NEWSPAPER

APRIL 1, 1996

Business Insurance

Reporting Weekly on Corporate Risk, Employee Benefit and Managed Health Care News / $4

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Updates

Product liability bill passes but Clinton veto insurmountable

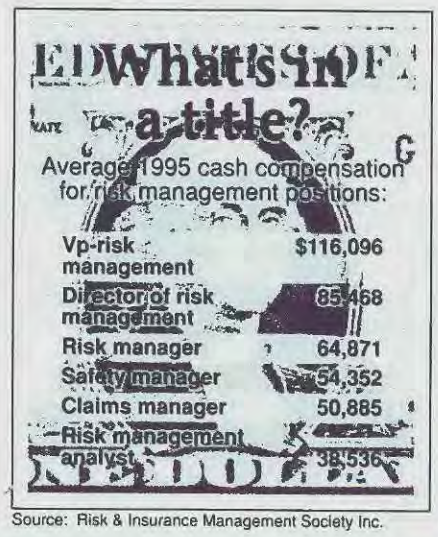
WASHINGTON—Federal product liability legislation appears doomed, despite a 259 to 158 vote in favor of the measure in the House of Representatives Friday afternoon.

President Clinton has promised to veto H.R. 956, the Common Sense Product Liability Legal Reform Act, though it is similar to legislation he supported while governor of Arkansas.

The House vote falls short of the two-thirds majority that would be needed to

See **Updates** *on next page*

Climbing corporate ladder pays off for risk managers



Source: Risk & Insurance Management Society Inc.

By JERRY GEISEL

For risk managers, it pays to reach the vice presidential level in their corporations.

Vps in U.S. risk management departments on average earned $116,096 in cash compensation in 1995. That's more than a third higher than directors of risk management, whose cash compensation averaged $85,468 and nearly double the $64,871 that risk managers earned, according to a Risk & Insurance Management Society Inc. survey released today.

The RIMS survey, which is to be conducted every other year, does not indicate whether salaries in the risk management field overall or in the specific jobs increased from 1994 to 1995 or by how much.

Regardless of their title, those working in risk management departments for the largest companies are the best paid.

Cash compensation of risk management vps at companies with gross revenues greater than $10 billion averaged $136,964 in 1995.

See **Salaries** *on page 27*

U.S. risk managers outearn Canadians ..... Page 27

Voluntary cleanup covered

By JOANNE WOJCIK

New Jersey ruling latest insurer loss on important issue

Weyerhaeuser wins $12.5 million for voluntary cleanup .....Page 2

TRENTON, N.J.—New Jersey policyholders that clean up their pollution without remediation orders from state or federal agencies may have coverage under commercial general liability policies, a state appellate court has ruled.

The March 23 decision in *Metex Corp. vs. Federal Insurance Co.* is the first time a New Jersey appellate court has ruled on CGL coverage for voluntary cleanups.

To date, only two state supreme courts have ruled on the issue. Washington's high court ordered coverage in 1994 (*BI*, May 30, 1994), following a similar Wyoming ruling in 1988.

Although out-of-state rulings usually lack precedential value, the three-judge panel repeatedly cited the Washington case, which involved Weyerhaeuser Corp., throughout its 25-page ruling.

Because "there aren't a lot of cases directly on point," the court adopted the reasoning from the Weyerhaeuser decision, explained Paul Breene, a partner Anderson Kill Olick & Oshinsky in Newark, N.J., who represented Metex in the case.

Metex in June 1990 had sought more than $4 million in coverage for engineering and remediation costs at two New Jersey sites. In the mid-1980s, the company began monitoring its use of the solvent trichloroethylene in the production of wire mesh fencing. Recently it stepped up its remediation efforts to comply with the Spill Compensation and Control Act, the state equivalent of the federal Superfund law.

The company's insurers denied the claim on the grounds that no third parties had made claims against Metex for bodily injury or property damage and that the New Jersey Department of Environmental Protection never initiated enforcement proceedings against the company. Not until July 1995 did the regulators contact Metex, and then only to offer it the chance to participate in a voluntary cleanup program.

Metex sued and the insurers defended on two grounds: coverage was never triggered because the state did not initiate enforcement proceedings; and off-site contamination was not proved, therefore the owned property exclusion precluded coverage.

The trial court dismissed the suit,

See **Metex** *on page 4*

Outside looking in–for now

Brokerages may soon join investment banks in financial service fray

By DOUGLAS McLEOD

NEW YORK—With insurers, banks and Wall Street investment houses eyeing each other's turf, it may be only a matter of time before insurance brokers join the fray.

Lines among financial institutions are already blurring with the advent of capital market alternatives to insurance like "act of God bonds" and insurance derivatives. They could become even fuzzier if investment banking firms and insurance brokerages decide to combine forces through mergers or formal joint ventures, market observers say.

Such alliances could give brokers—increasingly on the lookout for new sources of revenue—a wider array of financial products and services to bring to clients.

"Once the brokers themselves have consolidated, the next step is to look at other financial services products that can be put through their distribution system," said one insurance broker executive who asked not to be named.

Alexander & Alexander Services Inc., for example, is now testing joint ventures with two securities firms in Chicago and Atlanta, according to an official of the New York-based broker who requested anonymity.

The aim of the experimental venture is to see if an insurance broker and securities firm can successfully "cross-sell" each other's services to their clients, combining to provide investment banking and risk transfer services.

Putting aside the issue of whether

See **Bank** *on page 10*



The bill will ensure health care 'availability and affordability.'

Rep. Bill Archer

The bill is a 'Christmas tree . . .adorned. . .for special interests.'

Rep. John D. Dingell



Senate fight is expected on health bill

An amendment free-for-all may swamp simple reforms

By JERRY GEISEL

WASHINGTON—A nasty Senate floor fight next month seems certain following House passage last week of a "loaded down" health care reform bill.

The measure approved by the House of Representatives on a 267-151 vote goes far beyond the incremental and non-controversial reform legislation initially introduced to curb pre-existing medical condition exclusions.

The bill packaged by the House GOP leadership also contains provisions that would do such things as limit medical malpractice awards, permit tax-favored medical savings accounts, and allow small employers to band together in self-insured multiple employer welfare arrangements that would be free from state regulation.

The measure will ensure health care "availability and affordability," said House Ways and Means Committee Chairman Bill Archer, R-Texas.

After years of discussion, "We are now, with a new Republican majority, going to enact health care reform," Rep. Archer added.

But Rep. John D. Dingell, D-Mich., complained that the House bill is a "Christmas tree. . .adorned with countless amendments for special interests."

With passage of a broad House bill, Senate bill sponsors will face new pressures by members to broaden a measure now largely limited to curbing pre-existing medical condition exclusions.

"It will be extremely difficult now to keep the Senate bill 'clean.' There are senators who see this bill as the only vehicle for achieving their own legislative objectives," said Christina Nyquist, director of health policy for Blue Cross & Blue Shield Assn. in Washington.

The scenario that could develop in the Senate—which could vote on its health care reform legislation as early as the third week of April—is a type of

See **Health bill** *on page 29*

Updates

Product veto would stand

Continued from previous page
override a veto. The margin of victory in the Senate a week earlier, 59 to 40, would not be sufficient, either (*BI*, March 25).

The measure, which draws largely from product liability legislation passed nearly a year ago by the Senate, would limit punitive damages in product liability cases to the greater of $250,000 or twice compensatory damages under most circumstances; would bar product liability suits over workplace capital goods after they had been used for 15 years; and would limit joint and several liability to economic damages, leaving non-economic damages such as pain and suffering subject only to several liability.

Equitas gets conditional OK

LONDON—Lloyd's of London's proposed runoff reinsurer Equitas Ltd. now has the yellow light from U.K. regulators.

The Department of Trade and Industry last week authorized Equitas, but subject to certain conditions—including having assets sufficient to cover liabilities plus a minimum solvency margin of £500 million ($763.15 million). That means Equitas must increase its capitalization to £13.5 billion ($20.6 billion). Earlier, the DTI had estimated that a larger increase, to £16 billion ($24.45 billion), would be needed.

Besides meeting standard conditions for all U.K. reinsurers, Equitas would have to increase its assets if its liabilities grew before the company starts up in August, said Minister for Trade Anthony Nelson.

Other restrictions also apply. If Equitas wanted to broaden its business, for instance, by doing conventional reinsurance underwriting, it would need separate DTI approval. Separate approval also would be needed before surplus premiums could be returned to Lloyd's names.

If the Lloyd's settlement goes ahead, all funds relating to Equitas will go into a mutual company called Equitas Reinsurance Ltd., which also received DTI authorization Friday. This company then will retrocede its liabilities into Equitas Ltd., of which it owns 100%.

Using Equitas Re will let the parent avoid capital gains taxes on the £500 million used for the solvency margin.

P/C industry profits soar

NEW YORK—The property/casualty insurance industry's aftertax consolidated net income grew by 85.3% to $20.1 billion in 1995 from $10.9 billion in 1994, according to a new survey.

The industry's combined ratio also improved, according to annual statistics compiled by the New York-based Insurance Services Office Inc. and the National Assn. of Independent Insurers of Des Plaines, Ill. The combined ratio stood at 106.3% in 1995, compared with 108.4% in 1994. Property/casualty insurers' consolidated surplus grew 19.9% to $231.7 billion last year, compared with $193.3 billion in 1994.

Net written premium grew 3.3% to $258.9 billion in 1995 from $250.7 billion a year earlier.

Hoechst wins coverage ruling

DOVER, Del.—A recent coverage ruling by Delaware's Supreme Court could be a victory for manufacturers of materials that cause ongoing property damage.

Rejecting a ruling by a state court that Hoechst Celanese Corp. could only tap liability coverage in place when leaking occurred in home plumbing systems made with Hoechst materials, the high court found Hoechst could tap coverage from the time the material was installed up through manifestation of damage. The court noted that property damage "may occur at different points along the continuum of initial exposure or installation to actual manifestation."

As a result, if a trial court determines that damage occurred prior to the time polybutylene pipe systems began leaking, Hoechst will be able to collect significantly more coverage to offset its portion of $950 million that it, Shell Oil Co. and E.I. du Pont de Nemours & Co. Inc. agreed to pay to settle a pair of nationwide class-action lawsuits brought by homeowners who installed the leak-prone piping systems as far back as the 1970s (*BI*, Nov. 13, 1995).

DuPont has agreed to pay $120 million of the $950 million plus attorneys' fees. Hoechst and Shell have agreed to alternative dispute resolution to determine their respective shares of the remainder. Hoechst is expected to fund at least $400 million of the settlement. While Hoechst has settled with the majority of the 42 liability insurers it sued in 1989 for coverage, this ruling will impact 13 insurers against which Hoechst is still litigating.

Lorelie Masters, an attorney with Anderson Kill Olick & Oshinsky in Washington, which is representing Hoechst, said more than $200 million in coverage limits is at stake. She added the ruling also should help Shell and DuPont in their efforts to obtain coverage.

CU must pay cleanup costs

SEATTLE—Commercial Union Insurance Co. must pay Weyerhaeuser Co. $12.5 million for past and future costs relating to voluntary cleanup projects at five sites in Washington state, a state court jury has ordered.

In a seven-site coverage trial stemming from a 1994 Washington Supreme Court ruling that policyholders are entitled to coverage for voluntary cleanup efforts (*BI*, May 30, 1994), a jury determined last month that unexpected and accidental property damage to ground water had occurred at five sites by January 1970, when the three-year

See **Updates** *on page 30*

Errors & omissions

• CIGNA Corp. carries an A- rating from A.M. Best Co. Due to an editing error, an incorrect rating was included in a March 25 article.

Superfund bill examined

Risk managers say Senate proposal doesn't go far enough

By MARK A. HOFMANN

WASHINGTON—Insurers and risk managers hope that Senate Republicans will recraft their latest Superfund reform proposal into something more like its House counterpart before voting on it.

Insurers and risk managers fault the latest Senate proposal—S. 1285, the Accelerated Cleanup and Environmental Restoration Act—on two specific grounds:

• It effectively would remove retroactive liability only for then-legal waste generating or transporting before Dec. 11, 1980, the date the Superfund law was passed.

The most recent version of House Superfund legislation, H.R. 2500, would apply to waste transported or generated anytime before 1987.

• It would not specifically end retroactive liability, as the House measure would. Instead, it would make the cost of cleaning up waste that was dumped legally before the cutoff date part of the current Superfund law's "orphan share."

That is the portion of cleanup liabilities—currently limited to cases where the potentially responsible parties can't be identified or cannot pay—that is paid by special taxes levied on chemical firms and other industries.

However, environmental and other groups are complaining that the latest Senate proposal, which was drafted by Sens. Robert Smith, R-N.H., and John Chafee, R-R.I., amounts to a giveaway to polluters.

Under the new Senate bill, owners and operators of sites on the National Priorities List, as well as those who generated or transported the waste that ended up there, would submit to a mandatory, non-binding determination of their portions of liability for the overall waste dumped at a site. A neutral allocator would make the determination.

See **Superfund** *on page 17*

Dow Corning claimants get new voice: their own

By JOANNE WOJCIK

DETROIT—Breast implant recipients will be representing themselves in the Dow Corning Corp. bankruptcy reorganization after a federal judge last week dismissed the previous claimants committee because it was made up of lawyers.

At the same time, the court ordered the creation of a new committee to represent physicians who are defending malpractice suits filed by women with silicone breast implants.

Two other motions—requests for an official vendors committee and an employment-related creditors committee—were denied.

In a strongly worded 53-page order issued March 21, U.S. Bankruptcy Court Judge Arthur J. Spector in Detroit criticized U.S. Trustee Donald M. Robiner for stacking the Tort Claimants Committee with plaintiffs lawyers rather than implant recipients. Under federal bankruptcy law, such a committee must be composed of actual claimants, not their attorneys, the judge said.

But, in an earlier pleading, the trustee had explained that claimants' lawyers were appointed to the committee because the implant recipients were too "emotionally distraught" to represent themselves in negotiations.

Plaintiffs lawyers have served without challenge on previous bankruptcy proceedings involving mass tort claimants, including cases involving A.H. Robins Co. and asbestos manufacturers.

See **Committee** *on page 4*

Regulating restructurings

NAIC panel takes up 'issue of decade'

By MEG FLETCHER

DETROIT—A panel of the National Assn. of Insurance Commissioners charged with reviewing insurance company restructurings could lay the groundwork for a possible model law on how such transactions should be conducted in the future.

Insurer restructurings are "clearly the issue of the decade," said Utah Insurance Commissioner Robert Wilcox, who chaired the first meeting of the NAIC's new Liability-Based Restructuring Working Group.

The working group, which met last week during the NAIC's spring meeting in Detroit, was formed to study the multistate consequences of insurer restructurings.

The panel's formation follows CIGNA Corp.'s reorganization to isolate 80% of long-term asbestos and environmental liabilities into a new, runoff operation so it could get a higher A.M. Best Co. rating for its active operation (*BI*, Feb. 12, 1996; Oct. 9, 1995).

The working group's goal is to prepare a policy discussion paper on the topic, including recommendations about issues that regulators should consider when evaluating restructuring requests in the

See **NAIC** *on page 30*

'95 a good year for reinsurers

By JUDY GREENWALD

Continuing price competition remains a worry for reinsurance executives, though most observers judge the business overall to be in good shape.

Reinsurers' combined ratio deteriorated to 109.9% from 106.2% in 1994, according to Reinsurance Assn. of America surveys of similar groups of companies.

But the 1995 ratio was distorted by reserve additions, most notably $700 million at Swiss Reinsurance America Corp.'s (*BI*, Sept. 4, 1995; April 10, 1995) and $347.4 million at American Re Corp. (*BI*, Feb. 5).

REINSURER RESULTS 1995

In fact, reinsurers generally had a reasonably good year, thanks to higher ceding company retentions and the absence of major catastrophe losses.

"They were lucky last year and the catastrophes really didn't aim or hit them where they could really hurt," said David Seifer, an analyst with Donaldson, Lufkin & Jenrette Securities Corp. in New York.

Insurers buy multiyear, multirisk reinsurance cover.....Page 29

Although additional major reserve increases are not expected in 1996, price competition is expected to continue.

"I think I've said the same thing for seven years," said Bard E. Bunaes, chairman and CEO of Constitution Reinsurance Corp. in New York. "Commercial liability, commercial property rates have been dropping. When is that going to

See **Reinsurers** *on page 28*

Inside

• California legislation aimed at protecting malpractice policyholders could end up hurting alternative risk financing options, this week's editorial says. **PAGE 8**

• Work-at-home arrangements require special risk management steps to ensure safety, Susan Werner writes in Ask A Risk Manager. **PAGE 19**

• Potential losses caused by Britain's outbreak of mad cow disease are uninsured. **PAGE 23**

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Business Insurance (ISSN 0007-6864) Vol. 30, No. 14, is published weekly by Crain Communications Inc., 740 N. Rush St., Chicago, Ill. 60611-2590. Second-class postage is paid at Chicago and at additional mailing offices. POSTMASTER: Send address changes to *Business Insurance*, Circulation Department, 965 E. Jefferson Ave., Detroit, Mich. 48207. $4 a copy and $85 a year in U.S. $105 in Canada and Mexico (includes GST). All other countries $205 a year (includes expedited air delivery). Canadian Post International Publications Mail Product (Canadian Distribution) Sales Agreement No. 0293512, GST No. 136760444. Printed in U.S.A.
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Bill may limit options

Malpractice bill draws complaints

By ROBERTO CENICEROS

SACRAMENTO, Calif.—Legislation designed to prevent unlicensed offshore insurers from selling medical malpractice coverage could have a chilling effect on a broad array of alternative risk financing options, critics warn.

The legislation would limit the ability of physicians and managed care companies in the state to self-insure, endanger alternative funding mechanisms like captives for other entities and even make it a crime to purchase coverage from non-admitted insurers, according to alternative market supporters.

Supporters of the legislation, though, argue that it applies only to medical malpractice insurance and is intended to prevent offshore insurers not approved by regulators from selling coverage in the state.

A.B. 3340, which has not yet gone to committee, was introduced by Assemblyman David Knowles, R-Placerville, chairman of the Assembly Insurance Committee. It was drafted by the California Assn. of Professional Liability Insurers.

Under the bill, medical malpractice coverage could be written in California only by: an admitted insurer; an offshore company fronted by an admitted insurer; a risk retention group; or by a company qualifying as an approved non-admitted insurer on the Insurance Department's "white list." Appearing on the list requires maintaining capital and surplus of at least $15 million and a trust account of $5.4 million in the state.

Members of the association backing the bill include California medical malpractice insurers Medical Insurance Exchange of California, Norcal Mutual Insurance Co. and Southern California Physician Insurance Exchange.

The association said the legislation is aimed at barring what it calls unscrupulous and underfunded offshore companies that "prey" on physicians and ultimately consumers. It is necessary to amend California's existing surplus lines law because of confusion among physicians who are approached by such companies, the association argues.

"This, in effect, is some cleanup legislation to clarify exactly how non-admitted medical malpractice companies can do business in California," said Phil Hinderberger, general counsel for Norcal in San Francisco.

"One of the abuses we have seen in the last couple of years is there are some (managed care)

See **California** *on page 16*

Captives must change to remain competitive

By MICHAEL BRADFORD

PHOENIX—Captive insurance companies are going to have to change if they are to survive among all the risk financing alternatives available today, captive

CICA
CAPTIVE INSURANCE COMPANIES ASSOCIATION, INC.

experts agree.

Alternative risk financing is no longer a new concept and insurance buyers now have plenty of risk funding choices, said Paul T. Pope, assistant treasurer-risk management at manufacturing company TRW Inc. in Lyndhurst, Ohio.

Captives haven't changed much over the years, but "more creative approaches to self-insurance have evolved," Mr. Pope said.

And if captives are to continue to be the "unique, compelling alternative, they have to change," he remarked. "And I think that's the challenge."

Mr. Pope—and others on a panel discussing whether captives are still useful at the annual Captive Insurance Cos. Assn. conference last month—predicted that captive formation would decline as new risk financing methods, such as those involving capital markets, gain favor with risk managers.

Owners that want to keep using captives should reconsider what risks can be financed that way, he said. For instance, maybe risks related to interest and exchange rate fluctuations could be handled with captives, much as workers compensation or product liability risks can be now.

"I don't know exactly how that could happen, but it seems to me captives could potentially provide a role in that," he said. "Maybe they'll take on a little different

See **Change** *on page 14*

Regulators side with Lloyd's

Freezing U.S. assets could harm policyholders

By GAVIN SOUTER

DETROIT—The National Assn. of Insurance Commissioners and several individual commissioners are fighting attempts by California securities regulators to freeze the U.S. assets of Lloyd's of London.

Preventing Lloyd's from using its funds to pay claims would have a devastating effect on policyholders in the United States, warns a declaration issued last week by the NAIC.

The NAIC plans to file its declaration in federal district court in Los Angeles in support of a legal action filed by California Commissioner Chuck Quackenbush, who is seeking to assert authority over the state's securities regulators (*BI*, March 11).

In addition, Edward J. Muhl, superintendent of insurance for New York, is threatening to take control of Lloyd's funds in the United States to prevent them from being frozen by the California action.

Those regulatory moves come a few days after a standstill agreement was negotiated by Louisiana Insurance Commissioner Jim Brown with the state's securities regulator and Lloyd's.

The NAIC approved its declaration, made by President Brian K. Atchinson, during its quarterly meeting in Detroit last week.

"Any significant disruption in the normal operation of the Lloyd's American Trust Fund and other Lloyd's trust funds, such as through freezing of assets or preventing the drawing down of letters of credit, could have permanent, catastrophic effects on U.S. policyholders and beneficiaries, as well as a massive adverse effect on the entire insurance industry in this country," the declaration says.

Claims payments to policyholders and to insurers under reinsurance contracts would cease, the declaration says.

Similar fears prompted Mr. Brown to negotiate a standstill agreement with the Louisiana securities department and Lloyd's.

Under the agreement, Lloyd's will not seek to draw down on the letters of credit of any members that "engage in good faith settlement discussions," until April 30. After that date, either party may cease negotiations after 14 days notice.

Also, the Louisiana Securities De-

See **Lloyd's** *on page 31*



GRAPHIC BY KIM ROME



GRAPHIC BY TONY BUCCINI

Negotiating contracts for best HMO service

Pact can save money, hassles

By ROBERT KAZEL

ROSEMONT, Ill.—There was a time when many employers entered into handshake agreements with health maintenance organizations, not bothering to put expectations and performance standards in a carefully written contract.

According to experts, too many still do.

Harmonious relationships between plan sponsors and managed care organizations require both sides to hammer out detailed, customized agreements that will protect each from disappointment and legal entanglements, according to speakers at the annual Midwest Business Group on Health conference last month. Some employers already have discovered that basic protections written into contracts can save hundreds of thousands of dollars, the experts said.

"The managed care organization must know the needs of the client," said Steve Chapman, a manager of managed care at Abbott Park, Ill.-based Abbott Laboratories. "From a managed care standpoint, all employers kind of look alike—but that's not necessarily true."

Abbott has made unusually strong attempts to clarify expectations for its HMOs and generally tries to build performance standards in many areas into contracts as it signs them (see chart). Last week, company executives held a joint meeting with representatives of about 15 managed care companies to communicate to them en masse what the company expects of them, Mr. Chapman said.

"It's more of a partnership we're trying to develop, (rather than) you have a vendor, you pay him and you don't see him for another year," he said.

The backbone of that partnership should be a contract that specifies terms and conditions in much more detail than a simple list of premiums and cover-

See **Contract** *on page 21*

Coalitions slow to buy on quality

Unfamiliar health data often daunts many coalition purchasers

By ROBERT KAZEL

Employer coalitions are springing up across the country to contain group health care costs, but a new study says very few are using their potentially most powerful weapon: group purchasing of benefits based on quality measures.

Hardly any employer coalitions use sophisticated measurements to compel health plans and providers to compete based on health outcomes, according to the study by the Washington-based Economic & Social Research Institute.

"It's not happening that fast," said Sharon Silow-Carroll, vp of ESRI, a research and policy analysis firm specializing in health care and social services. "There appear to be a few of the coalitions that seem to be ahead of the pack, and they seem to be working on it. But it's a long, slow process."

Few coalitions have actually entered into provider contracts, in part because they have trouble accurately measuring quality and figuring out what type of data to rely on, Ms. Silow-Carroll said. Because coalitions often are dominated by large industrial firms that know little about health care performance measures, they often have been unwilling to take risks by using unfamiliar health data. "The purchasers are just learning about these quality measures," Ms. Silow-Carroll said. "This field is just developing. These are employers that have been developing widgets."

Exceptions exist. The study profiles three markets with employer coalitions that have stood out by moving in the direction of quality-based group purchasing:

- Madison, Wis. The Employer Health Care Alliance Cooperative, formed by several employers six years ago, now has some 700 corporate members of all sizes. The group administers a preferred provider network that runs in tandem with members' indemnity plans and gives negotiated discounts—about 15%—to virtually all providers in the market. At this time, network admission does not depend on high-quality measures.
- Minneapolis-St. Paul. The Buyers Health Care Action Group, which began about four years ago, comprises almost two dozen leading Twin Cities employers. It contracted with the HealthPartners provider system and

See **Coalitions** *on page 31*

Metex

Continued from page 1

finding that without legal actions against Metex, the coverage dispute was not "ripe for adjudication."

On appeal, though, the three-judge panel took up the coverage issues.

"The trial court's decision limited the insurance coverage provided by standard-form third-party CGL insurance to costs incurred after an agency directive is issued or a third-party lawsuit is commenced," the appellate panel wrote. "We find there is nothing in the language of the insurance policy which so limits the coverage provided."

The appeals court also dismissed insurer arguments that Metex's cleanup costs were not really "damages" as defined in standard policies—in which insurers pledge to pay "all sums which the insured shall become legally obligated to pay as damages because of bodily injury or property damage."

The appeals court pointed out that in a 1993 case—*Morton International Inc. vs. General Accident Insurance Co.* (*BI*, July 26, 1993)—the New Jersey Supreme Court determined that "amounts spent on environmental-response costs and remediation constitute sums the insured would have to pay 'as damages' because of property damage, within the meaning of the CGL policies."

"In light of the Supreme Court's decision in *Morton*, the only question before the court is whether a policyholder is 'legally obligated to pay' by virtue of the provisions of the Spill Compensation and Control Act," the court said.

The appeals court also reasoned that occurrence policies do not require a lawsuit to trigger coverage.

"Unlike a 'claims-made' policy, in which coverage is triggered by a claim brought by a third-party, an occurrence policy has no third-party claim requirement," the court said, adding that "an insurer cannot retroactively convert an 'occurrence' policy into a 'claims-made' policy."

The appeals court also said that whenever policy ambiguity creates doubts as to the existence of coverage, courts generally rule in the policyholder's favor. "Here, the language of the policies require no 'enforcement,' 'claim' or 'suit' by a third party in order to entitle the policyholder to coverage. Since there is nothing in the policies so limiting the coverage, a reasonable insured would assume that it is equally as legally obligated to comply with statutory mandates as it is to comply with an administrative directive or a court decree; in other words, the source of the legal obligation is of no consequence," the court found.

The decision is "great news for policyholders" because it "upholds the language of the policy," said Mr. Breene. The court focused "specifically on the insuring agreement, which simply provides that the insurance company agrees to pay all sums which the policyholder becomes legally obligated to pay. . .because of property damage. So this was not simple regulatory compliance."

Mr. Breene also said the decision makes good public policy "because it encourages policyholders to be proactive and address environmental concerns before they are sued."

Mark Rosenberg, a policyholder attorney with Sullivan & Cromwell in New York, was equally enthusiastic. He said the ruling effectively broadens insurers' duty to indemnify policyholders for cleanup obligations.

Usually the duty to defend is considered broader than the duty to indemnify, Mr. Rosenberg said. "But in a case like this, the insurer may well be on the hook to indemnify even if there's no defense obligation."

While policyholder attorneys applauded the decision, insurer attorneys were disappointed.

"This was an opinion that obviously reflects the deep pocket mentality by suggesting that insurance proceeds are needed to perform state-mandated cleanups," said Laura Foggan, a partner with Wiley, Rein & Fielding in Washington who filed an amicus brief in the case on behalf of the insurer-backed Insurance Environmental Litigation Assn.

"It blatantly mischaracterizes insurers' position by suggesting that the insurance companies urged the responsible party to violate the law and risk treble damages by not taking corrective action" to clean up the pollution it created, she said.

•

Metex Corp. vs. Federal Insurance Co. et al., New Jersey Appellate Division. March 22, 1996. No. A-6689-94T5.

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Committee

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Mr. Robiner received permission to file an appeal from the U.S. Trustee's office in Washington and is also seeking an immediate stay of Judge Spector's order in U.S. District Court in Detroit.

Judge Spector is the first bankruptcy judge to object to the practice.

"In a patronizing and almost sexist way, the United States Trustee made the startling assertion that among the hundreds of thousands of women who claim injury or illness arising from the Debtors products, he could not find the minimal requisite of three to sit on a committee in this case," Judge Spector wrote.

He also pointed out that many of the tort claimants include claimants asserting injuries due to toe implants, temporo-mandibular joint implants, large joint implants, small joint implants, penile implants, testicular implants, chin implants and implanted contraceptives.

"The hundreds of thousands of implant recipients come from all walks of life," the judge wrote. "They could be homemakers, doctors, lawyers or even the CEO of a Fortune 500 company."

In fact, some of these claimants would be better suited to serve on the Tort Claimants Committee than lawyers, who seem to enjoy prolonging the litigation, the judge wrote in his order.

In his March 21 order, Judge Spector also said that physicians facing malpractice lawsuits for implanting the various medical devices were not adequately represented in the bankruptcy proceedings, and ordered the trustee to create a physician claimants committee.

