since employees will gain ownership control and full voting rights, some companies may prefer to see their employees buy out half plus one share of the company than be subject to a hostile takeover.

Two of the strongest motives for implementing an ESOP plan remain unchanged by the new legislation. They are increased employee motivation and productivity.

A 1986 study by the National Center for Employee Ownership showed that over 10 years' time companies grew almost 50% faster with employee ownership than without it. Similarly, 75% of respondents in a 1987 ESOP Assn. survey agreed that ESOPs had resulted in increased employee motivation, with 16% reporting productivity "strongly improved."

Initiating an ESOP in the '90s must be a carefully considered business decision by company owners and management. More than ever before, it should be made only after thorough consultation with a team of expert advisors, covering all of the many and complex legal, tax, accounting, financial and employee benefits aspects of the plan. ■

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Controlling mental health costs

Full-service UR firms offer effective benefit management

By Susan Prest

THE COST OF treating mental health and substance abuse cases is rising faster than the cost of other types of health care. Employers and insurers are awaking to the harsh fact that mental health and substance abuse care can now consume up to 30% or more of all health care expenditures, compared with 6% five years ago.

In fact, according to a recent A. Foster Higgins & Co. study, mental health care costs rose an estimated 57% in 1989 to approximately $5.5 billion, compared with a 17% increase in overall medical costs.

Although the actual percentages may differ somewhat from study to study, one point is clear: As mental health and substance abuse costs escalate at staggering double-digit rates, the debate over how to balance costs, quality of care and treatment outcomes has heated up to the point where there now exists a true sense of urgency surrounding the management of these benefits.

Certainly, few companies still question the need to provide their employees with mental health benefits, and data on medical offsets support the argument that mental health/substance abuse benefits are cost-effective.

Companies that opted for what they thought was the "easy way out" by cutting back on mental health benefits have found the results of such a move to be extremely costly in terms of increased absenteeism and loss of productivity alone.

There is now a general acknowledgment that mental health is a corporate concern with direct bottom-line impact, and strategies are being developed that include the redesigning, redefining and integration of the mental health benefit into the overall management of corporate-sponsored health initiatives.

Mental health care costs rose an estimated 57% in 1989 to approximately $5.5 billion, compared with a 17% increase in overall medical costs, according to a recent study.

In a recent Spotlight Report on "Controlling Benefit Costs," *Business Insurance* reported on efforts to revise mental health benefits with an eye toward savings and better quality (*BI*, Feb. 19).

However, the story presented a viewpoint that carved-out mental health benefits was the only effective way to contain costs and improve care. Moreover, the story failed to make a distinction between managing costs and managing care and wrongly equated cost savings with improved quality.

The story also presented unchallenged a singular viewpoint that traditional UR programs are not effective in managing the costs of mental health benefits.

Specialized mental health management companies like to perpetuate the myth that because they're specialized, they're better at delivering mental health cost containment services.

In actuality, there are both mental health specialty UR firms *and* full-service UR firms that are equally effective in managing mental health benefits, just as there are firms of both types with deservedly poor reputations. With all due respect, the quality is not determined by whether the delivery mechanism is specialized or full-service.

Speaking out

The fact is, as more employers search for help with managing mental health care, we find most companies to be seeking a cost-containment strategy that views mental health in the context of total health and total health care benefits.

The connection between physical conditions and mental, emotional and substance abuse problems has long been recognized. Yet when a company "carves out" mental health care benefits, it might be said that the company effectively splits the employee into two separate parts. So the question must be asked: Why attempt to isolate mental health problems when they are so often manifested in physical symptoms?

There are many high utilizers of medical services who are best treated with some sort of mental health intervention. Full-service UR firms can track those patterns because they review all those services.

They can also identify emerging utilization review patterns through a comprehensive data base.

An obvious example of this would be clinical depression. Since patients who suffer from clinical depression often display physical symptoms like headaches or back pain, identifying depression may quickly reduce costs for unnecessary medical tests and services.

Another example is temporal mandibular joint disease (TMJ), a painful condition that is usually treated by medical practitioners, often through extensive jaw surgery. Mounting data, however, indicate strongly that most TMJ is psychological in origin and can be effectively treated as a manifestation of stress.

Then, of course, many stomach and liver problems are caused by alcohol and substance abuse, so why not treat the underlying emotional problems properly? The list of physical conditions—and the mental/emotional correlations—goes on.

In marked contrast to the specialized mental health UR firms, full-service UR firms believe that strong specialist skills are stronger still when backed by a total perspective on health and health care cost control. This philosophy eliminates artificial barriers between physical and mental health and promotes a direct interface with every medical specialty and sub-specialty.

In a full-service setting, UR case reviewers have access to the medical histories of covered individuals through a comprehensive data base, and can consult with physicians or medical or mental health advisers in every field at a moment's notice. This makes it possible to track medical problems that may be psychological in origin, as well as to assess the medical components of a psychiatric diagnosis.

A prime example of this benefit is early identification of chemical dependency. It is well documented that the utilization rate of medical services by families of alcohol and substance abusers is 40% to 50% higher than the norm.

By tracking family clusters with higher-than-usual utilization rates, it is possible to identify a chemical dependency and intervene at a stage when it is appropriate to treat the problem in a less-costly outpatient setting. This approach also can help avoid high-dollar impacts on workplace performance.

In addition, early intervention and treatment of the substance abuser can often reduce medical utilization by family members.

It must also be considered that mental health coverage can be used to disguise a variety of ills, and in a full-service UR setting, case reviewers are qualified to investigate whether symptoms correspond to a diagnosis. The reverse is also true, with case reviewers primed to investigate if patients are in a medical setting because this is the only way they can obtain treatment for psychiatric disorders.

The point also was made in the *Business Insurance* article that mental health benefits require "a different type of professional to properly manage costs." That statement is absolutely accurate, although in the context in which it was presented, readers most likely inferred that such professionals were not involved in the continuum of care when dealing with a full-service UR firm.

Any responsible UR firm offering mental health review and case management services—be it full-service or occupying a specialized market niche—is going to utilize the skills of a team of mental health specialists.

The specialized psychiatric review firms that handle only mental health cases rely upon programs that are no more specialized than the programs used by the full-service firms.

Full-service UR firms rely on an in-house team of highly trained professionals with postgraduate and doctoral degrees in psychiatry and related fields, specialists in chemical addiction, marriage counseling and family counseling, clinical social workers, and registered nurses with clinical psychiatric training and certification.

Each of these specialists has a minimum of five years' clinical experience in mental health and, just as with the specialty psychiatric review firms, each is involved exclusively with mental health cases.

In short, the specialized psychiatric review firms that handle only mental health cases rely upon programs that are no more specialized than the programs used by the full-service firms. Full-service firms' personnel are just as qualified, their services are just as specialized.

And, by virtue of the fact that they *are* full-service, such companies are able to interface with other medical sub-specialties and have access at all times to multidisciplinary medical personnel. The mental health firms don't have this direct access and rarely, if ever, go outside their own firms for this kind of support.

So, in all the critical areas, not only are full-service UR firms *as* effective as the mental health specialty review services, but they take a more comprehensive view toward managing mental health care quality and costs.

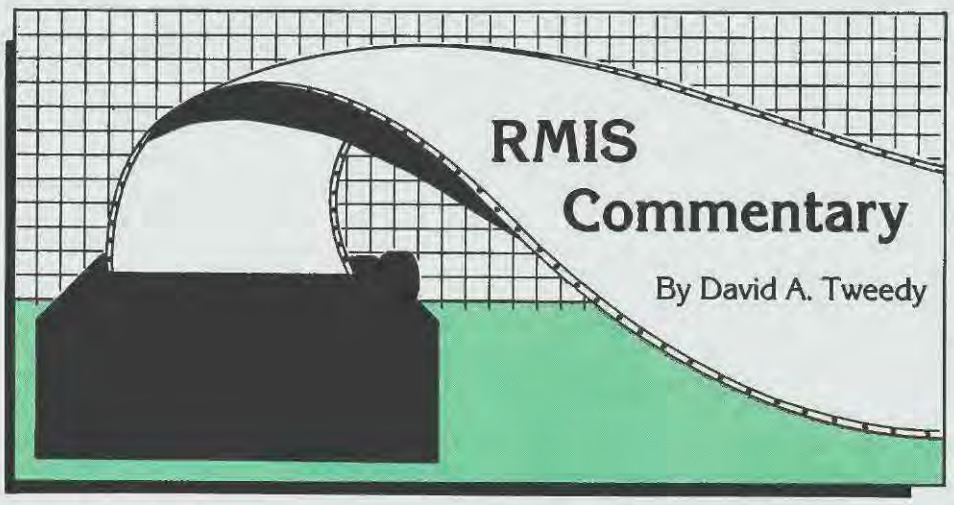
The challenge is daunting. Increasing expenditures for mental health and substance abuse treatment make the rises in general health care costs look tame by comparison.

When it comes to the bottom-line question, any company considering carving out mental health cost containment services really needs to look long and hard at what services they may *not* be receiving. ■

Susan R. Prest is product manager for mental health review services at Intracorp in Berwyn, Pa.

Prepare before you go to RIMS

Schedule meetings with system vendors



AS WE FAST APPROACH the annual Risk & Insurance Management Society conference in Boston, I'd like to provide a primer for those readers preparing to roam the RIMS Exhibit Hall.

Having attended and spoken at the last seven national RIMS conferences, I know that pre-planning is essential for success.

Those who attend multiple sessions and lectures, visit hospitality suites, keep dinner appointments and do some sightseeing tend to burn out if they haven't adequately prepared.

If you have specific questions about the state of your risk management information system (either manual, automated, or some combination of the two), it's paramount to have your questions ready. If you walk into a vendor's booth without prepared questions, the data-gathering exercise will take longer than necessary since that vendor salesperson has probably made the same presentation a hundred times before you have gotten there.

Here are several hints to help you prepare:

- **Perform a systems assessment.** I highly recommend revisiting your RMIS needs analysis every two to three years, but especially before attending a major conference. Determine what functions your present system can't perform, and what service questions haven't been resolved. Consider your company's future direction and determine how your system should be adjusted to meet future needs.

  Make a list of these weak areas, and be as specific as possible, as it will help you in the upcoming interview process.

- **Prearrange visits with specific vendors.** Decide in advance which vendors you want to visit during the conference. Study either the latest *Business Insurance* survey of RMIS vendors (*BI*, July 24, 1989) or Betterley Risk Management Commentary's August 1989 review to get a better feel for those vendors to target.

  Try to schedule these visits at a non-rushed time. The system person will be more relaxed as he or she presents the system or answers the questions.

- **Prepare in advance a checklist for each vendor/system.** Preferably, each checklist should include specific questions geared to the particular vendor. For example, it would not be appropriate to ask timeshare questions with a stand-alone microcomputer vendor. However, most of the questions tend to be standard (such as what kind of reporting package is offered) and can be asked of any vendor. Draw up a concise, uncomplicated questionnaire. You can always follow up later with a vendor if you have specific questions.

  I strongly advise collecting as much literature as possible, even though it will be a pain to drag home with you. Demonstration disks are especially valuable as they allow you to review the material at a future date.

- **Arrange a users meeting.** This is an excellent opportunity to meet with your colleagues who use this system. If you don't already know them, you can obtain these lists from your present vendor beforehand and try to arrange a meeting in Boston.

- **Plan a post-conference analysis.** You'll be tempted to take care of mounting stacks of work that have accumulated on your desk during your absence, but make time as soon as possible to analyze the information you obtained at the conference. You'll want to make decisions while the material is still fresh in your mind.

As any experienced conference veteran will tell you, planning is the foundation of a successful week. Prearranging meetings, documenting specific checklists and following through on evaluating the gathered data will give you excellent results. ■

David A. Tweedy is a senior consultant for Betterley Risk Consultants Inc. in Worcester, Mass. He is the editor of Betterley Risk Management Commentary and the author of RMIS Update, a yearly publication analyzing major risk management information systems and vendors. Mr. Tweedy's column on risk management information systems appears the third Monday of the month.

N.C. court finds homicide compensable

Where an employee is found dead at a time and place where his employment reasonably required him to be, there is a presumption of fact that the death arose out of and in the course of employment, the Court of Appeals of North Carolina ruled.

Louie A. Deschamps Jr. was an employee of a gas company working as an outside salesman. He worked in the Sumter, S.C., territory, which included a 15- to 20-mile radius around the city. The company provided him with a car for use during the day with permission to use it on personal errands. His hours were unrestricted. On Dec. 19, 1985, he received a message from his employer's cashier that "Phillips" was trying to reach him. Mr. Deschamps left the office at 3:30 p.m. indicating he was going to try and catch up with Phillips. About 30 minutes later, he was found shot to death in the driveway of a vacant home.

Mr. Deschamps widow and minor dependents sought workers compensation benefits. The commission awarded benefits and the employer appealed.

The appellate court affirmed, noting that Mr. Deschamps was killed during the regular working hours of his employer and his body found within the service jurisdiction of the company. Furthermore, the court said his body was found a short distance from the company car and inches from his body were tools and documents used by Mr. Deschamps in his employment. Thus, the court agreed that, under these circumstances, a presumption was raised that his death arose out of and in the course of his employment. *Suburban Propane Gas Co. vs. Deschamps*, Court of Appeals of South Carolina, April 24, 1989 (*BI*/04/April-$10).

Coverage conversion denied by court

Post-termination conversion privileges from an employees' group life insurance company, which were not applied for, did not entitle a beneficiary to double indemnity benefits simply because the employee *could* have applied for conversion, according to the 6th U.S. Circuit Court of Appeals.

Legal briefs

Highlights for Children Inc. insured the life of employee David Messer under a group life insurance contract written by Paul Revere Life Insurance Co. Mr. Messer named his wife, Rebecca, as beneficiary. The policy permitted conversion within 31 days after termination and also allowed for the addition of double indemnity benefits for accidental death.

Mr. Messer was terminated by Highlights on June 26, 1986. He died in a motorcycle accident a few days later on July 2 without having applied for conversion. The insurer paid Rebecca the $20,000 death benefit. However, she sued to recover an additional $20,000. The trial court ruled against her.

On appeal, Rebecca argued that she was entitled to double death benefits because during the short period after his termination, Mr. Messer could have applied for conversion. The court concluded that the double indemnity provision did not become operative until a policy was, in fact, converted. Rebecca's claim was denied. *Messer vs. Paul Revere Life Insurance Co.*, U.S. Court of Appeals for the 6th Circuit, Sept. 11, 1989 (*BI*/01/March-$10).

Incontestability clause

The 9th U.S. Circuit Court of Appeals held that under California law an insurer, claiming subrogation for amounts paid to a general contractor it insured under a builder's risk policy, was barred from suing an engineering firm that was insured under a separate policy to recoup amounts already paid.

A water control agency contracted with Engineering Science Inc. for the design of an ocean sewer outfall pipeline that extended from the shore of Monterey Bay into the Pacific Ocean.

ESI was insured against liability for professional negligence through an errors and omissions policy with National Union Fire Insurance Co. of Pittsburgh, Pa., up to a limit of $1 million. The agency contracted with Peter Kiewit & Sons, a general contractor, to construct the pipeline. Kiewit obtained a builder's risk insurance policy, also from National Union.

Later, the pipeline sustained extensive damage due to storms. National Union was required to pay more than $4 million under the builder's risk policy. Thereafter, it brought a subrogation action against ESI in a California court alleging negligent design. The insurer sought recovery for losses paid under the builder's risk policy. The court ruled for ESI.

On appeal, National Union argued that an insurer could pursue a subrogation action against its own policyholder. The federal appellate court noted that no California court had specifically addressed this issue. However, after reviewing a decision in a closely related case, the court concluded that California courts would probably bar a subrogation action by an insurance company against its own policyholder under the circumstances presented here. *National Union Fire Insurance Co. of Pittsburgh, Pa. vs. Engineering Science Inc.*, U.S. Court of Appeals for the 9th Circuit, Sept. 6, 1989 (*BI*/03/April-$10). ■

These abstracts were prepared by Cases Unlimited Inc. Copies of these decisions are available by sending a $10 check payable to Cases Unlimited to Business Insurance, *740 N. Rush St., Chicago, Ill. 60611-2590. List the number for each opinion.*

Workers comp

Continued from page 2

"In state after state, we prepare filings for large increases, justified by past loss experience and actuarial trends. Unfortunately, all too often regulators do not accept this logic, and that is perhaps understandable," Mr. Watt said.

"But in workers compensation ratemaking, at least in crisis times such as these, this instinct for compromise has a mortal flaw," he said.

"This year's average requests were slashed by 35%, a dramatic improvement over the 50% sliced away last year, but still more than the system can handle," pointed out NCCI Acting President Richard I. Fein.

As a result of rate inadequacies, the industry's 120.1% combined ratio in 1989 was even worse than anyone expected, Mr. Fein noted.

Workers comp insurers' 1988 combined ratio was 118.4%.

"These results have developed into a consistent and ominous pattern," Mr. Fein said.

Indeed, the combined ratio for workers comp insurers has ranged over the last six years from a high of 121.9% in 1984 to a low of 117.6% in 1987.

According to the NCCI's preliminary indications for 1990 filings, which would go into effect later this year or in 1991, workers comp insurance rates must be increased at least 20% in 24 states, and rates in nine states are inadequate by at last 45%.

Bruce Spidell, an assistant vp with the NCCI in Boca Raton, Fla., and the NCCI's lead actuary for the Southern region, said all Southern states need some rate hikes.

"Even the quiet states like Alabama, Tennessee, Mississippi and now Arkansas are problems, and there's no one thing to put your finger on as to why. All across the South medical benefit costs are escalating faster than general health care costs," Mr. Spidell said.

Barry Llewellyn, an assistant vp and lead actuary in the NCCI's Wayne, Pa., office, said rate adequacy in Northern states varies state to state. For example, rates in Illinois, Indiana, Maryland, Michigan and Wisconsin "seem about adequate," he said.

The NCCI is proposing rate increases for the following states in 1990:

- At least a 45% rate increase in Alabama; Arkansas; Colorado; Florida; Louisiana; Mississippi; Oklahoma; New Mexico; and Rhode Island.
- A 30% to 45% rate increase in Kansas; Maine; Missouri; New Hampshire; South Dakota; and Utah.
- A 20% to 30% rate increase in Georgia; Hawaii; Idaho; Kentucky; Nebraska; North Carolina; Tennessee; Texas; and Virginia.
- A 5% to 20% increase in Iowa; South Carolina; and Vermont.
- From less than a 5% increase to a slight reduction in rates in Alaska; Arizona; Connecticut; District of Columbia; Illinois; Indiana; Maryland; Michigan; Montana; Oregon; and Wisconsin.

