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Updates

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Insurance industry stocks battered with rest of market

NEW YORK—Insurer stocks were among those battered in a week of tumultuous trading and falling prices. The stock market, which was closed for Good Friday, was up at its Thursday closing, but the price of typical stocks still fell for the week.

Among those suffering the biggest percentage declines for the week were health maintenance organizations. PacifiCare Health Systems fell 13.6%, closing at \$48.38 on Thursday, while Sierra Health Services fell 12.9% to \$25.38, and Wellpoint Health

Continued on next page

Feds reject CSX's bid to reinsure life benefits with captive

By JERRY GEISEL

WASHINGTON—CSX Corp. cannot use its Vermont captive to reinsure group term life insurance benefits, the Labor Department said.

The final ruling, released last month, is a blow to the Richmond, Va.-based transportation company and other companies looking for new ways to claim tax deductions for property/casualty insurance premiums paid to captives.

In a three-page rejection letter to CSX, the Labor Department noted that it has long taken the position that a captive must have significant independent or outside business before a parent company can fund its employee benefit programs through the captive.

The presence of significant outside business would, among other things, safeguard an employee benefit plan against less-than-arm's length transactions, the department said.

To ensure that a captive is in the business of primarily selling to the public, the department has required that no more than 50% of the captive's gross premiums be generated by the parent.

By contrast, about 90% of CSX Insurance Co.'s premiums are derived from CSX-related risks.

"The addition of the proposed reinsurance relating to the (life insurance) plans would substantially increase the amount of business CSXIC derives from CSX-related business," the Labor Department said.

"In the absence of significant independent business, you have failed to adequately demonstrate how the plans would be assured of receiving arm's length terms when engaging in the reinsurance arrangements with CSXIC," the department said.

The department was not persuaded that CSX would "commit" to reducing employees' life insurance premiums based on savings the company would realize through the reinsurance arrangement.

"The department does not find the limited information provided on cost-savings to be persuasive in light of the potential abuse in transactions involving a plan and an employer or an affiliate of the

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Reserves: 'A black hole'

Pollution, asbestos claims pose big threat to insurers: Best

By MICHAEL SCHACHNER

U.S. property/casualty insurers' outstanding environmental and asbestos liabilities are 20 times greater than current reserves for these claims, A.M. Best Co. says.

Insurers' current reserves for these liabilities will be sufficient to pay claims for only about seven years unless major changes are made to the Superfund law, the Oldwick, N.J.-based rating agency concludes, adding that pollution and asbestos claims could become a "black hole" for the insurance industry over the

next quarter-century.

Best's observations were released last week in a report based largely on proprietary data supplied to the rating agency by insurers. Insurers are not now required to publicly disclose the extent of their environmental and asbestos liabilities, though new accounting rules will require them to make more details of these liabilities public.

Industrywide, Best estimates that U.S. property/casualty insurers currently face more than \$272 billion in environmental and asbestos liabilities, while current re-

serves for these claims total only \$12.6 billion. To meet this \$260 billion shortfall, insurers would have to make reserve additions over the next 25 years with a net present value of \$132 billion. Such reserve additions would add 1.8 percentage points to the industrywide combined ratio annually over the next quarter-century.

The property/casualty industry's surplus as of Dec. 31 stood at \$183 billion.

Pollution claims account for the lion's share of these liabilities. Only \$20 billion of the \$260 bil-

lion reserve shortfall is for asbestos claims; the rest represents environmental liabilities.

By far, the hardest-hit companies would be those that wrote great amounts of general and product liability coverage in the 1960s and 1970s before more stringent pollution exclusions were added to liability insurance policies. Required additions to these companies' reserves could add up to 20 percentage points to their combined ratios over the next 25 years, Best concludes.

"The bottom line is this is a very

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HMO execs blame rising health costs on provider greed

By CHRISTINE WOOLSEY

Health care costs continue to rise because physicians and other health care providers are just plain greedy, a group of health maintenance organization executives says.

While executives of preferred provider and utilization review organizations are more likely to cite technological advances and malpractice liability as the key culprits behind escalating medical costs, HMO CEOs are blaming provider avarice, according to the survey conducted by the American Managed Care & Review Assn. Foundation.

AMCRA is a Washington-based managed health care association

representing HMOs, PPOs, UR firms and independent practice associations.

AMCRA interviewed about 139 managed care organization executives last year to collect their views on a number of management and operations issues. Each respondent was asked in an open-ended question to state what he or she believed to be the top two causes of rising medical care costs.

As the top cause, HMO respondents cited greed by providers most frequently. Several respondents pointed a finger specifically at physicians, while others found fault with hospitals, drug companies, laboratories and insurers.

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The survey says:

A survey of managed care executives provided the following information.

Top causes of rising medical costs

- ☒ HMO executives say provider greed
- ☒ PPO and UR executives say technological advances

Most effective ways to control costs

- ☒ Case management
- ☒ Coordinate care across providers
- ☒ Physician capitation
- ☒ Concurrent review
- ☒ Gatekeepers

Least effective ways to control costs

- ☒ Second surgical opinions
- ☒ Retrospective review
- ☒ Physician discounts

Source: American Managed Care & Review Assn. Foundation

GRAPHIC BY KIM ROME

Antitrust suit settlement unlikely

By JUDY GREENWALD

Protracted discovery won't trigger negotiations: Attorneys

SAN FRANCISCO—A quick settlement in the massive insurance antitrust litigation is unlikely even though a federal judge recently rejected defense attempts to limit discovery in an effort to finally move the case beyond the preliminary stages, industry defendants and attorneys general agree.

In a scheduling and discovery order issued last month, U.S. District Court Judge Charles A. Legge essentially accepted plaintiff states' arguments not to limit discovery to whether defendants

participated in a "boycott" in violation of the McCarran-Ferguson Act.

"The issues to be resolved appear to be largely interrelated with one another, making segregation and management by subject matter difficult," said Judge Legge.

With the next status conference now scheduled for Jan. 12, 1995, the order means that the 32 industry defendants could face at least nine months of costly discovery.

The judge also refused defendants' request to immediately

consider motions, originally filed in 1988, to dismiss charges against U.S. reinsurers and the Reinsurance Assn. of America on the basis that there is no evidence linking them to any unlawful conspiracy.

After the state attorneys general originally filed suit more than six years ago, discovery was stalled as courts considered whether the states had legal grounds on which to base their allegations.

The litigation began in March 1988 when the attorneys general alleged that the defendants—in-

cluding major U.S. insurers and reinsurers, the Insurance Services Office Inc., the RAA and several London underwriters—engaged in a boycott to force changes in ISO's commercial general liability policy form to manipulate the U.S. liability insurance market (BI March 28, 1988).

ISO, the states charge, was forced to rewrite its then-new CGL form to exclude pollution coverage and to include a retroactive date in the claims-made version of the form. Some of the de-

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Updates

Insurer stocks fall with market

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Networks fell 11.3% to \$31.38.

Among the insurers recording the largest declines for the week were Penn-America Group Inc., down 16.1% to \$6.50; Statesman Group Inc., down 12.9% to \$11; and NWNL Cos., down 10.6% to \$28.63.

Among brokers, the company with the biggest weekly decline was Hilb, Rogal & Hamilton Inc., down 7.1% to \$11.50.

Some big insurers emerged unscathed, however. ITT Corp. was up 4.6% to \$85.75 on Thursday, while Chubb Corp. was up 1.74% to \$73.13, General Re Corp. was up 0.8% to \$107.38 and American International Group Inc. was up 0.75% to \$84.13.

Nicotine assertions spark suits

NEW ORLEANS—Assertions by a government official and a TV network news show that nicotine is addictive and that tobacco companies can control nicotine levels in cigarettes have sparked separate multimillion-dollar lawsuits against leading tobacco companies and American Broadcasting Cos. Inc.

Plaintiffs attorneys throughout the nation on March 29 jointly filed a suit in federal court in New Orleans, seeking at least \$5 billion of damages from a half-dozen tobacco companies. The damages would compensate thousands of smokers and their families for wrongful deaths and disabilities allegedly caused by cigarettes. The suit, which seeks class-action status, also demands the defendants establish a fund to pay the medical costs of smokers who cannot stop smoking.

The suit was triggered by recent congressional testimony by Food and Drug Administration Commissioner David A. Kessler that nicotine is addictive and that cigarette companies can control nicotine levels. He stopped short of accusing companies of spiking cigarettes with nicotine to keep smokers hooked.

But, the suit says the defendants conspired to hook smokers by manipulating nicotine levels. The suit alleges fraud and negligent misrepresentation—charges that the U.S. Supreme Court ruled in a 1992 case are not barred by federal law (*BI*, June 29, 1992).

Defendants include the American Tobacco Co., Liggett Group Inc., Lorillard Inc., Philip Morris Cos. Inc. and RJR Nabisco Inc.

Tobacco Institute Vp Walker Merryman would not comment on the suit but said cigarettes are not addictive like alcohol and drugs.

Earlier, a series of ABC news reports that cigarette makers have spiked cigarettes with nicotine triggered a \$10 billion libel suit by Philip Morris. The March 24 suit, filed in state court in Richmond, Va., seeks \$5 billion in compensatory damages and \$5 billion in punitive damages.

Philip Morris says 20% to 25% of a tobacco leaf's nicotine content is lost in manufacturing and is not replaced. It blames ABC for a falling stock price and damage to its business. ABC stands by its report.

Big payday for Travelers' Weill

NEW YORK—Sanford I. Weill seems to be adjusting just fine to life under the Travelers Inc. umbrella: In his first year at the helm of the insurer, he has vaulted into the ranks of the best-paid commercial insurance executives.

Mr. Weill received a base salary of about \$1 million, plus a \$3 million bonus, bringing his total cash compensation to \$4,049,063 in 1993, according to a Travelers proxy statement. This likely will place him near the top of the *Business Insurance* rankings of chief executive officer pay. Only Saul P. Steinberg of Reliance Group Holdings Inc. reported higher cash compensation in 1992 (*BI*, Aug. 30, 1993).