While physician claimants make up only a small number of unsecured creditors, "by dollar amount, the physicians claims might constitute a sizable percentage of the total unsecured claims," the court said.

Furthermore, physicians have filed a lawsuit seeking defense and indemnification under the "vendors endorsement" clause in Dow Corning's liability insurance policies, Judge Spector pointed out.

The U.S. trustee declined to comment on the decision other than to say that he was considering an appeal.

Lawyers for the committee also plan to file an appeal when bankruptcy court resumes Tuesday.

For its part, Dow Corning issued a statement that said: "We look forward to working closely with these two new committees and expect that this will help us to move more efficiently through the Chapter 11 process." BI



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Opinions

Med mal proposal goes awry

ONCE AGAIN, alternative risk financing options are under attack at the state level—this time in the form of legislation introduced in the California Assembly.

As we report on page 3, a group of physician-owned mutual insurers has sponsored legislation that essentially would restrict buyers to obtaining medical malpractice insurance from admitted insurers, risk retention groups or non-admitted companies approved by the state.

The malpractice insurers contend their aim is to prevent financially questionable offshore entities from preying on doctors in the state. If those companies go belly up, the sponsors argue, there is no guaranty fund net to rescue their policyholders.

While that sounds like a laudable goal, it appears the language of the bill would have the effect of restricting other, legitimate forms of non-traditional insurance, including self-insurance, captive insurers and perhaps also surplus lines coverage. The bill seeks to prevent "non-admitted" insurers not approved by the state from selling coverage, which critics say could be broadly applied to a variety of alternative risk financing options.

Such a restriction on those alternatives for medical malpractice coverage could easily set a precedent for limiting these options for other companies in California.

To be sure, there are problems with unauthorized offshore insurers operating in California and other states. But policing the market is best left to state insurance regulators and the licensed surplus lines brokers that must place non-admitted coverage.

California, in fact, has one of the tougher surplus lines laws in the country. As of Jan. 1, surplus lines brokers may only place coverage with surplus lines insurers on the state's "white list" of eligible approved companies.

The bill's sponsors single out one scenario for prevention: HMOs or other medical organizations inducing doctors to join them by offering free malpractice insurance written by shaky offshore insurers.



"....AND THAT APPLIES TO ALL OF THEM ALTERNATIVE RISK FINANCE PLANS, TOO!!!"

Although we do not doubt this may have occurred, the bill could have the effect of preventing health care organizations from covering doctors via legitimate captives or self-insurance. If having alternative risk financing gives those facilities a competitive advantage over organizations that buy malpractice coverage from admitted insurers, we see nothing wrong with that.

Therein may lie the true motive for this legislation: An effort by malpractice insurers to prevent the loss of business to a growing number of HMO captives and self-insurance arrangements.

We hope risk managers in the state and alternative market supporters rally to preserve the option of using captives and other alternatives to cover malpractice risks in California. They should clearly and loudly voice their opposition to California lawmakers and block passage of this legislation.

Otherwise, California doctors might not be the only ones in for a dose of bad news.

Letters

Clinton right to vow veto of OSHA bill

To the editor: Your March 18 editorial, "A Mean Season for Reform," improperly characterized the Senate OSHA reform bill as a "model of moderation." The Gregg-Kassebaum legislation, S. 1423, is hardly a moderate measure and is well-deserving of President Clinton's veto promise.

Under this far-reaching proposal, OSHA would be transformed from a regulatory and enforcement agency to one primarily involved with promoting voluntary compliance.

The bill would strip away job safety protection from more than 63 million American workers. According to Bureau of Labor Statistics data, the inspection exemption proposed in S. 1423 would make 94% of American workplaces eligible for exemptions from routine inspections.

These workplaces employ two-thirds of American workers. There's nothing moderate about that.

The Gregg-Kassebaum measure would break the promise Congress made 25 years ago that every worker be guaranteed the right to a safe job. There is nothing moderate about taking away protections from 2 of 3 American workers. If this bill had been law in 1991, even the Hamlet, N.C., poultry plant, where 25 workers died in a fire, could have been exempt.

The bill would strip workers of their right to request that OSHA investigate workplace hazards in response to a complaint about dangerous and possibly life-threatening conditions.

The bill would significantly weaken OSHA's enforcement authority. OSHA would have the discretion to issue warnings instead of citations for violations that threaten to cause death or serious injuries. Moreover, deep and automatic penalty reductions would be given to employers that violate the law.

The bill would abrogate worker rights in other ways by permitting employers to establish, control and dominate safety and health committees.

Modest amendments adopted by the Senate Labor and Human Resources Committee during the bill's mark-up would do nothing to alleviate the serious problems inherent in this bill. There is nothing moderate about S. 1423 and President Clinton is right in vowing to veto it.

Keith R. Mestrich
Occupational Safety and Health Specialist
AFL-CIO Department of Occupational Safety and Health
Washington

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Gallagher's legacy remembered

To the editor: It was with great shock and deep sadness that I learned of John Gallagher's untimely death (*BI*, March 4).

In my almost 45 years in this business, I have never met anybody that I truly liked more than John Gallagher. The success that he and his brother, Bob, had in growing a Chicago agency left to them by their father, Arthur, into the world's ninth-largest insurance brokerage firm never went to John's head. John always had a kind word for those he met on the way to this success. He had a keen sense of professional ethics and a genuine warmth. I will always remember him with a deep fondness.

My sincerest condolences are extended to Mary Claire, Patrick, Bob and all the members of the Arthur J. Gallagher organization.

Donn P. McVeigh
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Continued from page 1

capital markets can provide insurance capacity, the joint ventures are intended to bring investment banking services to middle-market clients that are "often overlooked by the big investment bankers," the executive said.

"When you have a decent relationship and sense of trust with (a client's chief financial officer), it's logical to consider working with that CFO for other financial products," he said.

If the test ventures work well, Alexander & Alexander may forge more permanent links with investment banking partners, the executive said.

Alliances between brokerages and investment firms are nothing new.

Marsh & McLennan Cos. Inc., for example, has a longstanding relationship with J.P. Morgan & Co., which has helped raise capital for a number of M&M insurance ventures dating back to the formation of ACE Insurance Co. Ltd. in the 1980s.

"Certainly in terms of equity investments and market-making, we have always worked with them," said Brian Kawamoto, a San Francisco-based executive vp with Aon Risk Services, which has worked with several investment firms and banks on various projects.

Whether these limited scope alliances eventually evolve into formal joint ventures or even corporate mergers still remains to be seen.

"As investment bankers have capital to bring to the market and brokers have clients with insurance needs, there might be some natural synergy there," said William J. Kelly, senior vp and risk manager for J.P. Morgan.

'When you have a decent relationship and sense of trust with (a chief financial officer), it's logical to consider working with that CFO for other financial products,' one broker says.

However, the partners would make "strange bedfellows, because banks and brokers tend to (concentrate on) the next deal rather than long-term relationships," according to Aon's Mr. Kawamoto.

For example, he said, "you'll find that one day Morgan Stanley is your best friend and the next day they are your arch-enemy."

"If I had to predict, I'd say some of the less well-capitalized brokers may align themselves with smaller investment houses," Mr. Kawamoto said.

Bernard M. Brown, managing director of insurance consulting firm Insurance Venture Partners Inc. in Greenwich, Conn., said mergers would make sense only in limited circumstances.

"They are such markedly different businesses, I don't think they are complementary," Mr. Brown observed.

The exception, he added, would be an investment firm interested in acquiring a specialty brokerage that could provide technical expertise in a particular coverage line.

One of these lines is catastrophe coverage: Wall Street firms are interested in catastrophe specialists because they understand the jargon of the insurance industry and can bridge the gap between the insurance and capital markets, Mr. Brown said.

Investment firms that raise capital for catastrophe insurers and reinsurers also may be interested in acquiring a broker's license to allow them to handle business produced for those insurers, he said.

An investment firm that is looking for insurance expertise doesn't need to buy a brokerage to get it, Mr. Brown and others pointed out. The firm can just hire the brokerage staff.

"We both have distribution networks. Maybe (an investment firm) would want to acquire some knowledge, but it would not need to acquire the distribution network," said Donald Birdsong, managing principal with Johnson & Higgins in Chicago.

This differs from insurance company ventures with banks, he noted, pointing for example to Swiss Reinsurance Co.'s deal with CS First Boston Inc. to develop hybrid banking and insurance products that can be sold through the bank's distribution system (*BI*, Oct. 23, 1995).

Mergers between investment firms and brokerages, while possible, also can hold potential disadvantages for both sides, said Chris L. Walker, chairman and chief executive officer of reinsurance intermediary E.W. Blanch Co. in San Antonio.

"I don't know if insurance brokers or investment bankers, either one of us, would want to tie ourselves to one organization," Mr. Walker said. "If there's a merger or joint venture, you tend to limit your options."

Investment firms, for example, may not want to limit themselves to selling products through one broker when they could pick and choose among several, he explained.

Even if mergers and acquisitions are not in the offing, insurance and reinsurance brokers and Wall Street firms are busy acquainting themselves with one another's territory.

While investment houses consider grabbing talent from the brokerages, many of the largest brokerages have set up capital market units to research securitization of a range of insurance risks and other financial ways of managing balance sheet risks.

Blanch, for example, has formed a new capital risk solutions unit to analyze client balance sheet risks from interest rate changes to catastrophe losses.

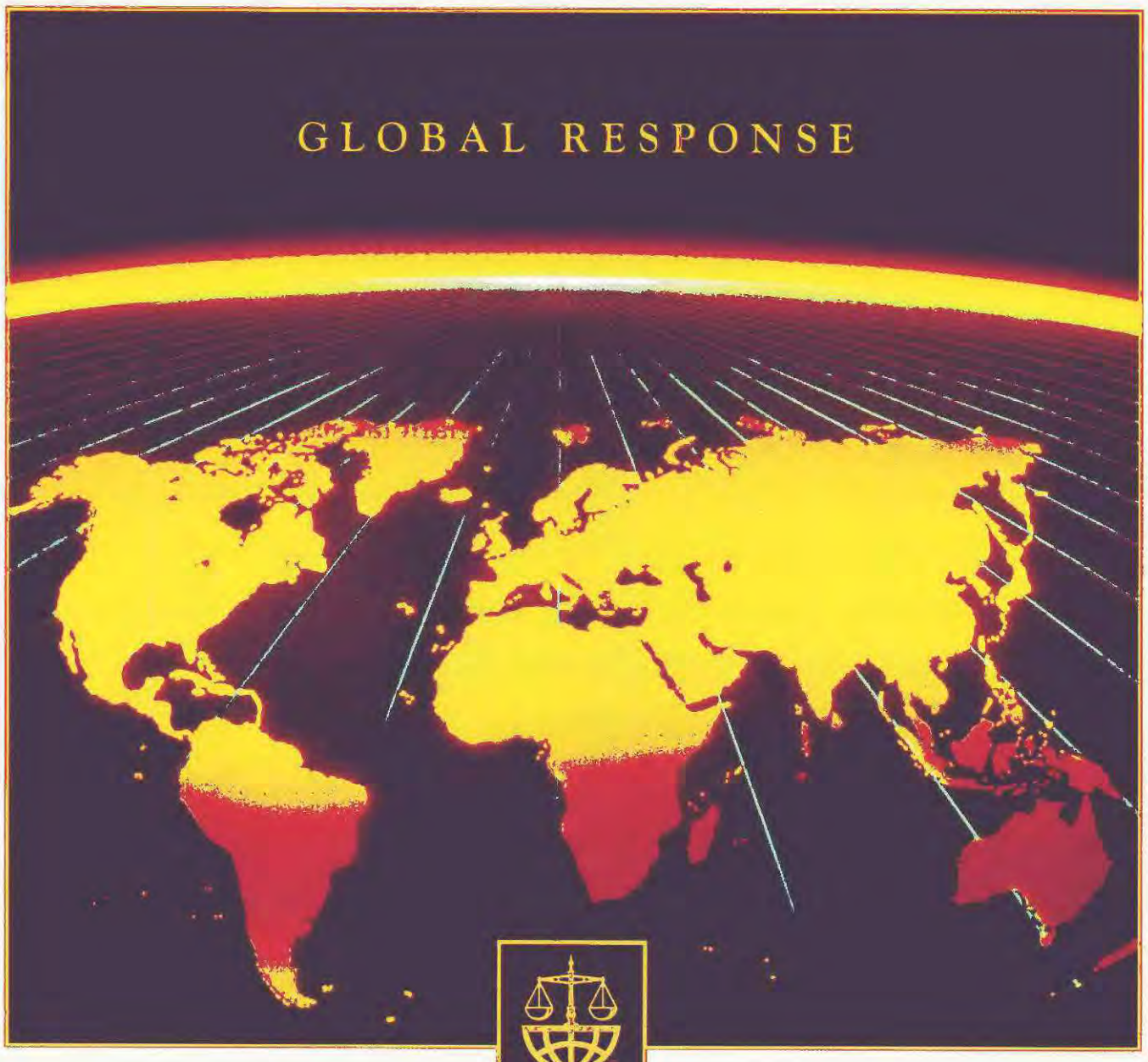
The unit will then work with investment banks to devise products to manage those risks, Mr. Walker said.

"We look more to work with them than to compete against them," he said.

Corporations are looking beyond their traditional insurance risks to an array of balance sheet risks and financial risk management problems, Aon's Mr. Kawamoto observed.

This will produce stronger alliances among brokers, banks, investment houses and accounting firms that have the know-how and products to address these problems.

"I do see all of us moving toward a broader evaluation of risk," Mr. Kawamoto said. BI



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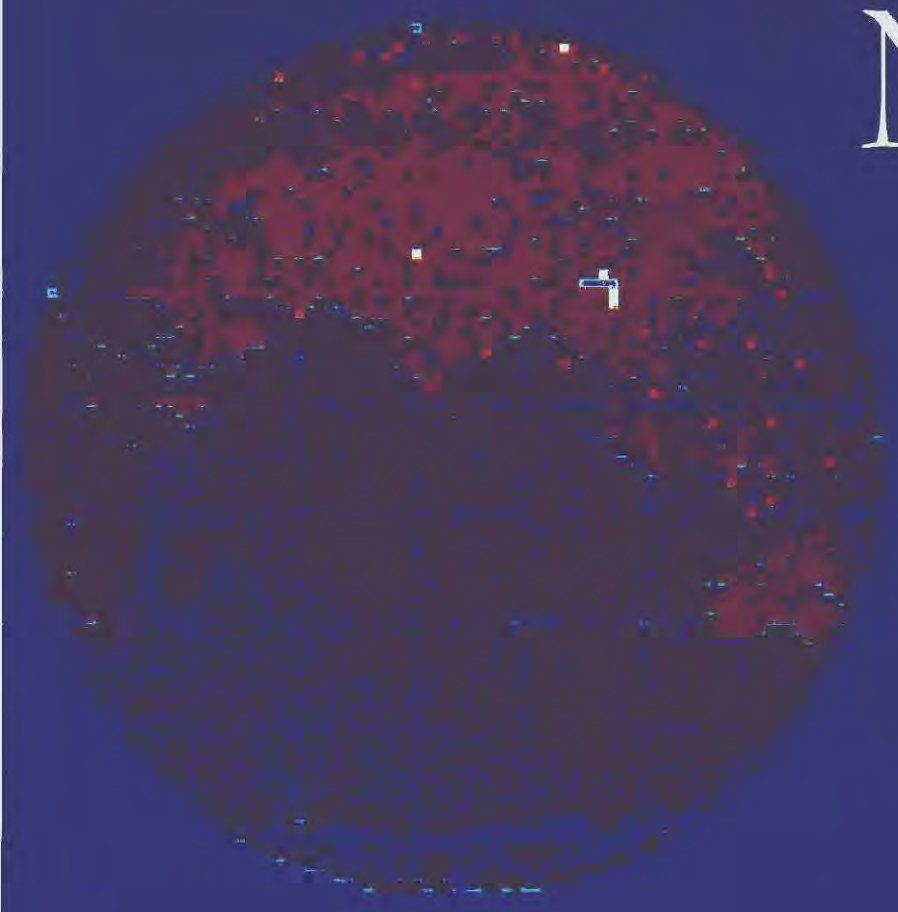
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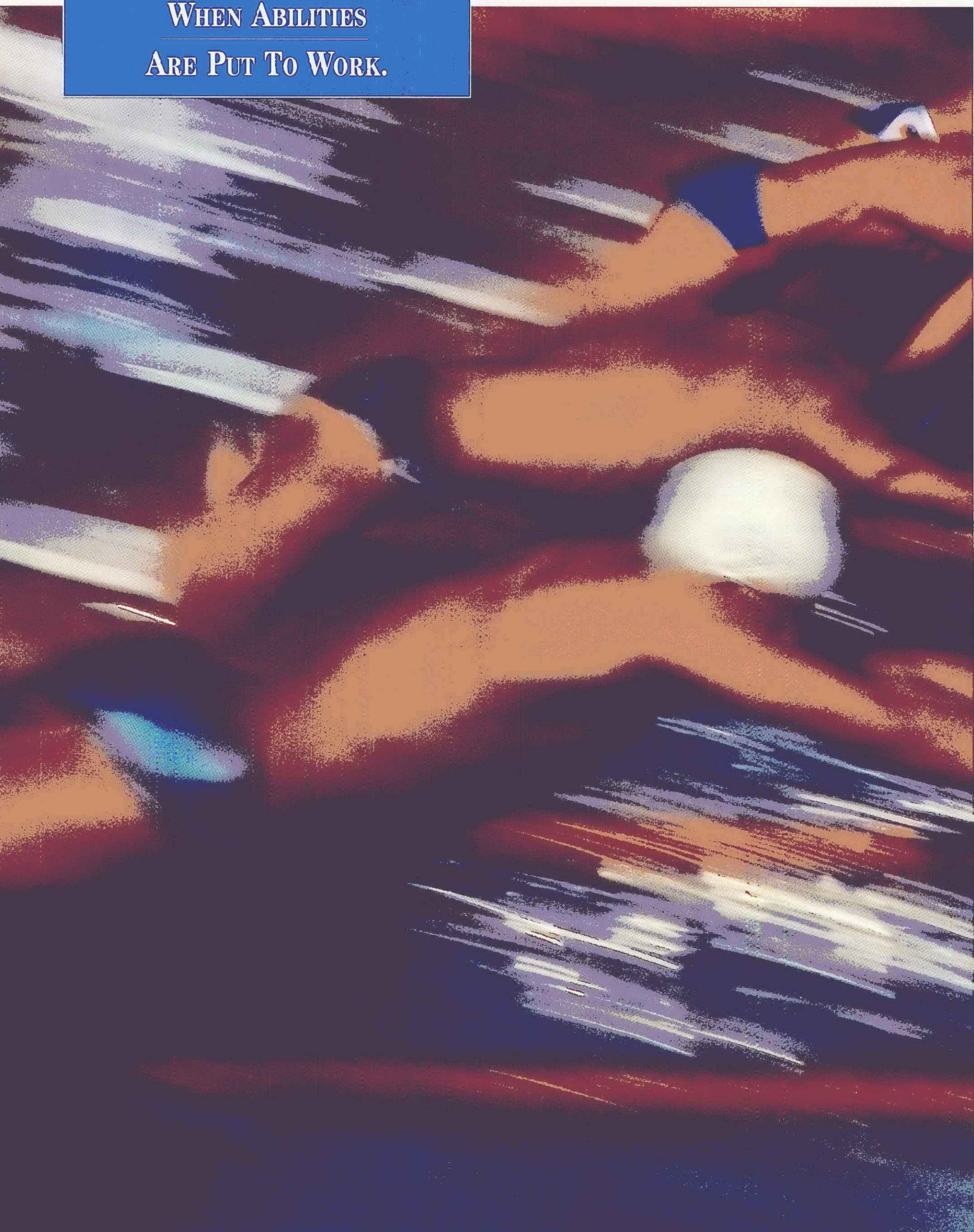
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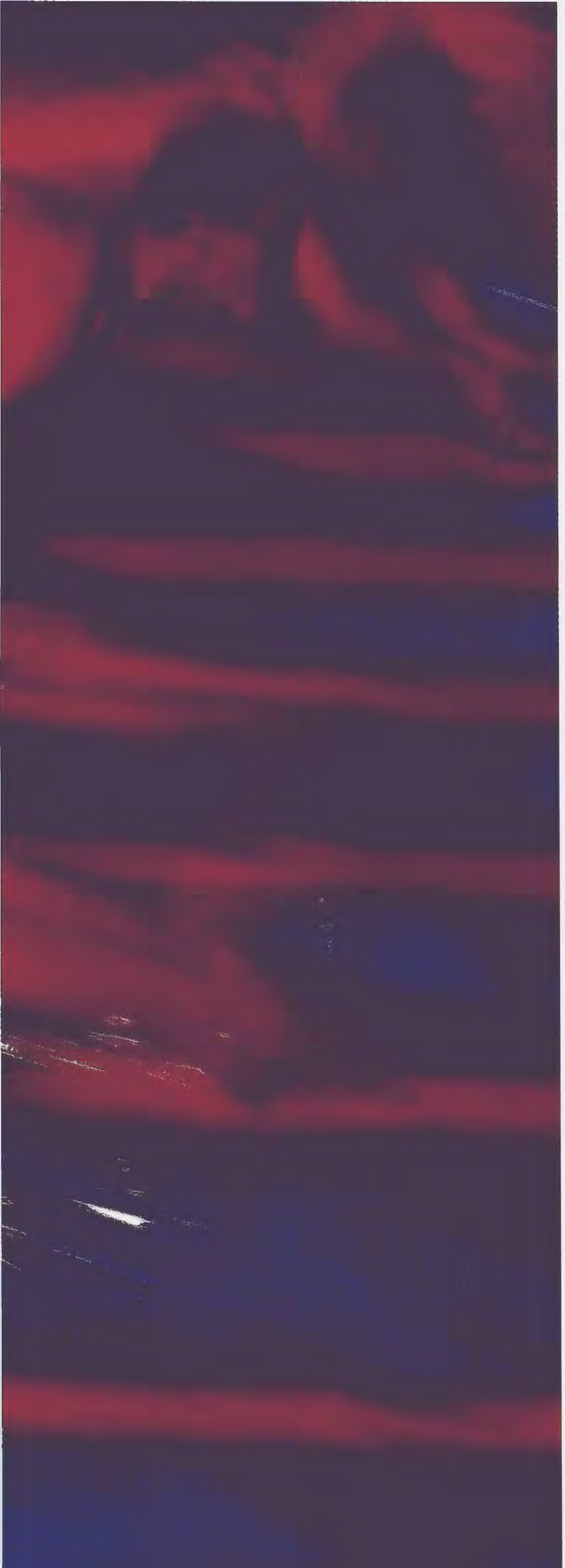
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Change

Continued from page 3

form or a little different corporate structure than they currently have, but it seems that captives do offer an ability for risk managers. . .to put their risks into a definable basket and to begin to take a more effective look at how to transfer risk or at least stabilize it over a period of time."

Before taking on unfamiliar risks, however, captives have to first change the way they view some traditional exposures, Mr. Pope said.

"Fundamentally, we tend to try to deal with workers compensation risks different than, say, fire risks vs. a product liability risk," he said. "And the reality is, when you look at it from a risk perspective, they fundamentally have the same impact on a corporation's financial statement whether it's any one of those types of losses." This "holistic" attitude—treating different risks with the same aim of controlling losses and protecting corporate assets—"needs to be the next evolution if captives are going to be truly a unique and compelling alternative," said Mr. Pope.

For now, interest in captives may be peaking. The total number of captives licensed in all domiciles rose 5.9% to 3,600 at year-end 1995, according to Tillinghast-Towers Perrin. And premiums paid to the captives rose 3.3% to $15.5 billion from $15 billion in 1994.

The number of new captive formations has held steady in recent years but may begin to fall as other self-insurance alternatives become widely available, said Hugh D. Rosenbaum, a principal with Tillinghast-Towers Perrin in London and editor of its publication, Captive Insurance Company Reports.

Similarly, an executive with a fronting insurer said interest in captives may be declining.

"Captives, particularly single-parent captives, probably only make economic sense for the 2,000 to 3,000 largest corporations," said Peter Vebber, senior vp at Old Republic Risk Management Inc. in Brookfield, Wis. "That market has pretty well been saturated."

Still, captive formations continue, he said. "Many of the valid reasons that were there 10 years ago are still there today in spite of the soft insurance market. They continue to afford a viable risk management tool."

And they can be more than just insurers, Mr. Rosenbaum pointed out. For example, some captives are putting the premiums paid by owners into other financial tools. "Put the money into the captive and the captive buys futures and options, a very simple fronting technique."

Despite some signs that captives are responding to the changing insurance environment, there still are threats to this alternative risk funding mechanism, Mr. Rosenbaum warned.

"The bad news is that other influences, outsiders, people with other agendas, are telling (you) what to do with your captive insurance companies and how to run them," he said. "The same things that I was invited to talk about five years ago at a CICA meeting are still happening today."

Regulators, academics and groups of captive managers are establishing operating techniques and standards, Mr. Rosenbaum pointed out. "The accreditation of captives is in the hands of the (National Assn. of Insurance Commissioners) and to a certain extent in the hands of Best's as well. Not in the hands of CICA. Too bad."

Extensive regulations could one day make captives just like traditional insurers, he said. "And I hope that doesn't happen." BI

CICA campaign aims to preserve captive deductions

PHOENIX—The Captive Insurance Companies Assn. is preparing a mass mailing to fight a Clinton administration budget proposal that would eliminate premium deductions for most captive owners.

A sample letter now being prepared will outline the group's opposition to the proposal, which is contained in the president's 1997 budget, said George Rusu, who is vp-legislation and president of Captive Resources Inc. in Schaumburg, Ill. He urged CICA members to personalize the form letters with their own comments.

The captive group's position will be further developed in a position paper being written by P. Bruce Wright, a tax attorney at LeBoeuf, Lamb, Greene & MacRae in New York.

President Clinton is recommending that Congress change the tax laws so that a captive that receives more than 50% of its net premiums written from insuring or reinsuring shareholders that owned at least 10% of the captive would not be considered an insurance company (*BI*, March 25). Thus, premiums paid by those shareholders would not be deductible. Small shareholders and unrelated parties could continue to take the deduction.

Captives could deduct claims paid on behalf of a 10% shareholder and those claims would be included in the shareholder's income to the extent they exceeded the shareholder's premium payments.

The proposal, developed by the Treasury Department and consistent with a 1995 administration proposal (*BI*, Dec. 11, 1995), is a significant departure from current law. Appellate courts have ruled that a captive owner can deduct premiums paid to a captive even if as little as 30% of the captive's premium volume came from unrelated business.

The proposal "is very, very dangerous no matter how you read it, for all of us," said Mr. Rusu.

"It is a foreign and domestic captive issue, it is a single and group captive issue," Mr. Rusu said.

The Treasury Department apparently has "decided they've lost battles here and there and now they are going to help Clinton define what insurance is," Mr. Rusu said.

He also criticized the proposal for directing the department to set standards for what are "related" parties and for recordkeeping and reporting by captive owners.

Allowing the department to "define things that up until now have been court-tested. . .creates a serious implication for all of us," Mr. Rusu said.

—By Michael Bradford

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Profit not sole motive for captives

By MICHAEL BRADFORD

PHOENIX—A good reason for starting a profit-center captive is to make a profit, right?

Of course, says one captive owner.

Not so fast, says another.

Profit-center captives—those that write business other than coverage for the parent—aren't formed to lose money. But owners debate whether making a buck is the best motivation for forming the captive insurers.

"The obvious question is, why have a profit-center captive," said Dean Reynolds, director of risk management and human resources at Nissan North America Inc. in Torrance, Calif. "The answer is, profit."

"My position is. . .I don't think profit should be a motive," countered Joseph Ney, president-insurance subsidiaries at Certified Grocers of California Ltd., a Covina, Calif.-based grocery wholesaler. "I think that can get you into some dangerous areas. But profit should be a requirement."

The speakers made their points at the 23rd Annual Captive Insurance Cos. Assn. Conference last month in Phoenix.

Nissan is no stranger to the captive business. It operates four captives, all in U.S. domiciles.

In 1991, the company established Nissan Motor Casualty Insurance Corp. in Hawaii to write third-party service warranty business and generate a profit for the automaker and its dealers (*BI*, Feb. 26).

"This was established because Nissan wanted to offer an extended service contract for non-Nissan, pre-owned vehicles," said Mr. Reynolds. "The objectives were to support the dealers' profit opportunity," he explained, and provide a "one-stop shopping" mechanism where dealers could fund the contracts for all vehicles, regardless of whether they were manufactured by Nissan.

CICA
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"Third was to offer a financially sound product to the customer," said Mr. Reynolds, because car buyers did not understand that the service contracts they bought for non-Nissan cars were not Nissan products. As a result, problems with those warranty contracts were often seen by buyers as Nissan problems, he said.

Nissan created a separate captive to write the extended service contract business rather than combine it with another captive in Hawaii, partly because "separation for us means very simplified legal, financial and administrative reporting," Mr. Reynolds said. Combining the business would have meant higher costs with regard to surplus requirements and more stringent oversight, he added.

Certified Grocers of California did not rank profit as a high priority when forming its captive.

The only reason to "get into writing third-party business is to add value to your customers, the people you are going to be doing business with," he said. "Obviously, profit is going to be a requirement for you to stay in that business, but I don't think it should be a motive for getting into it."

Like Nissan, which provides one-stop insurance shopping for its dealers, Certified Grocers offers retailers in the cooperative casualty coverage through its Bermuda-based captive, Springfield Insurance Co. Ltd.