Rate filings are pending in Colorado; the District of Columbia; Georgia; Kansas; Louisiana; Maine; Missouri; Nebraska; New Hampshire; New Mexico; Oklahoma; Rhode Island; South Carolina; South Dakota; and Vermont.

But, Mr. Spidell is not optimistic that the NCCI will have any more success in 1990 in obtaining necessary workers comp rate increases.

"It should be another difficult year because the numbers are so large. Regulators can't believe it when in many cases they have given us rate increases but we come back for more. We can only hope the regulators will be responsible if they see the increases are justified," he said.

Beyond the immediate need for adequate rates, the workers comp system must be overhauled, experts asserted.

But, to that end, all members of the workers compensation community must come together to build a common ground from which to plan reform, according to Gary Countryman, chairman and chief executive officer of Boston-based Liberty Mutual Insurance Co.

Mr. Countryman is spearheading the forging of a national advocacy group consisting of employers, labor, insurers, lawyers and doctors to seek workers comp reforms (*BI*, Feb. 26).

"These five groups basically want the same thing. They want a system that places emphasis on injury prevention and injury mitigation, cost shifting and quick service," which the system currently fails to deliver, Mr. Countryman said.

"The key (to reform) is consensus building, but it should not be led by the insurance industry," Mr. Countryman said.

Insurers "can help build it, but insurance is not the center of the workers comp universe. Business and labor are," because business is the payer and labor receives the benefits, he said.

Mr. Watt said a broad-based coalition of workers comp constituents could be formed to overhaul the system.

"Our industry's slogan cannot be that of the Irish revolutionaries: 'Ourselves alone.' We must become part of a larger coalition for reform of the entire system. Workers compensation is too important to be left to the insurance industry, or to labor, or the employers, or to the trial lawyers, or to the regulators," Mr. Watt said.

Experts suggested several reforms.

"We must reform the benefit system," Mr. Llewellyn said. "It has to be administered differently. Currently, there are too many adversarial proceedings, which leads to litigation, which affects overall costs."

Joe Thorne, an assistant vp in the NCCI's Agoura Hills, Calif., office and lead actuary for the Western region, added that states should work closely with claims adjusters to refine each state's system and cut down on abuse.

"Oregon, Arizona and Maine have done this and Utah, Idaho, Colorado and New Mexico are in the process of doing it," Mr. Thorne said.

But, reforming the workers comp system will not be an easy task, said Dr. Ronald Gots, chairman and chief executive officer of Medical Claims Review Services, a utilization review and cost containment firm in Bethesda, Md.

"The cost of medical care is pertinent to workers comp. Doctors have no incentive to save money. Doctors are not medical economists," he said.

Earl Pomeroy, North Dakota insurance commissioner and president of the National Assn. of Insurance Commissioners, agreed that skyrocketing medical costs will limit the extent to which reform can actually contain workers comp system costs.

In addition, the legal system is an "institutional phenomenon" that continues to drive up costs by forcing doctors to carry expensive malpractice insurance and practice defensive medicine, Dr. Gots said.

"Attorneys have their role to be protected," Mr. Pomeroy agreed.

Mr. Pomeroy also noted that "there are limits to the role" regulators will have in workers comp reform. "Workers compensation is a mandated coverage, therefore it's political."

Mr. Fein said it is paramount to reform the system soon.

"We must remember that the status quo cannot and will not long endure. It will be replaced by an improved and revitalized system, or it will inevitably decay into ruin. It is our job to restore the system to health and vigor, and we have the resources to make the necessary changes," he said. ■

Hartford executive to lead NCCI

NEW YORK—John F. Donahue, senior vp of Hartford Group Inc. and chairman of Hartford Reinsurance Management Co., has been elected chairman of the National Council on Compensation Insurance.

Mr. Donahue, who will serve a two-year term as chairman, replaces William Watt, senior vp of Royal Insurance Co. of America of Aurora, Ill.

Ronald Ratterath, senior vp of Employers Insurance of Wausau, a unit of Nationwide Mutual Insurance Co., was elected vice chairman of the NCCI.

Five new board members also were elected, all of whom will serve two-year terms: Ernest A. Lausier, vp-underwriting for Continental Casualty Insurance Co., a unit of CNA Financial Corp.; Thomas W. Brown, senior vp-underwriting and product management for Fireman's Fund Insurance Co., a unit of Fund American Cos. Inc.; George L. Yeager, senior vp-insurance operations for North River Insurance Co., a unit of Crum & Forster Inc.; John L. Longnaker, president and chief executive officer of Pennsylvania National Mutual Casualty Insurance Co.; and Richard W. Wratten, executive vp for Transamerica Insurance Co., a unit of Transamerica Corp.

NCCI Acting President Richard I. Fein announced the elections at the NCCI's annual meeting April 4-5 in New York, which drew more than 400 attendees.

Next year's meeting is scheduled for April 3-4 at the Breakers Hotel in West Palm Beach, Fla.

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Insurer hard hit by Hugo gets $15 million infusion

DETROIT—Amerisure Inc. is investing $15 million in a small, mutual insurer that was hard-hit by claims from Hurricane Hugo.

Amerisure, a holding company owned by Michigan Mutual Insurance Co., provided the money to the American Mutual Fire Insurance Co. of Charleston, S.C., in the form of a subordinated surplus note, which is a type of uncollateralized loan.

American Mutual Fire's policyholders filed about $250 million in mostly hurricane-related, personal lines claims in the fourth-quarter of 1989, including $150 million from flood and auto insurance programs that were 100% reinsured, said William Hilton, American Mutual Fire's senior vp-sales. He declined to provide details of the company's reinsurance.

In November, Richard Russell, American Mutual Fire's president, said American Mutual Fire and a subsidiary, Carolina American Insurance Co., together face an estimated $50 million in hurricane loss claims, of which $38 million was reinsured (*BI*, Nov. 6, 1989).

The infusion bolsters American Mutual's surplus, which dropped 62.9% to $5.3 million at year-end 1989, compared with $14.3 million on Sept. 30, 1989.

Amerisure's "loan," which South Carolina Insurance Commissioner John G. Richards approved, cannot be repaid without his approval.

Instead, Amerisure's investment will be converted to stock shares when a proposed demutualization of the insurer is completed, Mr. Hilton said. That is expected to take up to three years, he noted.

The affiliation between American Mutual Fire and Amerisure "will provide greater financial strength and insurance capacity for the citizens of South Carolina," Mr. Richards said in a statement.

—By Meg Fletcher

Datebook

APRIL

APRIL 23-25. Environmental Regulation Course in Cleveland, sponsored by Executive Enterprises Inc.; $1,045. Executive Enterprises Inc., 22 W. 21st St., New York, N.Y. 10010-6904; 212-645-7880; 800-831-8333.

APRIL 23-26. Loss Control Management seminar in Los Angeles, sponsored by the International Loss Control Institute; $720 for ILCI members; $800 for non-members. **Also May 14-17** in Calgary, Alberta; **June 18-21** in Philadelphia; and **June 25-28** in Atlanta. ILCI, 4546 Atlanta Highway, P.O. Box 345, Loganville, Ga. 30249; 404-466-2208; 800-554-6001.

APRIL 23-27. Hazardous Materials: Handling and Disposal course in Los Angeles, sponsored by the University of Southern California's Institute of Safety and Systems Management; $800. University of Southern California, Institute of Safety and Systems Management, Office of Extension and In-Service Programs, 3500 S. Figueroa St., Suite 202, Los Angeles, Calif. 90007; 213-743-6383.

APRIL 24. Strategic Benefit Planning for the 1990s seminar in Dallas, sponsored by GENESYS Software Systems Inc.; no charge. **Also April 25** in Houston. GENESYS Software Systems Inc., 5 Branch St., Methuen, Mass. 01844; 508-685-5400.

APRIL 24. Flex 2000 Regional Meeting in New York City, sponsored by the Employers Council on Flexible Compensation; $185 for ECFC members; $195 for non-members. ECFC, Department 5063, Washington, D.C. 20061-5063.

APRIL 26. Second Annual Insurance Seminar in Hamilton, Bermuda, sponsored by Bankers Insurance Co. Ltd.; no charge. Tony Coley, BICL, Belvedere Building, P.O. Box HM660, Hamilton HM CX, Bermuda; 809-295-0713.

APRIL 26-28. Managing Case Management workshop in Atlanta, sponsored by the Individual Case Management Assn.; $435 for ICMA members; $485 for non-members. ICMA, 10809 Executive Center Drive, Suite 105, Little Rock, Ark. 72211; 501-227-5553.

APRIL 26-29. 1990 National Young Agents Conference in St. Louis, sponsored by the Independent Insurance Agent Young Agent Committee; $165; $130 for spouses or guests. Beverly Cafferty, Independent Insurance Agents of America Inc., 127 S. Peyton St., Alexandria, Va. 22314; 703-683-4422.

APRIL 27. Everything You Always Wanted to Know About Entertainment Insurance conference in New York City, sponsored by The College of Insurance; $195. Professional Programs, The College of Insurance, 101 Murray St., New York, N.Y. 10007; 212-962-4111, ext. 201.

APRIL 29-MAY 2. The National Arson Investigation Training Seminar in Northbrook, Ill., sponsored by the Insurance Committee for Arson Control; $125 for ICAC members; $175 for non-members. Rick Gilman, ICAC, 110 William St., New York, N.Y. 10038; 212-669-9245.

APRIL 29-MAY 4. 28th Annual Risk Management and Employee Benefits Conference in Boston, sponsored by the Risk & Insurance Management Society Inc.; full week: $695 for RIMS members, $795 for non-members; partial week: $575 for RIMS members, $675 for non-members; one day: $295. Risk & Insurance Management Society Inc., Conference Department, Registration, 205 E. 42nd St., New York, N.Y. 10017.

APRIL 30-MAY 1. Product Safety and Liability Prevention course in Madison, Wis., sponsored by the Department of Engineering Professional Development, University of Wisconsin-Madison/Extension; $695. Wisconsin Center, 702 Langdon St., Madison, Wis. 53706; 608-262-1299; 800-462-0876.

MAY

MAY 1-2. Health Care Cost Containment workshop in Houston, sponsored by Health Research Institute; $595. **Also June 5-6** in Milwaukee, **June 26-27** in Hawaii, and **Aug. 7-8** in San Diego. HRI, 1600 S. Main Plaza, Suite 170, Walnut Creek, Calif. 94596; 415-676-2320.

MAY 5-9. Aviation Insurance Assn.'s Annual Convention in Memphis, Tenn.; $175 for AIA member; $375 for non-members. Bob Cannon, Aviation Insurance Assn., 112th St. N.E., Suite B112, Bellevue, Wash. 98004; 206-822-8176.

MAY 7-9. Fundamentals of Insurance course in Orlando, Fla., sponsored by the Risk & Insurance Management Society Inc.; $495 for RIMS members; $595 for non-members. **Also June 4-6** in San Diego; **Sept. 10-12** in Chicago; and **Dec. 3-5** in New York City. RIMS, Education Dept., 205 E. 42nd St., New York, N.Y. 10017; 212-286-9292.

MAY 9-11. CAOHC Approved Training Course in Occupational Hearing Conservation in Milwaukee, sponsored by Impact Hearing Conservation Inc.; $325 for certification; $150 for recertification. **Also June 6-8** in Kansas City, Mo. Impact Hearing Conservation Inc., 406 W. 34th St., Suite 400, Kansas City, Mo. 64111; 816-531-4848.

MAY 23. Introduction to Risk Management for Non-Insurance Managers seminar in Columbus, Ohio, sponsored by The College of Insurance; $195 for college sponsors; $225 for others. **Also Sept. 26** in New York City; **Nov. 7** in Atlanta. Jane Wechsler, The College of Insurance, 101 Murray St., New York, N.Y. 10007; 212-815-9201.

MAY. 31-JUNE 1. Managed Health Care in the '90s conference in Palm Beach, Fla., sponsored by the National Assn. of Employers on Health Care Action; $445 for NAEHCA members; $545 for non-members; add $50 after March 1. NAEHCA, P.O. Box 220, Key Biscayne, Fla. 33149.

JUNE

JUNE 6-8. Techniques of Risk Management course in Chicago, sponsored by the Risk & Insurance Management Society Inc.; $540 for RIMS members; $640 for non-members. **Also June 11-13** in Denver; **Sept. 5-7** in Vancouver, B.C.; and **Dec. 5-7** in New York City. RIMS, 205 E. 42nd St., New York, N.Y. 10017; 212-286-9292.

JUNE 6-8. Claims Management course in New York City, sponsored by the Risk & Insurance Management Society Inc.; $595 for RIMS members; $695 for non-members. **Also Sept. 12-14** in Chicago; **Oct. 24-26** in Scottsdale, Ariz.; and **Dec. 5-7** in Charlotte, N.C. RIMS, 205 E. 42nd St., New York, N.Y. 10017; 212-286-9292.

JUNE 10-13. 40th Annual Group Health Institute in Los Angeles, sponsored by the Group Health Assn. of America; before May 11: $495 for GHAA members, $595 for non-members; after May 11 add $90. Registrar, GHAA, 1129 20th St. N.W., Suite 600, Washington, D.C. 20036.

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Pollution cover

Continued from page 1
which is reconsidering its decision that cleanup costs constitute insurable damages, said Mr. Brunner.

"This is a clear rejection of the (Washington) opinion," he said.

Meanwhile, in March, the New Hampshire Supreme Court upheld a lower court ruling that pollution cleanup costs are not covered. However, New Hampshire law does not allow this type of decision to be cited as precedent.

At the heart of all of these cases is the standard pre-1986 comprehensive general liability insurance policy which states that an insurer "will pay on behalf of the insured all sums which the insured shall become legally obligated to pay as damages."

In its ruling, the Maine Supreme Court held that this language does not include the cost of responding to a government order to clean up polluted property.

The court reasoned that money spent by a policyholder to clean pollution on his own property "may be substantial and may effectively alleviate or prevent property damage to others" but is not "damages" within the language of the CGL policy.

"Instead they are expenses (the policyholder) may be required to incur to halt continuing pollution and property damage," the court said.

The court distinguished these remedial cleanup costs from amounts spent as a result of third-party claims filed against a policyholder because of bodily injury or property damage stemming from the pollution. Payment of these latter claims would constitute covered "damages," the court said.

"It is this latter expenditure upon which the parties" to the insurance policy "have contracted and upon which the insurance premium is based," the court ruled.

The Maine Supreme Court also concluded that a government administrative action requiring pollution cleanup does not constitute a "suit" under the terms of a CGL policy and, therefore, does not trigger an insurer's duty to defend the policyholder.

Because a state Department of Environmental Protection proceeding does not result in damages being awarded against the policyholder, it does not trigger an insurer's duty to defend, the court said.

"The DEP cannot recover damages in the administrative proceeding it has brought, but can only compel cleanup," the court explained.

"Thus, there has been no suit against the insured seeking damages and the insurer has no present duty to defend," the court ruled.

The litigation stemmed from a dispute involving Norman and Julia Marois, owners of a small convenience store in South China, Maine, that had three underground gasoline storage tanks.

In October 1985, the Maroises discovered that there were holes in two of the tanks. Traces of gasoline were found in nearby wells.

After the state environmental agency ordered the owners to clean up the pollution, the Maroises sought indemnification from their insurer, Patrons Oxford Mutual Insurance Co. of Auburn, Maine. Patrons underwrote an occurrence-based multiperil policy with limits of $300,000 for the Maroises in 1985.

There is no cost estimate for cleaning up the polluted site.

A Kennebec County Superior Court in May 1989 ruled against the Maroises, who appealed that decision to the Maine Supreme Court.

The Maine Supreme Court's denial of coverage "is a significant decision for insurers who wrote these policies in Maine," said Patrons attorney Will Kelleher, who has his own practice in Augusta, Maine.

"Insurers never contemplated insuring these risks," he asserted.

Insurer attorney Mr. Brunner agreed: "This interpretation of the policy is correct."

However, policyholder attorney Mr. Steuber called the decision an "aberration."

"The very substantial weight of authority is to the contrary," he said, referring to numerous state and federal courts that have found coverage for pollution cleanups.

Policyholder attorney Peter Bickerman agreed: "There is a 60-40 split in favor of policyholders" on this issue.

The Maine high court decision is ironic, he said.

"If the policyholder can't afford the cleanup and the state performs the cleanup and sues the policyholder to recoup the costs, this would be covered," said Mr. Bickerman, explaining that damages from most lawsuits are covered.

"The decision creates an incentive not to clean up," said Mr. Bickerman of Lipman & Katz in Augusta, who represented the Maroises in the litigation.

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Patrons Oxford Mutual Insurance Co. vs. Norman and Julia Marois; Maine Supreme Judicial Court, No. 3413.

HMO survey

Continued from page 3
7.9% to 178 from 165, while the number of plans with 50,000 to 99,999 enrollees fell 16.3% to 82 from 98.

The number of HMOs fell across the nation. In the East Central region, with more HMOs than any other region, the number dropped 3.9% last year to 149 from 155.

In the Mountain/Pacific region, the number of HMOs dropped 5.9% to 128 in 1989 from 136, while HMOs in the West Central region dipped a slight 0.9% to 104 from 105.

In the South Atlantic region, the number of HMOs fell 5.9% to 95 from 101; the number of HMOs in the Mid-Atlantic was down a slight 1.4% to 71 from 72; and HMOs in New England slipped 2.2% to 44 from 45.

While the number of HMOs shrank, all types of HMOs racked up enrollment gains, the GHAA found. For example:

- Enrollment in network model HMOs rose 20.9% to 5.2 million in 1989, up from 4.3 million in 1988.

Network model HMOs contract with two or more independent physician groups. While a network model HMO may contain a few sole practitioners, it is predominately organized around groups.

- Enrollment in individual practice association HMOs climbed 1.4% to 14.9 million last year, from 14.7 million in 1988. An IPA HMO contracts directly with private physicians who predominantly provide services to non-HMO patients.
- Enrollment in group model HMOs increased 9.5% to 10.4 million in 1989, from 9.5 million the previous year. Group model HMOs contract with independent, multispeciality physician groups to provide services to HMO subscribers.
- Enrollment in staff model HMOs remained steady at about 4.3 million. Under a staff model HMO, physicians and other health care professionals are employed by the HMO.