Mr. Weill's cash compensation increased 55.8% in 1993 from the \$2.6 million he made as chairman of Primerica Corp. in 1992.

On top of the salary, he exercised 2.7 million stock options valued at \$46.9 million, according to the proxy. Upon exercising those options, Mr. Weill received more than 2 million "reload" options valued at \$20.4 million as of February. Such options allow holders to receive new stock options any time they cash in options they already own.

He also owns 3.8 million Travelers common shares, the proxy said. Based on Thursday's closing price, they are worth \$133.5 million.

Veterans bill snags discussed

WASHINGTON—Congressional staffers remain divided in their attempt to iron out differences between House- and Senate-passed bills that protect the civilian jobs and benefits of veterans who return to their positions after military service.

Both bills would allow veterans make retroactive contributions to their 401(k) plans and would force employers to match those contributions on the same basis as they matched other employees' contributions at the time the veterans were in the military (*BI*, Nov. 22, 1993).

Senate negotiators have tentatively agreed to accept a provision in the House bill that also would require employers to make retroactive contributions to profit-sharing plans, lobbyists say.

But staffers are hung up on whether employers also would have to credit employees' savings plan accounts with investment income that would have been earned during the period of military service. The House bill would impose such a rule; the Senate bill would not.

Other differences involve how long a returning veteran would have to stay on the job before being entitled to certain welfare benefits.

Despite the current impasse, lobbyists believe the differences eventually will be resolved.

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Errors & omissions

• Swiss Reinsurance Co. and John Head & Partners L.P. teamed up last year to form Partners Reinsurance Co. Ltd. The sponsors of the company were incorrectly listed in an article in the March 28 issue.

Labor Department steps up fight against MEWA fraud

By MARK HOFMANN

WASHINGTON—The Labor Department is suing five multiple employer welfare arrangements and their owners or operators for allegedly failing to pay about \$4 million in health insurance claims under plans that covered about 20,000 workers.

"These five actions are part of a stepped up nationwide effort to protect workers and small-business owners from illegitimate insurance operators who charge

businesses unnecessarily high fees and then leave workers without the benefits they have paid for and are counting on," said Labor Secretary Robert Reich.

"Although not all MEWAs are fraudulent, the Labor Department's experience shows that these insurance programs provide a ripe target for abuse by unscrupulous, unlicensed operators willing to prey on the health care needs of workers and the desire of small-business owners to purchase affordable health benefits

for their workers," said Mr. Reich.

Three suits named employee leasing firms; two named what the department called "MEWAs masquerading as labor unions."

The suits are part of an effort launched by the Labor Department during the Bush administration to deter MEWA-related fraud. Since its inception in 1989, the program has resulted in 73 indictments, 60 convictions and court-ordered restitution of more than \$100 million, according to

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5 admit to claims scam

Phony losses cost Chubb, other insurers \$4.4 million

By MICHAEL SCHACHNER

NEWARK, N.J.—Five people are awaiting sentencing after admitting they bilked Chubb Corp. and several foreign insurers out of \$4.4 million.

The guilty pleas were entered in an ongoing federal probe into fraudulent commercial insurance claims in New Jersey.

The pleas were offered by a partner in a public loss-adjusting firm, a salvor and three former

employees of a defunct New Jersey clothing company. The adjuster admitted that kickbacks were paid or promised to at least one Chubb adjuster and other independent adjusters and salvors that handled three water damage and fire claims filed by the clothing company in 1989 and 1991.

Dyana Lee, an assistant U.S. attorney in Newark, said the confessions stem from an ongoing investigation of insurance fraud by her office, the Federal Bureau of In-

vestigation, the U.S. Postal Service and the Internal Revenue Service.

The 18-month probe "involves virtually all strata in the claim settlement process, including insureds, public adjusters, general adjusters, independent adjusters, salvors, accountants, investigators, cause-and-origin experts, contractors and cleaners," she said.

The investigation in New Jersey Continued on page 12

Prudential agrees to cover 'experimental' treatment

Breast cancer settlement

AUSTIN, Texas—Prudential Insurance Co. of America and two subsidiaries have agreed to provide coverage for a contentious breast cancer treatment for all medically eligible women covered by Prudential group or individual health plans to settle a suit filed by the Texas attorney general.

The insurers previously would pay for the expensive treatment—high-dose chemotherapy with autologous bone marrow transplant—only when patients were

enrolled in national clinical trials of the treatment or when patients sued, the attorney general said.

The insurers maintained they have covered the treatment for years for all medically eligible women (*BI*, Oct. 11, 1993).

Settlement terms establishing the medical criteria that women seeking coverage must meet are only slightly more liberal than those the insurers already use and may not significantly increase the number of women who will be covered, a

spokeswoman for the insurers said.

The agreement does not impose any economic damages on Prudential. It only requires the insurers to reimburse the attorney general for \$40,000 of legal fees.

Although the settlement precludes Prudential from denying coverage for the treatment under its experimental treatment policy exclusion, the insurers still could draft a new exclusion that specifically bars coverage for the treatment. **BI**

Solving ergonomics problems

By MEG FLETCHER

EVANSTON, Ill.—Start small and then expand.

That's the best way to develop and implement an ergonomics program, says James D. McGlothlin, a research occupational ergonomist at the National Institute of Occupational Safety and Health. "Once you have been able to learn something from a demonstration project, then you can spread it."

An ergonomist who seeks big

Start small but think long term: NIOSH expert

changes all at once may fail, costing a company lots of money and the ergonomist his job, he said.

"If you think this is a one-shot deal, you do not have a program," he said. What you may have is a solution to one problem, but others will surface unless the ap-

proach is comprehensive, said Mr. McGlothlin, who has 12 years of experience developing ergonomics control programs for industry.

Mr. McGlothlin, who works in the agency's engineering control technology branch, presented his personal views at a recent seminar at Northwestern University.

He focused on establishing programs to deal with frequent injuries and illnesses, including cumulative trauma disorders of the upper extremities and back prob-

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Inside

• Employers should be allowed to fund benefits through their captives, this week's editorial says. **PAGE 8**

• Virginia Power Co. will spend \$30 million to \$40 million on two programs to reduce its workforce. **PAGE 10**

• The profits of the five major U.K. multiline insurers surged during 1993. **PAGE 15**

• An Australian bank won the right to deduct its workers compensation claims reserves. **PAGE 15**

• Health care captives can respond to changes in the industry by insuring other organizations, experts said at the Captive Insurance Cos. Assn. conference. Coverage begins on **PAGE 18**

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Big names try to keep low profile

Informal corporate tort reform group keeps its cards close to its vest

By MARK A. HOFMANN

WASHINGTON—A new tort reform group sponsored by some of the nation's largest companies will take a decidedly low-profile approach as it attempts to help existing state tort reform organizations.

The Civil Justice Reform Group, founded last September, has no formal staff or headquarters. Its membership consists primarily

of the top in-house lawyers of some of the nation's largest corporations, including the Big Three automakers, Procter & Gamble, Exxon and Mobil.

Jack Martin, Ford Motor Co.'s general counsel, is chairman of the 17-member group's steering

committee.

The property/casualty insurance industry is represented by Aetna Life & Casualty Co., which has been among the most vocal insurer proponents of tort reform, and Alexander & Alexander Inc.

"We welcome new members. The diversity of the group is tremendous" and the coalition hopes to keep its membership from being dominated by one or two industries, said Judyth Pendell, Aetna's vp-law and regulatory affairs.

The group's steering committee is chaired by Ms. Pendell and George Frazza, general counsel of health products manufacturer Johnson & Johnson.

Ms. Pendell said the group "is a product of dinner conversations" and other informal contact among the corporate counsel of its members.

Ms. Pendell and other participants noted that while many groups promote tort reform on the state level, there's often a fragmentation of efforts. The Civil Justice Reform Group will concentrate on providing funding for state groups and helping coordinate activities to avoid duplication of effort, she said.

"We won't be doing direct programs," she said. Instead, the group is concentrating on helping state groups in five key states: California, Illinois, New Jersey, New York and Texas.

A spokeswoman for the group said it is focusing on three broad reform areas:

- Promoting legislative reforms at the state level.
- Participating in public education efforts.
- Assisting court improvement projects.

She also said the group is not planning to issue any press releases about its activities. "We're not seeking publicity."

She did say, however, that corporate members pay a membership fee of as much as \$100,000, though there are no formal dues. She added that smaller companies and trade associations would pay less to participate. Ms. Pendell said that the group's total budget could not be made public.

The spokeswoman stressed that the new group is not intended to compete with older tort reform organizations, like such American Tort Reform Assn. and the Product Liability Coordinating Committee.

"The individual members of the

Continued on page 14

What reformers will do

- Promote pro-business laws at state level
- Participate in public education campaigns
- Assist court improvement projects

Where they'll do it

- California
- New Jersey
- Illinois
- New York
- Texas

GRAPHIC BY MIKE GARVEY

Benefits for domestic partners no longer rare

By CHRISTINE WOOLSEY

As the definition of family continues to change, more employers are extending medical coverage and other benefits to the domestic partners of their employees.

"We believe your family is who you love and who you live with," said Liz Lonnergan, human resource manager for Ben & Jerry's in Waterbury, Vt.

For five years, the ice cream maker has offered benefits to employees' domestic partners, be they of the same sex or the opposite sex. And the company has been rewarded with employee loyalty and productivity.

"I would encourage all employ-

ers to do this because it shows they are thinking about all of their employees' welfare," Ms. Lonnergan said.

But the decision to offer domestic partner coverage should not be taken lightly. Employee—and public—backlash may be a problem, depending on a community's social values. And employers need to consider plan design issues before adopting such a policy.

So far, only about 100 U.S. companies offer domestic partner coverage.

Corporate philosophy, rather than employee demand, tends to drive the decision to offer benefits to domestic partners. Companies committed to fairness and equal-

ity, or those that recognize the increasing diversity of their workforces, tend to set the trends.