The cooperative also owns an admitted insurer, Springfield Insurance Co. in Covina, Calif., that writes workers comp insurance for its members and plan to write other coverages.

"The most important question" in offering third-party coverage, Mr. Ney said, is "will your management tolerate losses? It's great to talk about profit, but if you are going to take risks and try to make profit, it's very likely that you will have losses."

Profits aren't easy to get in the soft commercial insurance market, he added, because profit margins are slimmer with coverage costs down.

One reason for offering customers access to a captive can be to provide a more stable insurance market, Mr. Ney pointed out. "We were affected very severely in 1985 and 1986 by the liability market. In our business, our customers work on a profit margin of about 1% of their sales. . . .So a big switch in insurance premiums can put people out of business.'

A captive manager agreed that adding value to clients should be a strong motivator for offering third-party coverage.

The decision to write third-party business "really needs to be looked at as something that is furthering the objective of your organization," said Gregory Myers, senior vp with Becher+Carlson Cos. in Woodland Hills, Calif. "If your organization is selling groceries, it's probably not looking to be insuring nuclear power plants at the same time."

The captive can offer something that helps bind the captive owner and its customers, Mr. Myers said. "Give them a benefit. Give them something that strengthens your tie to that customer, to further that relationship and have them come back and buy another car or to continue buying groceries from you."

Coverages that could be offered include credit life, cargo insurance, coverage for rental vehicles and warranty coverages, he noted.

Companies that establish captive insurers to write third-party business should be aware that reinsurers will take a close look before agreeing to provide coverage to the captive.

Reinsurers will "step back from the narrow reinsurance transaction and review the entire business plan of the organization," said Peter Greene, senior vp of Genesis Underwriting Management Co. in San Francisco. "I think most reinsurers recognize that when you start looking at unrelated business it's a lot tougher than when you are looking at a captive owner's risks." BI

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It featured sessions on tax law changes, profit-center captives, fronting, workplace substance abuse and other topics. A panel also discussed whether the insurers are still useful among the myriad alternative funding mechanisms now available.

Next year's CICA conference is slated for March 16-19 in Tucson, Ariz.

For more information, contact CICA, 4248 Park Glen Road, Minneapolis, Minn. 55416; 612-924-8887.

California

Continued from page 3

organizations that have marketed medical malpractice insurance underwritten by non-admitted companies—some located in the Cayman Islands calling themselves captives—and basically packaging that medical malpractice insurance with the compensation package offered to physicians," according to Mr. Hinderberger.

"They haven't explained to the physicians that the company is non-admitted. They haven't explained the implications of being non-admitted: That there is no financial information on file with the Insurance Department. That no one has certified the solvency of the company. And that unlike admitted companies there is no guaranty fund standing behind those companies," he said.

The bill is not intended to be anti-competitive, Mr. Hinderberger said. But it would force non-admitted companies offering malpractice coverage in California to open their books to regulators like admitted insurers do, he said.

As for complaints that the bill would prohibit captives, he said single-parent captives are not "even contemplated in the bill." He pointed out that Norcal and the other physician-owned insurers in the association are essentially group captives.

Despite the bill's intentions, some observers contend that its broad wording is cause for worry.

If they truly seek to limit "unauthorized alien insurers," why didn't the authors of the bill use that wording, which is widely understood in the industry? asks Paul Pinckney, principal consultant for Towers Perrin in Irvine, Calif. Instead, they refer to "non-admitted insurers," which is so broad a term that just about anything in the alternative market could be included, he said.

"It's not inconceivable that they could be sweeping in a pretty decent cross-section of medical malpractice insurance in the alternative market that they don't intend to," Mr. Pinckney said.

And medical malpractice is not the only market that would be affected by the bill, warned Jon Harkavy, vp and general counsel for captive management company USA Risk Group in Arlington, Va. He interprets the bill to mean that group captives with policyholders in California would have to become approved surplus lines insurers.

"I don't think this is just a risk retention group bill or a group captive bill," Mr. Harkavy said. "It seems to be written much broader than that and deserves the attention of the captive community."

"It's a very dangerous precedent," he said. "Taken to an extreme, what happens if you have a huge medical service provider corporation and they didn't buy insurance from a California licensed insurer and they have a global program? I'm not trying to pick a fight with the (sponsors), but this is protectionism in its worst form."

Worse yet, Mr. Harkavy said, the bill would make it a crime for the buyer to obtain coverage from a non-admitted insurer, but does not penalize the insurer.

The California Department of Insurance said it could not determine from the bill what the penalties would be, though other observers said they would most likely be either civil or misdemeanors.

"Medical liability is a very significant sphere to begin with, but if you want to do that, why not just carve out all California policyholders, so that any California corporation that decides to not go through a California licensed company is now a criminal," asked Mr. Harkavy rhetorically.

So far, health care providers—including the Assn. of California HMOs, the California Medical Assn. and the California Healthcare Assn., which represents hospitals—have not taken positions and are still reviewing the bill.

However, the risk manager for one health care company who has reviewed the legislation said it would limit employers' alternative risk financing options.

For example, Sacramento-based Sutter Health has considered insuring its doctors' malpractice risks through its Hawaii captive, noted Mike Evans, vp of risk and insurance. Although the company's plan is currently on hold, the pending bill would scuttle that opportunity, he said.

"Essentially it seems to be designed to prevent self-insuring of physicians, particularly by HMOs, though the language of the bill seems to go beyond that," Mr. Evans said. "This seems to be protective legislation for the physician insurer companies in the state."

The legislation comes just when more hospitals and medical groups are integrating their services and exploring ways to provide doctor groups with insurance, risk management and claims management services.

The bill's sponsors deny they are targeting HMOs. But integration by managed care organizations does get mentioned in an issue brief distributed by the California Assn. of Professional Liability Insurers.

"Disturbingly, some managed care organizations are requiring or inducing physicians to purchase malpractice insurance from offshore insurance affiliates of the plan—in at least one case, the unlicensed affiliated insurer is completely outside the oversight of the California insurance commissioner," the brief says.

As the bill states, it would "prohibit a health care service plan or specialized health care service plan, disability insurer, or nonprofit hospital service plan, or a medical group, independent practice association, or preferred provider organization contracting with a health care service plan for the provision of professional services to subscribers, enrollees, members or policyholders from requiring or otherwise offering any inducement to a provider of medical services to obtain liability insurance for the professional malpractice of health care providers unless the liability insurance is provided either by an insurer admitted to transact liability insurance in this state or a surplus line insurer, as defined." BI

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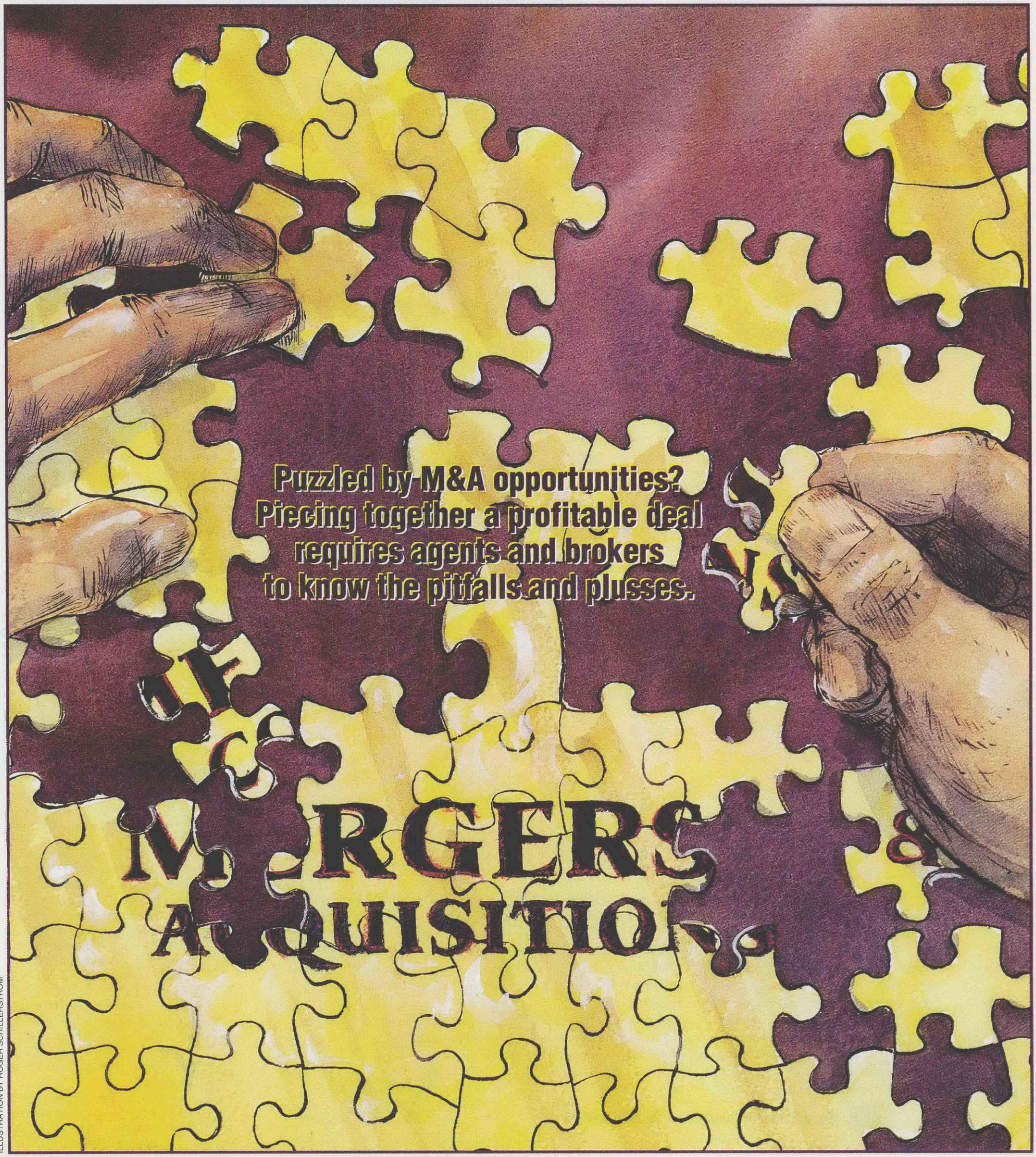


ILLUSTRATION BY ROGER SCHILLERSTROM

Agent/Broker Topics

A more sophisticated version of the dating game

By SALLY ROBERTS

Brokerages interested in acquisition start by flirting with their intendeds

Every successful brokerage acquisition begins as a courtship.

An interested party, be it the potential acquirer or acquiree, sets its sights on a potential partner and introduces itself. If the prospect shows mutual interest, phone calls are made, financial statements, annual reports and company brochures are exchanged, cocktails and dinners are digested and trips are made to each other's home bases.

By the end of what could last anywhere from a few months to several years, if the chemistry is still there, a letter of intent is signed and the two become one.

As in other courtships, strategies vary widely. Some would-be suitors are pursuers; others wait to be approached; and still others let a third party make the introduction.

"The deals that get made are made because there is some affinity there," said Timothy J. Cunningham, senior vp at agency consulting firm Hales & Associates Inc. in Westchester, Ill. The "sales cycle," or courtship, lasts for different periods of time, he said. "Some fall in love immediately and are very smitten with each other, while in other cases it takes longer. It's a matter of timing."

Overall, outside all the financial aspects, "if the two parties walk away from each other saying, 'I don't like and trust this person,' then it's not going to happen," Mr. Cunningham said.

"I don't know if it's specifically a courtship," said Warren Van der Voort, corporate vp and director of mergers and acquisitions for Arthur J. Gallagher & Co. in Itasca, Ill. However, he added, during the process both sides are trying to make favorable impressions to generate interest.

While brokers looking to acquire a firm have the same goal of finding the perfect match, their approach to finding that match differs.

At Gallagher, for instance, "my whole approach is to aggressively pursue the best candidates I can find throughout the country," Mr. Van der Voort said.

The pursuit generally begins with a "cold call" to an agency not currently considering becoming an acquisition candidate, and introducing Gallagher as "an alternative to their future," he said. After getting acquainted and assessing the mutual interest, Gallagher will bring the agency to its headquarters for dinner and drinks and then a one-day presentation of all of Gallagher's operations "to give them a better picture of our operating environment."

If the interest is still there, Gallagher will then go to the potential acquiree's headquarters for an "operational review," he said. After another night of cocktails and dinner, the two parties will address more specific concerns and answer questions that come up on both sides.



If the interest remains, a financial review is conducted to determine the agency's value and a letter of intent is signed.

These acquisitions "have worked very well for us," Mr. Van der Voort said. Since 1985, when Gallagher became a publicly traded company, the broker has acquired 40 companies, which today represent about 45% of its total revenues.

While Gallagher continues its aggressive pursuits, another experienced broker takes a different approach to finding acquisition candidates.

"The best people to bring us prospects are our own folks," said Robert H. Hilb, chairman and chief executive officer of Hilb, Rogal & Hamilton Co. in Glen Allen, Va. Having developed a reputation as an acquisition-driven broker—it has made 146 acquisitions since 1984—aggressive prospecting is not a necessity.

Mr. Hilb said most of the time one of the local HRH offices will call him and say, "A guy down the street wants to talk with us" and they talk. Other times, he said, HRH people are approached at agency meetings expressing interest in becoming a part of HRH.

"We'll always take a look," Mr. Hilb said, "unless during the 20-minute conversation we determine the agency generates less than $1 million in commissions and is located in a city where we are not. Then we don't have anything to talk about."

An agency located outside a city HRH operates in must generate between $2 million and $3.5 million

See **Acquisition** *on page 16D*

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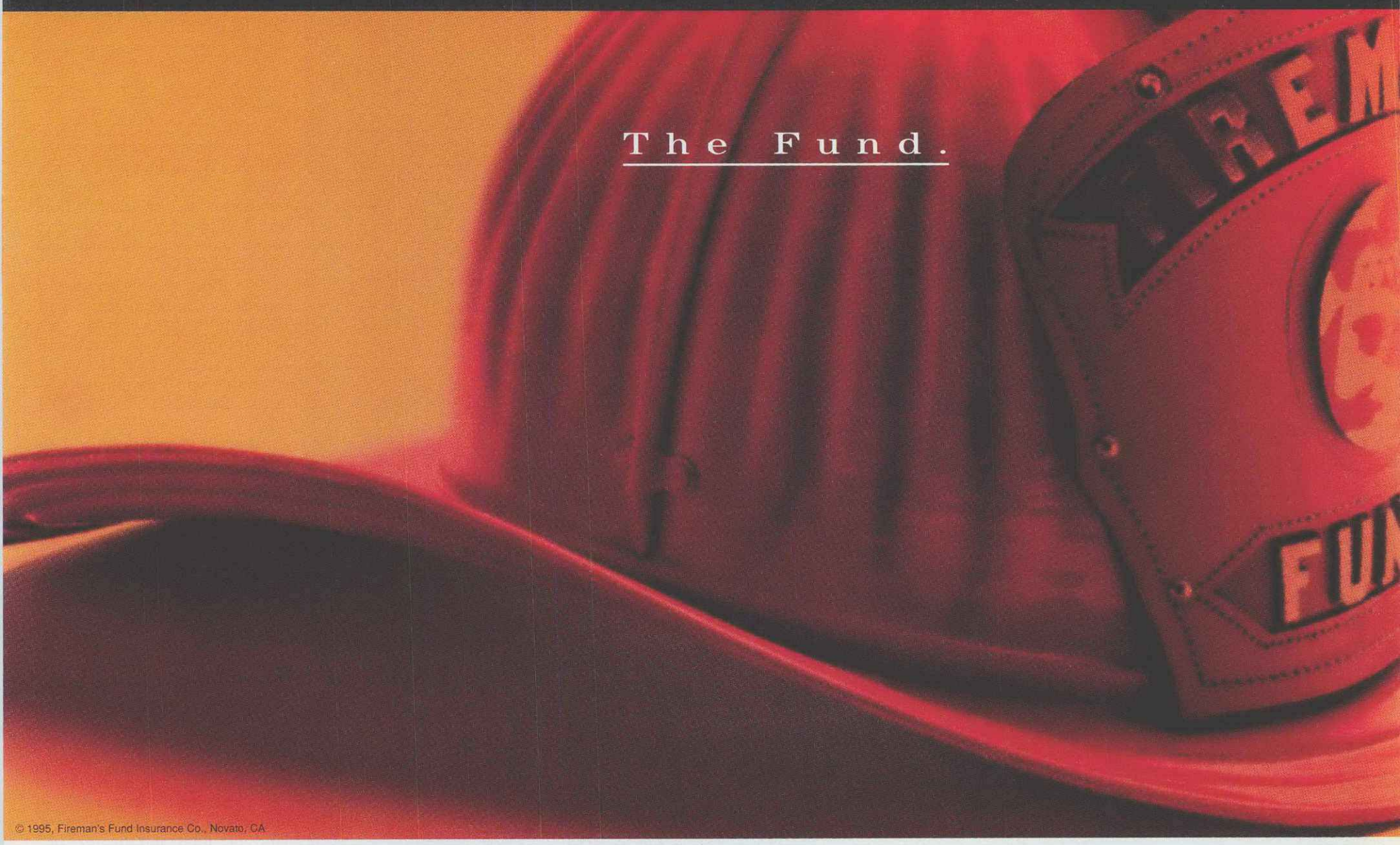
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Acquisition

Continued from page 16B

in commissions for the broker to be interested.

"It seems we always have a full plate," making prospecting a thing of the past, Mr. Hilb said.

While pursuing and being pursued are two ways of finding a potential acquisition, other agencies and brokerages rely on third parties to find good candidates and to make initial introductions.

For instance, Summit Global Partners Inc., which began its acquisition mode in early 1995 when it was formed, has found using consulting firms like Russell Miller Inc., the Manhattan Group and the IR Group Cos. a good means of finding good acquisition targets.

The acquisition consultants conduct demographic studies and compile a list of potential candidates based on the company's acquisition criteria, explained Gary R. Griffith, chairman and CEO of Dallas-based SGP, which currently has 15 transactions in the works. This includes agencies in a specific location, agencies that have the right size of commercial lines business and an appropriate level of revenues, he said.

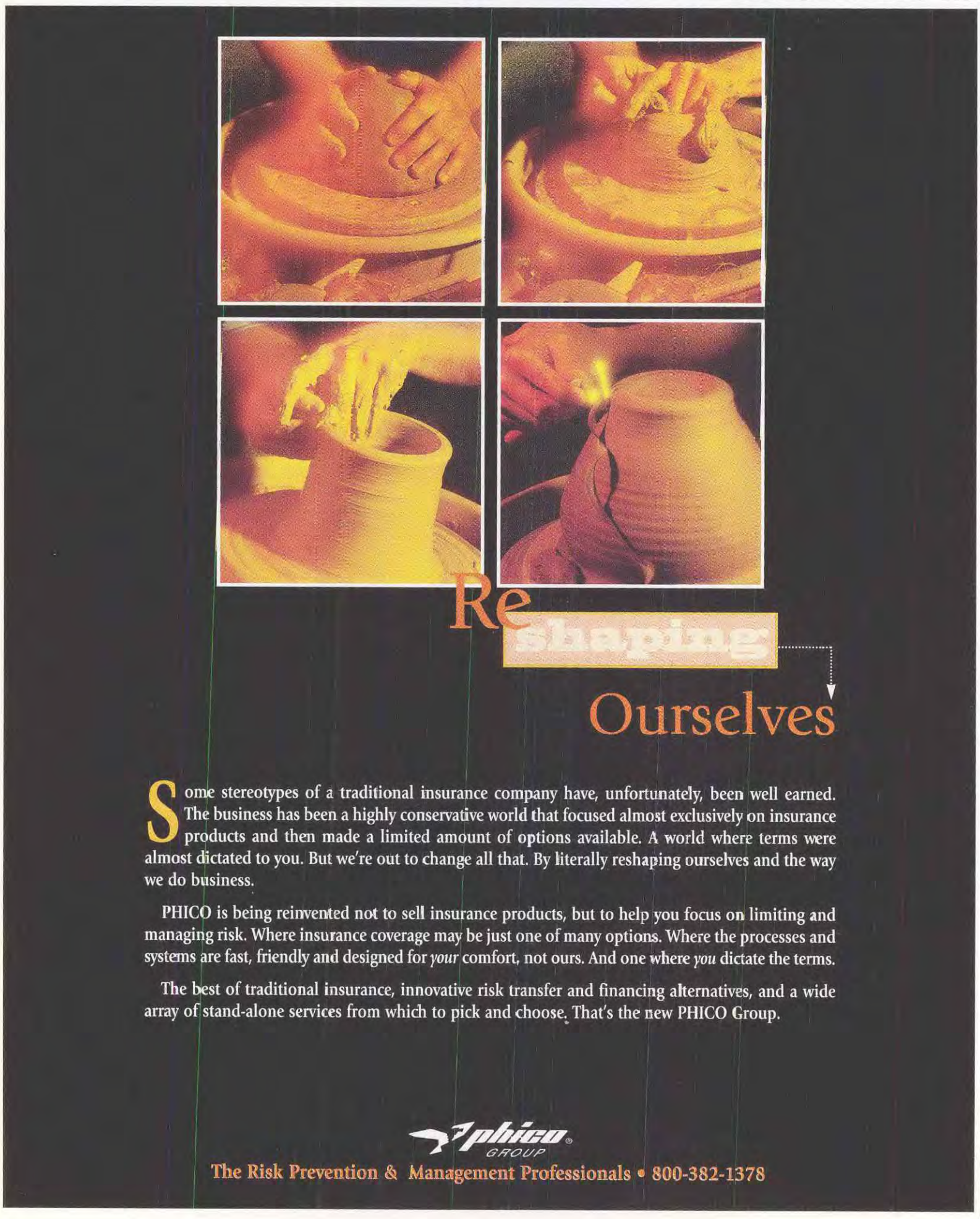
If Summit Global Partners is interested in any of the candidates, the consultant will call up the agency on its behalf and initiate the first contact, Mr. Griffith said. If both sides show an interest, SGP will meet with the agency and assess the compatibility of their people, learn more about its operations and track record and present the agency with more information about how the company operates.

Douglas Moat, chairman of the Manhattan Group, said in addition to acting as an intermediary on behalf of acquirers, consultants are a good source for smaller agencies looking to find a buyer.

"A great majority of agencies are not of a size, location and mix of business that is appealing to large brokers," Mr. Moat said. However, the Manhattan Group will introduce "those that we do see fit with a larger broker."

In every instance, the firm puts together a "quality presentation" for the selling agency so when it comes time to meet with a prospective buyer, all the information needed is there. This information includes such items as the agency's history, its financial history, its loss ratio and its books of business.

Agencies wanting to sell their operations "really can't do it alone," Mr. Moat said. A large portion of the Manhattan Group's business, he said, involves "straightening out deals that went wrong." BI



Look beyond bottom line, experts say

Other considerations before sealing deal

By JUDY GREENWALD

There's a lot more to putting a price tag on an agency than analyzing revenues and profits.

Among the important, but less-quantifiable, factors, are the age of the principals selling the business, whether they plan to stay on, the specialties of the prospective acquisition, and how those fit with the acquiring agency's own strategy.

"I would say basically there are no hard and fast rules," said Roger Szajngarten, assistant treasurer for Marsh & McLennan Cos. Inc. in New York. "It's more an art than a science."

For instance, he said, when you buy an agency "you buy talent as well as the book of business." People are an agency's main asset and an agency whose management plans to retire would not be as valuable, said Mr. Szajngarten.

"We think valuing an agency isn't scientific, it's more of an art form and the value is based on a lot of things that are hard to pin down," agreed Lewis Hoden II, executive vp of Savannah, Ga.-based Palmer & Cay/Carswell Inc.

Palmer & Cay/Carswell will do a "quick and dirty" initial financial analysis of a possible acquisition just to see if it "deserves some more time," he said. But from that point on, the non-financial elements are as important as the finances.

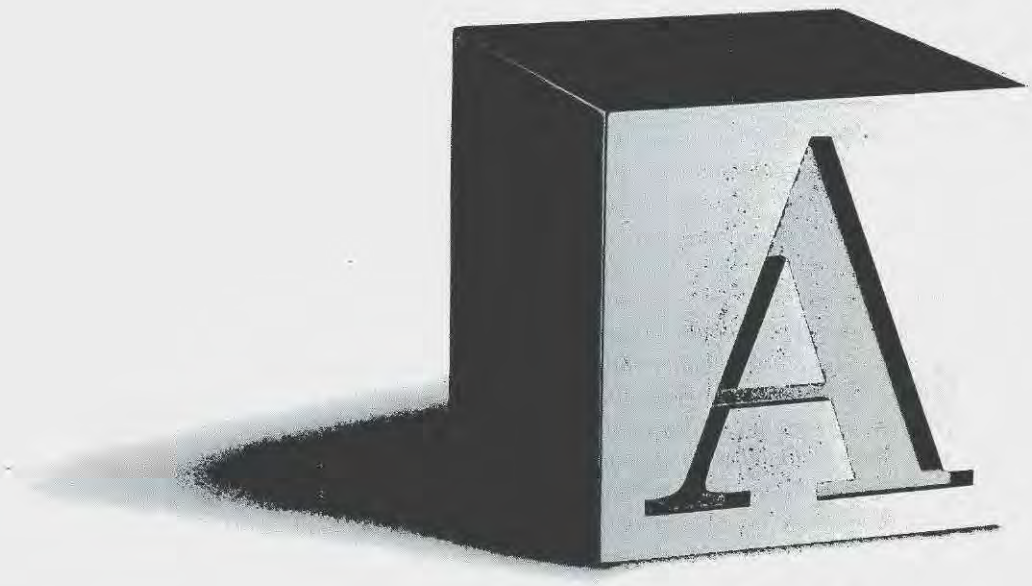
In fact, the more experience the agency has gained in making acquisitions, the less time it spends focusing on financial matters, said Mr. Hoden. "Clearly, it's important, but it isn't as important as we once thought it was, perhaps."

"Our experience has been we'd rather pay a premium price and get something that's working and have good people and those kinds of things, and the price becomes less important from a buyer's perspective," he said.

For instance, Palmer & Cay/Carswell wants to make sure that it and the potential acquisition have compatible business philosophies, said Mr. Hoden. It also asks whether it would hire the people involved if not for the acquisition.

Another critical element is the segment of the market in which a prospective acquisition operates. For example, does it have the skill to manage the medium-

See **Deals** *page 16F*



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Deals

Continued from page 16D

sized to large commercial accounts on which Palmer & Cay/Carswell focuses? If it doesn't have that experience, the firm probably would not be skilled operating in this area "so it would be a matter of having to teach them, which is a long process," he said.

"One of the things we look at is trying to assess their ability to generate new business," added Mr. Hoden.

Agencies interested in selling often have somewhat limited ability in that area, which can be the main reason it wants to sell.

Michael J. Cloherty, vp-finance of Arthur J. Gallagher & Co. in Itasca, Ill., said that while acquisitions today are priced partly on the basis of pretax earnings, one must remember at all times "that this is a people business, and as much as anyone tells you it's a financial deal, Gallagher is much more concerned with the quality of the individuals that join our team."

"We're a real people business," echoed Frank C. Witthun, president and chief operating officer Indianapolis-based Acordia Inc. Acordia spends a lot of time with the management of potential acquisitions, discussing how they could contribute to the success of the merged company.

Also critical is market share. Generally, Acordia will not look at anything that does not bring it the No. 1, 2 or 3 market share or the potential to achieve it, said Mr. Witthun.

There are three key approaches in valuing the agency using financial data, according to Fred Dopfel, president of insurance investment firm Russell Miller Inc. in San Francisco.

First, the income approach, which is the most heavily weighted in the overall valuation, seeks to determine the ongoing income potential of the business as if it were run to maximize profits, he said.

It also takes into account the growth potential of the business by laying out a forecast such as a five-year profit forecast.

Second, in the market approach, appraisers examine recent transactions of comparable entities and examine publicly-traded entities, then discounts the value appropriately.

Third is the cost approach, in which appraisers ask what it would take to build an organization of comparable quality and earnings potential, said Mr. Dopfel.

"I think the appraiser would use methods of calculations for each of these three types of methods, and then seek to derive a conclusion based on his experience. Some version of these techniques are used by most acquirers, big and small, to get an estimate of value," Mr. Dopfel said.

"But the ultimate value for a company depends on the specific deal and the extent to which a process has been set up to encourage a fair and open competition to find the partner who would have the most to gain from the transaction and therefore pay the highest price."

Mergers & Acquisitions



Brokers and consultants say one of the key basic steps in evaluating a potential acquisition candidate is developing pro forma financial statements to evaluate its financial strength and then balancing it with other factors such as experience and expertise. Pro forma statements are intended to give a true picture of an agency's financial status.

"You create a pro forma financial statement, which re-evaluates the company's financial condition as to what it would be after the acquisition," said Bernard H. Mizel, who is credited with building American Business Insurance Inc. and Jardine Insurance Brokers Inc., and is now in the process of building another major agency, USI Insurance Services Corp. in San Francisco.

"The way we do it is, we create a number, which is a pure cash flow number called 'earnings before interest, taxes, depreciation and amortization.' We then use a multiple of that number to establish the purchase price of the company."

That multiple of earnings can vary from 4.7 to 6, depending on a range of variables.

In addition, Mr. Mizel said, "firms have got to have at least 30 to 45 days of working capital as part of this overall composition of value that somebody is going to provide us."

Ron Kirwood, president of Wooster, Mass.-based brokerage AMP Inc., which made four acquisitions in 1994, said he also develops a post-acquisition pro forma cash flow number that he applies to a multiple of between 4 and 6 to come up with the right price.