Enrollment at the nation's biggest HMOs climbed substantially, while declining among smaller HMOs, according to the study.

For example, enrollment in plans with at least 100,000 enrollees rose 17.1% to 21.2 million last year from 18.1 million in 1988.

Enrollment at plans with fewer than 100,000 enrollees fell 6.8% to 13.6 million from 14.6 million.

The biggest increase in HMO enrollment—both in total numbers and by percentage—occurred in the Mountain/Pacific region. HMO enrollment in that region climbed 10.5%, rising to 12.6 million from 11.4 million.

By contrast, HMO enrollment in the East Central region remained virtually steady. That region's 149 HMOs had 6.68 million enrollees last year compared with 6.65 million in 155 HMOs in 1988.

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HMO enrollment information will be available in the GHAA's "National Directory of HMOs, 1990." Copies will be available in early June. The directory is free to GHAA members and will be available for $102.50 to the public. For information, contact Ivory Stanton, Group Health Assn. of America, Communications Department, 1129 20th St. N.W., Washington, D.C. 20036; 202-778-3247.

Ferry disaster

Continued from page 1
holidays in Norway, newspaper reports say.

The ferry has unlimited liability insurance through Oslo-based Skuld Protection & Indemnity Club, said Skuld Director Svein Ueland.

However, the Norwegian Maritime Code limits shipowners' passenger liability to a maximum of 100,000 Special Drawing Rights ($130,000) per person, Mr. Udeland pointed out. Special Drawing Rights are monetary units based on exchange rates for the U.S., West German, British, French and Japanese currencies.

All passengers are covered under the NMC since they boarded in Oslo, said Mr. Ueland, adding that all Scandinavian countries apply the same limit of liability.

However, maximum payments would apply mainly to wage earners with financial dependents, said Mr. Ueland, who pointed out that there are no minimum compensatory payments under the NMC.

As a result, Skuld faces maximum liability payments of $20 million to $30 million depending on the victims' age and income and the extent of survivors' injuries and other economic damages.

Skuld will retain $1.6 million of the total liability payments. The next $10.4 million is insured through the International Group of P&I Clubs. All P&I clubs belonging to the International Group also have up to $1.25 billion in reinsurance.

Mr. Ueland confirmed that liability payments would be settled by Skuld as soon as possible.

Meanwhile, the ferry's hull is insured for $24 million by Fjerde Soforsikringsselskab A/S, a Copenhagen-based subsidiary of London-based insurer Sun Alliance and London Insurance P.L.C.

Fjerde retains about 10% of the risk, reinsuring 50% in the London market and 40% in the Danish market, said Fjerde General Manager Bent Moller-Hansen.

Police last week still were investigating the fire and Fjerde had been unable to assess the extent of structural damage, he said.

Insurers for the Scandinavian Star were changed on April 2, the week before the disaster, when the ship was sold by Sea Escape Ltd. in Miami to Da No Line, a ferry operator owned by VR Shipping in Copenhagen.

However, the ferry, which was on one of its first voyages between Oslo and Frederikshavn, was registered in the Bahamas and was flying a Bahamas flag, said Mr. Ueland.

Many passengers who survived the accident complained that fire alarms did not work and that language difficulties between passengers and crew members, who were mainly Filipino and Portuguese, led to chaos on board the vessel during the fire, newspaper reports said.

Mr. Ueland maintained that the ferry should have been safe since it recently passed safety tests conducted by five separate authorities.

Officials at Da No and VR Shipping did not return telephone calls.

Passengers traveling from Scandinavian countries have traditionally been able to receive more compensation for accidents on board ships than passengers traveling from many other countries.

For example, under the 1974 Athens Convention, signed by 47 countries, the maximum maritime liability limit for passengers is 46,666 SDRs ($60,666) per person.

However, Athens Convention signatories March 30 unanimously agreed to increase the liability limit to 175,000 SDRs ($227,500), said a spokeswoman for the International Maritime Organization in London.

Countries will be able to ratify the new liability limit beginning June 1, she said. When one member country ratifies the agreement, it becomes effective in that nation.

Danish police believe the fire may have been caused by arson, and British police think the incident may have caused a spate of similar attacks on other ferries.

For example, one person was killed and more than 30 injured following a suspected arson attack April 9 on a ferry traveling from Pembroke, Wales, to Rosslare, Ireland.

Also, fire broke out April 10 on a ferry carrying almost 700 people from Caen, France, to Portsmouth, England. A crew member was hurt fighting the fire and an elderly man died of a heart attack, reports say.

Police are investigating both incidents on suspicion of arson. ■

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INTERNATIONAL

AIRMIC looks at decade ahead

Courtesy of the British Tourist Authority

Cambridge University was the site of the annual conference of the Assn. of Insurance & Risk Managers in Industry & Commerce.

Risk managers expect new challenges

By STACY SHAPIRO

CAMBRIDGE, England—The 1990s offer tremendous opportunities and challenges for risk managers, insurers and risk managers say.

Risk managers can be of vital importance to their corporations to reduce risks during mergers and acquisitions, said participants at the annual Assn. of Insurance & Risk Managers in Industry & Commerce conference held earlier this month in Cambridge, England.

Risk managers also must respond to new challenges, including:

- The so-called Greenhouse Effect, which is warming the atmosphere and may cause increasing flood problems for industries near rivers, lakes and oceans.
- Man-made disasters, such as oil spills and explosions.
- New pollution laws, particularly in Europe.
- Political unrest, which can lead to terrorist activities, riots, looting and explosions.

The 1990s "offers an unprecedented opportunity for true risk managers," said Wolfgang F. Friedel, vp of international operations for Waltham, Mass.-based Arkwright Mutual Insurance Co. "Risk management has to be part of the group that shapes and forms the corporation of the '90s. . .If you are a risk manager, be one. If you are an insurance manager, be a risk manager anyway."

"I am optimistic about the '90s. I'm optimistic about our ability to deal with the '90s as risk managers," added AIRMIC Chairman Brian Pountney. "AIRMIC's members are ready to respond."

"The decade will be significantly more risky and the risk management community needs to be aware of the challenges which it faces and be able to respond in a positive manner," said Terry Sparkes, risk and insurance manager of CMB Packaging Group in Reading, England, in a paper delivered at the

Continued on page 32

France amends insurance regulations

By ISABELLE BERGLAS

PARIS—The new French insurance code goes beyond the call of adopting the European Community directive on cross-border trading and features several other changes that will affect insurance regulation in France.

The reforms, which become effective this year in several stages, originally were intended to integrate into French law the European Community's directive governing the cross-border placement of non-life insurance. The reforms, among other things, also change France's insurance contract law, regulate brokers for the first time and allow private investors to invest in state-owned insurance companies.

Emmanuel Bus, assistant manager of legal affairs at the French Federation of Insurance Companies in Paris, said the new law will provide added protection for policyholders.

The new insurance code states that "the imperative dispositions of French legislation remain in effect" for risks or policyholders located in France, he explained.

This will provide "added protection for policyholders since French contract law is one of the most, if not the most, stringent with regard to the protection of policyholders' interests," Mr. Bus said.

In fact, the reforms address areas of French contract law and several insurance procedures that had come under attack from consumer organizations.

For example, an insurance company will only be able to deny coverage for late declaration of damages after a policy's expiration if it can prove that it suffered added loss as a result of the delay.

However, some French insurance policies that have three- to 10-year policy periods—like homeowners policies and some commercial property policies—can now be terminated by the underwriters at the end of every year.

The new legislation also will establish a commission for the regulation of insurance, which will have the power to sanction unprofessional companies.

"In the past, control belonged to the Insurance Department, working under the secretary of the treasury," Mr. Bus said. Under the new plan, a regulation will be in the hands of "the commission, which will determine whether insurance companies meet their obligations in terms of solvency," he explained. Commissioners will be appointed by the secretary of the treasury.

In addition, the legislation calls for reform of the National Insurance Council, a body created about 20 years ago to foster dialogue between public authorities and the insurance community. The council will be split into three new com-

Continued on next page

New Zealand firm settles earthquake coverage dispute

By KATE McILWAINE

BRISBANE, Australia—A New Zealand dairy company will receive almost $60 million following the settlement of a coverage dispute stemming from a 1987 earthquake in New Zealand.

The dispute arose over the method of calculating damage payments under a system in which a government earthquake insurance program and commercial insurers share the risk, said lawyers involved in the case.

Under the agreement, Bay Milk Products Ltd. of Edgecumbe, New Zealand, is to receive $102.5 million New Zealand ($59.3 million) as full settlement of its claim against its earthquake insurers, said Chairman Doug Bull.

Commercial insurers are to pay $57.5 million NZ ($33.3 million), with $45 million NZ ($26.1 million) to come from the government's Earthquake and War Damage Commission.

The case stemmed from a 1987 earthquake in Edgecumbe, a city on the north island of New Zealand, about 100 miles southeast of Auckland, the nation's capital.

Bay Milk's main factory was severely damaged. A nearby shopping center and motor garage, both owned by subsidiaries of Bay Milk were also damaged, court papers said.

The dairy cooperative filed a claim for $153 million New Zealand ($88.6 million) with its earthquake insurers, including the government's Earthquake and War Damage Commission. However, together they only advanced Bay Milk $54 million NZ ($31.3 million), prompting Bay Milk to sue.

Bay Milk was insured by the government commission and by a commercial industrial special risks policy covering property damage and loss of profits to all its properties.

Farmers Mutual Insurance Co. was the lead insurer on the commercial policy followed by followed by Royal Insurance Ltd.; CIGNA Insurance Ltd.; Commercial Union General Insurance Co. Ltd.; and the government-owned New Zealand Insurance Office.

The dairy also had coverage from the New Zealand government's

Continued on next page

Allianz looks East

Insurer poised for new growth in other nations

By DON LEWIS KIRK

MUNICH, West Germany—One hundred years after its founding, West Germany's largest insurance group, Allianz A.G. Holding, is increasing its international position, particularly through new ventures in Eastern Europe.

Chairman and Chief Executive Officer Wolfgang Schieren attributes Allianz's increased foreign activities to "epochal political, economic and sociological changes" in Europe, particularly Eastern Europe.

"The Soviet Union has the largest, most undeveloped potential," Mr. Schieren said, adding that "models for new industrial risk insurance and life insurance are being worked out with our Russian partners."

Allianz also has a 49% stake in Hungary Biztosito, a joint venture with Hungary that writes all classes of business.

In addition, Allianz recently announced the creation of a joint venture with East German insurer Staatliche Versicherung der DDR (*BI*, March 19). The new venture, Deutsche Versicherung A.G., will make Allianz the only foreign insurer with access to Staatliche's market.

However, several West German insurers charge the joint venture gives Allianz a monopoly in East Germany (see story, page 30).

These and other foreign ventures have propelled Allianz into the ranks of the world's largest insurers at a pace Mr. Schieren calls "breathtaking."

In 1988, foreign business produced 39.4% of its 29.2 billion deutsche marks ($16.5 billion) in gross premiums, according to Allianz's 1988 annual report, the most recent available.

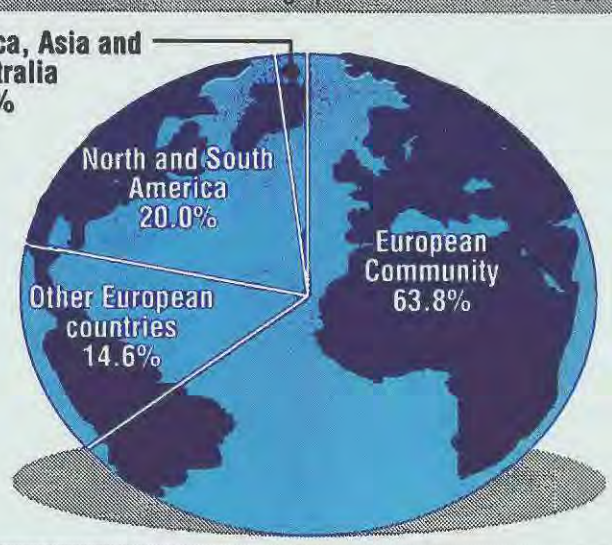
Allianz received 78.4% of its foreign premium income from Europe in 1988, of which 63.8% came from European Community nations, according to Allianz's 1988 annual report. Twenty percent came from the United States and the remaining 1.6% from Africa, Asia and Australia combined.

"In the last three years, Allianz has increased its engagement particularly in Europe," said Delev Bremkamp, managing director of Allianz and general manager of Allianz Europe Ltd. "Only five years ago, America was the corporation's

Continued on next page

Allianz's global reach

Allianz A.G. Holdings is well positioned to take advantage of cross-border trading of insurance in the European Community, as the insurer's distribution of foreign premium income indicates.



Source: Allianz A.G. Holdings' 1988 data

BI/HOLLY SEGUINE

INTERNATIONAL

Allianz

Continued from previous page
major foreign market. Today, almost $5 billion of Allianz's $6.64 billion foreign premium income comes from Europe."

"In Europe, a trend toward deregulation, market restructuring and company mergers has considerably enhanced business opportunities," Mr. Bremkamp said.

Because of the volume of premiums, the U.S. market remains of great interest to Allianz, he added.

"While clearly the strongest world insurance market, with 40% of worldwide total (premium volume), Allianz suffers from currency fluctuation and cyclical price movements" in North America, Mr. Schieren has said. "With premium levels on the downswing, especially in the market for property and casualty risk, Allianz has found other markets more lucrative," he said.

Nevertheless, Mr. Schieren said Allianz would "like to become an important personal and commercial insurer (in the United States)."

"While our premium volume is good, our share of the American market for life and especially property/casualty insurance is relatively small. That's why we place so much value on the U.S. But it means an unusually large investment in a market where company turnover varies greatly," Mr. Schieren said, adding the insurer would "like to strengthen our position through acquisition."

Allianz's main U.S. subsidiaries include:

- Allianz Insurance Co. and Allianz Underwriters Insurance Co., both of Los Angeles, which write property/casualty coverages.
- North American Life & Casualty Co. of Minneapolis, which writes group life, health and accident coverages.
- Fidelity Union Life Insurance Co. of Dallas, which predominantly focuses on individual life insurance coverages.

Mr. Schieren

Other foreign markets showed strong growth for Allianz last year, but earnings power varied considerably, the company noted.

Allianz's position in the Persian Gulf states, Africa, Hong Kong, Singapore, Indonesia, Japan and Australia has been marked by what Mr. Schieren calls "small and cautious steps," which typically involve gradually increasing its minority stakes in foreign insurance companies.

For two years, Allianz has focused on strengthening its presence in the Spanish market.

The West German insurer has a cooperative arrangement with Banco Popular Espanol, in which life insurance products will be sold through the bank's 1,600 branches. And Allianz last year acquired a 51% stake in Spanish insurer Ercos S.A. de Seguros y Reaseguros of Bilbao.

In France, Allianz has a joint venture with the French insurance group Compagnie de Navigation Mixte, which helped Allianz fight a takeover bid last year by French investment company Compagnie Financiere de Paribas.

Allianz is also talking with the Japanese Finance Ministry about creating a company—Allianz Japan—to increase its presence in that market.

"It's a gigantic and profitable market," he said. "But it takes patience," Mr. Schieren said of Japan, adding that "coordination of almost omnipotent conglomerates and ministries controlling the economy" has been a problem.

Despite Allianz's success abroad, Mr. Schieren attributes much of the insurer's success to its domestic market.

Allianz has been able to tap fertile markets abroad because it could count on stability at home, he said.

Allianz is able to hold its standing in the West German market partly through a maze of defensive cross-holding agreements with other leading companies.

For example, Munich Reinsurance Co. holds 25% of Allianz's stock. Allianz, in turn, holds a 25% stake in the Munich-based reinsurer.

In addition to Munich Re, major shareholders in Allianz include: Deutsche Bank, with 10%; Dresdner Bank, 10%; Bayerische Vereinsbank, 10%; and about 5% belonging to the von Finck family, which founded Allianz. ■

Quake cover

Continued from previous page
Earthquake and War Damage Commission.

In New Zealand, all property owners with fire insurance policies must pay a commission levy, which is calculated based on an agreed-upon indemnity value for the insured property.

The levy is collected by the fire insurer and passed on to the commission. The EWDC then covers damage up to the limit of the indemnity value. Coverage in excess of the indemnity value is provided by the private insurers.

The total indemnity value for Bay Milk's properties in Edgecumbe was listed by the commission at $73 million NZ ($42.3 million).

An industrial special risks policy covered all Bay Milk commercial properties for earthquake damage above $73 million NZ, up to $241.1 million NZ ($139.6 million).

Sedgwick National Ltd. of Auckland was the broker on that special risks policy.

According to court papers, Bay Milk assessed earthquake damage at its Edgecumbe property at $153 million NZ ($88.6 million). The commission paid out only $32 million NZ ($18.5 million), and Farmers Mutual paid $22 million NZ ($12.7 million).

'It would have been more satisfying to have achieved a higher settlement, but a number of factors, carefully assessed by the Bay Milk directors, pointed to the wisdom of a settlement at this figure,' says Bay Milk Chairman Doug Bull.

At trial, the High Court of New Zealand determined that the EWDC was liable only for damages up to the indemnity value listed on indemnity certificates supplied to the commission for each of the buildings damaged.

The High Court ruled that the commercial insurers' liability began when the EWDC's liability ended and lasted to the limit of the cover provided in the policy, $241.1 million NZ.

Farmers Mutual appealed, contending that the company should only be held liable for its portion of the declared value of the site, not for the full limits of its blanket policy.