On the West Coast, for example, many employers have a "stated non-discrimination policy and they realize that most benefit plans favor people with families," said Mary-Helen McMahon, a principal with Alexander & Alexander Consulting Group Inc. in San Francisco.

These employers see domestic partner benefits as an equity issue for most employees, she said. "Many of my clients are high-tech firms. That's a big issue to their employees, who tend to be young, forward-thinking liberals."

Universities and municipalities

also are more likely to extend coverage to employees' same sex or opposite sex domestic partners. "Those employers tend to be very attentive to equal opportunity and anti-discrimination issues so they carry this farther than private employers do," said Dard Hunter, a consultant with A. Foster Higgins & Co. Inc. in San Francisco.

Competitive pressures also can be a contributing factor. "You know if one or two software companies in San Francisco do it, everyone else has to look at it, too," Ms. McMahon noted.

At some companies, though, employee requests have fueled the change. "We had a group of employees who requested it," said

Sally Mugerina, manager of corporate benefits for Blue Cross & Blue Shield of Massachusetts, which began offering domestic partner benefits in January.

But employers shouldn't expect a stampede of participants. Typically 1% to 4% of eligible employees will apply, consultants say.

At BC/BS of Massachusetts, 78 employees out of 6,000 elected the coverage, 14 of whose partners were the same sex as the employee. "Over the next few years we may see it inch up as people become more comfortable enrolling their partners," Ms. Mugerina said.

"Overall, we've had about 1%

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Property cat rates big question mark for U.S. reinsurers

By JUDY GREENWALD

"Catastrophe" is the byword on the lips of reinsurer executives and analysts as they contemplate the fate of the U.S. reinsurance industry this year.

With casualty reinsurance rates expected to remain soft, property catastrophe rates are the big unknown.

"I think that's the real volatile area right now," said Paul Ingrey, president of Morristown, N.J.-based F&G Re, a unit of USF&G Corp.

The year got off to a poor start with January's Los Angeles earthquake. But, it will be the number—and size—of future cat losses that will determine the direction of cat cover costs, observers say.

Property catastrophe rates will decrease 20% by next January "if nothing else happens" and if the insured losses from the Los Angeles quake stay in the \$5 billion to \$6 billion range, said Mr. Ingrey. In fact, the cost of cat cover would have dropped with the April re-

newals had it not been for the quake, he said. Instead, programs generally are renewing at the expiring rates.

Some predict smaller declines.

Catastrophe rates are probably "going to begin to come down modestly through the year, maybe in the 10% range," assuming there are no more major catastrophes, said Gary Ransom, senior vp with Conning & Co. in Hartford.

Others, however, believe catastrophe rates will remain firm.

"We haven't seen any real evidence of any slippage in rates yet," said Alan Levin, managing director at Standard & Poor's Corp. in New York.

Furthermore, "I have no reason to justify rates coming down. Losses continue to rise." The only way rates will decrease is "if companies succumb to their baser instincts," which Mr. Levin does not expect. "I would expect stability in rates."

The additional capital raised

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Dirty (and dangerous) dancing

Exotic dancers seek comp cover

By SALLY ROBERTS

SAN FRANCISCO—Two exotic dancers are taking their employer to court claiming they are being stripped of their right to workers compensation coverage and other fundamental entitlements guaranteed by state law.

In a lawsuit filed last month in San Francisco Superior Court, the dancers allege that The Mitchell Brother's O'Farrell Theatre violates California labor codes by misclassifying the dancers as independent contractors rather than employees. The suit, which seeks \$5 million in compensatory and punitive damages, is seeking class action status on behalf of 300 women.

Under state law, an employer need not provide independent contractors with workers compensation, disability and state unemployment insurance or pay wages and social security taxes.

Before the O'Farrell Theatre changed its policy in 1988, exotic dancers were considered employees and received the mandatory entitlements, said Beth A. Ross, an attorney with Leonard, Carder, Nathan, Zuckerman, Ross, Chin & Remar in San Francisco.

There is no workers compensation to cover the strippers if they are injured while dancing, she continued, labeling the dancers' job as "dangerous."

For example, some of the women perform a

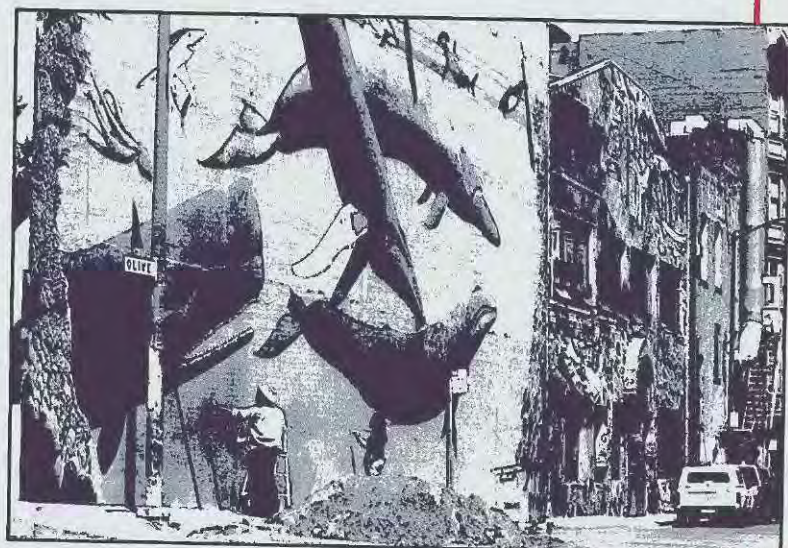


Photo by the San Francisco Chronicle

Dancers have filed suit against The Mitchell Brother's O'Farrell Theatre.

"shower show," in which they dance only in high heels on a wet stage. If they slip and fall, "they have no legal recourse," Ms. Ross explained.

For the past several years, the women have been "taking care of each other" by chipping in to pay medical bills, she added. State laws require employers to provide these entitlements, she said. "(The women) shouldn't have to do this."

The suit also claims that the dancers have been unlawfully required to pay their employer a mandatory \$10 "booking" fee for every show they perform, Ms. Ross explained.

Under California law, an employer is prohibited

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For the Record

Connecticut bans Texas health plan

HARTFORD, Conn.—The Connecticut Insurance Department has ordered USA for HealthCare Benefit Trust of Irving, Texas, to stop issuing insurance contracts in the state.

The health plan, which is unrelated to U.S. Healthcare Corp., failed to provide state-mandated benefits in its contracts, said regulators, who ordered the plan to offer existing Connecticut customers contracts that include the mandated benefits.

The USA for HealthCare plan, which is insured by National Health Insurance Co. of Grand Prairie, Texas, had argued it is a

multiple employer welfare arrangement exempt from state regulation under the Employee Retirement Income Security Act of 1974.

However, state regulators obtained a U.S. Department of Labor opinion that the plan does not qualify for the exemption and that it would not be considered "fully insured" under ERISA, a Connecticut department spokesman said.

Insured storm loss may top \$80 million

ATLANTA—Property damage claims from tornadoes that swept through 12 Georgia counties March 27, killing 18 people and injuring more than 200, will total about \$41 million, Georgia Insurance Com-

missioner Tim Ryles's office said. The loss estimate is based on a survey of Georgia property insurers.

The storm system covered a nine-state area, including Alabama, where at least 22 people have died and 150 were injured as a result of the storms. Alabama insurers have already reported anticipated claims of nearly \$40 million, said Michael DeBellis, Alabama's deputy insurance commissioner. Most of the losses there will be home and auto damage rather than business losses, he said.

Most of the business losses in Georgia were to chicken farms, with some tourism industry losses, an Insurance Department spokesman said. The twisters collapsed chicken houses, leaving 1.5 million dead chickens in their wake.

Severe spring storms also hit Texas, Louisiana, Mississippi, Arkansas, Tennessee, South Carolina and North Carolina.

Diagnostek settles; partly covered

ALBUQUERQUE, N.M.—Directors and officers liability insurer National Union Fire Insurance Co. of Pittsburgh, Pa., will pay \$5 million toward a \$16 million settlement of shareholder class-action suits against pharmacy services firm Diagnostek Inc.

The settlement also includes \$8 million from the Albuquerque-based company; and \$3 million in stock and/or cash at the company's option, said Bill Barron, Diagnostek's chief financial officer.

The suits, pending in U.S. District Court in New Mexico, alleged that Diagnostek and certain officers or directors violated federal securities law and common law duties in company financial statements, public statements and other filings.

In reaching the settlement, Diag-

nostek admitted no wrongdoing. The company said it was settling to avoid time-consuming litigation. The settlement is subject to court approval.

Pennsylvania OKs mandated benefits

HARRISBURG, Pa.—The Pennsylvania Assembly last month passed a bill that would require health insurers in the state to cover the cost of certain preventive procedures for women, such as gynecological exams, pap smears and clinical breast examinations.

The legislation, which the state Senate passed last year, was overwhelmingly approved by the House.

Dennis Walsh, director of government relations with the Insurance Federation of Pennsylvania, a statewide trade group, said that while the bill constitutes a mandate, which insurance companies generally oppose, it indicates the direction states should be taking on preventive care.

"While we support this bill, our concern about mandates is that they usually reach only a small segment of the population. And with many (health care) mandates, we have seen employers avoid them by going to self-insurance," he said.

Gov. Robert Casey is expected to sign the bill.

Justice Department OKs health coalition

WASHINGTON—The Justice Department has cleared the way for Houston-area businesses to form a health care purchasing coalition.

The Houston Health Care Coalition's non-profit group purchasing association will contract with health care providers in 13 Texas counties to provide services to members' employees and dependents at predetermined prices. The group, which represents seven companies and 50,000 covered lives, sought assurance that the proposed association's activity would not violate federal antitrust laws.

"The department has no present intention of challenging the association's activities on antitrust grounds. The association has the potential to create efficiencies in delivering health care services that could result in lower health care costs. To the extent that occurs, the formation and operation of the proposed purchasing group would be pro-competitive," wrote Assistant Attorney General Anne K. Bingaman in a letter to the association's attorney.