The particular multiple is "kind of negotiable and it depends on the fit," he said. "If we really like the fit, the book of business, and how it fits our objectives, we would take the higher end."

AMP also likes to acquire businesses with young owners, and to include company stock as part of the purchase price. A young, visionary principal who sees the potential of owning stock in the merged company, will be willing to accept a lower ongoing compensation level, which improves the business' cash flow and its value. "It's kind of a win-win deal," said Mr. Kirwood.

One of the critical factors Paramus, N.J.-based NIA Ltd. looks at is whether or not a potential acquisition will be incorporated into an existing office or remain free-standing, said President Paul Gross, who has been involved in the purchase of 66 agencies in the course of his career.

If one's home office is doing $10 million in revenue, and acquires an agency in its immediate vicinity with $500,000 in revenue, then its net profit is not an issue. The buyer can absorb that business into its own firm with relatively little expense, because the combined brokerage does not need, for instance, two sales managers, explained Mr. Gross.

But if it is free-standing, you "must look at the return on investment and return on revenue and project it on a pro forma basis going forward," he said. BI

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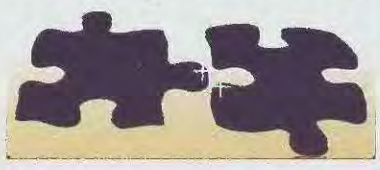
By RODD ZOLKOS

When a large corporation embarks on a merger or acquisition, it has numerous risk management issues to consider, and the company's broker can play a key role in helping address them.

Similarly, when a broker is considering acquiring another broker, it has a number of exposures to evaluate in making the deal.

"The same skills, the same things you would look for in an industrial concern, you want to do the same very detailed homework," said Robert P. Williams, managing director and chairman of the mergers and acquisitions group at Marsh & McLennan Inc. "It's all about doing your homework."

Mergers & Acquisitions



One of the most critical considerations for a broker looking at an acquisition is the target firm's exposure to any errors and omissions claims.

"I think you have to look at any prior or pending litigation and do your due diligence very carefully," said Edgar W. Armstrong, managing director-risk management services at Aon Specialty Group in Washington. "There's a long tail on the agent's E&O obligations."

"One of the most important things we do is absolutely insist we don't do an acquisition unless we get a three-year tail policy on their E&O," said Robert H. Hilb, chairman and chief executive officer of Glen Allen, Va.-based Hilb, Rogal & Hamilton Co.

Tail coverage is a form of liability insurance that extends the period of time the policyholder can report losses that occurred in the past.

"We have complete indemnification in our contract against any past acts," Mr. Hilb said, but the broker still insists on the tail coverage. "It's an easy thing for a seller to buy a tail policy."

HRH has experienced few E&O problems with its acquisitions, said Mr. Hilb, though there have been some instances that proved the merit of insisting on tail coverage.

"In 146 acquisitions, we haven't had anything real strange come up," he said. "With tail coverage we seem to be pretty well covered. We haven't had too many claims, but there have been some."

Warren Van der Voort, corporate vp and director of mergers and acquisitions at Itasca, Ill.-based Arthur J. Gallagher & Co., said his company's "very thorough due diligence operational and financial review" of brokers and agents to be acquired includes a close review of the target's errors and omissions situation using an E&O checklist.

"And we qualify their underwriting markets so we are certain that we are not partnering up with somebody with questionable underwriting markets," Mr. Van der Voort said. "We will do complete file audits just to qualify the completeness of their work."

The process can take "days and days," he said, but is usually done after the intent to make the deal is formalized and the final merger documents are being drafted. "From a risk management standpoint, a lot of those areas do take considerable review," Mr. Van der Voort said.

Hilb, Rogal & Hamilton requires a certified third-party audit of the firm to be acquired, Mr. Hilb said, and the broker's accountants study the target's accounts payable and receivable very closely as part of due diligence.

Even with the firm's resources, an accounting glitch in a deal last year forced HRH to explain an unexpected expense, even though it was made good by the acquired firm's shareholders. An underfunded pension plan in an acquired company forced Hilb, Rogal & Hamilton to post a fourth-quarter expense that reduced its earnings from the prior year's level for the quarter (*BI*, Feb. 26).

"We had an estimate of what (the pension liability) should be and it turned out to be more than that," he said. "Obviously the shareholders indemnified us for it and they gave us the cash."

The seller in transactions is responsible for delivering what the acquiring firm believes it's buying, certifying such aspects of the transaction as assets and liabilities, Mr. Van der Voort said.

Gallagher, too, makes the selling company find coverage for any E&O exposures before the deal is completed. "They were theirs then and they will continue to be after the deal," he said. "We are not assuming those. They would have to

See **Mergers** *on next page*

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Mergers

Continued from previous page

buy tail E&O coverage to protect their interests from when they were in operation."

Besides errors and omissions, "you still have the traditional issues if you're merging two firms," said M&M's Mr. Williams. The acquiring firm has to examine such exposures as basic property and liability risks in the company to be purchased, he noted.

In addition, mergers and acquisitions raise "people issues," Mr. Williams said. If layoffs are anticipated following the acquisition, the acquiring company has to recognize that large layoffs often are accompanied by a "flurry of workers comp claims" and has to look for ways to avoid that, he said.

Employment practices liability is another critical area, said Cyrus P. Quadland, senior vp in M&M's mergers and acquisitions group in New York. "Allegations of age discrimination, all those sorts of issues, are going to bubble up to the surface as these transactions go forward," he said.

As part of the risk management process, the acquiring firm should try to identify any employment practices problems beforehand.

"In mergers, the whole level of these claims is ratcheted up tremendously," Mr. Williams said. "You'd want to look at that and see if there was any pending litigation in that area."

"Just like a doctor looking at a patient, you'd want to look and see if there are any trends," Mr. Quadland said. "You'd want to look at litigation history."

Another important people issue in an acquisition may be one that defies risk management—the compensation of key players in the acquired firm and ensuring productivity after the deal.

"There are some pitfalls (to acquisitions)," Mr. Hilb said. "The biggest ones, of course, are trying to analyze the people who are going to be working for you and working with you and that's awfully hard to risk manage."

"You just don't know what their ongoing attitude and ongoing enthusiasm will be," he said. "Especially after you make people well-to-do."

In approaching acquisitions, Hilb, Rogal & Hamilton can factor in the financial impact of declines in productivity, Mr. Hilb said.

A brokerage typically undertakes an acquisition to accomplish specific business objectives, said M&M's Mr. Quadland, so it's important to ensure that after the acquisition the "key stable of producers" remains to do what's needed to meet those objectives.

"I think you have to be very, very careful as to what could be the role of the principal producer after the merger is complete," Aon's Mr. Armstrong said. The biggest mistake he sees some acquiring companies make in buying an agency is giving that top employee an employment contract "and then they retire until that contract is up."

Despite the risk management issues they raise, every indication is that merger and acquisition activity among brokers and agents will only increase in the years ahead.

"It used to be that when an agent retired he could leave the business to a son or a daughter and they could take care of the business very well," Mr. Armstrong said. "Nowadays, the economics of the situation make that more difficult, so they're often better off just to sell it." BI

Laying groundwork for a deal

Preparation can help avoid problems with customers, employees

By ROBERTO CENICEROS

Keeping both long-term clients and those belonging to a newly acquired agency requires careful follow-through after an acquisition, brokers agree.

But minimizing the headaches that follow a merger or acquisition also depends on the groundwork laid before the deal.

"I can't emphasize enough the preparation before doing the deal," said Rick B. Gulley, vice chairman of Robert F. Driver Co. Inc. in San Diego. "Discuss all the warts, all the good stuff and don't try to force the deal on the front end."

If your brokerage is not appointed with the same insurers that are writing the business that you are purchasing, it may be lost after the deal, Mr. Gulley explained.

Your own employees also can block your path if they don't understand why a deal will benefit them, he said. Make certain they understand all the problems that may arise initially because of differences, such as incompatible computer systems, he added.

Once a deal is done, it is vital to speak daily with acquired producers and their support staff. The rough spots they will face must be addressed quickly. "Those frustrations pile up on an hourly, daily basis," he said. "That is why you have to defuse them every day."

Likewise, the producers and support staff in the target agency should know about all the cultural changes their new bosses will bring, Mr. Gulley advised. If the acquiring agency has a defined culture for such things as paying salaries, rigid schedules for break times and punching a time card, then employees in an acquired firm should know about those things.

Robert F. Driver completed a successful acquisition in 1994. But Mr. Gulley said another one was not successful.

The principal of that acquired company created a desirable business because of his entrepreneurial



drive. But he also was accustomed to being his own boss, and not used to answering to the supervisors of a company with a defined structure, Mr. Gulley said.

Yet it is essential to attract the acquiring agency's producers, not just their book of business, Mr. Gulley said.

Other brokers agree.

"The insurance business is an intangible and it's relationships that you have," said Mark Higgins, controller of Buffalo, N.Y.-based insurance agency Lawley Service Inc. "So we don't do any acquisitions where we eliminate a principal in the equation or where we eliminate the primary producers. Those are the keys to the whole equation."

Sometimes the wording of the deal can have a big impact on those relationships, as Lawley found out when it acquired another agency.

With local manufacturing companies repeatedly being gobbled up by outsiders, Lawley chose not to use the "A" word, Mr. Higgins said, instead referring to the deal as a formation of a new partnership.

"You want to avoid terms, at least in this neighborhood, such as merged, acquisitions and acquired," he said. "Those are not good terms to use because they can have a real adverse impact on somebody's book of business."

Lawley made two acquisitions in 1994 and formed a partnership last year.

Make certain an acquisition target includes the same sales staff who originally placed the accounts and not just someone who bought their business or principals who do not have sales ties to the accounts, he advised.

However, once can never be certain that they will acquire the producers along with their business, said Norman R. Wright, president of Boston-based Mahoney & Wright Insurance Agency Inc., which made two acquisitions in 1994.

Find out beforehand if the producers own their accounts and can take them elsewhere, he advised.

"If they don't own them, then it's much easier to attract them because their income is connected to the accounts I just purchased," Mr. Wright said. "It's not a difficult thing to do. It's just simply asking them if the changes they will be making are difficult for them and if so will they be moving on."

To help keep clients of an acquired firm, it is often possible to give them better terms and conditions than they previously had because the acquiring brokerage brings more markets to the table, Mr. Wright and others said.

In addition, after a merger or acquisition, the sales staff can be freed up to spend more time with customers, Mr. Wright said. His agency also relies on a newsletter, open house meetings and newspaper advertisements to express to acquired clients that their business will be handled by an organization with a substantial reputation.

"The seller and we the acquirer will put a letter in the mail, normally on the seller's stationary, mailed at the purchaser's expense, to the customers explaining what is happening," Mr. Wright said. Follow-up letters eventually are sent on stationery with the names of both agencies.

"Then after a year or so we will move that aside and just move into our own agency name," Mr. Wright said.

He estimates his agency retains 90% of acquired personal lines accounts and more than 80% of small to midsize commercial accounts. Mahoney & Wright will exclude some large, commercial accounts from acquisition agreements because they are typically the focus of heavy competition from other brokers.

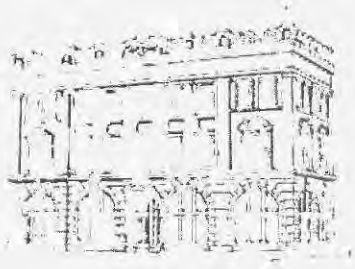
"When you get to those particular cases, be very, very careful about them because frequently they have been the target of solicitations for years by many other people," Mr. Wright said. "You don't know where their tendencies lean if the person they are dealing with is out of the business."

Name changes are also handled delicately at Lawley Service Inc., Mr. Higgins said. Retaining the agency's business comes before spreading the Lawley name. So an acquired agency may keep its original name rather than adopting Lawley's.

"It's almost to a point where people don't even know we are there because we don't want to disturb that (perception of) locally owned and operated," he said. "Anything we can do to let the insureds know that things are going to get better not worse." BI

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Veteran dealmaker offers strategies for brokers

Bernard H. Mizel is the chairman of San Francisco-based broker USI Insurance Services Corp. The 2-year-old company completed 16 acquisitions last year and has already cemented six more acquisitions so far in 1996. The company's revenue base has grown since its formation in June 1994 to approximately $90 million at the end of February.



Mr. Mizel

Prior to running USI, Mr. Mizel also engineered dozens of acquisitions while running American Business Insurance Inc. and Jardine Insurance Brokers Inc.

He spoke recently with New York Bureau Chief Michael Schachner about his approach to mergers and acquisitions.

***

What is the basic strategy you employ to acquire a broker or agency?

We begin by focusing on whether the organization we're acquiring deals in areas that fit into our three categories of business. Those are: insurance-related financial services, excluding property and casualty; specialty niche businesses; and general broking operations. USI does 40% financial services, 40% specialty business and about 20% general brokerage work.



For niche business, we want firms with long-term experience and a track record in that niche. For example, we just bought an agency with experience writing banks. For general broking, we want operations with a geographical presence that allows USI to establish our name in that region.

How do you identify companies for acquisition and what is it that distinguishes one agency from another?

We have a multitude of ways to identify companies, one of which is working through outside merger and acquisition consultants that get us all sorts of referrals. As far as distinctive qualities, first and foremost is that they have outstanding integrity and a reputation. They must also have strong financial management, be profitable and have quality relationships with insurers and clients. We can see this quickly.

You have grown from a start-up to a broker with nearly $100 million in revenues in about two years. What percentage of this growth is attributable to acquisitions vs. internal growth?

Internal growth, or organic growth, as we call it, has been about 7%. And, that's what we're judged by. We started out with a 5% organic growth model, so we've exceeded that. Internal growth will always be more important than acquired growth. Without it, you're failing to increase the value of your assets and it's only whether we bring value to the new companies that earns me an A on my report card.

How important to you is it to surpass $100 million in annual revenues?

It's a milestone and a bit of a benchmark that establishes you among the larger brokers. But, more importantly, it allows us to bring in more than $20 million in earnings before interest. At that stage you have some meat on your bones.

In 1995, you made 16 acquisitions. So far this year, you have completed another four. Is that too many to assure that due diligence is performed on each acquisition?

First off, of those 16 last year, seven were simple fold-ins of modest-sized companies. The remainder were actual hubs of more than $5 million (in revenues). It was very doable because we have a strong acquisition team led by (Executive Vp-operations) John Addeo, an experienced mergers and acquisitions guy. We separate M&A business from other operations, which allows us to conduct that due diligence.

Are you fixated with building revenues through acquisitions?

Absolutely not. Fixation is the wrong term. It implies that there's no rational approach to what we're doing. In fact, we have a clear, defined business plan as well as an unprecedented window of opportunity to take advantage of the dysfunction in the underwriting and

See **Mizel** *on next page*

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Mizel

Continued from previous page

distribution sectors. We have been able to raise capital to commit to companies that want to grow but don't have the capital themselves. Our foundation and infrastructure are sound and there's no way we'd be as successful as we have been with these acquisitions if they were being fueled only by a fixation.

Do you worry about whether USI's culture will mesh with that of the firm you acquire?

Certainly. To overcome that we strive to make everyone a partner in what we're doing. The new firms are more than just new employees. I'm into sharing what we have, and if there appears to be any cultural issues, we won't buy a company no matter what its earnings are.

We also put the executives of the firms we acquire on an executive committee and give them separate common stock that gives them voting rights and motivation to work for the total welfare of USI.

What are some other challenges or worries when making an acquisition?

I think it's knowing whether you're getting the right people. You can make a mistake evaluating people if people bull— you. Fortunately, that hasn't happened to us yet. One reason why may be that we really drag out the acquisition process to validate our due diligence.

What is the largest brokerage you acquired at USI, as well as during your tenure at Jardine and ABI?

So far at USI, the Wrims Group, a specialty writer out of Exton, Pa., has been the largest. It was a $13 million agency. At Jardine, the largest was also about $13 million, while at ABI, it was $40 million.

Have you ever engineered a purchase that simply didn't work out? If so, what went wrong and what do you do to correct something like that?

At ABI, about six or seven years ago, we bought an agency in the South and we incorrectly assessed the skill level of the people. They were good, honest people, but the place wasn't managed properly and it became a real drain on resources to correct.

What you do in this case is hire someone to come in and run the place. You don't let it fester and try to overcome the problems by buying more agencies to offset one. You bite your lip and fix the mistake, but you do not compound it.

How has the building of USI differed from the jobs you did at Jardine and ABI?

At ABI and Jardine, I oversaw conventional brokerage operations where they had some specialty business. We're becoming a real insurance financial services company. Our financial business, benefits and 401(k), life insurance and disability management revenues will outperform general brokerage business by 8% to 10%, and specialty business will do as well or better. I think we're a more profitable business than the other companies were

What does being the fastest-growing emerging broker mean to you, beyond simple ego gratification?

Zero to $100 million has never happened before in this amount of time. No emerging broker in the world has had our type of growth, but it's not about ego gratification. I'm not into that.

What this means is that we've been meeting an enormous challenge. We have worked our butts off to put together a 10-year plan that works. But in no way is this a one-man deal. John Addeo deserves much credit, as do the other senior executives.

It also means that our investment banker, Dillon Read & Co., has been terrific. They're really why we're here. For an investment bank to keep all commitments to raise capital as they have has been very important.

But it's not ego. Ego-driven deals fail. It's as simple as that. BI

An ESOP's no fable as an agency benefit

Stock plan can help attract, keep good staff

By Donald Weber

A common and very important issue facing most independent insurance agents and brokers is the perpetuation of their enterprise. This difficult move requires both short-term and long-term thinking and planning.

The short-term factors include the people equation: How can an agency attract, develop and retain competent people who can carry on the tradition and success of the firm? The longer-term considerations relate more to agency owners: How can they perpetuate the going business into the future and then receive a fair value with liquidity for their equity in the firm when they decide to sell or retire?

One vehicle that can help on both counts, especially for agencies that want to perpetuate from within, is an employee stock ownership plan.

For employees, an ESOP provides the benefit of ownership in the firm through the vehicle of a qualified retirement plan. It is a good method of sharing ownership, and at the same time, offering a retirement benefit for employees.

From the owner's perspective, an ESOP can be used as a tool to perpetuate the agency from within, and at the same time, a way for the principals to sell their equity to the ESOP with the firm receiving preferred tax treatment in the transaction.

While much can be written about the employee benefit aspect of an ESOP, this article focuses on the owner's use of an ESOP. In facing the perpetuation issue, the agency principals have two alternatives—sell or merge with a third party, or transfer ownership to others within the agency.

Many owners have found both financial rewards and further career satisfaction by selling their agency and then remaining on for a period of time to manage it. Others, however, have real or perceived objections to selling to a third party.

These objections can be avoided with a program of perpetuation from within through the use of an ESOP.

With a good strategy and competent advice, an ESOP can be a successful tool for perpetuation, as long as the agency can generate sufficient pretax profits to fund the plan's obligations. This is a requirement, since the company must contribute money to the plan to offset the obligations created when an owner sells his equity to the ESOP.

In simple terms, it works this way: An ESOP trust is set to pay the benefits, and each year the agency owners decide the amount of cash or company stock to be contributed to the trust. The value of the stock is determined through an annual appraisal by a qualified outside appraiser. The contributions are distributed each year to the individual accounts of the employee participants, based upon the plan's criteria in areas such as vesting and length of service, much as they would be in a defined contribution plan.

The owners could sell this stock to the plan on an installment basis, or for a lump-sum payment. To cover a lump-sum payment, the plan could borrow money, using the stock as collateral. A payment schedule would be arranged over a period of years to pay off the obligation. A tax benefit is generated, since the debt is retired with pretax profits. This, in effect, enhances the value of the agency.

From the owner's perspective, an ESOP can be used as a tool to perpetuate the agency from within.

In theory, it sounds great. Employees receive a tax-sheltered ownership position in the agency, productivity increases, and profits grow. Agency value grows each year, increasing the asset value of the plan. The owners receive a fair value for their equity in the agency. And control can be maintained, based upon a perpetuation plan that the owners devised.

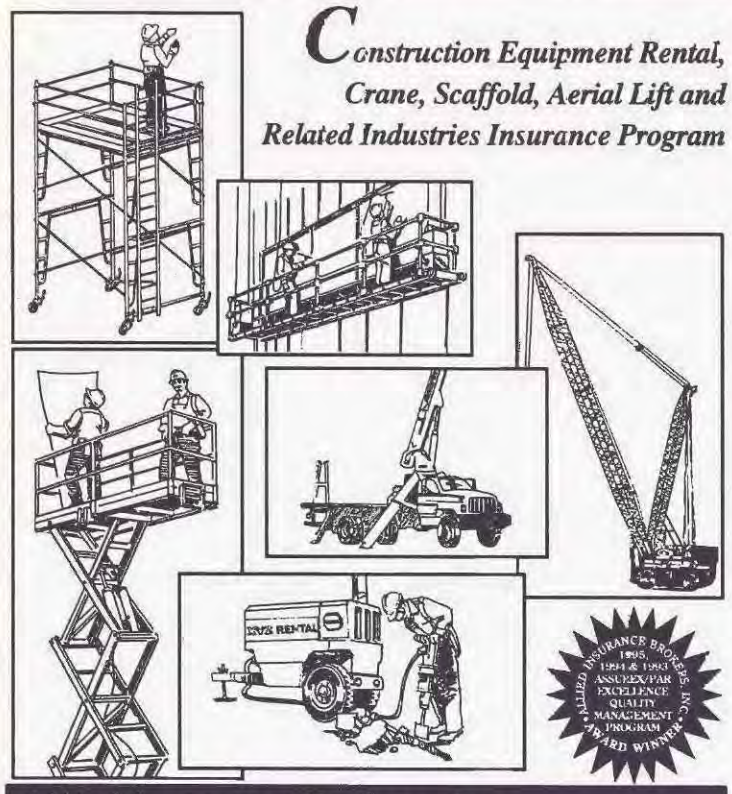
In reality, of course, things are not so simple. A number of potential pitfalls must be taken into account.

First, if growth and pretax profits are not generated, then the agency value can decrease, and there could be a lack of cash to fund the obligation of the ESOP. If the plan is structured

See **ESOP** *on page 16L*

A/BT Perspective

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Agent/Broker Topics

20 years of challenge and change

Assn. of Professional Insurance Women shows success of networking

By GAVIN SOUTER

The Assn. of Professional Insurance Women, like the industry professionals it represents, has changed significantly in the past 20 years.

Started in 1976 by four women in New York after a lunchtime discussion on women's contributions to the insurance industry, the APIW has grown into an organization with 180 members nationwide—and soon it may expand across the Atlantic.

Founded to help women advance their careers in insurance through informal education and networking, the APIW also has established an awards system to recognize women in the insurance industry and to provide financial help to promising students.

The APIW, which celebrated its 20th anniversary recently at a dinner in New York, plans to utilize the Internet and other technological developments to expand its membership and its influence.

The success of the APIW and its members shows "networking works," Marsha A. Cohen, a past president of the APIW, told attendees at the anniversary dinner last month at the University Club in New York.

For example, in 1994, 93 of the then 124 APIW members held the office of vp or higher at their companies, said Ms. Cohen, who is the deputy director of state relations at the Reinsurance Assn. of America in Washington.

One of the APIW's main networking events is its monthly luncheon in New York at the City Midday Club. The luncheons feature speakers who address subjects that in some way are affecting the insurance industry.

Over the years, luncheon speakers have included: Roxani Gillespie, the former insurance commissioner of California; Frank J. Tasco, former chairman of Marsh & McLennan Cos. Inc.; Maurice Greenberg, chairman of American International Group Inc.; and Dennis Chookaszian, chairman of CNA Insurance Cos.

And the organization itself has successfully networked. In its 20-year history, the APIW has become a member of the International Alliance of Professional & Business Women, was a founding member of the Insurance Council of New York, joined the College of Insurance Professional Advisory Board and each year hosts a joint luncheon with the CPCU Society.

While the APIW has maintained a base in New York, it established a network in Chicago in 1990 and another in San Francisco in 1993.

Future networks, which are similar to chapters, are planned for Boston and London.

Since 1977, one of the main events on the APIW calendar has been the conferment of the Insurance Woman of the Year award.

The award recognizes leadership and professional achievement as well as prominence in the insurance industry.

Past recipients have included: Heidi E. Hutter, chairman of Swiss Re America Inc.; Cheri J. Hawkins, assistant treasurer and director of insurance at Weyerhaeuser Co.; and Myra L. Tobin, a managing director at Marsh & McLennan.

The APIW also awards scholarships to students studying actuarial science or risk management.

The longest-established one is the Lana James Scholarship, which usually goes to a student at The College of Insurance. Recently the Chicago network established a scholarship for students at Illinois State University's Katie Insurance School.

More informally, the APIW tries to help insurance students and young women who are new to the industry through its mentoring program.

APIW members who are mentors help introduce newcomers to the industry to senior people in the insurance industry. They also act as "big sisters" and advise the newcomers.

Over the next 20 years, the APIW inevitably will undergo more change, said Paula J. Gould, first vp of the APIW and a vp at M&M in New York.

"For the APIW to stay relevant, we need to be responsive to members and potential members," she said.

Part of that response will include making better use of technology to communicate with members, Ms. Gould said.

Already the APIW has a World Wide Web home page at http://connectyou.com/ins/apiw.htm.

This Web site will form a crucial role in recruiting new members and communicating with those members located outside the three U.S. network bases, said Patricia L. Saporito, president of the APIW and president of Saporito Associates, a research and consulting company in New York.

Currently, the home page has basic information on APIW, but it will be developed to give a membership directory and be the center for online discussion groups among members, Ms. Saporito said.

In the future, the APIW also will strive to increase the prospects and profile of women working in insurance, such as finding board appointments for members, according to Ms. Saporito.

"We have a board placement program. Our members register with us and say they are interested in serving on a for-profit, non-profit or educational board and we contact executive recruitment firms and let them know who we have available," she said.

The APIW also has a speakers bureau so any organization that is looking for a speaker from the insurance industry can contact the bureau for suggestions, Ms. Saporito said. BI

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ESOP

Continued from page 16J

correctly, a year of adverse financial results can be overcome. But more than one or two bad years could become a demoralizing factor, defeating the purpose of the program. Also, if the appraised value of the agency decreases from the previous year, then the value of the individual employee accounts is reduced. Of course, it is difficult to maintain an upbeat environment if this happens.

Another factor to consider is the cost of creating and maintaining an ESOP. Direct expenses can run as high as $25,000 annually for a mid-size agency or brokerage firm. Often overlooked is the indirect expense, including management's time with ESOP matters. Other factors include the importance of a competent and experienced adviser, who can assist in anticipating and avoiding major problems. Also, the agency can experience a strain on capital and liquidity in maintaining the ESOP obligations. This can inhibit investment in growth opportunities, which in turn could hurt future development.

A longer term concern can be ownership control. If not structured correctly, the ESOP could become a substantial owner of the agency before the principals are ready to release control of the company.

Finally, lack of good communications can defeat the benefit value of an ESOP. It is difficult for the employees to understand and feel their ownership position in the firm. Good internal communications and promotion of the ESOP is an excellent way to develop employee morale and commitment to success. It takes repetition of the ESOP benefit and time for most employees to realize that their performance, both individually and collectively, can affect the success and value of the company.

An ESOP is a good alternative to consider if the owners want to perpetuate the agency from within and create an employee ownership environment.

An ESOP is a good alternative to consider if the owners want to perpetuate the agency from within, create an employee ownership environment, maintain operating control, and receive a fair value for their equity when they retire or sell. However, it is not a panacea, and it must be evaluated from all angles to determine its fit withing a firm's future plans. BI



Donald Weber is president of Shoemaker-Weber Inc., a Pismo Beach, Calif.-based insurance agency consulting firm that is a division of IR Group.

Agent/Broker Topics

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Superfund

Continued from page 2

Tax revenue would cover the cost of cleaning up the pre-cutoff date wastes; the potentially responsible parties would only pay their assigned share of the costs of cleaning up waste dumped after the cutoff date (*BI*, March 25).

The House bill, by contrast, would simply eliminate retroactive liability for those who generated waste that was dumped at the sites before 1987 or transported it there. But, under H.R. 2500, owners and operators of the sites would be assigned a portion of cleanup costs (*BI*, March 1).

That discrepancy is of some concern to insurers and risk managers.

"The way the liability language is drafted right now, it is very difficult to determine exactly what (the Senate bill) does. What it boils down to is that it does not repeal retroactive liability at all," said John Arlington, senior counsel for the American Insurance Assn. in Washington.

"The liability section on the Smith bill, however well intentioned, is extremely complicated, and could come back to haunt us later on," said Peter Lefkin, vp-federal affairs for Fireman's Fund Insurance Co. in Washington.

"It seems that the allocation process described in Sen. Smith's proposal is more complicated than might be necessary," said Paul Brown, director of government affairs for the Risk & Insurance Management Society Inc. in New York.

By not specifically repealing retroactive liability, the Senate proposal appears to leave open the possibility that if there's not enough money in the fund, businesses still could be pursued directly, he said.

"This leaves in place one of the most glaring problems of the current law," said Mr. Lefkin. "The Environmental Protection Agency operates as though it has infinite resources, and all it has to do is sue to receive dollars. Providing EPA with this opening could create the same type of disaster that exists (now)."

"We would like to see that aspect clarified with language spelling out that it is in fact repealing retroactive liability," said Mr. Brown.

Despite the differences, the House and Senate proposals do share a common goal—reducing litigation and improving cleanups—and both would modify the current system of retroactive, strict and joint and several liability for pollution.

The Senate bill "is a positive vehicle for some retroactive liability reform," said David Pratt, the AIA's senior vp-federal affairs.