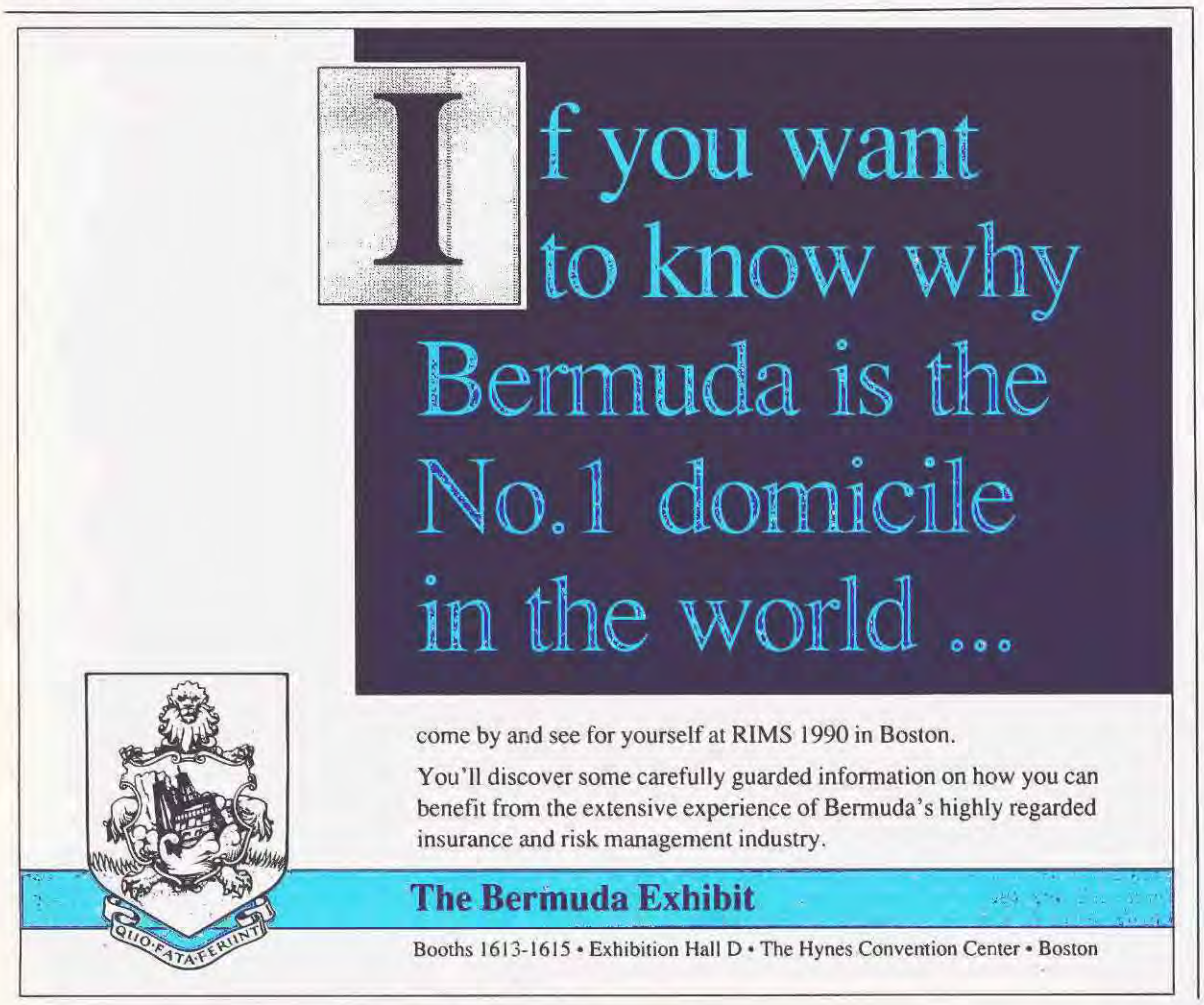
When it lost that appeal, Farmers Mutual gained permission from New Zealand's Court of Appeal to appeal the case to the Privy Council in London, a body of officials and dignitaries chosen by the British monarch as an advisory council to the crown.

Rather than prolong the litigation, Bay Milk Products agreed to settle.

"It would have been more satisfying to have achieved a higher settlement," Mr. Bull said.

But "a number of factors, carefully assessed by the Bay Milk directors, pointed to the wisdom of a settlement at this figure," he added.

"The daunting prospect of an appeal to the Privy Council, followed by a long and costly arbitration to resolve the factual detail as to the extent of delays, indemnity value, cost of reinstatement and proportionate allocation between insurers" was considered undesirable, he said. ■



French code

Continued from previous page
mittees, which include:

- A regulations committee, which will be in charge of examining all insurance-related legislation in order to assist the Treasury secretary.
- An insurance companies committee, which will advise the secretary about foreign insurers s that would cover small risks in France.
- A consultative committee, which is designed to improve relations between policyholders and insurance companies.

The new insurance code also contains for the first time regulations for insurance brokers. For example, brokers now must possess financial guarantees for the policyholder funds they hold and also must obtain professional liability insurance.

Maurice Perrin, general delegate of the French Insurance Brokers Assn., said he welcomes the new regulations.

"These requests are reasonable. Our members already had to abide by these rules but, for the profession as a whole, it is a step in the right direction," he said.

Relegated toward the end of the new law, within the "various clauses" section, is perhaps the most far-reaching reform of France's insurance code: Allowing up to 25% of the stock in state-owned insurers to be held by private investors.

In addition, the required 75% state ownership can now be held either directly or indirectly by other state-owned companies.

One of the first insurers to take advantage of this measure is L'Union des Assurances de Paris, which recently signed a 10% cross-holding agreement with Banque Nationale de Paris (*BI*, March 19).

"Within the European framework, it's not easy for the state to play the part of an ordinary shareholder and it can be very restricting. At a time when East European countries are heading toward a mixed economy, France could hardly choose to go against this trend," Mr. Bus said.

He added that he sees another, more pragmatic reason for this partial privatization: "How do you expect state-owned insurers to be able to acquire foreign companies if they do not open their shareholding to foreign nationals?"

However, Vianet Bollier, general manager of Paris-based broker Faugere & Jutheau S.A., said he is skeptical about the chances of a French insurer winning U.S. regulatory approval to acquire an American company.

"The free-trade speech voiced in the United States only applies outside American boundaries," he said, adding that Americans promote protectionism in the financial services industry, just as the Japanese do in the automobile industry.

At state-owned insurance companies, the mood is one of careful optimism.

A spokesman for UAP said "the reform will ensure that UAP will be in a position to raise enough capital to satisfy its development needs over the next three years."

Another French insurer agreed the reforms open new development possibilities.

"It has always been a handicap for state-owned insurers not to be able to raise capital on the market, either to reinforce their own funds or to undertake external growth," he said.

The reforms of the French insurance code are being enacted in stages.

The measure enabling private shareholding in state insurers became effective Feb. 26. Measures regarding changes in insurance contract law are effective May 1 and the remaining changes will become effective July 1.

Although France now joins several other EC member countries that have adopted the directive on cross-border trading of non-life insurance, Mr. Bus said he believes insurers have yet to come to terms with the true implications of the EC directive.

Insurance companies are following a development strategy that seems inconsistent with the idea of cross-border provision of services, he said. "They are still seeking partners in European countries on the premise that proximity is a sure measure of success."

Faugere & Jutheau's Mr. Bollier agrees, adding that "in the end, the EC directive. . .could well work in the favor of the freedom of establishment rather than the free provision of service."

And, Mr. Bollier said he sees a time, in the not-too-distant future, when Lloyd's of London will underwrite in Paris. "We will no longer be able to say 'Lloyd's of London' but we will say 'Lloyd's of Paris' and elsewhere. It's going to be amazing."

Already, Lloyd's of London underwriting agency Sturge Lloyd's Agencies Ltd. has been admitted to the French insurance bourse, which will enable it to write property and liability coverage for French risks (*BI*, March 12).

On the other hand, Mr. Bus said he worries about the reciprocity of cross-border placement of insurance in some non-European Community nations.

"A company with a subsidiary in any European country will now have access to all of Europe. A European company with a subsidiary in the United States or Japan should likewise be able to do business throughout that country." ■

INTERNATIONAL

Allianz's East German venture criticized

By DON LEWIS KIRK

MUNICH, West Germany—A joint venture between West Germany's largest insurance company and a state-owned East German insurer is being sharply criticized by other West German insurers and some government officials in Bonn.

West German insurers have called on the nation's economics minister to block what they regard as a "beginning monopoly."

Last month, Munich-based Allianz A.G. announced it holds a 49% stake in a joint venture with East Germany's state-owned monopolistic life, liability and accident insurer, Staatliche Versicherungs der DDR (*BI*, March 19). The new company, Deutsche Versicherungs A.G., is to be headquartered in West Germany.

The West German Assn. of Middle-Sized Business (AWM) calls the venture "monstrous."

"It's replacing a state monopoly with a corporate monopoly," according to Max Engl, president of the AWM.

Claas Kleybold, chief executive of Cologne-based insurer Nordstern Allgemeine Versicherungs A.G., compares the venture to confiscation.

"After the war, East German insurers were expropriated by the state. Now West German insurers are being expropriated by Allianz," Mr. Kleybold said.

The situation is "more than delicate," said a spokesman for West German Chancellor Helmut Kohl. "We'll lose a chance to liberalize (East German) market structures and a state monopoly could become a private monopoly."

"Over-the-border mergers like this are a matter for the federal Cartel Office," said West Germany's Economic Minister Helmut Haussmann, who sees the merger as a "test case."

West Germany's Cartel Office will be "most critical" of any agreement between Allianz and Staatliche, says a spokesman.

According to the Federal Supervisory Office for Insurance Matters in Berlin, Allianz now controls 15.9% of the West German life insurance market.

If the two Germanys are united, the Office for Insurance Matters predicts the joint venture will give Allianz more than a 20% share of the entire German life insurance market.

Many West German insurers had hoped for a share of the East German market.

Several have set up branch offices in East Germany and some—like the Alte Leipziger Group—have their origins in what is now East Germany.

"It's disappointing," said a spokesman for Oberursel-based Alte Leipziger.

West German insurers have called on the government to block what they regard as a 'beginning monopoly.'

"Allianz used its powerful position to get its foot in the door and it has left companies that started in East Germany out in the cold," the spokesman said.

Allianz defends its position, pointing to the "desolate condition" of its East German partner.

Uwe Haasen, chairman and chief executive officer of Stuttgart-based Allianz Life Insurance Co., contends Staatliche cannot survive open competition.

"The only alternative is liquidation," Mr. Haasen said.

He denies that Allianz has acquired a monopolistic edge over other companies, contending that once the East German market is open, it will be a free market for all insurers.

West German insurers have been waiting for East German legislation opening the market to foreign companies, which now can open offices in East Germany but not sell their products there.

Companies currently training East German personnel include: Hermes Credit Insurance Co. of Hamburg; Frankona Reinsurance Co. of Munich; and Alte Leipziger.

Companies that say they will be present when the East German market opens include: Gothaer Insurance Group of Cologne; Magdeburger Fire Insurance Co. of Hannover; and Thuringia Insurance Co. of Munich.

Mr. Haasen says Allianz will wait for other insurers to be licensed before it starts business in East Germany, but he makes it clear Allianz is giving nothing away.

"The competition has begun," he said. ■

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RIMS 1990

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Challenge in '90s

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conference by Mr. Pountney because Mr. Sparkes was ill.

"A risk management program should be pro-active and therefore trying to anticipate risk exposures," Mr. Sparkes' paper said.

More than 450 people attended AIRMIC's annual conference, titled "The Risky '90s—Nailing the Challenge." The conference was held April 3-6 at Robinson College in Cambridge.

The conference theme was depicted on the cover of the conference program with a drawing of the Four Horses of the Apocalypse carrying banners of "Terrorism, Flood, Pestilence & Pollution."

"The specters of terrorism, flood, pestilence and pollution through the decade will ride into our business lives unchallenged if we ignore the warning signs," Mr. Pountney told delegates when opening the conference.

"As the decade unfolds, businesses are in or will undergo significant change" as they move into Europe, including Eastern Europe, the United States "and beyond," said Mr. Pountney, risk manager for Bass P.L.C. in Burton-on-Trent, England. New cultures, legislation and environmental issues "will have to be addressed," he said.

Mr. Pountney pointed out that in a recent survey on business risks in the United Kingdom, companies said their highest concerns are: computer security, hostile takeovers, product protection and natural disasters.

"The traditional risks featured low in the list," he said.

In the case of natural disasters, he noted that an earthquake that measured 5.2 on the Richter scale with an epicenter in Wrexham in northern England "shook us all" a few days before the conference.

In addition, "the storms of '87 and '90 have posted new and as yet unchartered areas of risk," said Mr. Pountney.

"I think we should all ask ourselves a question. Were we ready to deal with threats of this type?" asked Mr. Pountney.

In the '90s "as risk managers, we must be ready to respond to the challenges and changes that will be demanded of our profession," he said.

"Talking about the risks of the '90s and nailing the challenge, we also imply that we know the challenge and that we have the tools to nail it," added Mr. Friedel of Arkwright. "Do we really? Did we really know the challenges of the past? Do we really know the levels of exposures that we are dealing with? And if not, should we?

"To nail the risks of the '90s means to handle the risks ahead," added Mr. Friedel. "It means to know your risk exposures for what can really only matter: the known (risks). It's difficult to deal with the unknown."

Some of the major risks of the '90s evolve from mergers and acquisitions, Mr. Friedel pointed out. The "mega-mergers" over the past few years have produced companies which are bigger, "but are they better? Is bigger better? Are they more profitable? Do they produce better products? Are they closer to their marketplace?" he asked.

The architects of these mergers design new corporate structures using cost-benefit analyses to assure maximum return on investment, said Mr. Friedel. This usually includes consolidation so that, for example, one factory—instead of three—produces a product or that one company facility is dependent on other facilities for parts.

This kind of consolidation can lead to trouble without proper risk assessment before a merger takes place, he said.

For example, he noted the case of a corporation with 17 operations that acquired a competitor with 12 operations.

"All operations were independent of each other and could manufacture the product separately" before the merger, he said. "After the acquisition and restructuring 2½ years later, the corporation was left with a total of 14 manufacturing locations, with five plants manufacturing raw materials for the other nine. There also were five regional distribution centers spread throughout North America."

AIRMIC

Prior to the acquisition, the largest exposure in case of fire for both companies separately was $67 million for property damage and $42 million for business interruption, said Mr. Friedel. However, after the reorganization, the largest fire exposure was $132 million for property damage and $112 million for business interruption because of the interdependencies within the merged company, he said.

"Was this increase in exposure taken into consideration by the architects and the strategists of the organization? Not at all," said Mr. Friedel. "The exposures to risk, the exposures (that could) fatally hurt this corporation, more than doubled in less than 2½ years.

"The point here is not to suggest that the company's strategy is wrong, but that these factors need to be taken into consideration when restructuring and reorganizing a corporation."

Mr. Friedel told risk managers they should become more involved in corporate strategy before mergers take place. "You play a critical role in the well-being of your corporation," he said. "You, the risk manager, have to involve yourself in the corporate strategic decision-making process. Your contribution is the analysis of what can happen. Your analysis has to become a tool that's being used to weigh the projected gain against the potential risk."

Other major risks that risk managers must address in the '90s include the potential for natural and man-made disasters, said Sarah Laycock, group insurance manager for the Chloride Group in Manchester, England. In order to cope with these disasters, risk managers must use innovative risk financing techniques to protect their companies from catastrophe, she said.

"Saying 'whoops' may once have been sufficient" when an unknown catastrophe occurred, Ms. Laycock told delegates. "But today only a sound risk financing package will do."

Prior to the conference, Ms. Laycock canvassed her office staff to see whether, since 1985, there were more man-made or natural disasters that could be remembered.

The natural disasters that could be remembered included: flooding in Indonesia; the October 1987 windstorms in Europe; Hurricane Gilbert in 1988; the Armenian earthquake last year; Hurricane Hugo last year; and the San Francisco earthquake.

The man-made disasters included: the 1986 nuclear disaster in Chernobyl in the Soviet Union; the capsize of the Herald of Free Enterprise ferry in 1988 off Belgium; the Piper Alpha North Sea oil platform explosion in 1988; the explosion of the Pan American World Airways Flight 747 over Lockerbie, Scotland, in 1988; a British Rail train crash in 1988 that killed 35 people; and the Exxon Valdez oil spill in Alaska last year.

"Not only did we discover that man-made disasters outnumber natural disasters, but we discovered that man-made disasters outnumber natural disasters by two-to-one," said Ms. Laycock.

However, Ms. Laycock believes that risk managers may be more prepared for man-made disasters than for natural catastrophes.

"There is no doubt" that weather patterns are changing, she said, especially in view of the severe storms earlier this year in Europe.

"The 1990s will be the discovery period" for whether weather patterns have permanently changed because of global warming, she said.

"If the experts are to be believed, flood will be the major new risk" of this decade, said Ms. Laycock. This will affect people and businesses worldwide with facilities near shorelines.

"Seventy percent of the population of the United States of America is located along its coasts," she noted. And "several billions" of dollars of property is located along the Thames estuary, the area between the mouth of the Thames River on the English

Continued on next page

British risk managers assess Weavers' woes

CAMBRIDGE, England—British risk managers huddled at their annual conference to discuss the impact the troubled H.S. Weavers (Underwriting) Agencies Ltd. will have on their insurance programs.

After a closed emergency meeting at the Assn. of Insurance & Risk Managers in Industry & Commerce conference, risk managers decided AIRMIC should "make sure that our members look into what their vulnerabilities are. . .and to keep a watch on the situation," said Sue Greenwood, group insurance manager for British Telecom P.L.C. in London, who chaired the session.

AIRMIC plans to investigate the insurers on the Weavers line slip over the years to see what gaps may have developed in future claims payments, said Ms. Greenwood.

More information will be gathered at the Risk & Insurance Management Society conference in Boston later this month, she said.

Meanwhile risk managers await publication of an actuarial report on Walbrook Insurance Co. Ltd., which wrote 55% of the Weavers line slip, and other insurers that reinsured Walbrook, Ms. Greenwood said.

Weavers, Walbrook and the other insurers all are units of London United Investments P.L.C.

Walbrook suspended underwriting late last month after a preliminary actuarial report by the Tillinghast division of Towers, Perrin, Forster & Crosby Inc. showed that Walbrook might have to increase reserves to pay for unrecoverable reinsurance from the other LUI insurers. Walbrook is continuing to pay claims, but the six other LUI insurance subsidiaries have suspended claims payments pending completion of the actuarial report (*BI,* April 9; April 2)

Claims payment is more important to policyholders than whether Weavers can be replaced on existing business, pointed out Ms. Greenwood.

"Brokers have been casually moving business (from Weavers) for the last nine months," so few policyholders have been left without coverage, she said. But as far as claims are concerned, "everyone is looking to make sure they have proper protections."