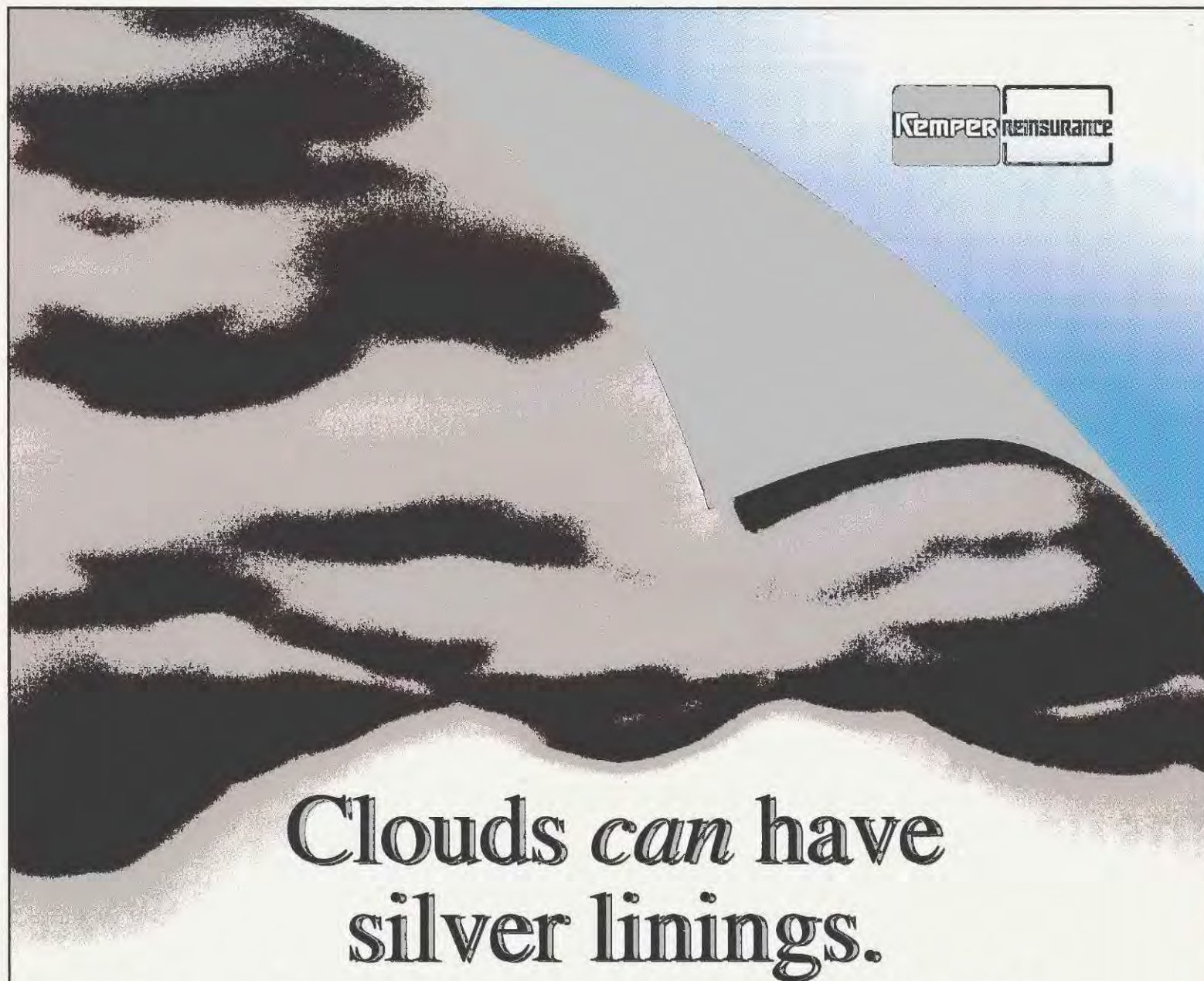
EEOC expecting record claims

WASHINGTON—The Equal Employment Opportunity Commission is expecting a record number of claims against employers to be filed this year.

Of the expected 90,000 claims, about 60% will be related to Title VII of the Civil Rights Act of 1991—which for the first time permitted punitive damages in certain employment discrimination lawsuits—and about a fifth will be related to the Americans with Disabilities Act and a fifth to age discrimination.

The planned expansion of the ADA on July 26 to cover employers with 15 or more employees is one reason more claims are likely, an EEOC executive said. The ADA has covered employers with 25 or more workers since the EEOC began enforcing it in July of 1992.

The previous annual record for claims against employers was 87,942 in fiscal 1993. **BI**



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company A
breaks his arm.

A worker in
company B
breaks his arm.

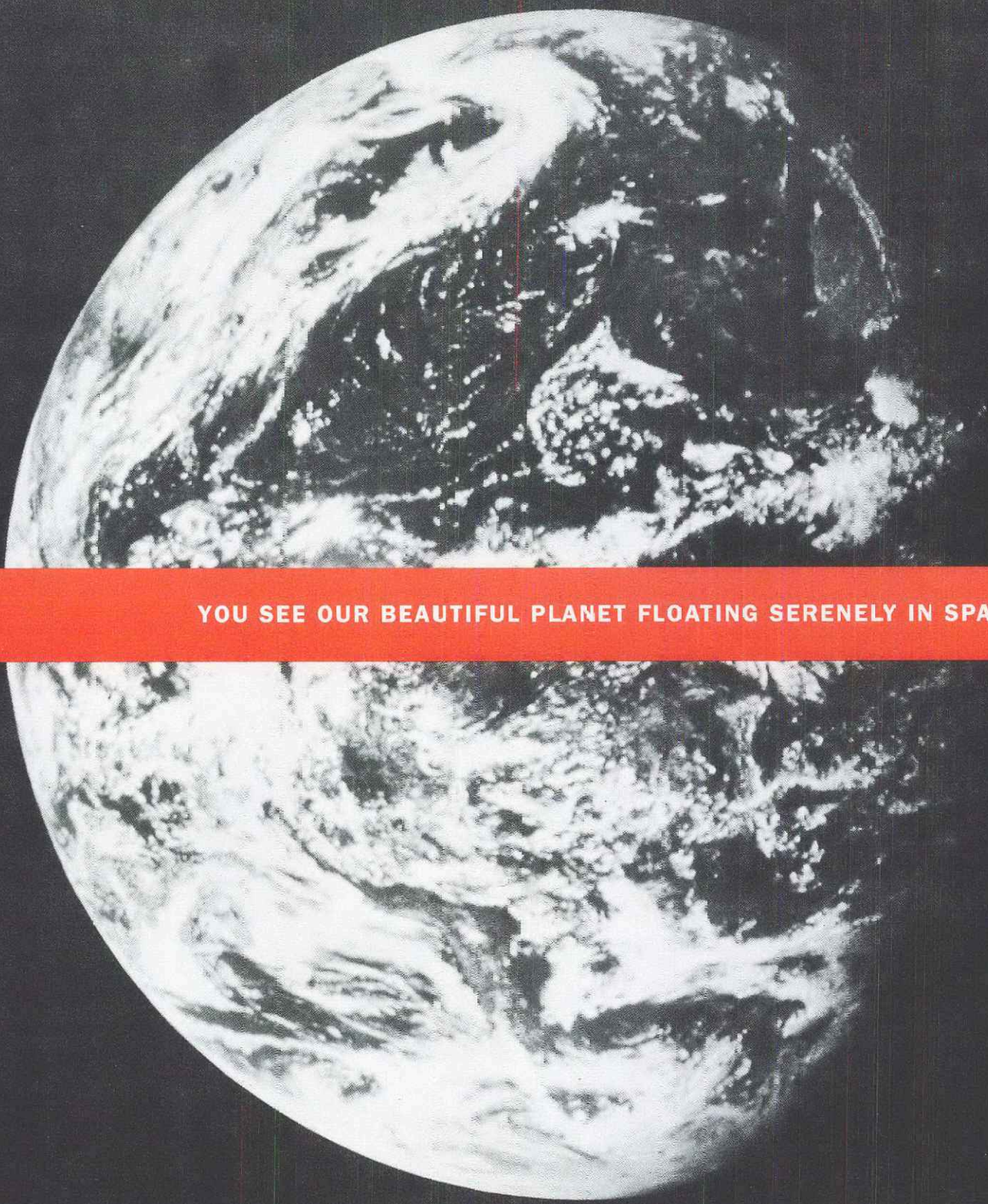
Their breaks
are identical.

Why aren't their
medical bills?