"Repeal of retroactive liability is a key component of any meaningful reform, and S. 1286 addresses that issue. We are hopeful that during the legislative process, more can be done on this important point, such as considering 1987—rather than 1980—as the cutoff date," said John C. Lobert, senior vp-government relations for the National Assn. of Independent Insurers.

"They are very different animals, but the goal is the same—to get rid of litigation and to get on with the business of cleaning up sites. Certainly, in the Senate bill, our major problem is the 1980 cutoff date for liability repeal, and we have some questions about the allocation system," said Julie Rochman, assistant vp with the Alliance of American Insurers in Washington.

"It appears that everyone has to go through this allocation system to get out at the other end. We would prefer that people who were going to be taken out of the system would be taken out early," Ms. Rochman said.

"It's good that people are seeing holes in it because they can plugthose holes before they go to markup," she added.



"It looks like the liability provisions probably have not yet been negotiated between the Republican and Democratic staffs. it looks very much like a first draft," said the AIA's Mr. Arlington.

First draft or not, the proposal is already coming under sharp criticism from environmental groups that contend it is too lax on polluters.

The new bill will mean 'slower and fewer cleanups, more litigation and less protection.'
—Sen. Frank Lautenberg

"The legislation's liability provisions gut Superfund's 'polluter pays' provisions, letting giant chemical companies, mining companies and their insurers largely off the hook for cleaning up the pollution caused by decades of mishandling toxic wastes," said Karen Florini, a senior attorney with the Environmental Defense Fund in Washington.

"The latest special-interest Superfund proposal is just another rollback. Instead of making polluters pay, it pays polluters," said Daniel Rosenberg, an attorney with the U.S. Public Interest Research Group in Washington.

Similar sentiments were voiced by Sen. Frank Lautenberg, D-N.J., who is the ranking minority member on the Senate Subcommittee on Superfund, Waste Control and Risk Assessment that Sen. Smith chairs.

The new Senate bill "would result in slower and fewer cleanups, more litigation and less protection of the public and the environment," contended Sen. Lautenberg in an analysis his staff released.

As a case in point, he cited the Lipari Landfill near Glassboro, N.J., the No. 1 site on the EPA's priorities list. Multiple companies dumped waste there from 1958 to 1970. Under the new bill, the senator said, one company that already has paid the government $10 million of the $43 million it agreed to ultimately pay "would be excused from paying the remainder of its commitment, and the taxpayers would be stuck with the bill." BI





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Because of their dedication to their profession, many of *BI's* 155,000* readers will travel to Toronto this April for the annual meeting of the Risk and Insurance Management Society. Still others will remain at home looking for the most effective ways to protect their companies and clients from exposures and provide their workers with employee benefits. But no matter where they are, they will all be looking to *Business Insurance* for clear reporting, unobstructed views and the most comprehensive perspective of the issues discussed at the industry's biggest conference.

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ASK A RISK MANAGER

Work-at-home arrangements raise occasionally touchy risk management issues

Q

A developing trend in the '90s is to have employees working from home rather than the traditional workplace. What safety issues do employers have in this type of situation?

A

The tremendous growth of telecommunications in recent years has indeed made it possible and often practical for employers to have employees working from home.

The arrangement is beneficial for both parties. Home-based employees apparently enjoy the freedom and flexibility of working "off site," especially when child care issues are involved. However, the arrangement does pose some interesting problems from a workers compensation and safety viewpoint.

The last 10 years or so have brought workers comp and safety issues to the forefront in virtually all business settings. And, those of us who are directly involved in managing these programs have concentrated on a multitude of different services, all of which are intended to control the workers compensation exposure.

It is difficult enough to administer a safety program in a normal business setting, but expanding it to a privately owned, remote location is a real challenge. I believe for the arrangement to be successful, the employer must set goals and objectives that are clearly communicated to the home-based employee.

The first priority is to identify the job function that lends itself to an offsite setting. For example, it would be unrealistic to select a position that is required to interact regularly on a personal basis with other employees for a home-based situation. Selecting the right individual for this type of position is also at the top of the list.

The typical home-based worker is a white-collar professional who has a strong commitment to work performance.

Because of the freedom and flexibility characteristics, the employee also should be an individual who is considered trustworthy and is highly motivated. Since a productive employee is one who feels good about his or her employment situation, it becomes important for the home-based employee to feel connected to the company. The employer should make every effort to stay in touch with the employee to diminish any negatives that may surface because of a remote working arrangement.

The employer also must set certain guidelines regarding the design and inspection of the offsite workspace.

A key word, "ergonomics," first entered the risk manager's vocabulary in the mid-1980s. Since that time, many employers have spent a significant amount of time and money to make certain the workplace is ergonomically correct, or more loosely translated, safe and comfortable! Removing an employee to a remote location can pose a serious safety and health issue if ergonomics are not considered in workplace design. Toward that end, I would recommend the employer take responsibility for the purchase and installation of furniture and equipment.

The employer should also have the right to periodically visit the workplace to verify that the workplace remains free from hazards such as poor lighting and ventilation and improperly grounded electrical equipment. The opportunity to visit the location is a sensitive one, especially because of right-to-privacy laws.

However, if visitation guidelines are established properly from the onset and given up front to the off-site employee, no major problems should arise.

Earlier, I mentioned child care issues. The off-site workplace should never be perceived as an alternative to daycare. If child care accommodations are not made, the off-site employee will find himself or herself forced to spend "company time" dealing with personal issues. The employer and employee should also discuss what other individuals will have access to the remote workstation. The more control the employer has over the work environment, the greater the control over workers compensation and safety matters. It may be wise for the employer to arrange a meeting with the entire family to discuss and review the work arrangement.

The employer should have the right to periodically visit the workplace to verify that it remains free from hazards.

And, since we are now on the topic of workers compensation and safety, it seems appropriate to concentrate on the claims management processes as it relates to the home-based worker. We know that an employee is required to notify his or her employer immediately following an accident. Prompt notification assures that a formal investigation into the cause of injury can begin and any medical costs monitored from the onset. It is therefore critical for the home-based employee to immediately report any work-related accidents to the employer. When we talk about claim investigation the situation gets a bit complex. Since there are likely no witnesses, the employer must rely on the truthfulness of the employee and trust that the facts are accurate. If an onsite inspection is in order, the employer should proceed as usual.

Only time and claim experience will determine if off-site employment arrangements have a negative impact on workers compensation costs.

And, just to further stir things up, how about those claims which will result from an employee traveling to and from the remote work site for business purposes. This has historically been a controversial area for employers and attorneys and promises to be even more so as companies expand their network of off-site workers!

There's no doubt about it. The working at home arrangement poses another unique "opportunity" for us risk management folks.

As the concept becomes more popular, perhaps employees will be interested in a form of risk-sharing venture with the employer in an effort to minimize the safety concerns.

Today there are no easy answers on how to best administer an off-site employment program. Experience is the best teacher, so those of us who are interested in the arrangement have something to look forward to! BI

Would you like advice from an experienced colleague on a risk management, benefits management or actuarial problem? Four quarterly features in the Perspective section of Business Insurance can give you some answers.

Ask A Risk Manager, Ask A Benefits Manager, Ask A Benefit Actuary and Ask A Casualty Actuary answer written questions from readers on risk and benefits management issues and actuarial problems.



Ms. Werner

This month's column on risk management issues is written by Susan M. Werner, director of risk management at Hardee's Food Systems Inc. in Rocky Mount, N.C. Dennis J. Nirtaut, managing director of compensation and benefits for Andersen Worldwide in Chicago, answers questions on employee benefit plans. William J. Miner, an actuary with Watson Wyatt Worldwide in Chicago, answers actuarial questions on benefits issues. And, Richard E. Sherman, president of Richard E. Sherman & Associates Inc. in Ashland, Ore., answers actuarial questions in the casualty field.

Address your questions to ASK, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611. Please give us your name, title and employer; however, Business Insurance will consider unsigned letters.

Worker who quit wins disability award

A claimant could recover permanent disability compensation for his recently diagnosed malignancy, even though he quit his job 12 years earlier, according to the Supreme Court of Ohio.

Robert E. Liposchak worked for Wheeling-Pittsburgh Steel for 35 years. In 1980, he brought a handgun into the plant. Facing disciplinary action, he quit. In 1992, he developed malignant mesothelioma, which was found to have arisen from his job and prevented remunerative employment. He applied for permanent total disability but was denied.

The appellate court noted he suffered from a condition with a latency period of up to 40 years—unique in workers comp claims. Also, the court said he did not have an allowed workers comp claim for his occupational disease at the time he quit work. Despite his offense of taking a gun to work, the court concluded he did not tacitly surrender a right that did not exist *and* could not be foreseen. The court ordered an award of compensation.

State Ex. Rel. Liposchak vs. Industrial Commission, Supreme Court of Ohio, Aug. 16, 1995 (*BI*/04/J.-$10).

Legal Briefs

Negligent manufacturing

A commercial general liability insurance policy does not cover claims for negligent manufacturing, according to the Court of Appeals of Ohio.

Royal Plastics Inc. manufactured water pump component products. Royal was sued by one of its customers, Hercules Products Inc., claiming the pump components were negligently made and failed to conform to the sales contract. Royal was insured under a CGL policy issued by State Automobile Mutual Insurance Co. The policy excluded coverage for bodily or property damage occurring away from Royal's premises and arising out of Royal's products. State declined to represent Royal in the Hercules suit.

Royal settled the suit and then brought this action seeking a declaration that State breached its duty to defend and indemnify it. The trial court ruled for the insurer. The appellate court said the effect of a product hazard exclusion in a liability policy is to relieve the insurer of the duty to defend and indemnify its policyholders in actions charging strict liability, negligence and breach of warranty. The trial court decision was affirmed.

Royal Plastic vs. State Auto Mutual Insurance Co., Court of Appeals of Ohio, Dec. 19, 1994 (*BI*/01/$10). BI

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

Nothing beats a great policy from Lloyd's

NEW YORK—L'eggs hosiery is living up to its word that "nothing beats a great pair of legs" by insuring the legs of actress and new L'eggs hosiery spokeswoman Jamie Lee Curtis for $1 million.

Lloyd's of London is underwriting the one-year personal accident policy for the consumer product division of Chicago-based Sara Lee Corp. The policy provides coverage in the event Ms. Curtis is unable to fulfill the obligations of her L'eggs contract, which includes public appearances and television commercials.

Since the policy "calls for her to have legs in perfect condition," L'eggs is in effect insuring her legs for $1 million, said Carolyn Norton, vp-entertainment for Acordia Northeast in New York, which placed the coverage with the help of a Lloyd's broker.

The policy, which has no deductible, contains several exclusions: L'eggs will not be covered in the event Ms. Curtis needs medical or surgical treatment; if she is hurt while piloting a plane or while competing or riding in an automobile racing event; if she is hurt due to a war-related accident; or if she commits suicide.

L'eggs did have a snow skiing and scuba-diving exclusion removed from the policy for Ms. Curtis, Ms. Norton said.

For the Record

$100 million settlement over defunct insurer

TALLAHASSEE, Fla.—A Florida circuit court's approval of a $100 million settlement of a suit over the failure of Guarantee Security Life Insurance Co. is expected to clear the way for the funds to be distributed to policyholders of the defunct insurer.

Circuit Judge F.E. Steinmeyer last month approved the settlement of a 1991 lawsuit filed by the Florida Insurance Department against Coopers & Lybrand L.L.P., Merrill Lynch & Co. Inc. and the New York law firm Shereff, Friedman, Hoffman & Goodman. The firms performed work for the Jacksonville-based insurer, which was found insolvent by more than $300 million in August 1991.

Last year, Coopers & Lybrand agreed to pay $50 million and Merrill Lynch paid $45 million (*BI*, July 24, 1995). The New York law firm contributed $5 million of the funds that are expected to be released from escrow now that the settlement has been approved.

A spokesman for the law firm said its portion would be covered by professional liability insurance, though he could not identify the insurer.

Coopers & Lybrand also said insurance will cover its portion of the settlement but declined to name its insurer.

Merrill Lynch would not comment on insurance coverage.

The Florida department is going ahead with a separate suit that charges the former officers of the insurer drove it into debt while stealing $90 million.

Architects file suit over Olympic designs

ATLANTA—Architects are claiming they weren't paid for additional work on the Olympic Stadium and are seeking more than $4 million in from the Atlanta Committee for the Olympic Games.

In a lawsuit filed last month in state superior court in Atlanta, the four architectural firms that make up the Atlanta Stadium Design Team claim that ACOG's poor management caused costs to outstrip the $11.6 million they agreed to accept for their services.

The team is composed of Ellerbe-Becket Inc. of Minneapolis and three Atlanta companies: Heery International Inc., Rosser Fabrap International Inc. and Williams-Russell & Johnson Inc.

ACOG responded to the suit by calling it retaliation for the committee's demand that the design team and its insurers pay for costs to ensure the stadium is structurally sound in time for the games. A light tower collapsed at the site a year ago and the Occupational Safety and Health Administration concluded that the towers were improperly designed (*BI*, March 27, 1995).

Last month, a roof support beam at the construction site of the Aquatic Center on the campus of the Georgia Institute of Technology collapsed.

There were no injuries and the cause of the collapse still is being investigated.

Information in brief

Gryphon Holdings Inc. units Associated International Insurance Co., based in Woodland Hills, Calif., and Calvert Insurance Co., based in Hoboken, N.J., each now have an A rating from A.M. Best Co. . . . .The **Intergovernmental Risk Management Agency,** a municipal risk pool based in Oakbrook Terrace, Ill., for the ninth year has won an award for excellence in financial reporting from the Government Finance Officers Assn. . . .**Lloyd's of London** will not be subjected to external regulation, at least not until after the next U.K. general election, a government panel decided. The U.K. Treasury Committee late last month decided to give Lloyd's time, as requested, to see if its reconstruction and renewal plan will work before exploring external regulation. . . .Directors of New York-based **TIG Holdings Inc.** have authorized the repurchase of another 1.25 million shares in its common stock repurchase program. BI



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Contract

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age levels, said William E. Mattingly, partner in the Chicago law firm of Katten Muchin & Zavis.

Abbott aside, Mr. Mattingly said, it is "incredibly common" for corporations to have no such contracts, leaving themselves open to more risk than they realize.

"If you don't have a contract, you're making it hard to manage someone who's an independent contractor," he said. "People in (human resources) industry just don't pay attention to that kind of detail. There is a false sense of comfort that you're working together, and the contract seems unnecessary."

Employers that hire HMOs should, at a minimum, insist on a newly written contract shaped by both sides.

Standard contracts drafted by lawyers for the HMO are sure to favor HMOs when disputes arise, Mr. Mattingly said. Employers should use staff counsel and, if possible, outside consultants to assemble the best possible contract, much as they would to write a contract between themselves and a third-party administrator, he said.

Contracts, if constructed properly, can be used to lessen the plan sponsor's liability in future lawsuits.

For instance, contracts should not refer to the employer as the principal in the agreement, with the HMO identified as merely the agent.

"I tell my clients they don't want to be principal," Mr. Mattingly said.

"When they hire a vendor to deliver services, they act independently. We have no control over them," he said.

Employers are rarely named in employee suits against HMOs, but employers have no special legal protection against such suits and should protect themselves in the future, according to Mr. Mattingly.

He said managed care contracts should include employer expectations on handling situations concerning:

- Allocation of responsibility under the Employee Retirement Income Security Act.
- State law contractual duties.
- Control of settlements and other aspects of litigation.
- Termination notice/runoff of claims.
- Fee renegotiation.
- Representations and warranties, or means of establishing damages when they are breached.
- Due diligence, meaning access to HMO financial records, procedures, and corporate information.
- Adverse health incidents.
- Subrogation.
- Overpayment.
- Banking issues, such as where the plan money is to be held—in trust or by the service provider—and how it can be withdrawn.

Contracts can influence the behavior of managed care organizations through the use of bonuses or the return of administration fees, Mr. Chapman said.

Additionally, contracting with managed care groups is valuable because it can improve the competitive bidding process, making rival vendors more attentive to the needs of the employer early in the process.

"Contracting is a part of selecting," Mr. Mattingly said. "You should narrow your focus down to two finalists and then strategically negotiate the concepts the contract provides with those two finalists—and tell them part of the selection decision will be the (outcome) of the negotiation process. How much risk are they willing to take?"

These are not theoretical issues, Mr. Mattingly said.

In one case, a vendor owed an employer $300,000 because it mistakenly paid out too much in claims over more than a year's time.

Using the contract's provisions on coordination of benefits, the employer was able to recoup the money without going to court, he said.

In another case, an employer with an inadequate contract found it could not recover $80,000 it had overpaid, he said.

The ultimate reason for using contracts in managed care relationships, however, is that they can encourage civil relationships between managed care companies and plan sponsors at a time when it's difficult to switch service firms.

"Back in the old days of human resources in the pure indemnity contract days, there wasn't as much concern with emphasizing longevity," Mr. Mattingly said. "Terminating the vendor wasn't a big deal—it wasn't a monumental deal to get out of a vendor relationship and get into another one. With managed care, it's harder and harder to move. But people just aren't adapting. They're still thinking the old indemnity way."

Smaller companies may have difficulty devoting the time or resources to writing contracts for managed care, though. "If I'm a 100-person company, chances are my human resources department is probably one person, and it's going to be kind of hard," Mr. Chapman said. But he said that even benefits staff from small firms can network, attend conferences, and learn basic contract provisions that will protect their firms.

"As large companies do it," he said, "smaller companies will piggyback on it." BI

Study cost shifting effects: MBGH

By ROBERT KAZEL

ROSEMONT, Ill.—Federal agencies should study how proposals to reduce Medicare and Medicaid spending would shift costs to the private sector, says the Midwest Business Group on Health.

The General Accounting Office, Congress' investigative arm, should analyze the impact of Medicare and Medicaid cost-cutting proposals before they are enacted, urges a policy statement by the Chicago-based group of about 100 companies in 11 states. The statement was released last month at the group's annual convention.

The coalition wants Congress to require, as part of health care reform legislation, that the GAO prepare ongoing reports on health care cost shifting due to Medicare and Medicaid purchasing and make the findings available to employers. Also, the GAO should produce annual reports on cost-shifting based on data from the nation's 50 largest metropolitan areas, the group said.

'Mandated lengths of stay are not appropriate. The next time, it could be someone's tonsils. . .two days for tonsils,' says Larry Boress.

"Cost shifting is potentially such an overwhelming problem when Medicare/Medicaid is such an 800-pound gorilla here," said Larry Boress, MBGH president. "Clearly cost shifting is something that the coalition movement is concerned about, and individual employers as well."

MBGH already has held preliminary meetings with GAO officials and will try to set up meetings with members of Congress soon, Mr. Boress said.

Also in its policy statement, the group argued against state laws requiring health plans to cover a specified number of days of hospitalization for new mothers. Hospitalization is a private matter for women and their doctors to decide on, the group said.

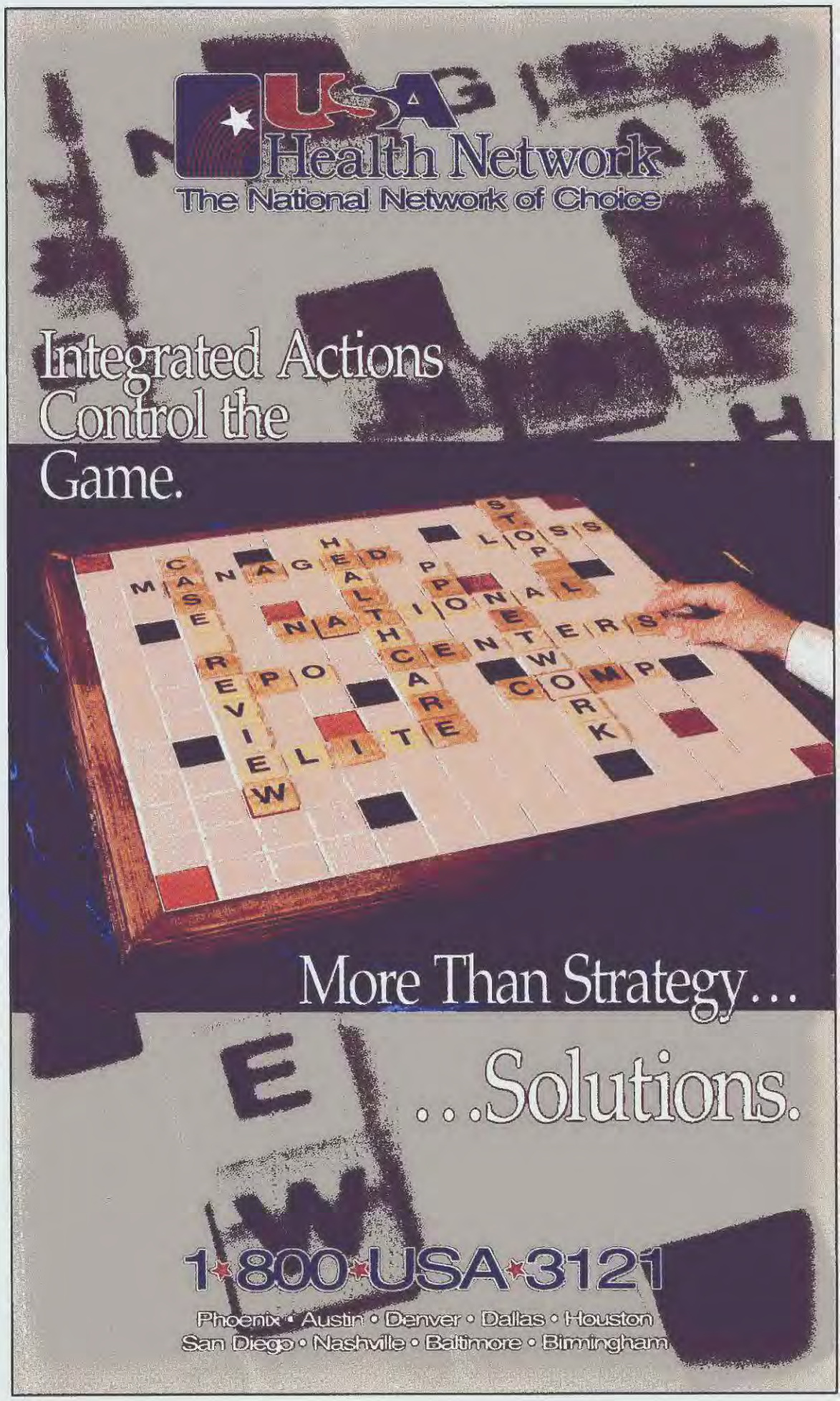
Instead, states should provide information to women on the quality of health plans and the performance of physicians so that women can make more informed choices on their maternity stay, the group said.

Low-risk mothers already are spending less time in the hospital—1.5 days to two days in the hospital for a regular delivery and three days for Caesarean sections. So guaranteeing women coverage for a longer period is not even necessary, the group says.

In a backlash against efforts by insurers to cut back the length of stays, several states recently passed laws requiring plans to cover two days of hospitalization. Similar proposals have been introduced in several Midwestern states.

Such laws set a dangerous precedent, according to Mr. Boress. "These decisions are not the kind you can rubber-stamp. Mandated lengths of stay are not appropriate. The next time, it could be someone's tonsils. . .two days for tonsils."

The annual MBGH conference drew 225 people on March 18 and 19 for speeches, workshops and panel discussions on group health insurance purchasing. For information on next year's meeting, which has not yet been scheduled, call Chuck Ripp, director of education, 312-380-9090. BI



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INTERNATIONAL

Mad cow disease scare threatens U.K. farmers

By EDWIN UNSWORTH

LONDON—Britain's cattle farmers are uninsured for potential losses of hundreds of millions of pounds arising from growing fears over alleged health risks from British beef.

Uncertainty about the effects of bovine spongiform encephalopathy, or "mad cow's disease," heightened last week when the European Union proposed a total ban on exports of British beef and beef products after the British government acknowledged that there was a possible link between cattle infected with BSE and Creutzfeldt-Jakob disease, a fatal degenerative brain condition.

British cattle contracted the disease from a particular type of feed that was banned in the late 1980s. However, threatened lawsuits against the feed makers are not expected to succeed.

Until recently the British government was able to fight off threatened beef product bans from other countries through a combination of culling infected cattle; banning the use of cattle offal, which is believed to be the part of the animal containing the infection; and claiming there was no proof that the disease could be passed on to humans. However, the recent admittance of a possible link between BSE and CJD opened the floodgates for trade bans by other countries and the potentially disastrous financial affects for cattle farmers.

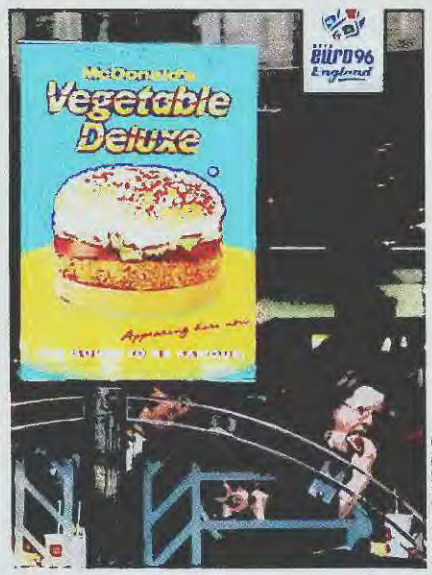
Currently the British government compensates farmers for the commercial value of any cattle that must be slaughtered because they display symptoms of BSE.

The issue now to be settled is what compensation would be available either from the government or potentially from the European Union if hundreds of millions of dollars worth of cattle must be slaughtered to restore confidence in British beef.

While a spokesman for the U.K. Ministry of Agriculture said both the government's response to handling the problem and its approach to compensation are still under consideration, the European Commission did indicate when affirming its ban last Wednesday that it might be prepared to offer unspecified financial help.

E.U. Commissioner for Agriculture Franz Fischler said that the aid would mean "no

See **Beef** *on next page*





AP/WIDE WORLD

Fears of exposure to 'mad cow disease,' which has been linked to a rare brain disease in humans, has led restaurants in Britain like McDonald's to temporarily replace their hamburgers with vegetable burgers. Restaurants whose menus depend on British beef have stopped serving it until they receive imported beef.

Aviation rates may fall

But U.K. aviation insurers aren't happy about it

By EDWIN UNSWORTH

LONDON—Aviation insurance rates could fall during the next round of renewals after a marked decrease in the level of aviation claims in 1995, according to the London-based Aviation Insurance Offices' Assn.

However, a decrease in rates is not warranted, according to AIOA chairman Barry Wilkes. "The fact that 1995 was an improvement on the worst year ever in 1994 does not make it an unusually good year for underwriters, and a determined effort must be made to avoid rating levels coming under pressure," he said.

Mr. Wilkes acknowledged that this would be difficult to achieve given overcapacity in the market. One reason for this situation is that because aviation insurance accounts for a relatively small portion of the portfolios of most major general insurers, those companies are able to underwrite it as a "loss leader."

Mr. Wilkes said, in general, hull rates on higher-valued aircraft "are under some pressure," while liability premiums "are fairly static." Reduced capacity at the lower-valued end of the market has allowed premiums on single- and twin-engined aircraft to increase marginally, he said.

He was speaking as the AIOA, which represents the aviation insurance market in London apart from Lloyd's of London, released its results for 1995. These showed that the estimated cost of major aircraft full and partial losses was $434 million last year, compared with 1994's record high $820 million. It was the lowest total since a 1988 loss figure of $427 million.

The number of fatal accidents and passenger fatalities involving western-built jets were also down in 1995. A total of 383 passengers died in six fatal accidents last year, compared with an annual average over the previous five years of 556 fatalities.

Mr. Wilkes was less bearish on rates than a study last month from the Swiss Reinsurance Co., which forecast that aviation insurance rates will fall this year. Swiss Re attributed the softening to factors such as last year's improved loss experience, the global insurance cycle, increased capacity coming from general insurers and reinsurers, and financial market yields which made loss-leading worthwhile.

Keith Selby, an AIOA member from Swiss Re (UK), explained the different outlook. Current retrocessional capacity is less than was thought at the time of the Swiss Re study, therefore, aviation underwriters, while still able to reduce rates, are unlikely to be able to do so by as much as the study had forecast.

Mr. Wilkes welcomed a proposal from the International Air Transport Assn. for a new Intercarrier Agreement that would eliminate passenger liability limitations on international flights. The proposal would replace the strict limits set in the 1929 Warsaw Convention with a system making liability awards dependent on the norms of the country of the passenger's passport.

Mr. Wilkes said that while the proposal would lead to higher liability payouts, reflecting carriers' realization that previous limits were "unrealistically low," it would also be to underwriters' advantage because it would remove a lot of the current uncertainty from the market.

Turning to satellite claims, the AIOA said that after 1994's "disastrous" experience, 1995 was an "average" year. There was one total loss, Apstar 2 aboard the Long March 2E launcher with an insured value of $167 million, while a Korean satellite insured for $104 million that failed to reach its orbit may result in a major partial loss.

Mr. Wilkes said of the 40 commercial launches scheduled for 1996, seven will need insurance cover in the commercial market. Ariane 5 will make its debut with up to three satellites on board worth a total of about $550 million. This sum should not create any problems for insurers, as the combined capacity of the global market for a multiple satellite launch is about $650 million, he said.

ERC International names new chief

Integrating ERC's global reinsurers to be first priority

By DON LEWIS KIRK

MUNICH, Germany—Employers Reinsurance Corp.'s continental European subsidiary has a new top executive who aims to integrate the group's various global reinsurers to better meet customers' needs.

Bernhard Fink has been named chief executive of ERC International Re Holding GmbH, replacing Achim Kann, who left that post in December to become a supervisory board member of another Employers Re unit, Frankona Re A.G. Mr. Fink has also been named chairman of Frankona Re and Aachen Re A.G.