AIRMIC members have tried to learn more about the Weavers situation from brokers, but "people are being cautious on the way they discuss the subject (because) there's uncertainty," she said, adding that some brokers "could have given more support" to policyholders.

However, AIRMIC members believe their claims will be paid despite the possible insolvencies of some of the LUI units, she added.

"At the end of the day we hope that the whole issue is sorted out and existing insurers (not on the line slip) support the cover that is already in place," said Ms. Greenwood.

"This is why at the moment we don't have much concern about insurance companies possibly going under. We think the insurance world will support the setup."

—By Stacy Shapiro

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Business Insurance

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Channel and the center of London.

"Will the Thames Barrier provide adequate protection?" she asked, referring to a massive flood barrier built in the early 1980s to stop flooding in London.

Meanwhile, "many industries are required to be close to water. Relocation is not an option," but it may become impossible to buy flood insurance in certain areas if flooding increases, she said.

Not only must risk managers understand weather changes, but they must also be prepared for changes in the attitude toward the environment, said Ms. Laycock.

"The world in which we live has had quite a dramatic change with the emergence of 'green' issues," she said. "Today's computer must not only be user-friendly, it must also be ozone-friendly. Never before has man been so concerned about his environment.

"In previous decades, pollution was an accepted feature of industry. If you wanted jobs, you had to have factories. If you had factories, you had to have pollution.

"This. . .is no longer the case," she said. "In time, we will see reams of legislation. Green issues are now election-winning issues."

Ms. Laycock pointed out in a paper accompanying her speech that there is an old adage, "an ounce of prevention is better than a pound of cure."

She concludes, "The risk manager of the 1990s must be prepared to fight for a budget to allow him to carry out effective risk prevention as opposed to enough money to merely purchase insurance. Indeed, the better the risk management function becomes within a company, the less need it should have to call on insurance or rely on insurance as its only method of risk transfer." ■

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Storms an ill wind for U.S. renewals

By STACY SHAPIRO

CAMBRIDGE, England—Windstorms that ripped through Europe early this year may make it difficult for U.S. ceding companies to buy property catastrophe reinsurance during July 1 renewals, a British underwriter contends.

However, competition among European insurers will prevent the market for European risks from hardening in as it did in the mid-1980s, said participants at the Assn. of Insurance & Risk Managers in Industry & Commerce conference this month in Cambridge.

January and February storms that could cost insurers up to $8 billion have left the London retrocessional market—known as London market excess of loss or LMX market—"in a state of total disarray," said Barry West, head of the London market for Commercial Union Assurance Co. P.L.C.

Uncertainty over windstorm losses left London underwriters unsure whether they have enough reinsurance to cover another natural catastrophe this year. Underwriters have not yet determined how the losses will be apportioned among the different storms (*BI*, March 26).

"We are all crossing our fingers that there won't be another catastrophic event this year," said Mr. West. "If that's the case, then the (LMX) market will come back. . . .There may be an element of recovery later in the year."

But Mr. West can't foresee an LMX market recovery without a reduction in capacity. That means not only reduced capacity for reinsurers, but reduced capacity for primary insurers as well, he said.

"The critical area will be for North American underwriters (who) will find it difficult during July 1 renewals," said Mr. West. "They won't find enough capacity for North American catastrophic exposures."

Mr. West added during another workshop on "risks of market volatility" at the AIRMIC conference that "the European storms were the last straw" for the European reinsurance market. "They may impact severely on July 1 renewals because capacity won't be there, because retrocessions won't be there," he said.

However, the series of natural

Continued on page 35

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The plan has been substantially strengthened over the last three years by lessening the adverse selection caused by HMOs and by including over 19,000 of the indemnity plan participants in a managed care program. As a result, the claims experience has become much more predictable. The estimated claims loss ratio for 1989 was 85.3%.

The Health Care Commission desires to hold preliminary discussions prior to the issuance of the RFP with potential insurers. Discussions could include such topics as the importance of a multi-year contract and managed care systems. After the RFP has been issued, the Commission will be restricted on discussions with individual carriers.

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Catastrophe cover

Continued from page 33

disasters—the windstorms, Hurricane Hugo and the California earthquake—that led to the contraction of the LMX market may not affect European insurance rates immediately, conference participants said.

During the hard market of the mid-1980s, European industries were directly affected by the contraction in the U.S. product liability insurance market.

European companies could not find liability coverage for their U.S. subsidiaries, while European underwriters that insured their European operations touted exclusions and restrictive policy wordings similar to coverage written for U.S. risks.

While the market for U.S. risks could harden beginning July 1, factors in Europe will stop a market crunch from spreading to European risks, conference participants said.

First of all, Mr. West noted that any market crunch this year will be on the property—rather than the casualty—side of the ledger, and the European property insurance market has never experienced the same wild swings as the U.S. market.

Property insurance tariffs in some European nations contributed to the relative stability, conference participants noted.

In addition, insurers worldwide are setting up European insurance networks to take advantage of the single insurance market in the European Community. Competition spurred in part by those networks will keep rates in Europe down, conference participants agreed.

However, obstacles—especially monetary barriers—are blocking implementation of a single EC insurance market, observers said.

"The full benefit of the single market will not be achieved without monetary union," T.J. Palmer, group chief executive of Legal & General Group P.L.C. in London and chairman of the Assn. of British Insurers, told the AIRMIC conference.

"Without a common currency, either insurers or their customers will be exposed to the risk of adverse movements in national exchange rates. For long-term investment business, the level of risk will be unacceptable."

Mr. Palmer urged the British government to support the exchange rate mechanism of the European Monetary System, which is "the first step toward a common currency." Alone in the European Community, Britain does not support that system, but "the ABI feels strongly that U.K. entry into the ERM is vital to the interest of the U.K. insurance industry."

But despite obstacles, insurance networks are being set up in the EC, mainly by continental European insurers, many of which are either privately held or state-owned and are not taxed on their catastrophe reserves, as are British insurers.

AIRMIC attendees wondered whether London, as a result of these moves, will lose its place as the premier insurance center of Europe, but Mr. Palmer doesn't think so.

"We already enjoy a reputation for technical expertise, for competitive prices and for innovation," he said. "It would be foolish, however, to assume that London can maintain this lead with ease. . . .French and German insurers will not be happy playing second fiddle to London."

Mr. Palmer urges the British Inland Revenue, the equivalent of the U.S. Internal Revenue Service, to help U.K. insurers fight for market share in Europe by holding down taxes on insurers.

AIRMIC

"Any further increase in the tax paid by general insurance companies would run the risk of making them uncompetitive," he said. "The existing tax regime already penalizes non-life insurers."

Meanwhile, financially strong Japanese insurers also are in Europe, although at the moment only "to learn," said one AIRMIC attendee. Although they are mainly insuring their Japanese clients with European operations, the Japanese are expected to build their own European insurance networks, which could dwarf most Continental European insurers' operations.

"The European market will stay soft as long as there is a fight for market share," said Nicholas Davenport, managing director of UNISON S.A., a worldwide brokerage network that includes Johnson & Higgins in the United States.

"A hardening which we thought might take place this year (in the United Kingdom and Europe) will probably be delayed at least a year because of this," added Robert B. Guthrie, managing director of Willis Wrightson London Ltd. "Europe's own insurance cycle will turn in 1993."

By 1995, Mr. Guthrie and W. Arthur Whatham, executive director of Willis Wrightson Ltd., predicted that the top 10 insurers in Europe will be:

- Allianz A.G. of Munich, West Germany.
- Axa Group of Paris.
- B.A.T. Industries P.L.C. of London, which owns Eagle Star Insurance Co. Ltd. and Farmers Insurance Group of Los Angeles.
- London-based Prudential Corp. P.L.C., which is not related to The Prudential Insurance Co. of America.
- Sumitomo Marine & Fire Insurance Co. of Tokyo.
- Taisho Marine & Fire Insurance Co. of Tokyo.
- The Tokio Marine & Fire Insurance Co. of Tokyo.
- Union des Assurances de Paris of Paris.
- Yasuda Fire & Marine Insurance Co. of Tokyo.
- Zurich Insurance Co. of Zurich, Switzerland.

But Mr. West of Commercial Union disagrees with this scenario. He believes that many U.K. insurers will merge "for self-preservation" by 1995, so that a few more British insurers will be on the list.

AIRMIC participants wondered why Lloyd's of London wasn't considered on the list. Mr. Guthrie replied that, by 1995, Lloyd's will be much more of a "specialist" insurer for special areas of coverage and won't be as big a player in general classes of property/casualty insurance. ■

AIRMIC debates quality of risk financing in '90s

By STACY SHAPIRO

CAMBRIDGE, England—Some risk managers believe that current risk financing mechanisms are incapable of meeting the challenge of a new decade.

However, other risk managers think that argument is "flawed" and believe that commercial insurers, captives and other risk financing mechanisms will be able to adequately protect their companies throughout the decade.

The arguments were made during a debate that closed the Assn. of Insurance & Risk Managers in Industry & Commerce's annual conference, held earlier this month in Cambridge, England.

The motion for the debate stated: "This house considers that the current risk spreading mechanism is incapable of meeting the challenge of this decade."

Speaking for the motion were John Havers, director of Hogg Insurance Brokers Ltd. of London, and Richard Reddaway, insurance/risk manager of London-based pharmaceutical firm Glaxo Holdings P.L.C.

Speaking against the motion were Philip J. Brown, deputy chairman of London-based Marsh & McLennan Bowring Ltd., and Andrew Mills, European risk manager for London-based conglomerate Johnson Matthey P.L.C.

Mr. Havers, in starting his argument, told a filled auditorium that "Richard and I, in the spirit of cooperation, will avoid bashing any one particular segment of the market" be it risk manager, insurer or broker. "We will bash all parts with complete impartiality."

Mr. Havers contends that the cataclysmic market hardening of the mid-1980s is bound to repeat itself, forcing risk managers to turn to self-insurance because the market cannot provide capacity.

"It is reasonable to assume that what happened in the 1980s will at least be a guide for the next 10 years," he said. "The risk spreading mechanism did not cover itself in glory during that period."

Although the first four years of the 1980s were dominated by an extremely soft market cycle, by 1984 the first signs of a hardening market became apparent when U.S. reinsurers either stopped writing or reduced capacity for general and product liability insurance, Mr. Havers recalled.

"Professionalism, logic, longstanding relations were abandoned during 1984, 1985 and 1986. Even those insureds with excellent claims records, with sound risk management programs, were struck down," said Mr. Havers. "Underwriters introduced claims-made (policy) wordings without debate, and they made it worse when they said that the medicine was good for us. I know. I was a buyer then."

To battle against the contracted

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Risk financing

Continued from previous page

market, risk managers set up captives and policyholder-owned insurance companies to solve capacity problems, Mr. Havers reminded the audience. "Much of that premium will not return to the conventional market," he said.

Following risk managers' harrowing experience in the 1980s, "we have not made an auspicious start" in the 1990s, said Mr. Havers. He pointed out that the suspension of underwriting at Walbrook Insurance Co. Ltd. last month and suspension of claims payments at other insurers owned by London United Investments P.L.C. "is a bitter blow" (*BI,* April 9; April 2).

"It is reported that U.S. products liability business is the root cause of (LUI's) problems," Mr. Havers said, noting that these insurers "are not the first, nor will they be the last" to stumble on account of long-tail claims against U.S. firms.

For instance, Lloyd's of London syndicates underwritten by Richard Outhwaite face 300 million pounds ($493.5 million) of losses from U.S. liability insurance business, while Lloyd's syndicate 90 managed by Pulbrook Underwriting Management Ltd. faces $250 million of losses, he said.

Meanwhile, risk managers face new risks in the 1990s—including the results of the so-called Greenhouse Effect and environmental pollution—for which strategy has not yet been mapped, noted Mr. Havers.

In five years' time, as these problems magnify, risk managers will be "berating the underwriters as the most stubborn, immovable objects since the first lipstick stain on a shirt collar," he quipped.

"All is not well," Mr. Havers summed up. "I don't consider that the current risk mechanism is capable of meeting the challenge of this decade."

Glaxo's Mr. Reddaway agreed that "clearly the risk mechanism does not meet the challenge of this decade."

Although he praised broker Marsh & McLennan Cos. Inc. for helping to establish policyholder-owned liability insurer A.C.E. Insurance Co. Ltd. in the mid-1980s when capacity was needed, Mr. Reddaway said there is a need for earthquake insurance capacity that is not being met.

"Certainly I would like to hear about" new facilities to write earthquake coverage, he said.

Mr. Reddaway noted problems in some countries that risk managers must address but for which there currently are not solutions, including:

- In Japan, where insurers cannot obtain a licence to write directors and officers liability insurance or kidnap and ransom insurance. In addition, insurers are not able to offer "realistic" earthquake insurance limits, he said.
- In Bangladesh, "where some of us have substantial investments," the insurance industry was privatized in 1984, but insurers are now having a tough time negotiating reinsurance on their own, thereby limiting the capacity that can be offered.
- In Australia, where the government is contemplating introducing a system of strict liability for product accidents (*BI,* Dec. 4, 1989).

"Is the (insurance) industry capable of rising to that challenge?" he asked.

- In France, where in December 1988 the government made it illegal for a pharmaceutical company facing a personal injury claim to not have unlimited liability insurance.

"How did the insurance industry respond?" he asked. "Heads down." The French government is now redrafting the law, he added.

"Why are people opposing this motion?" he asked, referring to the debate topic that current risk financing alternatives cannot meet the challenge of the '90s. "I would like to suggest that they are armchair commentators. They are not out and about in the real world, which certainly I—as an insurance/risk manager—need to be."

Mr. Reddaway agrees that 'clearly the risk mechanism does not meet the challenge of this decade.'

But Mr. Brown of Marsh & McLennan Bowring thinks that the topic of the debate was inherently "flawed."

By using the words "current risk spreading mechanism" in the debate's topic, "we presume this means the potential of positive interaction between risk managers, intermediaries, insurers and other specialists to design optimum insurance and risk management programs and to implement them for a specific company."

The word "incapable" is "the linchpin of the proposition," said Mr. Brown. "And history has shown that at any given point in time, the current risk spreading mechanism, or whatever it was called, was capable and up to the challenges of those times.

Mr. Brown pointed out that over the centuries forms of insurance have been devised by business and industry to protect their risks. Centuries ago, the Venetians devised a form of insurance to protect their livestock during overseas voyages. Shipowners in London swapped risks at Edward Lloyd's coffeehouse in the 17th century, which grew to become Lloyd's of London.

More recently, A.C.E. and X.L. Insurance Co. Ltd. were formed to provide "the largest chunks of generic capacity ever assembled" for catastrophic liability risks, said Mr. Brown. And Bowring has just put together a $100 million excess liability line slip in the London market that will provide coverage excess of $200 million. A.C.E. is reinsuring a portion of the slip (*BI,* March 5).

"These are not industry captives," he said, noting that A.C.E. and X.L. are stock insurance companies whose capacity is available to policyholders all over the world.

"These examples of risk transfer facilities throughout the decade were born from the challenge of change in modern times," said Mr. Brown. "These risk spreading mechanisms were needed to correct real and perceived capacity and cost problems that were in the marketplace. Were these solutions perfect? Did they correct all the flaws? Were they universally accepted? Of course not.

"But they are tangible evidence today that the challenge of the decade can be met capably by the resources we have," said Mr. Brown.

Mr. Mills of Johnson Matthey added that Messrs. Havers and Reddaway were telling AIRMIC conferees "a fairy story."

"I was expecting. . .to have to worry about these terrible things which were about to descend upon this planet which we couldn't possibly begin to cope with and we wouldn't even know where to start," said Mr. Mills. "And what have they said? That in the 1980s we couldn't get insurance. Yes? Yes! And what else? That they don't think we'll get insurance in the 1990s!"

Mr. Mills said he was expecting to hear tales that would frighten children "about witches, wolves, and other vile things." But, he noted that risk managers "have grown up. We know they're just stories."

Mr. Mills noted that Messrs. Havers and Reddaway claimed that the challenge in the 1990s is to get insurance that we can understand, not "written in Japanese. I want a policy that says what I want it to say.

"I'm not telling you anything new. I'm not asking for new forms of insurance. I'm telling you how the world is already. We do not constantly stand still. We change."

By a show of hands in the audience at the end of the debate, the motion that risk financing alternatives would be unable to cope with the challenge of a new decade was soundly defeated. ■

Environmental risks top list of concerns

By STACY SHAPIRO

CAMBRIDGE, England—The environment is the most important issue facing risk managers in Europe today, according to risk managers and others.

Legislation pending in the European Community and member states would force European corporations to guard more closely against pollution, agreed participants at the Assn. of Insurance & Risk Managers in Industry & Commerce's annual conference earlier this month.

Those companies, conference participants said, may one day be held responsible for cleaning up sites polluted years ago, as U.S. businesses currently are. Most EC countries currently do not require industry to clean up such sites.

Pollution, one of several themes of the conference, was identified as one of the major challenges of the new decade (see story, page 29).

"There will be increasingly stringent legislation for the protection of the environment (in Europe), but this will mean the creation of new industries that will provide tools to fight pollution and plenty of opportunities for the insurance industry," said Robert de Vilder, chairman of the executive board of Bekouw Mendes of Amsterdam, The Netherlands.

"The European Community must come to terms with the 'green' phenomenon,' " added John Cowell, an independent consultant working with Commercial Union Risk Management Ltd. and the Overseas Economic Development Corp.

The Green Party, which holds seats in the West German government and the European Parliament, has precipitated a shift in European politics and is growing stronger in other EC nations, conference participants pointed out.

The party advocates environmentalism through government action and public education.

"The still growing political appeal of the Greens, together with the growing menace of pollution problems, has led to the 'greening' of all other political parties and to the increasingly stringent legislation for the protection of our environment," noted Mr. de Vilder.

The "greening" of Europe has spawned several new pieces of legislation at the EC level and before national governments, observers noted.

One is the EC directive "on civil liability for damage caused by waste" proposed last year, said Mr. Cowell. That directive is designed to establish a uniform system of pollution liability within the EC. It is to ensure fair compensation for individual victims of pollution damage and to make sure that added costs are reflected in the price of the products or service giving rise to the waste (*BI,* Nov. 27, 1989).

Most EC directives take a long time to be implemented, conference participants say. For example, it took 10 years for the EC product liability directive, which imposes strict liability for damage caused by products, to be adopted.