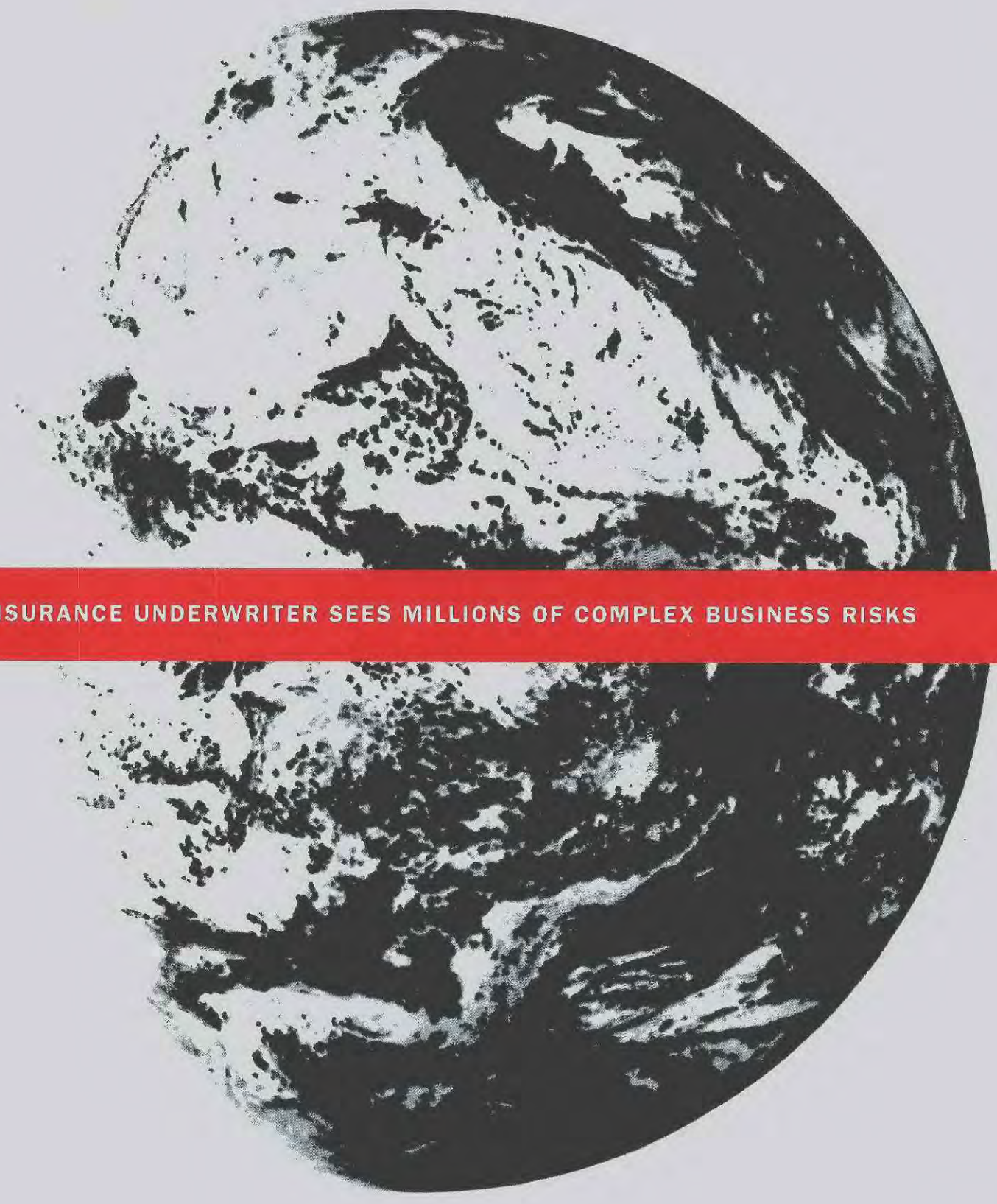
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Opinions

Let captives fund benefits

IF THE LABOR Department will allow an employer to self-fund group health or life insurance benefits, why shouldn't it allow an employer to fund these benefits through its captive insurer?

The Labor Department set that double standard last month when it formally rejected a request by CSX Corp. to reinsure its group term life benefits through its Vermont-domiciled captive.

In denying the request, the department noted that about 90% of the CSX captive's business is produced by CSX-related risks. If a captive does not write a significant amount of third-party business—which the Labor Department defines as 50% of the captive's premium volume—there would be no assurance that the reinsurance arrangements would be made at "arm's length terms," the department reasoned. That is a bureaucratic way of saying that if a captive writes outside business, it gives employees assurance that their benefit programs will be insured with their best interests in mind, not the company's.

In addition, the department says, a significant amount of third-party business enhances the financial integrity of a captive.

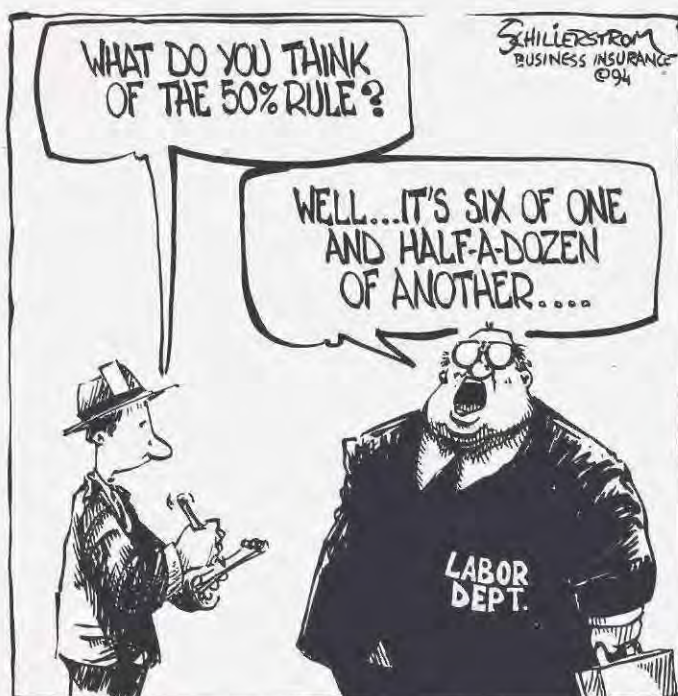
Neither point is valid.

The federal Employee Retirement Income Security Act already requires employers, as plan fiduciaries, to act solely in the interests of plan participants. This is true whether a benefit plan is conventionally insured, self-insured or funded through a captive.

And, as far as "arm's length" transactions are concerned, we repeat: Why would funding benefits through a parent company's insurance subsidiary be any different from simply self-insuring the benefits?

As for the Labor Department's second point—that a significant amount of outside business enhances the financial soundness of an insurer, better known as the "50% rule"—the facts indicate otherwise. A slew of captive insurers were forced out of business in the late 1970s and early 1980 because of big losses from unrelated business. Logic dictates that a captive's parent will know its own risks far better than those of unrelated parties, a lesson many captive parents learned years ago.

While the Labor Department's ruling is a blow to employers that may want to use captives as a cost-efficient means of financing their benefit programs, we encourage other employers to petition the department for permission because it's clear that CSX made



its request based primarily on tax reasons.

Courts have held that premiums paid to captives are deductible if the captive writes a "substantial" amount of unrelated business. In addition, the Internal Revenue Service has ruled that group term life premiums paid to a captive represent unrelated business. Thus, some captive experts—and evidently CSX—have reasoned that funding group life business through a captive would provide it with the unrelated business needed to justify deducting parent company property/casualty premiums paid to the captive.

We have argued for more than a decade that parent companies should be able to deduct all insurance premiums paid to captives just as they can now deduct premiums paid to commercial insurers. However, we do not think that employee benefits risks—or any other type of risk—should be funded through a captive solely for tax reasons.

Funding benefit programs through a corporate captive makes a lot of sense—especially if it saves the employer money. However, as long as the 50% rule is in force, it is improbable that any employer will be allowed to use a single-parent captive to fund its benefits programs. The Labor Department should rethink the 50% rule.

Letters

Velella drawing attention to an important issue

To the editor: Your editorial attack on New York state Sen. Guy Velella's opposition to the National Assn. of Insurance Commissioners' accreditation program is an unfortunate mischaracterization and personalization of an important debate (BI, March 21).

Sen. Velella raises a very important issue regarding the role and the extent of the NAIC's authority over the legislative processes of the individual states. The debate Sen. Velella courageously pursues deserves much broader participation from the insurance industry, consumer groups and the media than it has

received to date. The fact that this debate may affect the issue of federal regulation of insurance only heightens the importance of the debate and should not be a reason for sweeping it under the carpet, as your editorial suggests.

Too often the insurance industry and consumer groups watch these forays from afar and only let their feelings be known in private for fear of regulatory or legislative retribution. This debate is

far too important to be played by only two or three actors, with the rest of us in the audience wondering how it will play out or for the press to treat it glibly.

We should all be much more involved in defining the proper roles of our elected and appointed officials at all levels.

Peter H. Bickford
Bickford Hahn & Haley
New York

Opinion on accreditation misconstrued

To the editor: My remarks in the story about the National Assn. of Insurance Commissioners' accreditation program may have fallen victim to the editor's pen (BI, March 14). My response to a question about my opinion on the fact that Texas remains accredited was to paraphrase George Orwell in "Animal Farm": "Some states are more equal than others."

I was contrasting the case of Vermont with that of Texas and voiced the opinion that the treatment afforded the latter was based more on Texas' greater industrial

base and premium volume. I further opined that Vermont and New York were being penalized for "regulatorially incorrect" challenges to the legitimacy of the accreditation process.

I have no position as to the merits of Texas remaining accredited; my concern is the amorphous manner in which the accreditation standards are applied.

Jon Harkavy
Vp/General Counsel
USA Risk Group
Arlington, Va.

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Virginia utility offers early retirement

RICHMOND, Va.—Virginia Power Co. expects to spend \$30 million to \$40 million this year on two programs to reduce its workforce.

The utility estimates that between 500 and 700 people will accept either its new early retirement or voluntary separation program. About 1,200 employees are eligible for the early retirement offer, and all 12,000 full-time workers are eligible for the separation program. Most of the takers will be early retirees, a spokesman predicted.

Under the early retirement offer, which runs through April 29, up to five years of age and up to five years of service will be credited to employees' defined benefit pension calculation formulas. Normally, employees must be at least 55 years old and have at least 10 years' service to be eligible for full pension benefits.

Early retirees also will receive six months of separation pay and six months of company-paid medical insurance. After that time, each retiree will be entitled to normal retirement health benefits, the cost of which is split between Virginia Power and the retiree. Early retirees would leave the company June 1.

In 1992, the company offered a much less generous early retirement program. Eligible employees received credit for up to three years of age and up to three years of service. No severance pay or medical benefits were offered. About 300 employees accepted that offer, which cost the utility \$6 million.

Employees who accept the separation offer will receive six months' separation pay and a \$5,000 lump-sum payment. They also will receive six months of company-paid medical insurance. After the six months, they will be eligible for COBRA coverage.

Workers must notify the utility by Sept. 1 of their intention to accept the separation offer and must resign no later than Sept. 30, unless special arrangements are made.