Munich-based ERC International, a subsidiary of Overland Park, Kan.-based Employers Re, is a holding company for German subsidiaries Aachen Re A.G., Frankona Re A.G. and Copenhagen, Denmark-based Employers Reinsurance International A/S (*BI*, Nov. 6, 1995).

Mr. Fink, who assumes his new post June 1, currently is a member of the executive board of Gerling Holding A.G., for which he oversees international business and the domestic sales divisions. Employers Re acquired control of Frankona from Gerling last year (*BI*, March 27, 1995).

"Insurers are adapting to rapid change in the market environment," Mr. Fink said. "Risks are more complex and interdependent. Look at the huge problems of business interruption or the concentration of wealth. Insurers need strong partners with first-class security to plan and achieve solutions."

"I'm of the opinion security will become increasing important as risks become so extensive and dramatic that one only wants to work with the best," he added.

ERC International's reinsurer units have annual net premium volume of about 5 billion DM ($3.35 billion). In 1995, Employers Reinsurance Group was the fourth-largest reinsurer in the world (*BI*, Aug. 28, 1995).

The renewed and strengthened engagement of U.S. reinsurance companies in Europe results from new global thinking in the industry, Mr. Fink said.

"Large American reinsurance companies recognize that only a global strategy is successful in the long term and that a credible presence in Europe in essential. Traditionally, American reinsurers have not been particularly strong in Europe," he said.

Mr. Fink also sees further growth for Employers Re.

"I don't believe the Employers Re Group has seen the end of expansion. As a subsidiary of General Electric Capital Services Inc., it can generate needed capital resources. Of course, expansion must make sense. There will be no expansion without clear strategic benefits."

In developing a future global strategy, Mr. Fink said one of his key tasks will be to incorporate ERC International's European subsidiaries with the Employers Re network. "The task is to develop a single unit that works and identifies itself as a single unit."

Former Aachen Re Chairman Arno Morenz has been named CEO of a new Employers Re subsidiary that will focus on financial reinsurance and other specialized reinsurance programs.

The new unit, which for now is named ERC Financial Products Holding GmbH, will consolidate ERC's non-traditional reinsurance activities worldwide.

The reinsurance products will be written through Aachen Re subsidiaries Luxembourg European Reinsurance S.A. and Irish European Reinsurance Co. Ltd. BI

Lloyd's going after names Down Under

By KATE TILLEY

SYDNEY, Australia—Lloyd's of London has appointed a firm of accountants/liquidators to collect money from Australian and New Zealand members who are not paying their debts.

Ferrier Hodgson was appointed last month when John Stace, Lloyd's deputy chairman, visited Australia and New Zealand. However, Mr. Stace had warned members of the move when he visited Australia to speak at the Assn. of Risk & Insurance Managers of Australasia conference last year (*BI*, Dec. 18, 1995).

Lloyd's is seeking to recover about £36.2 million ($55.2 million) from 179 Australian members and £20.1 million ($30.6 million) from 101 New Zealand names. There are a total of 812 names in Australia, 412 of whom are still underwriting business. In New Zealand, there are 439 names, 247 of whom are still underwriting, said Ian Hutchinson, Lloyd's general counsel in Australia.

Many Australian members, who have all now received their statements of premiums owed to Equitas, are unhappy about the financial burdens they are being asked to shoulder. One, a solicitor who spoke on condition of anonymity, is seeking a legal opinion from a Queen's Counsel—or a senior barrister—on whether he has a case to take action against Lloyd's for misleading and deceptive conduct under Australia's Trade Practices Act.

The solicitor said that if he took legal action, he would hire a public relations firm to publicize the case and would write to all Australian members seeking support. But he acknowledged public backing would be unlikely. Lots of people think members are a vocal and excessively rich group, so "we can't expect to engender a lot of public support," he said.

A Melbourne-based name, Dr. Emlyn Williams, was unsuccessful in 1993 when he tried to take action in the Victorian Supreme

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Beef

Continued from previous page

blank check," but he also promised to undertake a review of the ban within six weeks.

For British cattle breeders there is no insurance coverage available for lost exports.

A Lloyd's of London spokesman said that such a policy had been considered in the late 1980s during a national salmonella scare from chickens, but underwriters decided it would be too difficult to actually quantify farmers' individual losses.

The only insurance available to farmers that may apply to the current situation is a policy providing coverage for consequential losses arising from the loss of livestock, such as lost milk production or a lost calf. The coverage is available from commercial insurers and NFU Mutual, a mutual insurer organized through the National Farmers' Union.

However, a spokesman for NFU Mutual said there is a "very low take up" for this policy, which was introduced in 1989 when the government introduced its present policy of compensating farmers for the value of animals slaughtered because of BSE. Farmers did not buy much of the coverage because most believed the situation was under control and was likely to improve as the infected cattle were eliminated, he said.

Farmers are also considering bringing legal action against feed manufacturers, whose tainted products were linked to BSE in the late 1980s.

The government in July 1988 banned ruminant-based protein feed, which contained ground up carcasses of other cattle and sheep and is believed to be the cause of BSE.

However, some observers contend suing feed manufacturers is unlikely to succeed because it would be difficult to prove that an individual supplier sold tainted feed after it knew of the risks.

Richard Bardell, a solicitor with the National Farmers' Union's legal department, said it would be difficult to win compensation from feed manufacturers. They likely would be able to successfully argue that they acted on the knowledge available to them at the time, he said.

In a bid to come to grips with the crisis and restore confidence in the British beef industry, the government will almost inevitably have to order the destruction of domestic cattle on a large scale.

It would be difficult to win compensation from feed manufacturers, says solicitor Richard Bardell.

The U.K. Ministry of Agriculture would only say that a number of options are being considered both on how to deal with the problem generally and how to compensate farmers.

One proposal being looked at favorably by Agriculture Minister Douglas Hogg comes from the National Farmers' Union.

It calls for the destruction only of older cattle—those no longer used to produce milk. These older cows are considered to be most at risk of BSE because they would have been born before the 1988 ban on the feed, and therefore at greater risk than younger livestock.

Currently such cows, which number an estimated 850,000 a year, are taken off dairy production, fattened and sold for consumption.

The NFU's proposed scheme would need to operate for at least five years to get all of the potentially affected cattle out of the food chain, and would cost an expected £400 million to £700 million ($609.4 million to $1.07 billion) a year in government compensation to farmers, based on current compensation levels.

It would be considerably less costly and less dramatic than the most drastic alternative of culling the entire national head of 11 million cattle at a cost of some £20 billion ($30.47 billion).

Slaughtering the entire national herd also could have catastrophic effects on Britain's £6 billion ($9.14 billion) a year dairy industry. It is a sector in which Britain is self-sufficient, and wiping it out would mean a corresponding rise in imports.

Meanwhile, a London-based disability insurance broker began offering a policy to employers last week that provides compensation upon diagnosis of Creutzfeldt-Jakob disease.

Broker Goodfellow Rebecca Ingrams Pearson Ltd. said the policy, underwritten by CIGNA Life Insurance Company of Europe, provides a lump sum payment of £25,000 ($38,090) for an annual premium of £10 ($15.24) for individual coverage or £20 ($30.47) annually for family coverage.

GRIP's managing director, Simon Burgess, said there has been a "very positive response" to the policy from a number of fast food outlets to protect their employees, including McDonald's Corp.

Recently a number of restaurant chains, including McDonald's, Burger King Corp. and the U.K.-based fast food group, Wimpeys International Ltd., announced they would no longer use British beef in their hamburgers. BI

Gold loss partly covered

By KATE TILLEY

SYDNEY, Australia—Eight insurers will not have to cover the full loss of $5.8 million Australian ($4.4 million) worth of gold stolen from the office of Australia's wealthiest man, polo-playing media magnate Kerry Packer.

In ruling that the insurers were not liable, Judge Russell Bainton, of the Supreme Court of New South Wales in Sydney, criticized the drafting of the policy and said he had even considered not requiring the policyholder to pay the insurers' legal costs, despite losing the case, because the policy was so poorly written.

Mr. Packer is chairman of Sydney-based Consolidated Press Holdings Ltd., which owns a network of publishing and television companies in Australia and Asia, and assets in plastics, mining and cotton.

Sometime between April 28 and May 1 last year, Mr. Packer's Sydney office was broken into and gold bullion was stolen from his private safe. The gold was covered under the company's global property policy with per occurrence limits of $5 million Australian ($3.9 million) for bullion. The deductible was $1 million Australian ($773,000), some of which had been exhausted by other claims.

Coverage was led by Royal Insurance (Global) Pty. Ltd., now part of Sydney-based Sun Alliance & Royal Insurance Australia Holdings Pty. Ltd. Seven other insurers also participated on the global program, which had overall limits of $500 million Australian ($386.5 million).

The insurers paid $4.02 million Australian ($3.1 million), but Mr. Packer's company sued for an additional $742,000 Australian ($573,000). The company claimed it was entitled to the extra coverage because the policy was worded in such a way that the deductible should be subtracted from the value of the gold, not the policy limits.

Judge Bainton rejected that argument, saying if it was valid, the insurers would have been liable for $9 million, had the value of the gold been $10 million, regardless of sum insured.

But Judge Bainton also criticized the policy wording, saying, "Neither consistency nor clarity in the use of English is a hallmark of this policy."

He said he even contemplated not ordering CPH to pay the insurers' legal costs because the "appallingly bad drafting" of the policy was responsible for the litigation.

Duncan M. Boyle, general manager-commercial insurances with Sun Alliance & Royal Insurance, said the judge's comments were "a message to the market as a whole to make wordings as clear as they can be."

He said SARI would "take on board" the criticism but said it is difficult to draft complex, tailor-made policies like the CPH policy, which was written to cover property "of every kind and description of or under the control of the insured." Named insureds in the policy were Consolidated Press Holdings, two other companies and two individuals. The policy covered property and business interruption up to $500 million Australian. It also covered North American assets, though California properties were excluded from the earthquake coverage portion of the policies.

Business Review Weekly, an Australian publication owned by John Fairfax Holdings Ltd.—of which Mr. Packer's companies own 17%—estimates Mr. Packer's personal wealth at $5.5 billion Australian ($4.25 billion).

The gold has not been recovered, despite a reward posted by the insurers. BI

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INTERNATIONAL

Australia

Continued from page 23

Court. The judge found the court had no jurisdiction, and an appeals court agreed (*BI*, March 8, 1993).

But the solicitor was confident that he and other members may have avenues in the Australian courts to take action. He expects the senior barrister's opinion to be ready within a week.

Arthur Pardey, Sydney-based chairman of the Australian Assn. of Lloyd's Members, said he thought there was no hope for any court action. "When we joined (Lloyd's), we gave an undertaking that English law would apply; there's no provision to invoke the law of any other country," he said.

But Mr. Pardey said the current settlement proposals were unfair and needed to be weighted more toward continuing members. "It's very unfair to those who are continuing and who have supported Lloyd's through its most difficult times," he said.

His association represents about 250 Australian members, most of whom are still active, but Mr. Pardey said he would be surprised if any of them were the 179 "recalcitrant names" being pursued by Lloyd's.

He said some members were pleasantly surprised by their indicative statements, but others received statements showing debts up to 2½ times larger than they had expected.

'Lloyd's is engaging in a psychologically orchestrated scare campaign,' says William R. Stubbs.

Mr. Pardey will support moves by a U.K.-based names organization, the High Premium Group, to get a bill of rights for members, saying Lloyd's must acknowledge members' rights, particularly those continuing to underwrite.

Lloyd's member William R. Stubbs, a partner at the Brisbane law firm of Stubbs, Barbeler Grant, said members in Australia had been misled because most joined when Lloyd's was expanding its membership in the 1980s but were not told of the potential pollution and asbestos claims, even though Lloyd's management was aware of them.

"Breach of trust, underreserving and bad management are as much to blame as Lloyd's suggestions that natural disasters are responsible" for the financial woes, Mr. Stubbs said.

"Names are now being hounded, asked to sell their life assets, including homes, and reduce themselves to virtual bankruptcy. In many cases (it's) to pay losses on policies written long before they joined Lloyd's, and which will not be paid until long after they are dead. They are being forced to provide the reserves they were led to believe existed when they joined."

Lloyd's "PR juggernaut," which has campaigned in Australia extensively through the media, is causing "panic among names to expedite acceptance of the proposed settlement," he said.

But Mr. Stubbs said that if Lloyd's came up with "a realistic cap" and gave members who are continuing the benefit of the goodwill that is "being preserved at huge cost to the wounded names," he would agree to it.

He said his indicative statement is "higher than I'm comfortable with," but "a step in the right direction" for the insurer.

Lloyd's must be flexible and realize that many names have maintained funds in excess of the required amounts, he said.

Mr. Stubbs said there was "huge conflict" between management's commitment to the maintenance of Lloyd's and its responsibilities toward members.

"The message they're trying to sell us is that it's these people's own fault, but there have been severe breaches of trust and governance at Lloyd's."

He said Lloyd's managers had neglected their moral responsibilities to members.

"Names feel isolated and persecuted. Lloyd's is engaging in a carefully, psychologically orchestrated scare campaign. . . .Where else would someone publicize the fact that it's suing its clients?" he asked, referring to Lloyd's appointment of an insolvency firm.

Many other Australian members asked not to be identified, but they agreed Lloyd's has mistreated them.

"There are classic corporations law breaches," said one. "If a company issued the same sort of misinformation, its directors would be jailed."

For Australian members, distance and isolation are major problems and, as relatively newer entrants to the market, more joined syndicates that experienced the most severe problems.

But Mr. Hutchinson said claims that Australian members are worse off than those in the United Kingdom have "not proved to be true."

The Australian Assn. of Lloyd's Members' Mr. Pardey said any members who started after 1985-1986 "ran into a lot of rough water" and got "a very bad deal," and some syndicates had "feasted on latecomers." But members in other countries were hit equally hard, he noted.

Some Australian members say actions taken in the United States alleging fraud and breaches of securities laws by Lloyd's will augur well for any Australian action (*BI*, March 4; March 11).

But Philip Holden, head of Lloyd's financial recovery department, said during this month's Australian visit that the "pay now, sue later" decision was "an unambiguous warning to those who won't pay their Lloyd's losses." However, he noted that the insolvency firm would not pursue names who "genuinely cannot meet their obligations," saying they should contact the Lloyd's financial recovery department for "constructive, sympathetic" dealings on their problems.

He said the use of a firm based in Australia and New Zealand allows negotiations to be conducted in the members' own geographical location and is "a sensible, commercial approach to a serious business issue."

Australian members are expected to receive their final statements at the end of May, Mr. Hutchinson said. They will have until the end of July to arrange payment.

Mr. Pardey, a retired businessman, still has faith in Lloyd's.

He said it is not a passive investment and those prepared to "stick at it" will see better prospects ahead.

Some members, including several Australians, "haven't lost a penny through all this debacle," Mr. Pardey noted. BI

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American International Group Inc.: Robinson Kendall Nottingham, vp, exercised an option for 1,406 shares of common at $18.13 each on Feb. 7 and now directly holds 6,879 common shares.

AIG stock closed at $95.75 a share on March 22.

Argonaut Group Inc.: Michael J. Crall, retired, sold 5,000 shares of common at $34.25 each from Feb. 26 to Feb. 27 and now directly holds 20,074 common.

Charles E. Rinsch, president, indirectly sold 2,500 shares of common at $34.25 each on Feb. 23 and now directly and indirectly holds 91,963 common shares.

Argonaut stock closed at $30.63 a share on March 22.

Arthur J. Gallagher & Co.: Peter J. Durkalski, vp, exercised an option for 18,000 shares of common at $16.25 each from Feb. 1 to Feb. 5 and sold them at $37.63 each from Feb. 1 to Feb. 5 and now directly and indirectly holds 24,885 common.

Insider Trading

Walter F. McClure, officer and director, sold 4,500 shares of common at $38 each on Feb. 5 and now directly holds 17,906 common shares.

Gallagher stock closed at $36.88 a share on March 22.

Chubb Corp.: Donn H. Norton, vp, exercised an option for 3,456 shares of common between $66.75 and $97.50 each from Feb. 7 to Feb. 29 and sold 2,884 shares at $100 each from Feb. 7 to Feb. 29 and now directly and indirectly holds 1,547 common shares.

Chubb stock closed at $96 a share on March 22.

CIGNA Corp.: Francine M. Newman, officer of subsidiary, exercised an option for 800 shares of common at $73.88 each on March 4. To cover expenses of the transaction, Ms. Newman turned in 630 of them for $120.88 each on March 4 and now directly holds 4,890 common shares.

Gary A. Swords, vp, exercised an option for 1,790 shares of common between $59.63 and $73.88 each from Feb. 16 to Feb. 27. To cover expenses of the transaction, Mr. Swords turned in 1,167 of them between $118.56 and $119.63 each from Feb. 16 to Feb. 27 and now directly holds 2,533 common shares.

CIGNA stock closed at $118 a share on March 22.

General Re Corp.: John Charles Etling, retired, exercised an option for 2,000 shares of common between $55.81 and $113.63 each on Feb. 6 and sold them at $150 each on Feb. 6 and now directly holds 26,176 common shares.

General Re stock closed at $147.13 a share on March 22.

Hartford Steam Boiler Inspection & Insurance Co.: R. Kevin Price, vp, purchased 100 shares of common at $51.25 each on Feb. 1 and now directly and indirectly holds 5,529 common shares.

Lewis T. Skipwith, retired, sold 5,000 shares of common at $50.88 each on Feb. 5 and now directly and indirectly holds 21,765 common shares.

Robert C. Walker, vp, purchased 1,000 shares of common at $50 each on Jan. 25 and now directly and indirectly holds 1,249 common shares.

Wilson Wilde, director, sold 12,775 shares of common between $50.13 and $50.25 each on Jan. 29 and now directly and indirectly holds 11,795 common shares.

Hartford Steam Boiler stock closed at $50.25 a share on March 22.

Marsh & McLennan Cos. Inc.: Francis N. Bonsignore, vp, exercised an option for 1,913 shares of common at $76.63 each from Feb. 9 to Feb. 13.

To cover expenses of the transaction, Mr. Bonsignore turned in 729 of the shares for $94.57 each from Feb. 9 to Feb. 13 and sold 1,184 shares in the open market at $95 each from Feb. 9 to Feb. 13. Mr. Bonsignore indirectly exercised an option for 8,087 shares of common at $76.63 each on Feb. 9.

To cover expenses of that transaction, Mr. Bonsignore turned in 8,087 of them for $94.75 each on Feb. 9 and now directly and indirectly holds 12,699 common shares.

Douglas C. Davis, vp, sold 400 shares of common stock at $95.50 each on Feb. 8 and now directly and indirectly holds 4,889 common shares.

Marsh & McLennan stock closed at $93.63 a share on March 22.

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Insider Trading, compiled by Invest/Net Trading Group Inc. of Fort Lauderdale, Fla., from reports filed with the Securities and Exchange Commission, tracks stock sales and purchases by insurance industry directors and officers. The column is distributed by Tribune Media Services Inc.

The Professional Marketplace

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Chicagoland area (local candidates only). Organizations seeking indiv. with 4-7 years risk mgmt or large lines brokerage exp. with 1-2 companies. Above average automation, financial analysis & communications skills a must. Please call Cindy Lu or Lisa Bastian at Highland Concord, 600 Central Ave., Suite 375, Highland Park, IL 60035. (847) 266-1100 or fax (847) 266-1103.

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Southeastern Regional Risk Management Services organization requires experienced executive to develop group programs of insurance and or risk retention. Applicant must have bachelor degree as minimum. Preference will be given to higher education in risk management related academic achievements. Applicant will have at least seven years of practical risk management experience in the formation, management and production of group accounts including captive insurance companies, rent-a-captive and pooled risk retention programs. Applicant will be a team player with leadership qualities, innovative and goal oriented. Salary and incentive programs, auto supplied with good employee benefit program. Send resumes to:

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Vice Presidents, Directors, Managers, and other related department personnel of: insurance, risk, employee benefits, personnel, compensation, pension, safety, security, industrial relations, human resources and employee/labor relations 17,213

Sub-total **30,164**
Associations 311
Government, Unions and Educational Institutions 881

Commercial Consumers
Sub-total **31,356**
Insurance Agents and Brokers 8,013
Insurance Companies 7,685
Accountants, Actuaries, Attorneys & Consultants 3,586
Adjusters, Appraisers, TPA's, Captive Managers & Health Care Providers 1,858
Others Allied to the Field 1,091

Total Qualified **53,589**
Non-qualified 7

TOTAL CIRCULATION **53,596**

★ *Source Business/Occupational breakdown of qualified circulation, Novermber 27,1995 Issue, as submitted to BPA for December 1995 BPA Publisher's Statement*

Salaries

Continued from page 1

That compares with $86,350 for those at companies with gross revenues less than $50 million.

Similarly, cash compensation for risk management directors at organizations with more than $10 billion in revenues averaged $112,620, compared with $60,418 for those at organizations with less than $50 million in revenues.

While vps of risk management out earn other risk managers, they also are in charge of much bigger departments. On average, a vp of risk management supervises a staff of 11, while directors of risk management supervise six employees and risk managers only three.

These findings are included in the first compensation and benefits survey conducted by New York-based RIMS. Results were tabulated by Industry Insights, a Columbus, Ohio-based research firm. The survey is intended to give RIMS members more precise information about compensation and other practices in the field.

"The message from RIMS members came through loud and clear. They wanted this kind of information," said Alicia Junta, associate director of risk management at Hoffmann-LaRoche Inc. in Nutley, N.J., and chairwoman of RIMS's research committee.

The RIMS survey also is the first to break down risk management compensation by specific job title rather than putting all risk managers in the same category. Breaking out the data gives risk managers a more precise way to compare their compensation and responsibilities to those of others in similar positions, Ms. Junta said.

Comparisons between the RIMS survey and other risk management salary surveys are difficult because of differences in methodology.

For example, risk management compensation surveys conducted by Logic Associates Inc., a New York-based executive recruiting firm, have looked at compensation earned only by the number one risk management professional in a corporate department.

In addition, just over 10% of respondents to the RIMS survey are risk management professionals from government entities whose cash compensation tends to be lower compared with compensation levels in the private sector. Logic Associates' surveys—the last of which was released in 1995 (*BI*, April 24, 1995)—have not included risk managers employed by governmental entities.

Among the 915 U.S. risk managers surveyed by RIMS, 14% said their organization's top full-time risk management executive was a vp, while 39.1% said the title of the person in the top post was risk manager and 33.8% said director of risk management. Remaining titles include: director of insurance, 4.1%; treasurer, 3.1%; and director of administration, 1.2%.

While vps of risk management earn the highest cash compensation, they have been in their current position and in the risk management and insurance fields only slightly longer than other risk managers.

Surveyed vps of risk management have been in their current positions an average of eight years and have worked an average of 17 years in risk management and insurance. Directors of risk management averaged seven years in their current post and 16 years in the field, and risk managers six years in their current positions and 13 years in the field.

Much further down the compensation and experience rungs are claims and safety managers and risk management analysts, positions that typically are stepping stones to jobs of greater responsibility within risk management departments.

For example, safety managers, whose cash compensation averaged $54,352 in 1995, have been in their current position for an average of five years and have been in the risk management and insurance field for an average of 11 years. Claims managers, whose cash compensation averaged $50,885 in 1995, reported that they have been in their current position for an average of five years, while their risk management and insurance experience averages 12 years.

Risk management analysts, often an entry level position, earned an average of $38,536 in cash compensation in 1995. On average, they have been in their current position for four years and in the field seven years.

Employees holding down the top risk management position at their companies spend the overwhelming amount of their time on risk management duties. Seventy-five percent of companies' top risk management executives work full-time on risk management.

Other findings include:

- Base salaries are equal to 85% of cash compensation for vps of risk management, 89.8% for risk management directors and 94.2% for risk managers.
- On average, vps of risk management said they work 49 hours a week, directors of risk management 47 and risk managers, 45.
- Vps of risk management are much more likely than others in the field to have certain perks. Among surveyed vps of risk management, 47.4% reported holding stock options in their companies, compared with 30.5% of directors of risk management and 17.8% of risk managers. And 44.5% of vps of risk management had company-provided cellular phones compared with 23.9% of directors of risk management and 12.8% of risk managers.

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Copies of the "1996 RIMS Compensation and Benefits Survey" are available from Kathy Sucic, Risk & Insurance Management Society Inc., 655 Third Ave., New York, N.Y. 10017; 212-286-9292, ext. 247. The cost is $75 for RIMS members and $100 for non-members.

U.S. risk managers fare better than neighbors to the North

Risk management jobs pay much better in the United States than in Canada, finds a new Risk & Insurance Management Society Inc. survey.

At the top of the pay scale in the field, vice presidents of risk management for Canadian companies earned cash compensation of $124,927 Canadian ($91,197), compared with $116,096 that vps in U.S. companies earned.

That disparity continues in other risk management positions. Canadian directors of risk management, for example, averaged $79,677 Canadian ($58,164) in cash compensation last year, compared with the $85,468 their U.S. counterparts earned. And those holding the title of risk manager in Canada averaged $70,153 Canadian ($51,212) vs. the $64,781 average for U.S. risk managers.

While Canadian risk managers on average are paid less than U.S. risk managers, Canadians occupying the top rung of risk management—vp of risk management—manage much smaller departments, according to the RIMS survey of 83 Canadian risk management professionals: only six employees, compared with 11 on average in the United States.

On the other hand, those in lower positions actually supervise somewhat bigger staffs than their U.S. counterparts.

Canadians with the title director of risk management supervise an average of seven employees, compared with six for their counterparts in the United States, and those with the title risk manager oversee five employees, compared to the U.S. average of three.

U.S. risk managers do put in longer hours, RIMS found. U.S. vps work an average of 49 hours per week, compared with 46 for their Canadian counterparts; U.S. directors of risk management work 47 hours, compared with the Canadian average of 44; and those with the title risk manager work 45 hours per week in the United States and 41 in Canada.

—By Jerry Geisel

Datebook

APRIL

APRIL 15-16. The Fourth Annual Property & Casualty Claims Litigation Management forum in New York, sponsored by the Institute for International Research; $1,295. IIR, 708 Third Ave., 4th Floor, New York, N.Y. 10017-4103; 800-999-3123.

APRIL 15-16. Reinsurance Seminar in Charlotte, N.C., sponsored by the Society of Insurance Receivers and the National Assn. of Insurance Commissioners; $300 for state insurance department staff, $500 for others. NAIC, Education and Training Department, 120 W. 12th St., Suite 1100, Kansas City, Mo. 64105-1925; 816-374-7192.

APRIL 17-18. Mastering New Markets: Business Opportunities in Environmental Insurance conference in Exton, Pa., sponsored by The Center for Environmental Risk Management; $295. The Center for Environmental Risk Management, Jacque Kakareka, 520 Eagleview Blvd., P.O. Box 636, Exton, Pa. 19341-0636; 800-ECS-1414.

APRIL 17-19. The 17th Annual Petroleum Insurance and Environmental Protection Conference in Houston, sponsored by the Professional Development Institute, University of North Texas and Self-Insurance Resource Inc.; $545 for conference only, $195 for April 17 workshop only, $645 for both. Mary Ann Crow, Conference Center, Professional Development Institute, P.O. Box 13288 NT Station, Denton, Texas 76203-6288; 800-433-5676 or 817-565-2483.

APRIL 17-19. Environmental and Chemical Exposure Seminar in San Francisco, sponsored by the Defense Research and Trial Lawyers Assn.; $495 for members, $545 for non-members. DRI, 750 N. Lake Shore Drive, Suite 500, Chicago, Ill. 60611; 312-944-0575.

APRIL 18. Assn. of Professional Insurance Women Luncheon in New York, sponsored by APIW; $35 for members, $40 for non-members. Paula Gould, 212-345-6526.

APRIL 18-19. Challenges in California Workers' Compensation Symposium in San Francisco, sponsored by the California Commission on Health and Safety and Workers' Compensation; $150. CHSWC, 30 Van Ness Ave., Suite 2122, San Francisco, Calif. 94102; 415-557-1304.

APRIL 18-20. Mealey's Insurance Insolvency & Reinsurance Roundtable in Scottsdale, Ariz., sponsored by Mealey Publications Inc.; $925. Mealey Publications Inc., P.O. Box 446, Wayne, Pa. 19087-0446; 610-688-6566 or 800-MEALEYS.

APRIL 21-26. The 34th Annual Risk & Insurance Management Society Inc. conference in Toronto; $795 for RIMS members, $895 for non-members. Risk & Insurance Management Society Conference Department, 655 Third Ave., New York, N.Y. 10017-5637; 212-286-9292.

APRIL 22. The Benefit Communication Institute in Williamsburg, Va., sponsored by the International Foundation of Employee Benefit Plans; $685 for members, $775 for non-members. IFEBP, P.O. Box 69, Brookfield, Wis. 53008-0069; 414-786-6710, ext. 257.

APRIL 23-24. The Flexible Benefits Course in Brookfield, Wis., sponsored by the International Foundation of Employee Benefit Plans; $510 for members, $570 for non-members; Registrations Department, IFEBP, P.O. Box 69, Brookfield, Wis. 53008-0069; 414-786-6710, ext. 257.

APRIL 23-26. Implementing Job Modification in a Comprehensive Work Injury Management Program in Kansas City, Mo., sponsored by Advantage Health Systems Inc.; $500. Advantage Health Systems, 920 Main St., Suite 700, Kansas City, Mo. 64105; 800-279-0491.

APRIL 26. Inland Marine Insurance workshop in New York, sponsored by The College of Insurance; $95. The College of Insurance Center for Professional Education; 101 Murray St., Room 426, New York, N.Y. 10007; 212-815-9201.