However, members of the European Parliament "want to be seen to be green," so the waste liability directive may be adopted more quickly, said Mr. Cowell.

If it is passed, European corporations "will have to pay more compensation and more in legal costs" for pollution incidents, he said.

The directive would subject industry to strict liability for all types of waste generated by an economic activity, except for pollution caused by oil or nuclear waste, which are covered by other conventions. It would put the onus and liability on manufacturers, rather than those who dispose of the waste.

Included in the directive's definition of environmental damage are bodily injury, property damage and environmental pollution.

Compensation payable to a claimant would not be limited. However, the directive would limit producer liability when the costs of a cleanup substantially exceed its benefits.

Under the directive, plaintiffs may take legal action up to three years after becoming aware of damage or injury and/or the identity of the producer and up to 30 years after the incident giving rise to the pollution occurred.

Waste disposed of before the directive takes effect would not be covered.

While some fear the proposal will become retroactive when adopted, Mr. Cowell doubts this will happen. But conference participants from the United States and The Netherlands, where business is liable for past pollution incidents, remain unconvinced.

"I fear regulations may become retroactive," noted one European risk manager.

"You're older than we are and your environmental exposure is probably just as bad. Governments will look at ways to clean up and that may force retroactive legislation," said an American insurer.

Mr. Cowell wondered whether European industry should set up a voluntary Superfund-like mechanism to fund cleanups. Superfund was established by Congress in 1980 to pay for cleaning up abandoned waste sites.

Conference participants shot the idea down, though, saying that litigation would automatically follow the establishment of such a fund.

Other attendees hoped that insurers would "grasp the nettle" and expand pollution liability coverage. However, insurers at the conference said they do not know the level of risk that exists and, thus, do not know how much to charge for the coverage. And some risk managers said they didn't know if they would buy pollution liability coverage because they were not yet sure of their exposure.

"Maybe pollution should be looked at by the United Nations," Mr. Cowell suggested.

Meanwhile, Mr. de Vilder noted that the United Nations has introduced a new convention that will make a shipper liable for pollution damage caused by the transportation of dangerous goods.

The proposal—the Convention on Civil Liability for Damage Caused During Carriage of Dangerous Goods by Road, Rail and Inland Navigation Vessel—"channels all liability during transport to one party: the carrier," said Mr. de Vilder.

The limit of liability for shippers of dangerous goods will be about $40 million, he said.

Mr. de Vilder said the United Kingdom does not plan to sign this convention, so the standard will not be applicable in Britain. However, because many continental European countries may adopt this convention, "any British carrier crossing the channel will have to pay attention to these new rules because they will apply to him as well," he said.

Meanwhile, British risk managers await the passage of the Environmental Protection Bill, which was introduced in Parliament last December and is expected to approved by autumn and take effect by year-end.

Terry Sparkes, risk and insurance manager for CMB Packaging Group in Reading, England, said in a paper read at the conference that the bill will:

- Establish a government agency, called the Integrated Pollution Control, to supervise industries with the most potential for pollution.

The IPC will regulate 4,000 "scheduled" industrial processes, "including such diverse operations as mineral works, oil refineries, non-nuclear power stations, iron and steel works, glass fiber plants, chemical works, metal foundries, waste incinerators, and processes that discharge 'red list' substances or that produce significant quantities of special wastes," Mr. Sparkes stated.

- Establish an Inspectorate of Pollution, which would have to authorize companies engaged in these 4,000 areas of operation before beginning production. The authorization will describe in some detail the manner in which each process is to be operated, the technology to be used, emission limits and monitoring procedures.
- Ensure companies use the "best available technology not entailing excessive cost" to control pollution. These controls are known as BATNEEC.
- Force companies to pay an initial fee to be authorized plus an annual charge.

A spokesman for the U.K. Department of Environment said in an interview last week that the fees will not be costly, though no amount has been set.

However, the new environmental bill does not call for companies to be responsible retroactively for the cleanup of polluted sites, he said, adding, that "cleanup will be the responsibility of local authorities."

The bill also would establish a separate system of pollution controls for a second tier of industrial processes that pose a lower risk than those overseen by the IPC, said Mr. Sparkes.

"The new system is likely to be similar to IPC in the way it operates. . .but it will apply only to emissions to the air, not to the other environmental media" like water and land, he said.

Moreover, the bill will tighten the controls over the disposal of waste, Mr. Sparkes said.

Waste disposal regulatory authorities will be empowered to refuse, revoke or suspend waste disposal licences or refuse to allow them to be transferred to persons they consider unfit, he said. And, authorities will be required to charge licence holders an annual fee.

"Industry will be on the receiving end of many of the new measures," said Mr. Sparkes. "Those firms which are able to respond quickly and effectively to the new environment will minimize their costs and gain a major competitive advantage." ■

Largest U.S. reinsurers' 1989 results

Ranked by net reinsurance premium written. All amounts in thousands of dollars.

Reinsurers	Policyholders' surplus (reinsurers only)	Net reinsurance premiums written 1989	Net reinsurance premiums written 1988	Net reinsurance premiums earned	Losses & loss adjustment expenses	Loss ratio	Underwriting expenses	Expense ratio	Combined ratio 1989	Combined ratio 1988
General Re	$2,683,640	$1,796,611	$1,780,247	$1,803,082	$1,272,207	70.6%	$521,478	29.0%	99.6%	99.1%
Employers Re	1,328,608	1,113,867	1,147,333	1,114,795	888,727	79.7	274,967	24.7	104.4	100.0
American Re	619,363	871,220	937,336	875,381	650,121	74.3	257,419	29.5	103.8	101.5
North American/Swiss Re	588,083	630,071	623,111	599,113	482,327	80.5	229,485	36.4	116.9	102.6
Munich Re	567,402	570,907	625,151	598,362	453,716	75.8	193,696	33.9	109.8	102.1
Prudential Re	506,759	503,362	537,386	497,076	345,062	69.4	187,792	37.3	106.7	113.8
St. Paul Group	N/A	416,934	314,252	372,034	347,918	93.5	130,154	31.2	124.7	107.2
F&G Re (USF&G)	N/A	415,739	601,020	460,662	293,210	63.6	133,201	32.0	95.7	96.4
Continental Cas	N/A	333,908	296,881	326,010	318,015	97.6	108,534	32.5	130.1	107.2
Kemper Re	411,081	328,439	308,883	314,600	252,441	80.2	86,201	26.2	106.5	103.3
Transatlantic Re	206,622	319,110	311,139	327,581	267,004	81.5	86,857	27.2	108.7	105.1
Transamerica Re	166,069	280,178	257,402	271,116	204,319	75.4	82,817	29.6	104.9	100.3
CIGNA Re	187,267	272,945	282,498	281,848	232,720	82.6	77,318	28.3	110.9	100.2
Skandia America Group	326,526	262,162	234,306	264,463	209,650	79.3	92,115	35.1	114.4	104.5
National Re	228,140	243,145	281,087	252,388	206,072	81.6	63,220	26.0	107.7	102.0
Constitution Re	200,941	240,184	258,193	237,228	184,175	77.6	62,037	25.8	103.5	101.6
NAC Re	189,018	192,323	171,430	190,657	142,338	74.7	65,090	33.8	108.5	106.8
Continental Re	124,468	184,276	248,040	198,369	154,623	77.9	49,680	27.0	104.9	116.6
US Int'l Re	124,341	178,920	201,344	175,064	130,958	74.8	63,824	35.7	110.5	103.9
Putnam Re	112,385	153,280	138,792	158,701	120,831	76.1	41,192	26.9	103.0	103.1
Totals for top 20	**8,570,713**	**9,307,581**	**9,556,331**	**9,318,530**	**7,156,434**	**76.8**	**2,807,077**	**30.2**	**107.0**	**102.5**
Total for all companies	**11,942,446**	**10,705,164**	**11,153,737**	**10,752,321**	**8,218,005**	**76.4**	**3,265,190**	**30.5**	**106.9**	**102.4**

Source: Reinsurance Assn. of America and *Business Insurance*

Reinsurer results

Continued from page 1

think everybody is holding their breath waiting for something to happen, and not very much good is happening."

Meanwhile, the soft state of the U.S. reinsurance market is underscored by the lack of premium growth among U.S. reinsurers.

Sixty-eight U.S. reinsurers surveyed by the Washington, D.C.-based Reinsurance Assn. of America reported net written premium volume of $10.7 billion last year, down 4% from $11.2 billion in 1988.

Among the 20 largest U.S. reinsurers—which write the bulk of the industry's business—net premiums dropped 2.6% to $9.3 billion last year from $9.6 billion in 1988.

In compiling the results of the 20 largest reinsurers, *Business Insurance* included the reinsurance results of Continental Casualty Co., a CNA Financial Corp. unit, and St. Paul Group. The RAA no longer includes these divisions' results in its industrywide statistics because of antitrust concerns (*BI*, Oct. 2, 1989; Sept. 25, 1989).

Meanwhile, the 68 reinsurers in the RAA survey reported a 106.9% combined ratio for 1989, a deterioration from the 102.4% combined ratio reported by 67 of the same reinsurers for 1988.

The 1989 year-end combined ratio also represented a slight deterioration from the 106.3% industrywide combined ratio reported for the first nine months of 1989 (*BI*, Dec. 4, 1989).

The year-end 1989 combined ratio was composed of a 76.4% loss ratio, up from 73.4% a year earlier, and a 30.5% expense ratio, compared with 29.3% at the end of 1988.

The 1989 combined ratio includes losses from Hurricane Hugo and the Oct. 17 California earthquake.

Responding to an RAA request for data on these losses, 60 reinsurers reported gross losses of $767 million and net losses of $228 million from Hurricane Hugo, and gross and net losses of $67 million and $55 million, respectively, from the earthquake.

Policyholders surplus of reinsurers reporting to the RAA, meanwhile, jumped 18.2% to $11.9 billion at year-end 1989 from $10.1 billion a year earlier.

Results of the top 20 reinsurers mirrored those of the U.S. reinsurance industry as a whole: The largest U.S. reinsurers reported a combined ratio of 107.0% for 1989, a 4.5 percentage point jump from 102.5% in 1988.

Surplus reported by the 20 largest reinsurers climbed 13.5% to $8.6 billion at the end of last year from $7.6 billion at year-end 1988.

While the year-end 1989 underwriting results represent a continued downward slide, some reinsurers say the results were not quite as bad as they'd predicted.

"The industry as a whole was marginally better than I was expecting," said Norman Wayne, president of CIGNA Corp.'s reinsurance division in Philadelphia, noting that he had anticipated a five-point rise in the industrywide combined ratio.

"Knowing what's going on with the fundamentals of the business, I'm surprised the results were as good as they were," he said.

Mr. Bensinger also expressed surprise at some of the loss ratios reported by U.S. reinsurers last year, saying he found them "somewhat optimistic compared to what you would expect."

While this might result in some cases from the discovery of overreserving on prior years' business, Mr. Bensinger also raised the possibility that reinsurers may be underestimating future claims on current casualty business.

"That's what would concern me right now—that companies are going to underestimate what current business is going to produce in terms of loss ratio," Mr. Bensinger observed.

Meanwhile, reinsurers also expressed some surprise that last year's catastrophe losses haven't produced a tighter reinsurance market.

"If you had asked me last October, 'Will the earthquake and Hurricane Hugo turn the market,' I would have said yes," Mr. Wayne observed, adding that he has seen little evidence of higher reinsurance prices.

Most reinsurance executives agree that the market actually remains competitive for some property business, while casualty reinsurance prices have stagnated.

The property market continues to be "very competitive," Mr. Bensinger said.

"We were expecting more of a reaction" to the catastrophe losses from both reinsurers and primary insurers, he noted. "But it does not seem to have occurred."

Casualty rates, meanwhile, remain largely unchanged, according to Mr. Bensinger, who said, "I don't see any signs of true firming."

"It really has not firmed up, but it certainly hasn't gotten any worse," said Bard E. Bunaes, chairman and chief executive officer of New York-based Constitution Reinsurance Corp., referring to the markets for casualty, property treaty and property catastrophe reinsurance.

"It's pretty much 'steady as she goes,'" added N. David Thompson, president and chief executive officer of North American Reinsurance Corp. in New York. "There's nothing very marked to point to, either up or down."

Several reinsurers point to huge amounts of unused surplus in the reinsurance industry as a key factor in continued low prices.

"There is just too much money, too much capacity, and the squeeze is not on yet," said one reinsurance company official who asked not to be identified.

According to the RAA, U.S. reinsurers were writing at a net premium-to-surplus ratio of 0.9-to-1 last year, and many reinsurers are competing for business to increase leverage of their surplus, reinsurers say.

The industrywide net premium-to-surplus ratio is "not an encouraging figure if you're looking for a harder market. There's still a lot of capacity out there," NAC Re's Mr. Mosca said.

"In 1990, we are certain to see the effects of the overabundance of surplus in the industry," Mr. Bensinger agreed.

However, some tightening in the U.S. reinsurance market could be triggered by the growing capacity crunch in the international retrocessional market, some reinsurers say.

Retrocessional markets—already battered by Hurricane Hugo, the California earthquake and the total loss of a Phillips Petroleum Co. plant in Pasadena, Texas, last year—are now facing huge losses from catastrophic winter storms in Europe.

Reinsurers renewing their retrocessional programs July 1 are sure to face capacity shortages and rising prices, reinsurers acknowledge.

"I would expect there is going to be a domino effect of retrocessional market pricing through working layer (reinsurance) pricing and into primary pricing," Mr. Bensinger said.

Conditions in the retrocessional market may cause reinsurers to restructure their programs this year by —among other things—increasing their retentions, he noted.

"The second quarter is going to be interesting in terms of companies looking at alternative ways to structure" their retrocessional programs, he said.

However, Mr. Bensinger also hedged his prediction of a retrocessional domino effect, noting that the timing and extent of a turn in the reinsurance market are hard to forecast.

U.S. reinsurers with excess capital, for example, could step into the retrocessional market to restore lost capacity, reducing pressure for higher prices, he observed.

Mr. Mosca agreed that it's very difficult to predict a retrocession-driven turn in the reinsurance market.

"I'll be convinced when I see it," he said.

Meanwhile, most reinsurers gloomily agree that an upward turn in prices is not imminent.

Last year's underwriting performance does not "represent a level of underwriting losses likely to trigger any hardening of the marketplace," Mr. Mosca said.

"I think we'll see a real tightening of the market starting with the January 1991 renewals," Mr. Wayne predicted.

Mr. Fitt agreed that a swing in the market is not likely before 1991, and predicted that the change will be slow.

Concerned about heading off a volatile shift in the market, reinsurers and insurers will try to raise prices in "minuscule increments," and these increases will "come out very gradually and over a long period of time," he predicted.

"This would be good for the insurance industry and the insurance buying public," he observed. ■

Tax reform boosts insurers' bill 15%: Study

By MARK A. HOFMANN

WASHINGTON—Provisions in the Tax Reform Act of 1986 increased the property/casualty insurance industry's federal income tax liability by about 15% between 1987 and 1988, despite a 15% decrease in the corporate tax rate, a recent study reports.

The property/casualty industry's tax liability grew 14.7% to $3.98 billion in 1988 from $3.47 billion in 1987, said the authors of "Property & Casualty Insurance Industry Survey of 1988 Federal Income Tax Liability," conducted by the accounting firm Price Waterhouse.

At the same time, the top corporate income tax rate fell to 34% in 1988 from 40% a year earlier.

Three provisions of the Tax Reform Act of 1986 accounted for much of property/casualty insurers' tax increase, according to the survey authors. Those provisions, which apply specifically to property/casualty insurers, are loss reserve discounting; offsetting unearned premiums; and proration of tax-exempt interest.

Collectively, these provisions cost insurers $2.27 billion in 1988, compared with $1.72 billion in 1987—an increase of roughly 32%.

George Henry, senior tax counsel for the Washington, D.C.-based American Insurance Assn., said the discounting provision requires property/casualty insurers to discount loss reserves by 20% when computing taxes, whereas they previously were allowed to deduct the total dollar amount of loss reserves.

Also, the Tax Reform Act of 1986 for the first time required property/casualty insurers to report 20% of their unearned premium reserve as taxable income, Mr. Henry said.

Barry L. Dennis, senior manager of Price Waterhouse's national tax service practice in Washington, D.C., and one of the survey's authors, said the proration provision "essentially taxes 15% of the insurers' tax-exempt income" by reducing deductions for incurred losses.

Companies responding to the Price Waterhouse survey underwrite roughly 70% of the property/casualty industry's total net written premiums, and the final estimates of tax liability were extrapolated from their responses.

The survey "proves that the property/casualty insurers are more than meeting the expectations of congressional tax writers and, therefore, should not be singled out to bear additional (tax) burdens," said David J. Pratt, vp-federal affairs for the AIA.

The AIA, the Schaumburg, Ill.-based Alliance of American Insurers and the Indianapolis-based National Assn. of Mutual Insurance Cos. sponsored the survey. ●

For further information, contact Mr. Dennis or Michael A. Bell, Price Waterhouse National Tax Service, 1801 K St. N.W., Suite 700, Washington, D.C. 20006; 202-296-0800.

Owens-Illinois

Continued from page 2

in 1984 in a New Jersey state court against its liability insurers from 1977 through 1985, seeking coverage for asbestos bodily injury and third-party property damages claims.

As of Jan. 26, about 76,000 asbestos bodily injury claims in all 50 states and about 63 asbestos property damage lawsuits in 25 states and the District of Columbia were pending against Owens-Illinois, court papers say.

Compensatory damages sought in those suits total billions of dollars, court papers say.

The aggregate limits of the manufacturer's liability policies from 1977 to 1985 are $960 million.

In an earlier lawsuit, a federal district court ruled that Owens-Illinois was entitled to about $350 million in coverage under pre-1977 policies for asbestos claims. That decision was the first time "occurrence" was defined in asbestos litigation (*BI*, Jan. 7, 1985).

In the latest ruling, handed down April 6, Superior Court Judge Erminie L. Conley adopted a continuous trigger of coverage, also known as the triple trigger theory, which means all of Owens-Illinois' comprehensive general liability policies from 1977 to 1985 must respond to both asbestos personal injury and property damage claims, Mr. Berry said.

Under the triple-trigger coverage approach, a policyholder facing bodily injury claims can tap its coverage from the time a claimant is exposed to asbestos, through the time the victim files a claim or the victim's death.