Virginia Power has offered the same two programs to its union, the International Brotherhood of Electrical Workers, but the union's management has not yet decided whether to offer the plan to its members.

—By Deborah Shalowitz Cowans

401(k) matches

Employers that do not offer matching contributions to 401(k) retirement savings plans can encourage significantly greater participation and salary deferrals among non-highly paid employees by offering a 50% matching contribution, a William M. Mercer Inc. study shows.

But, larger matches produce only marginally better results, the study shows.

"I thought that was surprising," said Melvin W. Borleis, a managing director in Mercer's Chicago office, who conducted the study. "I thought dollar-for-dollar you'd get a lot of people participating" and deferring more salary as employer matches increased.

The study was based on data from 109 plans with an average of between 1,000 and 2,000 participants. The data was culled from government filings of 401(k) plan non-discrimination data for 1992, the last year for which such information was available when the

Benefit Beat

study was conducted.

Mercer found that among non-highly paid employees, plan participation was more than one-fourth greater—at 71%—when employers offered a 50% match. Without an employer match, participation was 56%.

Plans in which employers offered a 100% match generated only a 79% participation rate.

The same trend appeared with highly paid employees. With no employer match, 69% of those employees participated. With a 50% match, employee participation was more than one-fourth greater at 88%.

But, with a 100% match, employee participation increased only marginally to 92%.

The study also found that a 50% employer matching contribution had a much greater impact on how much pretax salary employees deferred to their 401(k) plans than a 100% match.

Among non-highly paid employees, the average deferral rate was 3.9% of pay, or 30% greater than the 3% average deferral rate for plans in which there were not any matching contributions by the employer.

With a 100% employer match, employers could expect only marginally greater deferral rate: 4.3%.

Highly paid employees deferred 3.9% of their pretax salary when there was no employer match,

compared with 5.1% in plans in which there was a 50% match.

But, a 100% match produced only marginally higher deferral percentage: 5.5%.

The study also showed, surprisingly, that the availability of plan loans had little effect on plan participation.

Indeed, in most cases, participation was slightly greater when there was no loan feature, Mr. Borleis said.

However, in most cases, the amount of salary deferred was greater when there was a loan feature, he said.

Additional information is available by writing to Mr. Borleis at 10 S. Wacker, Chicago, Ill. 60606. 312-902-7322.

—By Dave Lenckus

HIPC rates decrease

ROSEVILLE, Calif.—The Health Insurance Plan of California, the nation's first statewide health purchasing alliance, has reduced its rates for small businesses by 6.27%.

Introduced in July 1993, the HIPC now covers 2,500 businesses and more than 44,000 Californians. The rates, effective July 1, apply to coverage written by 23 health plans (BI, Aug. 2, 1993).

The six regions into which the state has been divided will see decreases ranging from 2.72% in Region 1, which covers areas of northern California to 7.94% for Region 4, which covers Los Angeles County.

—By Louise Kertesz



Reliance Re underwrites through Reliance Insurance Company

Antitrust

Continued from page 1

defendants also unsuccessfully conspired to eliminate occurrence-based CGL coverage and include defense costs within policy limits, the states allege.

In June 1993, the U.S. Supreme Court in a 5-4 decision said narrow grounds did exist for a trial court to find that the defendants' alleged attempt to limit liability coverage in the mid-1980s constituted a "boycott" (BI, July 5, 1993). The case was returned to Judge Legge's court in October.

While the order will allow protracted discovery, defendants and plaintiffs both say there is little indication that it will encourage a settlement.

"It's hard to say," said Thomas A. Greene, assistant attorney general for California. "Insofar,

though, as the defendants thought that they could avoid dealing with the case by way of a series of piecemeal motions, then this order scotches this. The upshot really is the case will be brought home to the executives who are in these companies."

Richard Schwartz, assistant attorney general for New York, said he did not know if the order would encourage settlement. However, "it's usually helpful for settlement discussions if cases are moving along rather than if they're standing still. Now that we're permitted to proceed with discovery, we certainly intend to make this case move along as fast as we possibly can."

Judge Legge's order "will make the plaintiffs more greedy or at least more ambitious in their settlement demands, but I doubt that this order will do anything to promote settlement," said John DeQ

Briggs, a defense attorney with Howrey & Simon in Washington, who is representing Prudential Reinsurance Co. "It will just enrich the lawyers unnecessarily."

"Until the lack of merit to the main elements of the plaintiffs'

represents Terra Nova Insurance Co. Ltd., noted Judge Legge's order also calls for a U.S. magistrate to convene a settlement conference to determine "whether settlement discussions at this time are meaningful."

Judge Legge's order 'will make the plaintiffs more greedy or at least more ambitious in their settlement demands, but I doubt that this order will do anything to promote settlement,' says John DeQ Briggs, who represents Prudential Re.

case is recognized by the court, the prospect of a settlement seems to be fairly remote for the time being," he said.

However, Paul R. Haerle of Thelen, Marrin, Johnson & Bridges in San Francisco, who

If there is any possibility of a settlement, the order will advance it "somewhat," said Mr. Haerle.

Meanwhile, both Mr. Greene and Mr. Schwartz said they were pleased with the judge's decision to allow full discovery. "This is a

complete win for the plaintiffs," Mr. Greene said.

"We're, of course, extremely pleased that after nearly six years of litigation and defendants' motions to dismiss, Judge Legge has allowed discovery to proceed in the case," Mr. Schwartz said. "Discovery is obviously the normal first step in an action after filing a complaint."

It is "high time" that discovery finally proceed, he said. "We've been seriously prejudiced by this delay."

After six years, witnesses forge they move, they die and documents are destroyed, Mr. Schwartz pointed out. "The trail just gets cold."

Mr. Briggs not surprisingly was less happy with the order. "I think it puts a great burden on the peripheral defendants that participate in a case that is unmeritorious, and it's unfortunate that the court does not require the plaintiffs to respond to the many motions for summary judgment, several of which have been pending for more than five years."

"Eventually, the plaintiffs will have to respond to those motions, and when they do, the complaints will have to be dismissed. Until then, the shareholders and policyholders of the defendants are the losers under this order," Mr. Briggs said.

Other defense attorneys, however, said they are not fazed by the order.

"We thought we saw some ways to segment the discovery that would have made sense. The judge didn't agree with us, and that's the end of it. We're going to go ahead," said Thomas P. Luning, an attorney with Schiff Hardin & Waite in Chicago, who represents defendant Hartford Fire Insurance Co.

"As we anticipated, we're off to work. We're off to normal, garden-variety litigation for a while," said Mr. Haerle.

"Discovery and how it is you order discovery... is really a matter very much of the court's discretion, and I think maybe some of the defendants were trying to keep things a little too narrow," he said.

"It's very common for a judge to say at this stage, 'Let's just have discovery and go at it.' I don't think it means anything more than that," Mr. Haerle added. "It doesn't bother me in the least."

However, he added that he suspects "within 12 months or so, you will see a lot more motions for summary judgment than those already pending," as defendants contend it cannot be proved that they engaged in a boycott that meets the narrow definition set by the Supreme Court.

While not limiting discovery, Judge Legge's seven-page order notes that three issues in the litigation "may" be appropriate for early disposition:

- Whether the U.K. defendants should be dismissed because of "comity," which is the respect by a court for foreign laws.
- Whether there are other reasons that the foreign insurers should not be subject to the court's jurisdiction.
- Whether foreign and domestic reinsurers are regulated by state law, which would give them immunity from antitrust laws under McCarran-Ferguson.

The order also establishes a schedule of document requests, interrogatories and witness depositions. It states that while the first discovery disputes will be handled by Judge Legge, subsequent disputes may be referred to magistrates.



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Fraud

Continued from page 2

is very similar to an ongoing investigation by federal prosecutors for the U.S. District Court for the Eastern District of New York, Ms. Lee said.

That probe last September resulted in 37 indictments for bribery and fraud and has produced more than 50 guilty pleas since its inception in 1991 (*BI*, Sept. 27, 1993).

The recent pleas, which were accepted in U.S. District Court in Newark by Judge Dickinson De-

bevoise on March 18 and March 24, stemmed from three fraudulent property insurance claims filed by the now-defunct Mitchell Apparel Ltd. of Avenel, N.J.

Those claims—for water damage in 1989 and 1991 and for a fire loss in 1991—resulted in \$3.5 million in claims payments by Chubb. Foreign insurers, led by London & Hull Maritime Insurance Co. Ltd., paid \$900,000 as part of a settlement. Other insurers included: Cornhill Insurance Co. of Canada; Phoenix Assurance P.L.C.; Yasuda Fire & Marine Insurance Co. of Europe Ltd.; and River Thames Insurance Co. Ltd.

Mitchell's fraudulent claims resulted in \$3.5 million in payments from Chubb Corp.

Mitchell had also sought \$4.5 million from the foreign insurers in connection with the 1991 water damage claim, but that claim was never paid.

In one plea, Mitchell employee Ronald Nuzzolo admitted that he

hosed down goods at the company's Avenel, N.J., warehouse in 1989 and 1991 on the instructions of Mitchell owner Harmon Shidlofsky.

Mr. Nuzzolo also confessed to discussing with Mr. Shidlofsky and another company manager the possibility of starting a fire at the company's warehouse in Miami.

Attempts to locate Mr. Shidlofsky, whom Ms. Lee said has not been charged, have been unsuccessful.

Another guilty plea came from the manager of the Avenel warehouse, John Vaccaro, who admit-

ted to taking part in watering down merchandise in 1991.

Prior to the pleas by Messrs. Vaccaro and Nuzzolo, Carol Milne Raimo, former accounts receivable manager for Mitchell, pleaded guilty to participating in the 1991 soaking scheme as well as creating false documents to support the company's claims for the two water damage losses and the fire loss.

A fourth plea was entered by Mitchell Jacoby, a partner at Chamlin Spitzer Associates Inc., a public adjusting firm based in New York, who admitted representing Mitchell in all three losses. He said he accepted an undisclosed amount of cash from Mr. Shidlofsky in exchange for submitting fraudulent claims to the insurers.