APRIL 28-MAY 1. The National Managed Health Care Congress in Washington, sponsored by Washington Business Group of Health, Temple University School of Medicine, Jefferson Medical College, Massachusetts College of Pharmacy and Allied Health Sciences and Philadelphia College of Pharmacy and Science; $1,395. 70 Blanchard Road, Suite 400, Burlington, Mass. 01803, 617-270-6004.

APRIL 29. The Second Annual Educational Outreach Program in Association with the U.S. Department of Labor in Atlanta, sponsored by the International Foundation of Employee Benefit Plans; $125. **Also April 30** in Greensboro, N.C.; **May 29** in Seattle, **May 30** in San Francisco, **May 31** in Los Angeles, **June 3** in Kansas City, Mo., **June 5** in St. Paul, **June 6** in Chicago, **July 8** in Washington, D.C., **July 9** in New York, **July 22** in Philadelphia, **Aug. 13** in Cleveland, **Aug. 14** in Detroit, **Sept. 12** in Boston. IFEBP, P.O. Box 69, Brookfield, Wis. 53008-0069; 414-786-6710.

APRIL 29-MAY 3. The Fundamentals of Global Employee Benefits Management conference in Brookfield, Wis., sponsored by the International Foundation of Employee Benefit Plans; $1,175 for members, $1,325 for non-members. Registrations Department, IFEBP, P.O. Box 69, Brookfield, Wis. 53008-0069; 414-786-6710, ext. 257.

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Largest U.S. reinsurers' 1995 results

Ranked by net reinsurance premiums written. All amounts in thousands of dollars.

Reinsurers	Net reinsurance premiums written 1995	Net reinsurance premiums written 1994	Policyholder surplus (reinsurers only)	Net income 1995	Losses & loss adjustment expenses	Loss ratio	Underwriting expenses	Expense ratio	Combined ratio 1995	Combined ratio 1994
1. General Re	2,964,374	2,581,029	4,596,672	621,140	1,919,116	67.2	943,681	31.8	99.0	101.2
2. Employers Re	2,391,393	2,155,364	3,718,029	468,882	1,912,259	79.3	603,111	25.2	104.6	104.6
3. American Re	1,611,509	1,536,247	1,100,268	(128,678)	1,342,783	88.9	517,216	32.1	121.0	103.8
4. Transatlantic/Putnam	1,008,781	868,370	787,403	162,297	746,872	76.1	262,644	26.0	102.2	105.7
5. Swiss Re Group	919,312	851,210	854,517	(636,995)	1,403,015	156.8	341,474	37.1	193.9	113.2
6. Berkshire Hathaway	777,000	689,800	N/A	N/A	522,000	72.7	216,600	30.2	102.9	88.3
7. The St. Paul Cos.	713,474	513,322	N/A	N/A	461,034	70.4	205,071	28.7	99.1	105.0
8. Munich Re	713,371	665,973	855,897	106,085	494,287	71.7	230,046	32.2	103.9	116.7
9. Prudential Re	667,697	733,383	686,857	(736)	583,067	92.2	259,241	38.8	131.1	118.4
10. Zurich Re Centre	602,269	302,188	657,197	6,136	376,344	75.6	186,365	30.9	106.5	114.6
11. Constitution Re	558,610	481,774	315,679	27,615	375,271	71.8	172,313	30.8	102.6	101.0
12. Hartford Re Co.	522,032	481,330	N/A	N/A	389,523	77.9	138,313	26.5	104.3	101.8
13. TIG Re Co.	510,718	440,288	440,034	69,079	360,714	74.7	148,036	29.0	103.6	104.4
14. F&G Re	506,818	409,083	N/A	N/A	343,311	70.6	109,840	21.7	92.3	91.3
15. NAC Re	476,048	412,412	615,433	57,670	295,105	65.1	180,801	38.0	103.1	105.7
16. Kemper Re	441,833	319,994	460,268	29,988	326,045	80.7	114,380	25.9	106.6	108.8
17. National Re	334,392	310,876	432,302	51,660	205,054	65.3	109,963	32.9	98.2	98.4
18. Underwriters Re	275,728	188,064	457,988	20,256	198,185	75.2	77,653	28.2	103.4	107.0
19. SCOR U.S. Group	256,656	232,720	272,374	26,287	166,653	66.1	94,905	37.0	103.1	118.7
20. Signet Star Re	217,018	196,687	243,729	8,323	159,601	77.5	57,653	26.6	104.1	113.8
Totals for Top 20	**16,469,033**	**14,370,114**	**16,494,647**	**889,009**	**12,580,239**	**80.0**	**4,969,306**	**30.2**	**110.2**	**105.0**
Total for all companies	**18,697,748**	**16,548,331**	**21,506,400**	**1,244,874**	**14,225,144**	**79.4**	**5,702,763**	**30.5**	**109.9**	**106.2**

Source: Reinsurance Assn. of America and *Business Insurance*

Reinsurers

Continued from page 2

impact the reinsurance companies? It's only a matter of time."

"Prices will continue to go down," particularly in property lines, where there have been three years without a significant catastrophe in the world, predicted Jim Duffy, New York-based president and CEO of St. Paul Re, a unit of The St. Paul Cos. Inc.

Rate competition could even intensify in 1996. With earnings improving and strong growth, "we see strong competition continuing and, in fact, it looks like there's room for even a little more," said Tom Walsh, associate director with Standard & Poor's Corp. in New York.

"While reinsurers do whatever they can to maintain their integrity and isolate themselves from all of the primary wars, they can't get totally immune from the fact that it's difficult to get the right price in a lot of areas," observed Jerome Karter, president and CEO of SCOR Reinsurance Co. in New York.

"There's still a primary industry that has way too much capital," he said.

"There's not really much of a new twist in the story," said Dan Eudy, executive vp at Hartford Re Co. in Hartford, Conn. The casualty market is soft, rates are flat, customers still raise retentions, and there is plenty of capacity relative to demand.

Meanwhile, the reserve increases depressed 1995 results. The combined ratio for the 20 largest U.S. reinsurers, based on net premiums written, rose to 110.2% in 1995 from 105% a year earlier. Excluding Swiss Re and American Re, however, the Top 20

reinsurers' combined ratio actually improved to 103.3%.

Premium growth remained strong in 1995. For all reinsurers in the RAA survey, net premiums increased 13% to $18.7 billion from $16.55 billion. For the Top 20, premiums increased 14.6% to $16.47 billion from $14.37 billion.

"When you dig into the numbers a little bit you note there was an awful lot of restructuring and one-time events hitting the books of the reinsurance companies, not unlike some of the restructuring and one-time charges the primary segment has dealt with over the last few years," said John Ward, CEO of Cincinnati-based financial analysts Ward Financial Group.

Once those factors are peeled back, "it was a relatively good year for the industry," he said.

Reinsurers also benefited from the strong stock market. Reinsurers put more of their invested assets in stocks—24% compared to 20% for the overall insurance industry—and that can make a big difference on income statements, said Mr. Ward. Reinsurer investment income rose 8.2% to $3.17 billion from $2.93 billion.

Though that's not double-digit growth, "it's much better than prior years where it was flat or down," noted Peter A. Cheney, executive vp and chief financial officer of Stamford, Conn.-based National Reinsurance Corp.

"The operating results were acceptable, they're not sensational," commented Steven H. Newman, chairman and CEO of Underwriters Reinsurance Co. in Woodland Hills, Calif. "There doesn't appear to be any high drama at the moment."

However, Paul Ingrey, president of Morristown, N.J.-based F&G Re, a unit of USF&G Corp., said, "The results continue to be much better than the prices at which we're doing things today. I just think we're living off the business we did in previous years."

Some observers are optimistic. "I think this year is going to be a better than expected year," said Michael Smith, an analyst with Salomon Bros. in New York.

Barring factors like environmental reserves, major catastrophes and major market shifts, "the reinsurance industry can still put up in the neighborhood of a 105% combined ratio," said S&P's Mr. Walsh.

Most observers believe that while reinsurance premiums will continue to grow, it will not necessarily be at last year's double-digit pace.

Kaj Ahlmann, chairman, president and CEO of Employers Reinsurance Corp. in Overland Park, Kan., said reinsurers' volume benefited as national insurance companies pulled out of catastrophe-prone areas and smaller regional companies, which were more likely to need reinsurance, picked up the slack.

But, he added, the discrepancy between the primary and reinsurance industry's premium growth is "out of whack, and I don't see it continuing."

For the primary property/casualty industry, net written premium grew only 3.3% to $258.9 billion in 1995, according to a recent survey by the Insurance Services Office Inc. and the National Assn. of Independent Insurers.

"My sense is that you won't see the same type of growth moving into 1996," said John Adimari, acting chief financial officer for Greenwich, Conn.-based NAC Re Corp. "I think it's going to depend on who you are in the reinsurance community. The larger, more financially secure companies will continue to penetrate the market," albeit at a slower pace than they did in 1995, he said.

"It's pretty hard to match the strong double-digit, mid-teens premium growth rate" that the reinsurance industry has seen recently, said S&P's Mr. Walsh. "We anticipate that the market will put up more of a 10% growth rate going forward."

The fundamental reason for that slowdown, he said, is that while the greater percentage of business from regional primary companies has obviously helped reinsurers, this is being offset by higher retentions.

However, some analysts expect strong premium growth to continue.

Peter Kellogg, assistant vp at A.M. Best Co. in Oldwick, N.J., predicts continued disparities in primary and reinsurance market growth. Among other things, he said, the situation at Lloyd's of London, which helped fuel last year's growth, will continue to be a wild card.

"Premiums have always been strong for this segment, and I don't think '96 will be any different," agreed Mr. Ward. Reinsurers' "annual growth in premiums over the last 10 years has been around 13%, nearly twice the (insurance) industry growth rate in premiums, and I would expect that would continue."

Most observers do not expect any more major reserve increases this year, though smaller additions will continue.

"Basically, the pressure seems to be off in terms of these large reserve increases for asbestos and environmental," said American Re's Mr. Cheney.

"I think a lot of companies put up reserves for asbestos and environment according to the latest A.M. Best study," said Employer's Re's Mr. Ahlmann, referring to a report released earlier this year that estimated the industry's unfunded asbestos/environmental reserves at $92 billion, down from $623 billion. "There's still a ways to go" before U.S. reinsurers are fully reserved, he added.

While there will not be reserve increases of the same magnitude as last year's, "there usually is a trickle effect" after a couple of major players increase their premiums, said Mr. Ward. "This will be the incentive for other companies to put up additional reserves as needed." BI

Ranking of U.S. reinsurers continues

Financial guarantee reinsurer Capital Reinsurance Co. in New York had the lowest premium-to-surplus ratio last year among long-established U.S. reinsurers, at 0.14-to-0.12, an analysis by PMA Reinsurance Co. shows.

Philadelphia-based PMA Re uses data from the Reinsurance Assn. of America's annual survey of U.S. reinsurers as a basis to rank reinsurers in a variety of ways.

Capital Re was followed by: New York-based Capital Mortgage Reinsurance Co., with a 0.15-to-0.17 ratio; Inner Harbor Re, a USF&G Corp. unit, with a 0.21-to-0.29 ratio; and financial guarantee reinsurer Enhance Reinsurance Co. in New York, which posted a 0.23-to-0.22 ratio.

In addition, Long Grove, Ill.-based American Fuji Fire & Marine Co. reported a 0.25-to-0.17 ratio, while New York-based SAFR Reinsurance Corp. of the U.S. reported a 0.3-to-0.24 ratio.

Among other rankings were:

- New York-based Zurich Reinsurance Centre Inc. had the biggest increase in premiums written—99.3%, to $602.3 million—followed by New York-based Sydney Reinsurance Corp. at 57.6%, to $78.4 million, and Woodland Hills, Calif.-based Underwriters Reinsurance Co. at 46.6%, to $275.7 million.

They were followed by: American Fuji, with a 46.3% increase, to $13.6 million; Stamford, Conn.-based Trenwick America Reinsurance Corp., at 41.2%, to $197.2 million, and St. Paul Re in New York, a unit of the St. Paul Cos. Inc., at 39%, to $713.5 million.

- The recently established Risk Capital Reinsurance Co., based in Greenwich, Conn., had the lowest combined ratio: zero. This was followed by Inner Harbor Re's 44.1% combined ratio, Enhance Re's 46.9% and Edison, N.J.-based Transnational Reinsurance Co.'s 53.5%.

In addition, Edison, N.J.-based PXRE Reinsurance Co. posted a 54.2% combined ratio, while Capital Re reported 57%, Capital Mortgage Reinsurance Co. had 67.6% and financial guarantee reinsurer Asset Guaranty Insurance Co. in New York posted 88.8%.

The highest combined ratio was New York-based Skandia America Reinsurance Corp.'s 211.1% followed by Swiss Re Group in New York at 193.9% and American Fuji's 145.9%.

- After Risk Capital Re, which went from zero in surplus at year-end 1994 to $331.7 million at year-end 1995, the biggest percentage increase in surplus—68.1%—was posted by Stamford, Conn.-based Chartwell Reinsurance Co., to $188 million.

This was followed by Novato, Calif.-based San Francisco Reinsurance Co., which increased its surplus 65.6%, to $214.3 million, and Greenwich, Conn.-based NAC Reinsurance Corp. which increased 51.2%, to $615.4 million.

- New York-based Transatlantic Reinsurance Co./Putnam Reinsurance Co. had the highest net income-to-average surplus percentage, at 23.5%, followed by Transnational Re's 18.5% and Enhance Re's 18.2%.

- The lowest operating ratio, which is derived by subtracting the ratio of investment income to earned premium from the combined ratio, was Capital Re's at -101%, followed by Enhance Re's -65%.

The New York-based Swiss Re Group reported the highest operating ratio, with a figure of 179.7%, followed by Skandia America's 151.2% and Reinsurance Corp.'s 122.4%.

—By Judy Greenwald

Bank ball now in Congress' court

Insurance and consumer groups want banks to play by same rules

By SALLY ROBERTS

The U.S. Supreme Court's decision permitting national banks to sell insurance products in states that ban such activities has insurance and consumer groups looking to Congress for regulatory relief.

Last week, the high court unanimously ruled in *Barnett Bank of Marion County N.A. vs. Nelson, Florida Insurance Commissioner* that the federal National Bank Act, which permits banks in towns of 5,000 or fewer people to sell insurance nationwide, pre-empts state laws that prohibit banks from such activities.

The insurance industry, which for decades has adamantly fought expansion of banks' rights to engage in the business of insurance, had turned to a special anti-pre-emption rule in the McCarran-Ferguson Act. The rule provides that a federal statute will not pre-empt a state statute enacted "for the purpose of regulating the business of insurance" unless the federal statute "specifically relates to the business of insurance." Opponents of the banks' incursion argued that the statute specifically relates to banking, not insurance.

In overturning the 11th U.S. Circuit Court of Appeals' decision holding that the McCarran-Ferguson Act was paramount, the Supreme Court ruled that the National Bank Act meant to grant small-town national banks authority to sell insurance, whether or not a state grants its own state banks or national banks similar approval. Furthermore, the high court ruled that the federal statute permitting banks to sell insurance falls into McCarran-Ferguson's anti-pre-emption rule's exclusion.

"Florida says that the federal statute 'specifically relates' to banking, not to insurance. But, a statute may specifically relate to more than one thing. Just as an ordinance forbidding dogs in city parks specifically relates to dogs and to parks, so a statute permitting banks to sell insurance can specifically relate to banks and to insurance," Supreme Court Justice Stephen Breyer wrote for the court.

"The court's decision is not the one we had hoped for," said Florida Insurance Commissioner William Nelson. The decision comes at an important time in Florida, when the availability and affordability of residential property insurance is at a crisis, he said. "It appears Florida's banks could become a significant force in providing homeowners insurance coverage" in the state, he said.

While much of banks' initial interest seems to be in selling personal lines products, dealing in commercial lines products is a possibility in the future for the nation's larger commercial banks (*BI*, Jan. 8).

Indeed, banks are welcoming the decision with open arms.

"This decision is going to increase the availability of insurance and improve the competitive environment," said Donald G. Ogilvie, executive vp of American Bankers Assn.

"We've been engaged in a long-term, multi-front battle fighting with the independent agents for years and years," added a spokesman for the Washington-based ABA. "This is the third straight unanimous Supreme Court decision in the past three years. It's about time they get the message that they are not going to win in the courts."

Insurance trade associations say that while they are disappointed in the ruling they are not afraid of the increased competition. They are calling on Congress to impose regulatory relief, however, so banks and insurance agents play by the same rules and consumers are protected.

"The Supreme Court decision practically screams out for a response by Congress," said Harry A. Koch Jr., president of the Council of Insurance Agents & Brokers and president and chief executive officer of his own agency in Omaha, Neb. "Council members don't cower in fear of competition from banks," he added. "Our priorities are to protect consumers from credit tie-in abuses by banks and to make sure that banks abide by the same laws and regulations that we abide by."

Consumer groups also are worried about consumer protection.

Banks currently enjoy broad authority to sell insurance, said Mary Griffin, insurance counsel with Consumers Union in Washington.

"If banks want to sell insurance, they should offer good values and fair dealings. So far, bank sales of insurance have done more for banks' bottom lines than for consumers' pocketbooks," she said.

The Consumer Federation of America said it is "cautiously optimistic" about the ruling.

"With proper controls, this can be a boon," said J. Robert Hunter, director of insurance for the Washington-based consumer group and former Texas insurance commissioner. "Good competition is good for the consumer," he said. However, certain consumer protection guidelines—namely disclosure rules and anti-tie-in measures—need to be addressed, he said.

Agent associations are looking for regulatory relief from H.R. 2520, the Financial Services Competitiveness and Regulatory Relief Act, introduced by House Banking Committee Chairman Jim Leach, R-Iowa. The bill would reaffirm the pre-eminence of state insurance regulation and provide the regulatory framework under which banks will sell insurance.

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Barnett Bank of Marion County, N.A. vs. Nelson, Florida Insurance Commissioner et al., U.S. Supreme Court; No. 94-1887.

Insurers buying aggregate reinsurance cover

Practice not widespread yet, but could grow more popular

By JUDY GREENWALD

Like their own customers, a growing number of insurers are aggregating multiple exposures under single reinsurance polices.

But while their number is increasing, even those involved in offering multiline, multiyear policies hesitate to call it a trend yet. In fact, many reinsurers and intermediaries have not encountered such deals.

These aggregated reinsurance policies can combine property and casualty risks, including catastrophe coverage, and are generally written on a multi-year basis, said Tal P. Piccione, president and chief executive officer of reinsurance intermediary U.S. Re Corp. in New York.

They bear some similarity to the global slip protection offered by reinsurers years ago that proved disastrous because it provided for unlimited protection in casualty working levels and left reinsurers liable for significant environmental losses, said Mr. Piccione.

These newer policies, though, have attachment points that are above the working layer. And, though they are not financial reinsurance policies, they do permit ceding insurers to share in the profits after a pre-determined period of time, said Mr. Piccione, who added the policies appeal to insurers of all sizes.

'Like anything that's innovative, people are going to look at them, and if they can be structured properly, they'll be around for a while,' says Tal P. Piccione.

"Like anything that's innovative, people are going to look at them, and if they can be structured properly, they'll be around for a while," he said.

These policies benefit the ultimate policyholder because they permit insurers to offer their customers "a more stable, more predictable product," said Daniel Malloy, president of Centre Reinsurance (Bermuda) Ltd., which offers the policies. Centre Re writes them in two ways: on an aggregate stop-loss basis and as a multi-line excess cover.

They are "yet another indicator of a soft market, for one thing, because it's another way of packaging deals in order to avoid paying the right price for any single line," said Jerome Karter, president and chief executive officer of SCOR Reinsurance Co. in New York.

However, he added, "if the structure is understandable, and if the various elements that go into that kind of construction are measurable—in other words if the reinsurer can do its job in evaluating what the content is—then given the right analytical capability to evaluate that, it's doable, and I would certainly put us in that category."

"Some people may actually think it's an opportunity, if it's done right, and they have the technical capabilities to write it and manage it. It can be the basis of a whole new relationship with a ceding company," added Mr. Karter.

The product is a good way to meet insurers' needs, which is the impetus behind the policies, said Chris L. Walker, president and chief operating officer of intermediary E.W. Blanch Co. in San Antonio, Texas, who said demand for this type of policy is increasing among cedants.

"I think the sellers, i.e. the reinsurers, are trying to listen. They're listening better and they're trying to be responsive to customers needs," he said.

Most reinsurers that write property and casualty separately would have an interest in writing on a multi-cover basis, said Philip W. Mitchell, senior vp at Towers Perrin Reinsurance in Philadelphia.

"We're seeing a slight increase in interest in discussing these types of covers, but the actual placement of these types of covers has not increased substantially. People are talking about it, but no major trends or changes are going on in this area," he said.

Kaj Ahlmann, chairman, president and CEO of Employers Reinsurance Corp. in Overland Park, Kan., which has sold a few of these policies, said, "We've seen some products out there, but I wouldn't call it a trend."

"Personally, I'm not a big proponent of it," said Urban Koagedal, a partner with San Francisco-based Tretis Intermediaries.

"I think you can identify your cost and manage them probably a little bit better to the extent you're looking at property and casualty. . .on a split basis. It's just another format, and I don't think there's any high science to it," he added. BI

Health bill

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amendment free-for-fall.

Under that scenario, some of the House provisions could be added as well as amendments that business groups oppose, including a requirement that lifetime health benefits not be capped below $10 million, equalization of mental health benefits with other health benefits, minimum hospital stays following childbirth and an expansion of COBRA's health care continuation requirements on group health care plans.

"The bottom line is that once one amendment is added, there is no telling where it stops. Pandora's box could be opened," said Leslie Pryor, senior director of government relations for the National Assn. of Wholesaler-Distributors in Washington.

Keeping the Senate bill clean of controversial amendments is going to be a real test of Republican leadership, noted Henry Saveth, a principal with A. Foster Higgins & Co. Inc. in New York.

If the leaders fail, the Senate could end up passing a bill only to have it vetoed by President Clinton.

The administration last week, in fact, said it strongly opposed the MSA provisions. And caps on malpractice awards almost certainly would trigger a presidential veto.

Still, some Republicans sent out signals last week that the door is open to compromise.

"If the president comes up with veto signals on malpractice maybe we'd back down," said Speaker of the House Newt Gingrich, R-Ga.

Both the House and Senate bills would curb pre-existing medical condition exclusions.

Group health plans could exclude coverage for up to 12 months for a new employee's pre-existing condition, which is defined as one that is treated within six months of an individual joining a health plan.

However, the 12-month period would be offset by the amount of time a new employee was covered under previous plans.

The House measure also would allow employers to contribute to employees' medical savings accounts up to $2,000 annually for individual coverage and $4,000 annually for family coverage. Employees would not be taxed on employers' contributions or on investment income earned on assets held by the MSAs.



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Funds could be withdrawn tax-free to pay for health care-related expenses.

Distributions made for other purposes would be subject to a 10% excise tax.

Other provisions in the House bill would:

- Limit awards for pain and suffering in medical malpractice suits to $250,000.
- Allow employers to band together in self-funded MEWAs that would be regulated by the U.S. Department of Labor. This provision, pushed by small business groups, could lead to a new epidemic of health care fraud because federal regulators would lack the resources to supervise the MEWAs, say insurers.

"This really opens up the possibility of crooks" getting into the business, said Ms. Nyquist of BC/BS.

After dozens of scandals involving multiple employer trusts—the predecessor to MEWAs—Congress clarified that states have the authority to regulate self-funded MEWAs.

MEWA failures have continued but at a lesser rate.

Backers of the new MEWA provision insist that there are sufficient safeguards to keep crooks out of the MEWA business, such as limiting sponsorship of MEWAs to bona fide trade associations.

- Deny states the authority to require group health policies, and self-funded MEWAs to offer certain benefits.
- Allow employers to pay—up to certain limits—employees' long-term care premiums without employees being taxed on those contributions.

For example, for employees under age 40, up to $200 in employer-paid premiums would be tax-free to employees.

The tax-free limit would increase with age until the limit hit $2,500 for employees more than age 70.

- Increase to 50% from 30% the tax deduction the self-employed can take for health insurance premiums. BI

NAIC

Continued from page 2

future. The working group also will consider whether its discussion paper should be followed by development of a model law or regulation that defines the criteria for a restructuring acceptable to regulators.

Mr. Wilcox said he plans to keep the discussions "academic" and objective. "The working group doesn't intend to do any second-guessing of what has been done with CIGNA," he said. "This is in no way intended to be an indictment of CIGNA."

To ensure that, the group will gather information about similar restructurings in recent years, including Zurich American Insurance Group's acquisition of much of The Home Insurance Co.'s business last year (*BI*, Dec. 18, 1995).

He proposed a timetable for the working group that includes developing the outline of a discussion paper by the NAIC's summer meeting in June and a preliminary draft of the paper by September. However, the total project is expected to take longer than originally proposed, so the deadline for a final document was pushed back to the NAIC's winter meeting in December.

Given the seriousness of the topic, Mr. Wilcox urged state insurance commissioners to participate directly when possible, rather than sending staff members to represent them.

Pennsylvania Insurance Commissioner Linda Kaiser, who was the lead regulator ruling on the CIGNA reorganization, is participating in the working group. At the meeting last week, she summarized the CIGNA restructuring that was done under the state's 1990 division statute. However, she said her ability to comment publicly may be inhibited by ongoing litigation to obtain access to crucial actuarial and other data that CIGNA considers sensitive business information (*BI*, March 25).

Representatives of two insurers attending the meeting expressed their support for regulatory analysis of the issue and pledged their willingness to help.

Allowing an insurer to form a runoff company is "bad public policy," said Peg J. Birk, senior corporate counsel with St. Paul Fire & Marine Insurance Co. in St. Paul, Minn.

Restructurings in recent years have "pushed the envelope" and now no one is sure what rules apply and what various interest groups can expect, said David Walsh, general counsel for the domestic brokerage unit of American International Group Inc. and a former NAIC president. "The gravity of the situation is probably best demonstrated by the fact that...no one can remember a time when Hank Greenberg and Bob Hunter agreed on an issue," he said, referring to AIG's chairman/CEO and a consumer activist/former Texas insurance commissioner, respectively.

Michael H. Lanza, an assistant general counsel for CIGNA in Hartford, Conn., emphasized that proper handling of asbestos and environmental liabilities is a key issue. Mr. Lanza said the Securities and Exchange Commission conducted an extensive actuarial analysis of his company during the restructuring.

Selwyn Whitehead, president and executive director of the Economic Empowerment Foundation in Oakland, Calif., a consumer advocacy group that studies insurance and economic development issues, asked that the information collected be made available to her organization.

Mr. Wilcox agreed, adding that the perspective of consumers is extremely important to the process. The working group will seek public comment as the report is developed.

In other action at the NAIC meeting, the NAIC or its subgroups:

- Accredited Arkansas as the 48th jurisdiction—including the District of Columbia—to meet solvency regulation standards. Still outside the fold are Hawaii, Nevada and New York. The New York Department lost its accreditation 1993, when legislators refused to adopt additional model law requirements.
- Approved $400,000 to update the NAIC's ability to track and analyze data from insurers' annual financial statements.
- Held a package of model investment laws for insurers in the Financial Condition Subcommittee to allow for additional comment from industry critics.

Earlier, committee chairman Mr. Wilcox tried to build support for the first-ever NAIC model on investments by recommending that adoption be delayed for testing, but that proposal was defeated.

Meanwhile, a related NAIC committee continues to work on a "prudent person" alternative investment model.

Neither measure is expected to become an accreditation standard.

- Heard Illinois Insurance Director Mark Boozell withdraw a proposed constitutional amendment to remove past presidents—excluding the immediate past president—from the NAIC's Executive Committee beginning next year.

The goal of eliminating permanent votes for past presidents was not worth the "divisiveness" it caused in the organization at this time, he said.

However, talks are being held on the subject with ex-presidents Jim Long of North Carolina and Lee Douglass of Arkansas, among others, they confirmed.

Mr. Boozell said he expects to re-introduce some type of similar proposal by the December meeting.

- Decided not to respond to recommendations made by the Workers Compensation Task Force organized by House Speaker Newt Gingrich, because it did not consider them significant (*BI*, March 18). Recommendations included allowing broad latitude for employers to opt out and instituting a loser-pays rule for claims litigated with companies that opt out of workers comp systems. BI

Regulators may support concept of deregulation

By MEG FLETCHER

DETROIT—State insurance regulators appear to be developing a new enthusiasm for deregulating some commercial coverages.

Deregulation of commercial lines was supported in general by several leaders of the National Assn. of Insurance Commissioners at the group's meeting last week, though specifics were lacking.

Brokerages and risk managers have long argued that big corporations do not need all the safeguards individual consumers do. In part to escape the administrative costs of current state regulation, big companies have turned increasingly away from commercial insurers to alternative risk financing methods that give them greater freedom to manage their exposures and claims at less cost.

Brokerages again are asking states to reduce regulation of commercial insurance, said Coletta Kemper, director of industry affairs for the Council of Insurance Agents and Brokers in Washington.

If that request isn't new, the response to it is.

"We (the regulators) can either bring insurance regulation into the next century, or sit on the sidelines and wonder why we're regulating fewer premium dollars," said NAIC President Brian Atchinson in an earlier statement.

The U.S. share of world premium volume fell to 31.3% in 1993 from 34.4% in 1991, according to the Council.

The Council, the National Assn. of Insurance Brokers in Washington and the Insurance Brokers' Assn. of the State of New York, and other insurance industry groups are all pressing for deregulation of commercial coverage.