Policyholders facing property damage claims are covered under this approach from the time asbestos is installed until it is removed or contained.

"It is important that we have a current decision recognizing the triple-trigger theory," said Mr. Oshinsky, who represented the asbestos manufacturer in *Keene Corp. vs. Insurance Corp. of America*, an important 1981 case in which a court for the first time adopted the triple-trigger theory of coverage (*BI*, Oct. 12, 1981).

In another significant portion of the latest ruling, the judge said Owens-Illinois must pay only one deductible per policy year, Mr. Berry pointed out.

Insurers argued that each asbestos claim was an occurrence for which Owens-Illinois had to pay a $250,000 deductible. Had they prevailed on that point, insurers would have avoided virtually all coverage, Mr. Berry said.

In a section of his ruling that favors insurers, Judge Conley ruled that bodily injury claims are covered by the policies only until the date insurers changed their policy language to exclude coverage for asbestos bodily injury, he said.

Significantly, though, Judge Conley ruled that the "asbestosis" exclusion in Owens-Illinois policies excludes only claims for asbestosis and not other asbestos-related diseases, Mr. Berry said.

Insurers argued that the exclusion barred all asbestos-related diseases.

Mr. Oshinsky said that Judge Conley's decision is one of the first court rulings favoring policyholders on the "asbestosis" exclusion.

"It is a complete victory" and a "vindication of the rights of policyholders," Mr. Berry said.

However, he pointed out that the decision may not influence other asbestos coverage cases because it "is based on solid existing New Jersey precedent."

In addition, "a trial court decision does not create authoritative precedent in any jurisdiction," said David D'Aloia, who represented two of the five insurers in the New Jersey case, Northbrook, Ill.-based Allstate Insurance Co. and United Insurance Co., a Cayman-based group captive managed by International Risk Management (Cayman) Ltd.

"An appellate decision would carry more weight," said Mr. D'Aloia of Saiber, Schlesinger, Satz & Goldstein in Newark, N.J.

Referring to Judge Conley's decision, Mr. D'Aloia said that "many of the rulings are incorrect and would be reversed by an appellate panel."

Insurers decided not to settle the case out of court because they "strongly believed" Owens-Illinois had failed to disclose its asbestos liabilities, he explained. Insurers were seeking a court ruling allowing them to reform the policies to bar coverage for asbestos claims.

"Even though Owens-Illinois had scores of asbestos cases pending against it, it did not notify its insurers until 1980," he said.

Owens-Illinois faced 34 asbestos cases in 1977, but by 1980 several thousand cases were pending against the company, according to Mr. D'Aloia.

However, the court ruled that insurers had waived their right to this defense by not reacting to the alleged non-disclosure when Owens-Illinois first notified its insurers of the claims.

Owens-Illinois purchased primary liability insurance from United Insurance Co. from Sept. 1, 1977, to Sept. 1, 1985.

Annual limits were $750,000 excess of a $250,000 per-occurrence deductible.

Owens Insurance Ltd., Owens-Illinois' Bermuda-based captive, also managed by IRM, wrote umbrella coverage ranging from $70 million excess of $1 million at Sept. 1, 1977, to $150 million excess of $1 million at Sept. 1, 1985.

However, the captive reinsured 100% of the risk with General Reinsurance Corp. of Stamford, Conn.; CIGNA Reinsurance Co. of Philadelphia; United Insurance; and Allstate.

Attorneys for General Re and CIGNA would not comment.

However, a CIGNA spokesman said CIGNA would appeal. And, a General Re spokesman said the insurer will review the decision "to assess the prospects for an appeal."

Allstate was "surprised and disappointed with the ruling," a spokesman said. "We will review the court's written decision when it is made available. At that time we will evaluate our options with regards to filing an appeal."

Mr. D'Aloia said Allstate is likely to appeal. ■

Pipeline firm insured for spill

By CHRISTINE WOOLSEY

FREEPORT, Pa.—Buckeye Pipe Line Co. L.P. says it has substantial liability insurance above a $1 million self-insured retention to cover any claims resulting from a petroleum spill into an Allegheny River tributary late last month.

The company has established a claims office and is investigating claims, but it is not admitting any liability for the spill.

The spill caused businesses along the Allegheny to shut down operations, some for several days.

A March 30 landslide ruptured a Buckeye pipeline, sending gasoline, diesel fuel and heating oil into an Allegheny River tributary in Armstrong County near Freeport, Pa. The tributary carried the spill to the Allegheny River, which carried the oil to the Ohio River.

State officials and Buckeye representatives estimate that 75,000 gallons of fuel and oil spilled.

"The underwriters assured us our coverage is in place," said Arthur Rosenblatt, manager of taxes and insurance for the Emmaus, Pa.-based pipeline firm.

However, Mr. Rosenblatt would not provide coverage information or identify the company's insurer, though he indicated a portion of the coverage was placed in the London market.

The pipeline company is owned by Buckeye Partners L.P., which is managed by Buckeye Management Co. Buckeye Management Co. is a wholly-owned subsidiary of Cincinnati-based Penn Central Corp.

"Penn Central arranges insurance for Buckeye Management" including coverage for the pipeline company, said Bruce Brumbaugh, vp of risk management at Penn Central. Mr. Brumbaugh would not comment on Buckeye's coverage.

The spill caused "a lot of industry" along the Allegheny to shut down, noted John Kaus, deputy director for emergency management in Allegheny County.

"Steel production stopped for two or three days, and many small business and schools were closed," he said.

In addition, the spill initially threatened the drinking water supply of 1 million people along the Allegheny and Ohio rivers. But state officials say prompt cleanup efforts mitigated the contamination.

However, it is too early to assess damages, said Mr. Kaus, noting that "the cleanup process is just getting under way."

"Until a detailed assessment is made, we have no idea of a dollar figure" for damages, agreed a spokesman for the Harrisburg-based Pennsylvania Emergency Management Agency.

Buckeye has established a temporary claims office near the site of the spill. Atlanta-based claims administrator Crawford & Co. and PEMA are collecting information from state and local government claimants in five counties: Armstrong, Butler, Westmoreland, Allegheny and Beaver.

The PEMA spokesman said the two organizations are sending investigators to all five counties to assist government entities, but not individuals, in documenting financial damages caused by the spill.

Crawford and Buckeye already have made a $20,000 payment to the borough of Freeport, Pa., to reimburse the city for the cost of emergency services, the PEMA spokesman said.

As of last week, Allegheny County had submitted a claim for $278,000 to cover preliminary cleanup costs, said Dennis Narey, emergency management training officer for the Allegheny County emergency management office in Pittsburgh.

Local conservation groups said the spill caused only minimal harm to animals and water fowl.

However, Mr. Rosenblatt said Buckeye is "not assuming responsibility for anything at this point. We'll let the lawyers determine liability" for the cause of the spill and subsequent cleanup costs.

The Pennsylvania Department of Environmental Resources "is investigating what caused the spill in the first place," said the PEMA spokesman.

In addition, the agency is "investigating whether there were delays in notification of the spill by Buckeye to state and local authorities," he said.

"It appears the spill occurred around midnight, March 30, but PEMA wasn't notified until 9 a.m. March 31," he said.

Authorities have not determined whether Buckeye met notification requirements. ■

Update

Blame for jet accident leveled

Continued from page 2

the door opened, the cabin depressurized and part of the fuselage ripped away. Nine passengers and crew were swept out of the plane to their deaths (*BI*, Feb. 27, 1989).

The report also cited United's "lack of proper maintenance and inspection" of the locking device. The FAA in 1987 gave airlines two years to fix the locks and required inspections each time a cargo door was opened manually.

A United spokesman did not dispute the findings but said the Chicago-based airline had not missed the two-year deadline.

The FAA would not comment.

A spokesman for Seattle-based Boeing said it is "impossible to draw any meaningful conclusion until the door is recovered."

NTSB investigators hope to recover the cargo door from the Pacific Ocean in June. The NTSB would reopen its probe of the case if the door yields any additional evidence, a spokesman said.

Meanwhile, Continental Airlines Corp. last week agreed to pay $215,000 to settle alleged violations of FAA safety rules.

The FAA had accused Continental of not repairing a plane within the required amount of time, operating a DC-10 in passenger service without an operative escape slide, and using out-of-date performance and planning manuals at some terminals.

Continental, a unit of Houston-based Texas Air Corp., did not admit guilt in the settlement. A Continental spokesman said the airline corrected all known safety problems "on the spot."

Violations were allegedly uncovered during a five-week FAA investigation last fall. Additional citations may be filed as a result of the ongoing investigation, an FAA spokesman said.

Black lung fund extortion found

CHARLESTON, W.Va.—A federal judge will determine whether former West Virginia Gov. Arch Moore will have to return any of the $2.3 million he admitted helping a mining company receive from the state's black lung fund in return for a kickback.

Mr. Moore, 66, made his admission as part of a plea bargain after being indicted April 12 on counts of extortion, tax and mail fraud, and obstruction of justice.

A spokeswoman for U.S. Attorney Michael Carey, who worked out the plea bargain, said possible restitution is "a difficult question for anyone to answer right now" because no sentencing date has been set.

Mr. Moore admitted he helped Maben Energy Corp., a Beckley, W.Va.-based coal company, get a $2.3 million refund from the state-run black lung fund in return for a $573,000 kickback in 1985. Coal companies provide the chief funding for the black lung fund, which provides benefits for former miners suffering from black lung disease.

The three-term Republican governor agreed to plead guilty to extortion as well as to committing campaign irregularities, falsifying documents in an attempt to stop the grand jury's investigation and trying to persuade witnesses to lie. Mr. Moore faces fines of up to $1.25 million and 36 years in prison.

Mr. Moore also has agreed to aid federal authorities in other corruption investigations.

In return, authorities will not prosecute the former governor on other, undisclosed crimes to which Mr. Moore reportedly admitted.

Texas views court file access

AUSTIN, Texas—The Texas Supreme Court is expected today to adopt a rule that would require public hearings on proposals to keep court documents confidential in civil litigation in the state.

Texas Supreme Court Judge Nathan Hecht said the provision would not apply to documents turned up in pretrial discovery processes, settlement amounts or details of insurance available to fund settlements.

However, other information in settlement documents that could have an impact on public safety and health could be made public under the new rule.

Judge Hecht explained that anyone proposing to seal court records would be required to show in a public hearing that there is a need to protect the information, and that that need is greater than the value of the information to public safety and health.

Briefly noted

The California Department of Insurance is barring **Hanover Guaranty Insurance Co. Ltd.**, a West Indies-based insurer writing general liability coverage for trucking risks and financial guarantee insurance, from conducting business in the state. The department says nearly all of Hanover's $46 million in surplus consists of an investment in a mineral deposit in Lincoln County, Ore. . . . **CNA Financial Corp.** signed a letter of intent to establish a joint venture with underwriting manager American National General Agencies Inc., a unit of Aon Corp., to underwrite entertainment risks. . . .The California Department of Insurance last week denied Hoylake Investment Ltd.'s application to acquire B.A.T Industries P.L.C. and its subsidiaries, as well as AXA Midi Assurances S.A.'s application to acquire B.A.T unit **Farmers Group Inc.**, which was contingent on Hoylake's acquisition (*BI*, Jan. 22). . . .Wind, hail and tornadoes caused an estimated **$105 million in insured property damage** to portions of Texas and Kansas in two separate catastrophes earlier this month, according to the Property Claim Services Division of the American Insurance Services. . . .Texas regulators issued a cease-and-desist order to **American Trust Insurance Co. Ltd.** of the Turks & Caicos. The insurer, which is not authorized to operate in Texas, allegedly was selling commercial general liability policies for skating rinks through Recreational Sports Insurance Purchasing Group Inc. in Houston. American Trust was one of a group of offshore insurers formerly managed by Alan Teale (*BI*, July 25, 1988). . . .**Travelers Indemnity Co.** is seeking U.S. Supreme Court review of a 2nd U.S. Circuit Court of Appeals ruling that the costs of responding to a government order to clean polluted property are covered by general liability policies (*BI*, Jan. 29; Oct. 23, 1989). The writ of certiorari is based solely on procedural grounds, not on the merits of ruling.

Regulator arrested

Continued from page 1

peared voluntarily last week and also were released after posting bonds, Mr. Horn said.

A hearing has been scheduled for April 24 at which federal prosecutors must demonstrate probable cause for proceeding with a case against the three men. Prosecutors must then present the case to a grand jury and obtain indictments, unless the defendants waive their right to an indictment, Mr. Horn explained.

If convicted of all the charges in the complaint, Mr. Taylor could face up to 27 years in jail and $1.5 million in fines. Both Mr. Thigpen and Mr. Davis could be sentenced to five years in jail and fined $250,000, Mr. Horn said. None of the defendants has yet entered a plea.

Mr. Taylor and his lawyer could not be reached for comment.

Wellborn Jack Jr., a Shreveport, La., lawyer representing Mr. Thigpen, said: "Mr. Thigpen is innocent. He is not guilty of the charges."

Michael Carnes, a Dallas lawyer representing Mr. Davis, refused to comment on the complaint.

Meanwhile, Mr. Horn said the U.S. Attorney's office is continuing to investigate regulation of insurers licensed during Mr. Taylor's tenure that later became insolvent. These include Commercial General, Laramie and Oxford Indemnity Insurance Co. of Casper, which was ordered liquidated last year.

Mr. Horn noted that one subject of this investigation is James R. Wining, a former official of Laramie's parent company, Kensu Holdings Inc. of Kansas City, Mo.

The criminal complaint charges Mr. Taylor with accepting a bribe in the form of free travel from Mr. Wining, though Mr. Wining is not named in the complaint.

Mr. Horn explained that prosecutors have not investigated Mr. Wining's involvement sufficiently to warrant charging him.

He declined to say whether additional complaints will be filed.

Mr. Wining could not be reached.

Earl R. Pomeroy, North Dakota insurance commissioner and president of the National Assn. of Insurance Commissioners, said he is not aware of any previous case in which a state regulator faced criminal charges for his actions while in office.

"This is an extremely unusual occurrence—the first in my memory—and I'm appalled by it," he said.

While noting that he does not want to prejudge Mr. Taylor, Mr. Pomeroy observed that "insurance regulators hold a position of important public trust. We abhor any action by any commissioner which would violate that trust."

Mr. Pomeroy added that he and other NAIC members were aware that Wyoming was licensing insurers of "questionable" financial integrity, but he said he believed this was simply a "misguided effort at economic development" in the state.

However, Mr. Pomeroy maintained that Mr. Taylor's case is an "extremely unfortunate aberration in the regulatory process and not one that reflects on the NAIC."

"We have not had a situation where we had to worry about the fundamental ethics of our members," he said.

Mr. Taylor served as Wyoming insurance commissioner from July 10, 1986, until his resignation Dec. 1, 1989, in the wake of extensive negative publicity over the failures of Commercial General, Laramie and Oxford Indemnity.

In 1988, the Wyoming attorney general investigated allegations that Mr. Taylor had violated a state conflict-of-interest law in licensing Laramie.

The allegations were leveled by Kelly S. Davis, a deputy insurance commissioner who claimed he was forced to resign after opposing Laramie's licensing and who later joined Commercial General.

Among other things, Mr. Taylor was accused of licensing Laramie without reviewing a multistate regulatory report on an alleged fraud involving two Laramie affiliates, Royal American Managers Inc. and Fielding Reinsurance Ltd. of the Turks & Caicos.

However, while concluding that Laramie's licensing "appeared suspicious and questionable," the investigation ultimately cleared Mr. Taylor (*BI*, May 9, 1988).

The April 6 criminal complaint charges Mr. Taylor with taking bribes in various forms from Mr. Thigpen, Mr. Davis of Lloyd's U.S. and Mr. Wining.

Court papers say that in December 1988—11 months after Commercial General was licensed—Mr. Taylor met with Mr. Thigpen at a Holiday Inn in Cheyenne and asked if Mr. Thigpen would be interested in buying 30 vacant lots Mr. Taylor owned in Glenrock, Wyo.

Mr. Taylor had acquired the lots at an auction in 1986 for $2,250 and owed back taxes on them, but Mr. Thigpen subsequently agreed to buy the property for $8,250, the complaint says.

Mr. Taylor received the $8,250 in cash in a January 1989 meeting with Mr. Thigpen in Washington, D.C., and the two men agreed that no deed would be recorded on the sale of the lots until after Mr. Taylor left office as insurance commissioner, the complaint alleges.

Prosecutors contend that Mr. Taylor then concealed the cash payment by buying two $1,000 money orders from a Washington bank, using the aliases "Philip Gray" and "Mike Lamp," and making the money orders payable to his sister. Mr. Taylor mailed the money orders and a separate $2,000 check to his sister in Wyoming, later receiving the money back from her and using it to repay a personal debt, according to the complaint.

Mr. Taylor used the remaining $4,250 in cash to buy certificates of deposit from two Wyoming banks, the complaint charges.

In September 1989—one month after the Wyoming insurance department placed Commercial General in receivership—Mr. Taylor agreed not to pursue enforcement action against Mr. Thigpen despite the nearly $4.5 million in unpaid claims Commercial General left, the complaint charges.

Court papers also say that at an April 1987 NAIC meeting in Lexington, Ky., Mr. Taylor met with Mr. Davis of Lloyd's U.S., who had earlier expressed an interest in moving the insurer's operations to Wyoming.

During the course of this meeting, Mr. Davis said he might be interested in buying Mr. Taylor's house in Glenrock, which was for sale.

Within a month, Mr. Davis acquired the house for $110,000, the complaint says. The money came from U.S. Fiduciary Trust Co., a Lloyd's U.S. subsidiary, and Mr. Davis concealed his identity as the buyer by using an unrelated "nominee"—Quantal Econometrics Inc.—in whose name the deed was recorded, according to the complaint.

Quantal—whose owner, J. Michael Patton, received a commission for acting as nominee buyer—later transferred the deed to U.S. Fiduciary Trust, which sold the house at a $37,000 loss in August 1988. Neither Mr. Patton nor Mr. Davis ever lived in the house, court papers say.

The complaint also charges that Mr. Taylor contacted Laramie in June 1989 and asked if he and his family could use a jet owned by Laramie officials to fly to Kansas City, Mo.