Mr. Jacoby also admitted to paying or promising kickbacks to the salvor in the 1989 water damage claim; a Chubb general adjuster on the same claim; Eugene Mertz, the independent adjuster on the 1991 water claim; and the salvor on that claim.

Last summer, Mr. Mertz joined the New York office of Toplis & Harding Inc. However, he was terminated early last month after being implicated in the Mitchell case, said David Lewis, chief operating officer of Toplis & Harding Northeast.

"We did not know anything about this when he was hired last year, but we both agreed that it was not best for him to continue working here as a result of this case," said Mr. Lewis.

"But, he's an excellent adjuster who has handled some large cases very well. We think this is a shame."

Mr. Mertz could not be reached for comment.

Ms. Lee declined to say how much money was paid in kickbacks. "One person's large is another person's small. I can't disclose how much was paid."

The final plea came from Kurt Wagner, a former employee of M.F. Bank & Co., a salvage company in Boonton, N.J. He admitted to accepting money from Mr. Jacoby for his compliance in expediting the 1989 water damage claim.

"This carefully orchestrated, multifaceted looting of commercial insurers by an organized cadre of white-collar criminals is a serious threat to an insurance system on which we depend upon," said U.S. Attorney Michael Chertoff in Newark.

John Degnan, general counsel with Chubb in Warren, N.J., said fraud such as the Mitchell Apparel claims is a "significant problem exemplified by the fact that we have taken claims to the authorities and have filed a civil suit in the Eastern District of New York against public adjusters, former Chubb adjusters, independent adjusters and salvors for several million dollars."

That suit, which was in discovery, has been stayed by the court pending the federal probe.

Mr. Degnan said other fraudulent claims against Chubb are part of the New Jersey and New York investigations.

"Some of the claims we offered to prosecutors, while others have been brought to our attention as part of the investigations," he said.

Messrs. Jacoby and Wagner, who pleaded guilty to mail fraud, and Mr. Nuzzolo, Mr. Vaccaro and Ms. Raimo, who pleaded guilty to conspiracy, each face a maximum sentence of five years in federal prison and more than \$250,000 in fines.

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McCarran, Superfund reform dividing agents and brokers

By MARK A. HOFMANN

A pair of federal issues that have pitted property/casualty insurers against one another also are splitting the agents and brokers who sell the insurers' products.

One of the divisive issues is the McCarran-Ferguson Act, which for nearly half a century has given insurers limited exemptions from federal antitrust law while ensuring the primacy of state regulation. The other issue is the reauthorization of Superfund, formally known as the Comprehensive Environmental Response, Compensation and Liability Act of 1980.

Few issues have proven to be so contentious as McCarran reform. Consumer groups long have attacked the law as anti-competitive, and House Judiciary Chairman Jack Brooks, D-Texas, joined their repeal effort after the hard insurance market of the mid-

1980s made coverage for many commercial risks extremely hard to obtain.

Rep. Brooks subsequently has introduced H.R. 9, which would essentially gut McCarran, in every congressional session since 1988.

The split in insurance industry ranks came in the early 1990s, when the American Insurance Assn. announced that it was willing to accept changes in McCarran, though not as sweeping as those contained in H.R. 9. The AIA and Rep. Brooks' staff held periodic discussions until earlier this year, when the AIA unveiled a compromise that awaits only Rep. Brooks' final approval.

Among other provisions, the compromise would: permit insurers to develop and use common policy forms; phase out McCarran protection for collective

Continued on next page

Producers making voice heard in health care reform debate

By SALLY ROBERTS

The health care reform ball may be in Congress' court, but insurance agents and brokers still can play an important role in the final outcome of the contest.

A prime example of agents and brokers' clout on Capitol Hill is the fate of the proposed mandatory state health purchasing alliances, which most observers now consider as dead. The proposal had been the centerpiece of President Clinton's health care reform plan.

If the president's plan were passed as originally proposed, agents and brokers in the life/health insurance industry likely would lose their jobs as they now know them. The president's proposed purchasing alliances, in essence, would act as agents and would pur-

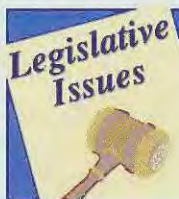
chase coverage on behalf of employers and individuals from insurers, health maintenance organizations and other health care providers.

Agents and brokers maintain that they provide value-added services to health insurance buyers because agents are knowledgeable about the industry and would therefore better serve their clients than a government-run alliance (A/BT, Dec. 6, 1993).

And, agents and brokers have been influential in getting their message across on Capitol Hill, health care lobbyists say.

The mandatory alliances are "dead," in part due to agents' lobbying efforts, contends Fred Graefe, a health care lobbyist and partner at Baker & Hostetler in Washington. "Insurance agents are very effective allies against (aspects of) the Clinton bill."

"I've heard that some agents have gone (to Capitol Hill) with a customer and said, *Continued on page 12D*



Agent/Broker Topics

Big issues

Continued from previous page
trending of data by industry-affiliated organizations like the Insurance Services Office Inc.; and allow insurers to agree to collect, classify and disseminate historical loss data (BI, Feb. 28).

The AIA is the only insurer group to endorse the compromise. The Alliance of American Insurers, the National Assn. of Independent Insurers and the National Assn. of Mutual Insurance Cos. have reiterated their opposition to any change.

That unyielding position is shared by the National Assn. of Professional Insurance Agents. The membership of the association, which once represented only mutual insurance company agents, includes many small

and medium-sized agencies.

The Alexandria, Va.-based PIA says it "opposes any change" to McCarran. Amending the law would increase prices, cut the number of producers and harm insurer solvency, the organization says.

The proposed changes "don't bring anything positive," said Dan Blum, a past PIA president and president of Insurance House Inc. in Lafayette, La. For example, there's no antitrust protection for agents' use of rating manuals, he said.

Mr. Blum is equally concerned about how eliminating the antitrust exemptions would affect regional insurers, which are a mainstay of PIA member agencies.

"We need to protect the integrity of the small insurance companies. Their ability to be a force in the marketplace would be severely dimin-

ished" if McCarran is amended, he said.

Even if no compromise had been offered, keeping McCarran intact would have been on PIA members' agendas when they visited their congressional representatives during the organization's legislative conference in February. McCarran ranked second only to health care reform among agents' concerns, Mr. Blum said.

The Independent Insurance Agents of America, which tends to represent larger agencies but whose membership still overlaps considerably with that of the PIA, also opposes the McCarran compromise in its current form, but might not be averse to some changes in the law, said David "Bud" Wilson, chairman of the IIAA's government affairs committee and owner of Wilson & Cox Insur-

ance Agency in Chula Vista, Calif.

Mr. Wilson said he "can see why some people would be very concerned about the (McCarran antitrust) exemptions" because it appears that insurers are operating under a different set of rules than other industries. However, he said, the act protects practices that are necessary for the insurance industry to function.

Like the PIA, IIAA members are concerned about the lack of a "safe harbor" for agents' use of rating manuals under the compromise. Rating manuals promote consumer interests, Mr. Wilson said.

The IIAA also wants to ensure that smaller insurers can rely on some sort of pooled data. Without shared trending data, small companies could be forced out of business.

But Mr. Wilson added that the

IIAA isn't "categorically" against all changes to the McCarran-Ferguson Act. In fact, IIAA staffers have been meeting with Rep. Brooks' staff to discuss the compromise. "If changes are going to be made, we want to make sure that they benefit consumers and agents," Mr. Wilson said.

Amending McCarran-Ferguson would "remove the stigma" that the insurance industry is somehow exempt from the federal antitrust laws under which almost all other industries operate, said Harry Custis, chairman and chief executive officer of the CIMA Cos. Inc. in Alexandria, Va., and past chairman of the legislative committee of The Council of Insurance Agents & Brokers.

The Council has neither endorsed nor rejected the compromise advocated by the American Insurance Assn. The Council's members are brokerages and large agencies. Some of its members also belong to the IIAA, while others belong to the National Assn. of Insurance Brokers.

Mr. Custis said that while he has generally considered McCarran to be of more interest to insurers—particularly smaller ones—than to agents and brokers, agents have "legitimate concerns" about retaining the right to use rating manuals. He said that any changes to the law would have to maintain safe harbors for agent actions that benefit consumers.

But if the insurance industry can get McCarran controversy behind it, agents and brokers will be able to concentrate on more pressing issues like improving service, he said.

The NAIB, unlike the other agent/broker associations, is adamantly in favor of McCarran reform, even though the group hasn't taken a position on the final draft of the AIA compromise, said Barbara Haugen, director of federal affairs for the Washington-based trade group.

There's "a strong feeling out in the consumer community that McCarran-Ferguson doesn't serve them well," said Tom Rodell, chairman of the NAIB's federal affairs committee and executive vp of Alexander & Alexander Services Inc. in New York. Crucial issues, such as continuing to allow the use of common policy forms and safe harbors for the dissemination of loss development factors, has been addressed in the compromise, he said.

"We'll lobby for it," said Ms. Haugen, who said that McCarran in its current form "functions as sort of a club to beat up the industry."

Mr. Rodell agreed, but added, "I don't know if we carry as much weight" as insurance company trade groups in influencing the McCarran debate.

While insurers have dominated the debate over Superfund reform, the Council has emerged as the most visible agent/broker player in the fray.

In fact, the Council has taken an aggressive stand in favor of creating a National Environmental Trust Fund to pay for the cost of cleaning up old hazardous waste sites, an approach suggested by American International Group Inc. Chairman Maurice R. Greenberg.

The NETF would eliminate Superfund's reliance on retroactive liability and provide funding through broad-based taxes of some sort. NETF supporters see their approach as the one best able to reduce Superfund transaction costs by eliminating coverage litigation between insurers and potentially responsible parties.