The NAIC demonstrated its interest in the issue recently by asking two of its most important subgroups—the Special Committee on Regulatory Re-engineering and the Commercial Lines-Property/Casualty Committee—to study the topic and make recommendations later this year.

The committees will meet jointly, and may hold a public hearing, at the NAIC's June meeting, according to Kansas Insurance Commissioner Kathleen Sebelius, who chairs the re-engineering committee.

At a meeting of the commercial lines subgroup during the NAIC meeting, its leader, South Dakota Insurance Commissioner Darla Lyons, urged members to review laws in their individual states to see where they can ease up on commercial lines.

Even those advocating partial deregulation still want the "most stringent financial regulation," said Mary Lanning, president of ML&G Associates Inc., a consulting firm representing the IBANY.

That group is currently drafting legislation to expand the state's "free trade zone"—in which certain segments of the commercial market are less regulated than others—to make it friendlier to large commercial buyers and to rejuvenate New York's admitted market, she said. It hopes legislators will pass the measure by next year, since there is already considerable bipartisan support for it, she said.

The brokers' statements in favor of deregulation appear to be consistent with RIMS' previous positions and the regulators' new interest is encouraging, said Patricia Vaughn, associate general counsel for the Risk & Insurance Management Society Inc.

Updates

CU must pay cleanup costs

Continued from page 2

Commercial Union comprehensive general liability policy went into effect for Weyerhaeuser. For two other sites where Weyerhaeuser has begun cleanup work, the jury found that the policyholder could not have expected damage by 1970, and thus no coverage applies.

Weyerhaeuser will receive a total of $2.3 million for past cleanup costs and $10.2 million for future costs at the sites, which include landfills and milling operations. Weyerhaeuser also is seeking coverage from Commercial Union for 16 additional sites. Trials on those sites, none of which is in Washington, will take place at a later date. Commercial Union cannot appeal the jury order until coverage has been determined for all sites.

Tacoma, Wash.-based Weyerhaeuser originally sued 33 insurers and numerous Lloyd's of London syndicates in 1992 that wrote primary and excess CGL coverage for the wood products company from 1951 through 1985. Every defendant except Commercial Union has settled.

Crisis plan for U.K. farmers

LONDON—U.K. Agriculture Minister Douglas Hogg late last week unveiled short-term government measures to deal with the crisis in the cattle industry following a European Union ban on British beef.

Fears of illness from eating beef tainted by "mad cow disease" prompted the crisis (see story, page 23).

Initially £50 million ($76.5 million) in government aid will be made available to compensate farmers for the slaughter of young male calves, which are affected by the E.U. export ban. The plan—aimed at helping prop up falling beef prices by reducing supply—calls for payment of around £100 ($153) per male calf destroyed within 10 days of birth. Such losses are uninsured.

Farmers will also receive an extra £35 million ($53.6 million) for slaughtered cattle under existing government compensation programs.

The government also imposed a temporary ban on the sale of slaughtered cattle over 30 months old, which are thought to be those at greatest risk of carrying the BSE infection. Mr. Hogg said farmers would have to wait for details of how they will be compensated for this ban.

Drug manufacturer probe OK'd

WASHINGTON—The Federal Trade Commission has authorized a major investigation of leading pharmaceutical manufacturers, responding to several years of complaints from retail pharmacists that the drug makers are engaged in illegal, anti-competitive strategies.

The commission unanimously approved the probe of 22 drug companies. The companies to be investigated include Abbott Laboratories, American Home Products Corp., Bristol-Myers Squibb Co., Ciba-Geigy Corp., Eli Lily & Co., G.D. Searle & Co., Glaxo Wellcome P.L.C., and Merck & Co. Inc.

The FTC will study if the drug companies are engaging in unfair competition or conspiring to "raise, fix, maintain, or stabilize" drug prices across the country. Many pharmacists have argued that deep discounts given by drug companies to bulk buyers like health maintenance organizations, hospitals, and mail-order pharmacies put retail drugstores at an extreme disadvantage (*BI*, Feb. 19) and in effect constitute collusion among the industry giants.

A proposed settlement of a class-action lawsuit that contained those allegations against drug companies is awaiting approval from a federal judge in Chicago.

Briefly noted

Texas last week filed suit against the nation's **tobacco companies**, seeking more than $4 billion. The state alleges violations of the federal Racketeer Influenced and Corrupt Organizations Act among other complaints, federal mail and wire fraud statutes, as well as state and federal antitrust and public nuisance laws. . . . **Jeffrey W. Greenberg** is the new chairman of Marsh & McLennan Risk Capital Corp., the insurance industry investment arm of Marsh & McLennan Cos. Inc. He succeeds Robert Clements, who helped found M&M Risk Capital and will continue to manage investment activity for the firm and serve on the parent company's board. . . .The **Manville Personal Injury Settlement Trust**, which owns 79% of Manville Corp., will receive a $772 million capital infusion from Manville once the company completes the sale of more than $2 billion in stock it holds in Riverwood International Corp. After the trust receives the money on April 12, it will have about $1.2 billion in liquid assets to pay asbestos personal injury claims. . . .The **Catastrophe Risk Exchange**, designed to allow insurers to swap various catastrophe risks, will begin trading operations in New York on Oct. 1. CATEX expects to distribute membership applications by May 1. . . .Clement S. Dwyer Jr., executive vp with **Guy Carpenter & Co. Inc.** and head of the firm's risk securitization unit, has resigned. Brian Murphy, a Carpenter managing director, has taken over the unit, which is developing capital markets alternatives to traditional reinsurance. . . .The California Insurance Department asked reinsurers for a two-week extension of the March 31 expiration they set for $1.8 billion in commitments to the **California Earthquake Authority**. The extension would give the state Legislature more time to enact a bill authorizing start-up of the CEA. . . .California voters last week nixed three **tort reform initiatives**, narrowly defeating a proposed attorney contingency fee cap while trouncing initiatives seeking no-fault auto insurance and a loser pay system aimed at discouraging shareholder class-action lawsuits (*BI*, March 25). . . .Insurers face an estimated $70 million in insured damage after a quick, powerful **hailstorm** struck three counties in north Texas on March 24. . . .The U.S. Department of Labor last week filed suit against **John Hancock Mutual Life Insurance Co.** charging that the insurer illegally used company pension plan assets to pay more than $615,000 in investment management fees to a Hancock unit that manages a portion of the plan's assets.

Lloyd's

Continued from page 3

partment will not try to restrict the use of Lloyd's funds in the United States prior to the implementation of Lloyd's reconstruction and renewal plan, which is expected to be ready in August.

"We hope that our action will be followed by other states and it will buy some time to get a reasonable resolution of the problem," Mr. Brown said.

Mr. Brown is also filing a supporting declaration in the California suit in support of Mr. Quackenbush.

New York's Mr. Muhl outlined his intentions in a similar declaration filed last week in support of Mr. Quackenbush.

Lloyd's says the actions by regulators and members in the United States could jeopardize its reconstruction plan.

"The superintendent (of New York) has the authority to obtain an order directing him to take possession of, and conserve, the assets of an alien insurer located within the state of New York. If the circumstances warrant such action, I will not hesitate to exercise this authority with respect to the Lloyd's trust funds," Mr. Muhl's declaration says.

Those funds are solely for the benefit of policyholders and should not be part of any action involving Lloyd's members' disputes, he said.

Lloyd's makes similar arguments in a white paper sent to the state securities regulators on March 23.

Lloyd's says the actions by regulators and members in the United States could jeopardize its reconstruction and renewal plan and contends U.S. names are sophisticated investors who do not need the protection of the securities regulators.

"They plainly have the means to pay qualified counsel and fund litigation," the Lloyd's paper said.

Lloyd's filed a motion last week to dismiss the suit brought against it by California regulators.

The plan to settle with all Lloyd's members as part of the reconstruction can only be achieved if all members are treated equally, Lloyd's paper said. "The potential for such a settlement would be undermined, if not destroyed, by treatment more favorable to U.S. names than to non-U.S. names."

Some U.S. members want Lloyd's to collapse because they believe that Lloyd's would be less able to collect payments from them in "the ensuing chaos," the paper says. "These names advocate market collapse for their own benefit, at the expense of innocent insureds, reinsureds, and others including the majority of names that prefer no intervention but do want a settlement," the paper says. BI

Lloyd's may get a break in U.S.

Regulators mull extension of filing deadline

DETROIT—A trio of state regulators will decide whether Lloyd's of London syndicates writing U.S. business should be granted a one-year exemption from a requirement that they file annual actuarial certifications of their loss reserves.

New York Insurance Superintendent Edward Muhl said last week that he has asked regulators from Alaska, Illinois and Louisiana to decide the issue. Mr. Muhl expects them to report back within 30 days.

Lloyd's is seeking the exemption for 1995 only, because British actuaries have said they need more time to become familiar with the syndicates' accounts, said Peter Demmerle, an attorney with Lloyd's representative LeBoeuf, Lamb, Greene & MacRae in New York.

He noted that a British actuarial society sent the U.S. regulators a letter in support.

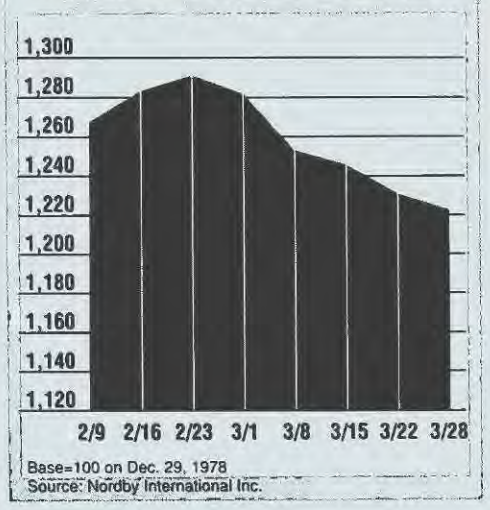
Mr. Muhl appointed the panel as part of his duties to oversee operations of the National Assn. of Insurance Commissioners' International Insurance Department. On behalf of all U.S. regulators, he imposed tighter U.S. trust fund requirements on individual syndicates as of Aug. 1 of last year, after an examination found significant deficiencies at the end of 1993 (*BI*, May 29, 1995).

While Lloyd's continues to pay all valid claims, questions remain about long-tail liability claims from 1992 and earlier.

"My preference would be to get the information we requested," he said.

—By Meg Fletcher

BI Insurance Index



Base=100 on Dec. 29, 1978
Source: Nordby International Inc.

PCS catastrophe options

As of Mar. 29

Call spread	Price bid/ask	Call spread	Price bid/ask
Eastern September 1996		**California Annual**	
40/60	5.1/6	40/60	2/4.5
50/70	4/6	80/100	1/2.5
80/100	2.5/4.0		
Southeast Sept. 1996		**Texas June 1996**	
40/60	4/4.6	10/20	1/1.4

Total volume: 26 Total open interest: 2,312
For information on PCS cat options, call 312-435-3674.
Source: Chicago Board of Trade

British Issues

Mar. 29 Companies	Price pence	P/E	Div. pence	Yield %	1 week high—low
Comml Union	572	11.0	35.3	6.2	577—562
Genl Accident	617	9.3	38.8	6.3	635—617
Gdn Royal Exch	221	8.2	11.3	5.1	231—221
Independent	480	9.0	14.1	2.9	480—478
Royal	347	6.5	20.0	5.8	355—347
Sun Alliance	359	8.1	21.6	6.0	367—359
Brokers					
Bradstock	66	11.0	7.1	10.8	66—65
Fenchurch	109	7.3	10.6	9.7	111—109
CE Heath	167	10.4*	9.0*	5.4	168—167
JIB Group	112	11.1	9.4	8.4	112—110
Lloyd Thmpson	173	10.6	11.3	6.5	173—173
Lowndes Lmbrt	148	8.0*	11.0*	7.4	149—148
Nelson Hurst	183	11.2	9.8	5.4	183—175
Sedgwick Grp	131	10.2	8.1	6.2	135—131
Steel Brl Jones	44	5.7	5.6	12.7	44—44
Willis Corroon	161	14.5	8.3	5.2	165—161

Source: Phillip Olsen, London * Estimated. Others actual.

Coalitions

Continued from page 3

managed care network on behalf of member companies, with a variety of financial incentives for good performance.

• Edison, N.J. The Health Care Payers Union of New Jersey, established in 1992 as a statewide group and now representing 55 business and trade and labor unions, set up a health care purchasing network nearly two years ago.

The purchasing network designates certain hospitals as "recommended," using such data as mortality statistics, which permits them to receive discounts in contract negotiations. A similar recommendation system exists for physicians.

A second volume of the Economic & Social Research Institute study, which is scheduled to be published this summer, will profile employer coalitions in Chicago, Appleton, Wis., and Denver.

Despite glimmers of progress among some business coalitions, most employers still view the price of health care insurance as the main criterion in deciding which health care plan is best, according to Ms. Silow-Carroll.

"For most purchasers of insurance in the country, the bottom line is still the bottom line," Ms. Silow-Carroll said.

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Copies of the report, "Employer Coalition Initiatives in Health Care Purchasing," are available for $18 by contacting Economic & Social Research Institute, 1015 18th St. N.W., Suite 210, Washington, D.C. 20036.

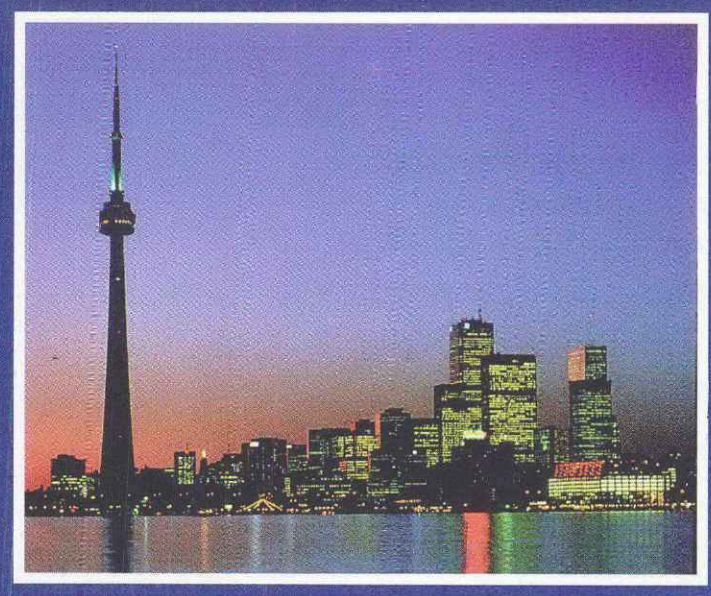
BI Industry Stock Report MAR. 25, 1996, THROUGH MAR. 29, 1996

		Price	Weekly % change	Year to date % change	Annual High	Annual Low	Vol.(000)	$ Div.	% Yield	P/E	Book value	Mkt./Bk. value
BROKERS												
Acordia Inc.	NYS	31.75	2.42	6.72	33.13	23.50	19	0.8	2.52	19	14.00	2.27
Alexander & Alexander	NYS	18.875	-6.21	-0.66	26.44	17.88	629	0.1	0.53	13	19.17	0.98
E.W. Blanch Holdings Inc.	NYS	20	-20.40	-14.44	25.50	16.50	1010	0.4	2.00	15	4.93	4.06
Gallagher Arthur J. & Co.	NYS	36.375	-1.36	-2.35	39.50	32.50	142	1.16	3.19	14	6.48	5.61
Hilb, Rogal & Hamilton	NYS	13.75	1.85	2.80	14.38	10.50	105	0.6	4.36	17	1.21	11.36
Kaye Group Inc.	NDQ	7	0.00	-12.50	10.75	6.75	2	0.1	1.43	9	NA	NA
Marsh & McLennan	NYS	92.875	-0.80	4.65	101.63	76.13	553	3.2	3.45	17	19.95	4.66
Poe & Brown	NDQ	24.5	2.08	-1.51	25.50	21.25	74	0.48	1.96	14	5.15	4.76
BROKERS	AVERAGE		-2.8	-2.2					2.8	17		
INSURERS/REINSURERS												
ACE Ltd.	NYS	44.625	-0.56	12.26	50.38	24.38	537	0.00	0.00	0	22.45	1.99
Acceptance Insurance Cos.	NYS	15.5	3.33	4.20	17.50	13.13	599	0.3	1.94	55	10.76	1.44
AEGON N.V.	NYS	47.375	7.37	7.67	47.38	28.00	127	1.08	2.28	18	17.28	2.74
Aetna Life & Casualty	NYS	75.5	-0.82	9.03	78.75	54.00	1588	2.76	3.66	34	48.85	1.55
AFLAC Inc.	NYS	31.25	-3.47	7.76	33.13	24.38	1013	0.34	1.09	13	17.58	1.78
Allied Group Inc.	NDQ	39.75	-2.45	10.42	44.25	26.75	297	0.88	2.21	8	21.81	1.82
Allmerica Prop. & Casualty	NYS	26.25	-1.87	-2.78	27.25	18.50	37	0.16	0.61	12	19.87	1.32
Allstate Corp.	NYS	42	-0.30	2.13	46.00	28.13	5850	0.85	2.02	10	18.75	2.24
American Financial Group	NYS	30.25	-0.82	-1.22	34.50	23.25	251	1	3.31	8	24.94	1.21
American General	NYS	34.5	-2.13	-1.08	39.13	31.00	1740	1.3	3.77	13	17.03	2.03
American Heritage Life Ins.	NYS	21	1.82	-8.20	23.88	16.25	11	0.72	3.43	10	12.51	1.68
American Indemnity/Fin'l	NDQ	10.25	3.80	2.50	13.25	9.00	4	0.3	2.93	-4	15.92	0.64
American International	NYS	93.625	-2.22	1.22	103.38	67.38	3127	0.34	0.36	18	34.66	2.70
American Re Corp.	NYS	40	2.56	-2.14	45.00	33.38	874	0.32	0.80	-22	16.77	2.39
Aon Corp.	NYS	51.75	-2.13	3.76	55.38	35.63	631	1.44	2.78	15	18.30	2.83
Argonaut Group	NDQ	31	1.22	-4.62	35.00	28.88	45	1.32	4.26	13	29.91	1.04
AVEMCO Corp.	NYS	15	0.00	-6.25	18.25	14.63	63	0.48	3.20	17	6.28	2.39
Baldwin & Lyons Inc.	NDQ	14.25	-6.56	-12.31	18.00	14.25	122	0.32	2.25	7	13.90	1.03
Berkley W.R. Corp.	NDQ	46.25	-0.54	-13.95	55.50	35.00	214	0.52	1.12	16	34.46	1.34
Berkshire Hathaway Inc.	NYS	33850	0.15	5.45	38000.00	21500.00	1	0.00	0.00	71	10089.11	3.36
Capital RE Corporation	NYS	36	0.70	17.07	36.13	22.63	255	0.24	0.67	12	27.82	1.29
Capsure Holdings Corp.	NYS	16.625	0.00	-5.67	18.13	12.38	71	0.00	0.00	15	14.61	1.14
Chubb Corp.	NYS	93.875	-2.21	-2.97	104.38	57.00	824	2.16	2.30	12	48.92	1.92
CIGNA Corp.	NYS	114.25	-3.18	10.65	125.50	68.25	1007	3.2	2.80	40	80.46	1.42
CNA Financial Corp.	NYS	111.25	-1.55	-1.98	123.25	74.00	53	0.00	0.00	9	71.13	1.56
EMC Insurance Group Inc.	NDQ	13.25	-3.64	-3.64	15.25	9.75	27	0.56	4.23	8	11.13	1.19
EXEL Ltd.	NYS	69	-0.16	13.35	72.25	43.25	472	0.4	0.58	0	31.47	2.19
Fremont General Corp.	NYS	23.625	2.16	-3.57	26.25	12.63	336	0.6	2.54	9	19.04	1.24
Frontier Insurance Group	NYS	30.625	-1.21	-4.30	33.75	22.50	84	0.48	1.57	13	14.65	2.09
Gainsco Inc.	ASE	11.125	2.30	-2.20	12.38	8.31	53	0.05	0.45	14	3.98	2.80
General RE Corp.	NYS	145.75	-0.93	-5.97	158.25	125.38	1491	2.04	1.40	15	59.35	2.46
Guaranty National Corp.	NYS	16.5	2.33	7.32	19.00	13.38	86	0.5	3.03	25	11.60	1.42
Harleysville Group	NDQ	26.75	-2.28	-17.37	33.00	23.75	64	0.76	2.84	9	20.72	1.29
Hartford Steam Boiler	NYS	50.625	0.75	1.25	52.50	41.63	143	2.28	4.50	16	14.68	3.45
HCC Insurance Holdings	NYS	54.875	-4.77	48.31	58.25	21.75	199	0.00	0.00	26	15.86	3.46
ITT Hartford Group	NYS	49	-2.00	1.29	53.75	46.88	2406	1.6	3.27	10	45.46	1.08
Lincoln National	NYS	50.75	-3.56	-5.58	57.00	39.75	664	1.84	3.63	11	28.90	1.76
Markel Corp.	NDQ	88	5.39	16.56	91.00	46.00	7	0.00	0.00	14	25.71	3.42
Meadowbrook Insur. Group	NYS	32	3.64	-4.48	33.88	24.00	48	0.08	0.25	23	NA	NA
Mid Ocean Ltd.	NDQ	38.625	-0.96	4.04	43.00	26.50	454	0.25	0.65	0	22.18	1.74
Mutual Risk Mgmt. Ltd.	NYS	41.375	-2.93	-9.56	46.50	26.63	95	0.4	0.97	19	9.72	4.26
NAC Re Corp.	NYS	32.625	-1.51	-9.38	39.00	28.25	164	0.2	0.61	9	18.23	1.79
National Re Corp.	NYS	33.75	3.05	-11.18	38.13	28.38	256	0.2	0.59	12	17.05	1.98
Navigators Group	NDQ	19.5	1.96	10.64	20.25	12.75	14	0.00	0.00	13	10.21	1.91
Nobel Insurance Ltd.	NDQ	11.625	-1.59	2.20	12.75	9.13	24	0.2	1.72	11	6.84	1.70
Ohio Casualty Corp.	NDQ	36	-2.70	-7.10	40.00	29.00	157	1.6	4.44	13	23.64	1.52
Old Republic Int'l	NYS	32.5	-0.38	-8.45	36.50	23.88	474	0.52	1.60	9	25.79	1.26
Orion Capital Corp.	NYS	45.25	-2.69	4.32	47.75	34.38	216	1	2.21	9	26.00	1.74
Partner Re Ltd.	NDQ	29.75	-2.06	8.18	31.75	20.88	3050	0.00	0.00	0	20.37	1.46
Penn-America Group Inc.	NDQ	13.5	1.89	-5.26	15.50	7.00	21	0.16	1.19	10	6.40	2.11
Philadelphia Cons. Holding	NDQ	20.75	0.00	27.69	21.88	12.00	35	0	0.00	14	11.58	1.79
PXRE Corp.	NDQ	25.5	2.00	-3.77	29.75	21.00	32	0.72	2.82	5	21.27	1.20
Prudential Reinsurance	NYS	23.625	-1.05	1.07	25.13	18.50	1009	0.12	0.51	-	NA	NA
Reliance Group Holdings	NYS	7.875	-1.56	-8.70	9.25	5.13	2308	0.32	4.06	10	3.42	2.30
Reliastar Financial Corp.	NYS	45.25	-1.63	1.97	51.63	33.75	280	1	2.21	11	24.53	1.84
RenaissanceRe Holdings Ltd.	NDQ	27.5	-0.90	-9.47	33.13	20.72	156	0.00	0.00	0	NA	NA
Risk Capital Holdings	NDQ	20.5	1.86	-12.30	23.38	19.75	79	0.00	0.00	342	NA	NA
RLI Corp.	NYS	24.75	-2.46	-1.00	25.88	18.50	22	0.52	2.10	25	20.51	1.21
St. Paul Companies	NYS	55.5	-0.89	-0.22	60.50	46.13	1123	1.76	3.17	10	32.46	1.71
SAFECO Corp.	NDQ	33.5	-2.55	-2.90	39.75	27.00	1478	1.06	3.16	11	44.95	0.75
Seibels Bruce Group	NDQ	2.9375	2.17	95.83	4.25	0.44	131	0	0.00	42	0.04	73.44
Selective Ins. Group	NDQ	36	0.70	1.41	38.75	27.25	78	1.12	3.11	10	23.23	1.55
Sphere Drake Holdings	NYS	10.125	-5.81	-27.68	19.13	9.75	301	0.00	0.00	0	13.86	0.73
TIG Holdings	NYS	32.5	-1.14	14.04	34.25	21.50	289	0.2	0.62	17	16.62	1.96
Titan Holdings, Inc.	NYS	13.75	-0.90	-4.35	15.75	9.88	67	0.3	2.18	10	9.04	1.52
Tokio Marine & Fire	NDQ	65	2.36	-1.52	69.25	50.88	15	0.32	0.49	23	57.72	1.13
Torchmark Corp.	NYS	45	-0.83	-0.55	49.88	36.75	787	1.16	2.58	23	17.37	2.59
Transatlantic Holdings	NYS	68.25	-2.33	-6.98	75.25	60.88	72	0.48	0.70	12	33.30	2.05
Transnational Re Corp.	NDQ	21.875	-2.23	-10.71	27.25	19.50	182	0.2	0.91	6	18.84	1.16
Travelers Corp.	NYS	66	1.73	5.39	70.50	37.88	3647	0.9	1.36	13	24.77	2.66
Trenwick Group Inc.	NDQ	51	-0.73	-9.33	57.50	41.75	56	1.24	2.43	11	29.23	1.74
United Fire & Casualty	NDQ	31	-3.13	10.71	37.25	18.25	25	0.9	2.90	12	28.96	1.07
Unitrin	NDQ	46	-4.91	-4.17	51.75	44.50	457	2.2	4.78	12	37.51	1.23
UNUM Corp.	NYS	59.5	-1.86	8.18	61.88	39.88	634	1.06	1.78	15	26.45	2.25
US Facilities Corp.	NDQ	18.75	2.04	-12.28	23.38	13.13	226	0.24	1.28	8	14.20	1.32
USF&G Corp.	NYS	15.5	0.00	-8.15	19.50	13.75	2114	0.2	1.29	10	10.86	1.43
USLIFE Corp.	NYS	29.375	-2.08	-1.67	33.25	24.75	503	0.93	3.17	10	38.45	0.76
Washington National	NYS	26.75	-0.47	-3.17	30.50	18.00	91	1.08	4.04	10	25.13	1.06
Zenith National Ins.	NYS	23.875	-1.55	11.70	24.88	19.88	80	1	4.19	66	16.35	1.46
Zurich Reinsurance Centr.	NYS	32.625	4.40	7.41	32.63	27.88	120	0.00	0.00	38	21.64	1.51
INSURERS/REINSURERS	AVERAGE		-0.6	1.3					1.9	19.1		
HEALTH MAINTENANCE ORGANIZATIONS												
FHP International	NDQ	31.625	1.61	10.96	34.25	19.50	1186	0.00	0.00	395	28.15	1.12
Humana Inc.	NYS	25.125	-0.50	-8.22	28.88	17.00	2239	0.00	0.00	21	6.56	3.83
Oxford Health Plans	NDQ	87.75	1.45	18.78	89.75	38.50	1923	0.00	0.00	61	6.56	13.38
Pacificare Health Sys.	NDQ	82	3.80	-5.75	98.75	44.50	284	0.00	0.00	22	15.02	5.46
Safeguard Health Enter.	NDQ	15.125	-3.97	30.11	17.00	8.88	111	0.00	0.00	30	6.15	2.46
Sierra Health Services	NYS	32.625	-1.14	2.76	36.00	22.13	321	0.00	0.00	27	9.22	3.54
United Healthcare Corp.	NYS	61.5	-0.20	-5.93	69.00	34.13	2612	0.03	0.05	39	16.17	3.80
U.S. Healthcare	NDQ	45.875	-3.93	-1.34	50.75	26.50	5574	1.1	2.40	19	5.66	8.11
Wellpoint Health Networks	NYS	35	0.00	8.95	37.00	27.38	404	0.00	0.00	19	14.26	2.45
HMOs	AVERAGE		-0.3	5.6					0.3	70		
ALL COMPANIES	AVERAGE		-1.2	1.6					2.1	28		

Top advancing issues: AEGON N.V., Markel Corp., Zurich Reinsurance Centr. Leading decliners: E.W. Blanch Holdings Inc., Baldwin & Lyons Inc., Alexander & Alexander. Most active issue: Allstate Corp. The BI Index fell 0.7%; the Dow Jones 30 Industrials declined 0.9%; the S&P 500 decreased 0.8% and the NYSE Composite lost 0.5%. Book values are updated annually by Nordby International Inc.

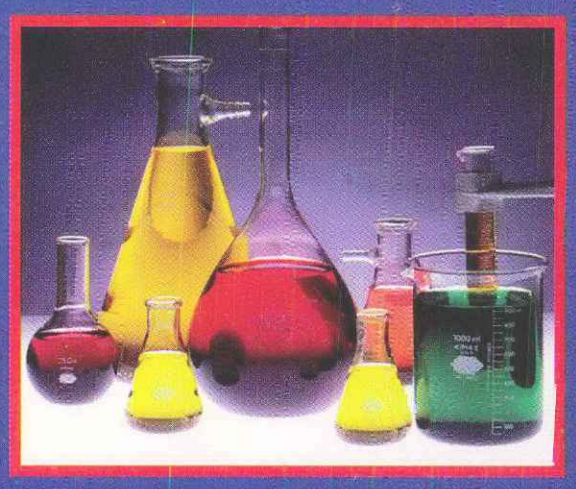
System design: Nordby International Inc.

RELIANCE INSURANCE CANADA









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