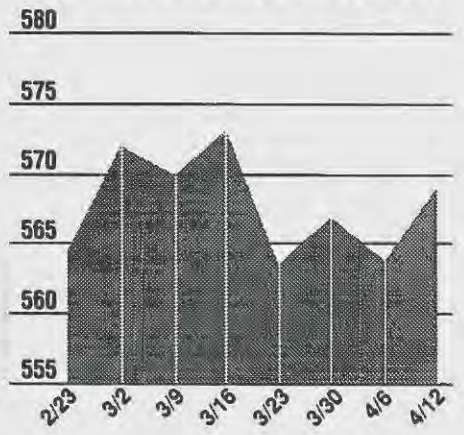
Mr. Taylor, his two children and a niece flew to Kansas City on the Laramie jet that month, then used a car provided by Kensu's Mr. Wining to drive to a family reunion in Arkansas, court papers allege.

Mr. Taylor and his family later returned the car to Mr. Wining and flew back to Wyoming on the Laramie plane, the complaint says.

In addition to three counts of using the mails and interstate travel to carry on a bribery scheme and two counts of conspiracy, Mr. Taylor is charged with one count of filing a false statement to obtain a home mortgage loan from a Cheyenne bank.

In the June 1987 financial statement, Mr. Taylor claimed the 30 vacant lots he owned in Glenrock were worth $180,000. These were the same lots he had acquired the year before for $2,250 and later sold to Mr. Thigpen for $8,250, court papers say. ■

BI Insurance Index



Base = 100 on Dec. 29, 1978
Source: Nordby International Inc.

Insurance industry stocks continued their roller-coaster-like course last week, as the *Business Insurance Index* moved up 5.3 points to 568.9 on April 12, from 563.8 on April 6. Advancing issues were led by FHP International, up 8.2%; Lawrence Insurance Group, up 7.9%; and Lincoln National Corp., up 6.5%. Decliners followed Pacificare Health Systems, down 10.6%; Poe & Associates Inc., down 7.8%; and American Indemnity Financial Corp., down 7.7%. The most active issue during the four-day period was Sears, Roebuck & Co., 1.2 million shares traded. The *Business Insurance* Index gained 0.9% for the week; the Dow Jones 30 Industrials, up 1.28%; the Standard & Poor's 500, up 1.25%; and the New York Stock Exchange Composite, up 1.1%.

British Issues

April 11 Companies	Price pence	P/E	Div. pence	Yield %	1 Week High—Low pence	1 Week pence
Comml Union	469	21.6	28.7	6.1	469—462	
Genl Accident	1013	15.5	66.7	6.6	1019—1013	
Gdn Royal Exch	218	19.1	15.3	7.0	220—218	
Royal	465	25.0	34.0	7.3	465—460	
Sun Alliance	302	11.1	16.7	5.5	302—299	
Brokers						
Bradstock	247	17.4	10.0	4.0	248—247	
CE Heath	522	14.7	34.5	6.6	522—522	
Hogg Group	154	10.1	9.7	6.3	154—153	
Lloyd Thompson	285	17.8	9.7	3.4	285—284	
PWS Holdings	69	10.8	3.3	4.8	69—66	
Sedgwick Grp	250	18.8	16.0	6.4	250—249	
Steel Brrl Jones	287	17.5	14.7	5.1	287—287	
Willis Faber	267	16.8	16.0	6.0	268—263	

Source: Philip Olsen/Paul Hodges, Insurance Industry Specialists Kitcat & Aitken Stockbrokers, London

BI Industry Stock Report

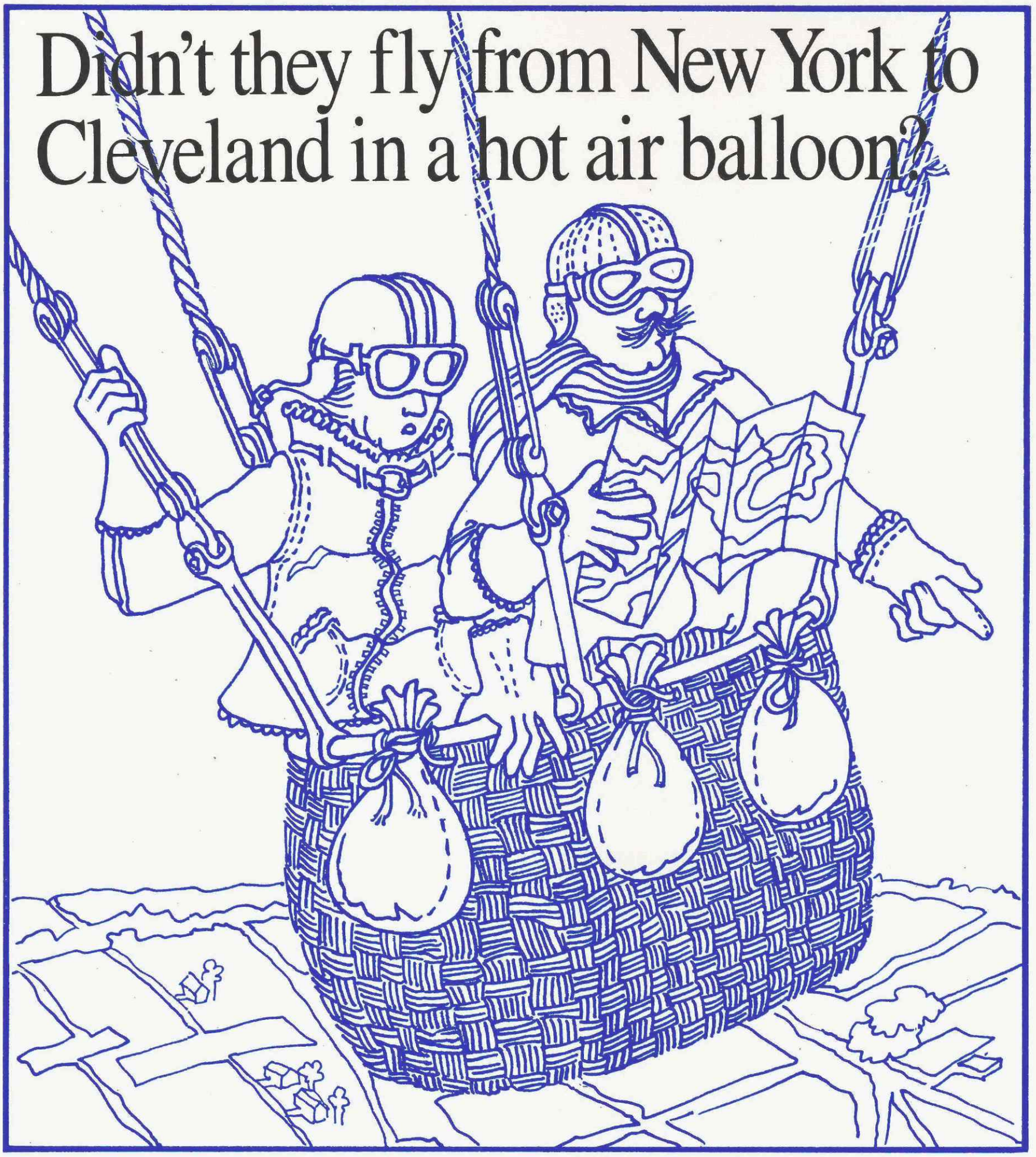
APRIL 9, 1990 THROUGH APRIL 12, 1990

		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	28.25	5.12	-10.32	34.00	24.00	108	1.00	3.54	19	9.18	3.08
Corroon & Black	NYS	32.00	-1.16	-16.34	41.00	31.63	82	1.36	4.25	15	12.73	2.51
Gallagher Arthur J. & Co.	NYS	23.00	-0.54	-7.07	26.50	18.25	27	0.60	2.61	16	5.33	4.32
Frank B. Hall	NYS	3.88	-6.06	29.17	4.50	2.50	73	0.00	0.00	-2	-2.80	-1.38
Hilb, Rogal & Hamilton	OTC	15.00	0.00	-19.46	20.63	11.25	19	0.28	1.87	20	4.60	3.26
Marsh & McLennan	NYS	75.25	1.86	-3.53	89.75	59.25	235	2.48	3.30	18	10.56	7.13
Poe & Associates	OTC	11.75	-7.84	-11.32	13.00	8.00	16	0.40	3.40	15	1.89	6.22
BROKERS	AVERAGE		-1.2	-5.6					2.7	15		
CONGLOMERATES & HOLDING COMPANIES												
Berkley W.R. Corp.	OTC	39.75	1.27	-4.50	46.50	30.13	24	0.44	1.11	8	25.06	1.59
Berkshire Hathaway Inc.	NYS	6975.00	2.20	-19.13	8900.00	4900.00	0	0.00	0.00	27	2869.00	2.43
ITT (Hartford Group)	NYS	54.38	0.93	-9.19	64.50	51.88	387	1.60	2.94	8	56.33	0.97
Sears (Allstate)	NYS	38.25	0.66	-1.29	48.13	36.50	1167	2.00	5.23	9	37.75	1.01
CONGLOMERATES	AVERAGE		1.3	-8.5					2.3	13		
INSURERS/REINSURERS												
Aetna Life & Casualty	NYS	50.38	0.75	-13.15	62.50	48.38	393	2.76	5.48	9	58.11	0.87
Ambase Corp.	NYS	7.25	3.57	-42.57	16.38	5.75	999	0.20	2.76	3	29.08	0.25
American General	NYS	37.50	0.00	14.50	40.25	28.13	572	1.56	4.16	12	34.68	1.08
American Heritage	NYS	22.50	-1.10	-21.05	24.63	19.50	3	0.92	4.09	12	22.60	1.00
American Indemnity/Fin'l	OTC	6.00	-7.69	-25.00	13.00	5.75	2	0.56	9.33	-2	17.38	0.35
American International	NYS	96.00	3.50	-9.00	112.00	78.25	747	0.48	0.50	12	41.92	2.29
Aon Corp.	NYS	37.38	1.70	-11.80	43.25	31.00	76	1.52	4.07	11	19.62	1.90
Argonaut Group	OTC	70.50	1.44	2.36	71.50	52.50	15	1.60	2.27	9	36.83	1.91
AVEMCO Corp.	NYS	24.13	0.52	-1.03	27.50	20.38	32	0.40	1.66	16	9.52	2.53
Baldwin & Lyons Inc.	OTC	20.25	-1.22	-5.81	24.00	15.88	1	0.28	1.38	7	20.80	0.97
Belvedere Corp.	ASE	4.25	-2.86	-22.73	5.88	4.25	2	0.04	0.94	-6	8.03	0.53
Chandler Insurance	OTC	9.13	-1.35	-22.34	13.25	8.50	45	0.00	0.00	5	9.53	0.96
Chubb Corp.	NYS	94.75	2.02	-1.17	102.75	64.00	242	2.64	2.79	10	55.49	1.71
CIGNA Corp.	NYS	50.50	0.75	-16.18	66.75	45.25	411	3.04	6.02	11	66.64	0.76
CNA Financial Corp.	NYS	75.63	3.24	-24.38	108.75	64.13	65	0.00	0.00	-8	54.87	1.38
Continental Corp.	NYS	29.38	-0.84	-6.37	38.63	25.75	260	2.60	8.85	11	41.36	0.71
Durham Corp.	OTC	34.00	6.25	10.57	34.75	29.00	2	0.92	2.71	17	26.32	1.29
Fireman's Fund	NYS	32.75	2.34	-7.09	40.75	30.00	305	0.68	2.08	48	32.74	1.00
Fremont General Corp.	OTC	17.13	-2.84	-14.91	22.50	14.38	126	0.80	4.67	8	19.09	0.90
Frontier Insurance Group	NYS	20.00	-1.23	8.11	21.75	13.50	67	0.00	0.00	9	7.29	2.74
General RE Corp.	NYS	86.13	2.68	-4.31	96.25	62.25	386	1.52	1.76	13	29.04	2.97
Hanover Insurance Co.	OTC	27.75	2.78	-9.02	33.00	25.75	11	0.44	1.59	7	32.03	0.87
Harleysville Group	OTC	23.00	-1.08	-16.36	28.75	19.50	2	0.60	2.61	7	18.94	1.21
Hartford Steam Boiler	OTC	60.00	2.13	10.60	60.50	38.50	114	1.60	2.67	16	18.94	3.17
Kansas City Life Ins.	OTC	35.75	0.00	-0.35	36.00	33.25	0	1.12	3.13	10	39.22	0.91
Kemper Corp.	NYS	38.25	-1.92	-19.05	51.88	32.75	255	0.92	2.41	9	29.97	1.28
Lawrence Insurance Group	ASE	8.50	7.94	19.30	9.13	6.50	2	0.36	4.24	16	3.29	2.58
Liberty Corp.	NYS	46.50	-2.11	9.41	48.00	32.50	11	0.92	1.98	18	31.82	1.46
Lincoln National	NYS	55.50	6.47	-9.02	62.88	46.75	80	2.60	4.68	9	49.19	1.13
NAC Re Corp.	OTC	34.38	2.61	-5.17	41.00	23.88	31	0.20	0.58	14	22.81	1.51
Navigators Group	OTC	31.50	3.28	14.55	31.50	22.00	9	0.00	0.00	11	15.22	2.07
Nobel Insurance LTD.	OTC	3.13	-3.85	56.25	3.38	1.50	13	0.00	0.00	-	7.76	0.40
NWNL Companies	OTC	32.13	4.47	-18.67	44.13	26.50	197	1.20	3.74	6	37.50	0.86
Ohio Casualty Corp.	OTC	44.75	5.29	-6.28	52.50	34.75	262	2.32	5.18	9	33.30	1.34
Old Republic Int'l	OTC	24.63	3.14	-3.90	30.38	22.13	90	0.76	3.09	6	30.70	0.80
Orion Capital Corp.	NYS	20.00	0.00	-13.98	26.50	18.50	50	0.84	4.20	6	19.72	1.01
Phoenix RE Corp.	OTC	10.25	-2.38	-21.15	15.50	8.75	4	0.20	1.95	79	12.99	0.79
Protective Life Corp.	OTC	13.88	-0.89	-2.63	16.25	10.88	6	0.68	4.90	9	14.54	0.95
Provident Life	OTC	22.00	1.15	-14.98	30.13	20.25	397	0.80	3.64	7	23.24	0.95
Re Capital Corp.	ASE	14.50	4.50	0.00	15.25	10.00	9	0.00	0.00	12	12.60	1.15
RLI Insurance Corp.	NYS	9.88	-1.25	11.27	10.38	6.88	16	0.40	4.05	7	10.71	0.92
St. Paul Companies	OTC	60.25	0.84	0.42	63.50	47.50	137	2.40	3.98	7	43.47	1.39
SAFECO Corp.	OTC	36.25	0.35	-8.81	42.38	25.63	475	1.20	3.31	8	24.87	1.46
SCOR U.S. Corp.	NYS	10.25	-5.75	-28.07	14.50	8.25	138	0.20	1.95	13	10.61	0.97
Seibels Bruce Group	OTC	10.75	2.38	-1.15	13.63	8.75	10	0.80	7.44	-2	13.75	0.78
Selective Ins. Group	OTC	17.63	2.92	-7.84	20.25	15.50	59	0.96	5.45	6	15.72	1.12
Statesman Group Inc.	OTC	2.25	-5.26	-18.18	3.63	1.88	35	0.16	7.11	4	4.19	0.54
Tokio Marine & Fire	OTC	46.38	-3.39	-38.47	78.13	40.88	149	1.00	2.16	-	70.93	0.65
Torchmark Corp.	NYS	46.38	-0.27	-19.00	58.75	33.00	361	1.40	3.02	12	13.23	3.51
Transamerica	NYS	38.38	4.07	-14.01	48.00	33.13	195	1.92	5.00	9	34.63	1.11
Travelers Corp.	NYS	33.00	-1.49	-10.51	45.00	32.00	467	2.40	7.27	5	44.85	-
Trenwick Group Inc.	OTC	21.50	6.17	-11.79	26.88	15.00	53	0.36	1.67	15	16.91	1.27
United Fire & Casualty	OTC	31.00	1.64	-6.06	34.50	29.25	2	1.20	3.87	9	22.56	1.37
USF&G Corp.	NYS	28.75	0.44	-2.95	34.00	26.88	642	2.92	10.16	36	22.87	1.26
UNUM Corp.	NYS	44.00	-0.56	-7.85	51.38	31.00	202	0.60	1.36	10	31.20	1.41
USLIFE Corp.	NYS	37.75	0.33	-16.57	48.13	36.88	83	1.48	3.92	5	54.34	0.69
Washington National	NYS	22.25	0.56	-21.24	29.13	21.00	16	1.08	4.85	25	32.90	0.68
USLICO Corp.	NYS	21.75	-2.25	-8.42	25.38	21.00	7	1.00	4.60	6	27.73	0.78
Zenith National Ins.	NYS	16.88	-4.93	-10.00	21.50	14.00	8	0.84	4.98	-	13.81	1.22
INSURERS/REINSURERS	AVERAGE		0.6	-8.1					3.5	11.3		
HEALTH MAINTENANCE ORGANIZATIONS												
FHP International	OTC	16.50	8.20	-22.35	26.38	11.38	603	0.00	0.00	5	3.54	4.66
HMO America Inc.	OTC	5.75	0.00	-25.81	10.63	2.00	41	0.00	0.00	19	1.12	5.13
Pacificare Health Sys.	OTC	17.88	-10.63	-31.25	30.38	11.63	112	0.00	0.00	6	6.35	2.81
Safeguard Health Enter.	OTC	6.88	0.00	-19.12	12.50	5.25	39	0.00	0.00	12	2.99	2.30
Sierra Health Services	ASE	7.75	0.00	-12.68	9.63	2.88	13	0.00	0.00	22	0.62	12.50
United Healthcare Corp.	OTC	10.50	1.20	-14.29	12.63	7.00	264	0.00	0.00	13	0.34	30.88
United Medical Corp.	ASE	7.88	0.00	31.25	8.25	5.38	51	0.00	0.00	24	5.70	1.38
U.S. Healthcare	OTC	11.75	4.44	-17.54	15.50	9.63	0	0.28	2.38	-	3.07	3.83
HMOs	AVERAGE		0.4	-14.0					0.3	13		
ALL COMPANIES	AVERAGE		0.5	-8.5					3.0	11.7		

System design: Nordby International Inc.

Duncanson & Holt.

Didn't they fly from New York to Cleveland in a hot air balloon?



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