The Clinton administration has proposed creating an insurer-funded Environmental Insurance Resolution Fund. That fund would pay part of the Superfund site cleanup costs incurred by potentially responsible

Continued on page 12D

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Agent/Broker Topics

Big issues

Continued from page 12B

parties, if those parties would forgo suing their insurers. Insurers have condemned the plan, holding that only PRPs with weak cases against their underwriters would accept partial payment, while those with strong cases would go to court.

"Our members are caught between the clients suing the insurers and the insurers themselves," said Joel Wood,

the Council's vp-government affairs.

By endorsing the NETF approach, the Council also set itself apart from a compromise reauthorization proposal offered by the Coalition on Superfund, which is composed of large manufacturers and some AIA member insurers. Mr. Wood pointed out that the compromise doesn't address the problem of retroactive liability, which is of paramount concern to the Council.

Under the coalition compromise, PRPs would have to file claims with

an insurer-financed fund before they could sue insurers for coverage. The fund would offer to pay a percentage of a PRP's claim, based on the likelihood of recovery in the relevant state courts and site location, though no payments would be made from the fund until 85% of PRPs agreed to settle—rather than litigate—with their insurers (*BI*, March 21).

"Even if the AIA compromise is the right thing, I think it is important to have a strong voice pushing a more absolutist stand on liability," said Mr. Wood.

That voice reverberated through the halls of Congress in February when Council members visited Capitol Hill as part of their annual legislative conference. Members were briefed on what the Council perceived as the major problems with the Clinton administration's Super-

fund proposal, notably the retention of retroactive liability, Mr. Wood said.

Retroactivity remains the NAIB's major complaint with Superfund, said Dave Dybdahl, chairman of the NAIB's environmental subcommittee and managing director-environmental risk management services for Willis Corroon in Nashville, Tenn.

"We supported the Treasury proposal" that would have junked retroactive liability in favor of publicly funded cleanups, he said.

Mr. Dybdahl said that no plan yet offered has addressed reform from "an overall affordability" standpoint, detailing the ultimate costs of cleaning up the more than 1,200 waste sites on the Environmental Protection Agency's National Priority List.

"We're looking for something to support that supports the concepts in the Treasury plan," he said.

Concerns about insurer solvency are determining other producer groups' response to Superfund reform, even though neither the IIAA nor the PIA have endorsed any proposal.

"They're talking about numbers that could bankrupt the insurance industry" if Superfund's retroactive liability scheme means insurers are required to foot the entire cleanup bill, said Dan Kraft, president-elect of the PIA and president of Schmitt & Kraft Inc. in Williamsville, N.Y.

The IIAA's Mr. Wilson said his organization fears that unless Superfund is reformed, it will mean "financial devastation" for small insurers.

"When our markets are impaired, that's a threat to the buying public," he said, adding that the IIAA opposes the Clinton administration's reform proposal. **[B]**

Health care

Continued from page 12A

"Look, here's my customer and he pays for my services. Let him tell you what we do," added Bill Gradison, president of the Health Insurance Assn. of America in Washington. "It's a very effective tool."

Agents "are quite influential due to several factors," contends Tim Campbell, vp-government affairs for Hartford, Conn.-based Travelers Corp.

Most agencies are, in essence, small business and can look at the health care issue not only from the perspective of a small-business owner but also as a business executive with extensive knowledge of health care issues. "This brings credibility to the process," Mr. Campbell said.

"Every member of Congress has an insurance agent," added Barbara Haugen, director of federal affairs for the National Assn. of Insurance Brokers in Washington, noting that members of Congress tend to have a "soft spot in their hearts" for small businesses in their districts.

In addition, health care lobbyists say that agents' involvement in their community and relationships with their senators and representatives help boost their influence on the Hill.

Insurance agents are located in every congressional district—including the ones containing "the key people that count," said John Jonas, a health care lobbyist and partner at Patton, Boggs & Blow in Washington. Therefore, there is always someone close to that "crucial person" to get the agents' message heard.

And because agents are so active in their communities, they have a real presence in their districts. When a member of Congress hears from a person back home who has lots of friends, that member is going to listen to their concerns.

Senators and representatives are "not here for money," Mr. Jonas pointed out. The "commodity is to get re-elected."

Agent groups and organizations do not shy away from contributing to the campaigns of the key players in the health care reform debate.

According to the Federal Election Commission, the Independent Insurance Agents of America Inc. contributed \$5,000 last year to Rep. Dan Rostenkowski, D-Ill., chairman of the House Ways and Means Committee, and \$1,000 to Rep. John Dingell, D-Mich., chairman of the House Energy and Commerce Committee.

Both committees have jurisdiction over health care reform legislation.

The National Assn. of Professional Insurance Agents contributed \$1,000 to Rep. Rostenkowski, while The Council of Insurance Agents and Brokers contributed \$1,000 to Rep. Rostenkowski and \$2,000 to Rep. Dingell last year.

And, the National Assn. of Life Underwriters contributed \$5,000 to Rep. Rostenkowski and \$1,000 to Rep. Dingell.

However, pumping money into the campaigns of key health care reform players is not necessarily an indicator of political influence, said Mr. Jonas,

who says members of Congress are not swayed into voting one way or the other because of campaign contributions. The reality is grass-roots lobbying, and agents have traditionally devoted lots of time to building up grass-roots networks, he said. **[B]**

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Mandatory crop loss coverage considered

By DEBORAH SHALOWITZ COWANS

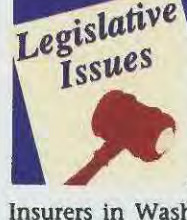
Independent insurance agents and brokers could reap a bonanza if proposed federal crop insurance legislation is approved.

Under the legislation, farmers who participate in federal crop subsidy or loan programs would be required to buy catastrophic crop insurance coverage in the event of some crop failures. Farmers could buy the coverage from agents or brokers, or directly from the federal government.

Farmers could also obtain crop insurance coverage with limits greater than the required amount

from agents and brokers.

However, the House Budget Committee authorized only \$700 million per year on subsidies for the program; the administration



calculated that subsidies would cost \$1 billion annually, according to John Sheeley, associate counsel for the American Assn. of Crop Insurers in Washington. And, the Senate Budget Committee did not authorize any money at all for the program.

As a result, a House/Senate conference will review the proposal af-

ter Congress returns April 10 from its spring recess.

Currently, only about 33% of the nation's insurable acres of farmland are insured, according to the Federal Crop Insurance Corp. However, the proposed legislation would result in 80% of insurable acres covered, the FCIC said.

The government is "literally throwing the business at the (insurance) industry," Mr. Sheeley said. "The challenge is on the industry to sell the farmers up from the base coverage."

Under the program, each farmer would pay an application fee of \$50 per crop per county, up to a maximum of \$100, for the catastrophic coverage.

This coverage would protect against yield losses of more than 50% of actual production history at a payment rate of 60% of the expected market price. Premiums for the catastrophic coverage would be subsidized by the government.

Additional levels of coverage could be purchased commercially to protect against yield losses of 65% and 75% of actual production history.

While most of the crop insurance policies would initially be for the base level only, by 1999 about 63% of all crop insurance policies would be written with limits higher than base levels, the FCIC predicted.

The proposed legislation would replace the government's existing crop insurance program and farm disaster payment program.

The legislation is "better for all concerned—the farmers, the government crop insurance program, the agents, everyone," commented Don Marin, a partner at Marin-Biel Insurance Inc. in Selby, S.D.. Mr. Marin is also a national crop insurance representative for the National Assn. of Professional Insurance Agents.

"The program is definitely an improvement over the current federal crop program," said Patricia Borowski, a senior vp of the Alexandria, Va.-based PIA. The PIA has supported reform of the federal crop insurance program since 1975, she noted.

There has "always been a constant discussion within certain segments of Congress" on reform of the federal crop insurance program, she added. **BI**

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NCOIL head hopes to form agreement on regulation

By MEG FLETCHER

The new president of the National Conference of Insurance Legislators sees the insurance industry from two sides: He's both a Missouri state senator and an independent agent.

As NCOIL president, Sen. Dennis Smith, R-Springfield, said his "No. 1 priority is a compact for insurance regulation among the states," adding that the compact should definitely cover the administration of insurance guaranty funds and receiverships.

However, "NCOIL is willing to address all possible areas," that could be addressed through an interstate compact, including the licensure of agents, brokers and insurers, he said.

Representatives of NCOIL and the National Assn. of Insurance Commissioners will be working on developing such an interstate compact over the next several months.

Sen. Smith said he plans to turn NCOIL's November meeting into a "summit" on the compact, so state legislators can introduce bills that would codify the compact early in their 1995 legislative sessions.

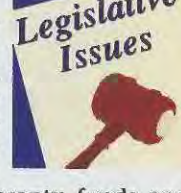
A key advantage to the interstate compact approach to insurance regulation is that it provides a state-based solution to problems with coordinating state insurance departments without involving federal authorities.

"The states have done an admirable job overall in (insurance) regulation," Sen. Smith said, noting the problems that federal regulators have had with savings and loan institutions.

However, while he would prefer to retain a state-based system of insurance regulation, Sen. Smith says he is willing to discuss proposals that call for federal solvency regulation.

Retaining state regulation of the insurance industry raises other issues, he pointed out.

An important one focuses on the NAIC's accreditation program: *Continued on page 12F*



Agent/Broker Topics

NCOIL

Continued from previous page

Some states have problems assimilating the many new model laws the NAIC has added to its list of requirements for state accreditation.

For some, the problem is "philosophical," with state legislators challenging the NAIC's authority to dictate that legislatures enact NAIC model laws before an insurance department can be considered for accreditation.

For instance, New York state Sen. Guy Velella, R-Bronx and Westchester County, has asked Gov. Mario Cuomo to prohibit the state Insurance Department from spending any money on NAIC expenses following the NAIC's decision last year to pull New York's accreditation because of the Legislature's failure to pass two required model laws (BI, March 14).

However, other states are not as concerned with the NAIC's role, Sen. Smith said. Historically, NCOIL has supported the aims of the NAIC's accreditation program and most of the model legislation it entails.

Sen. Smith's other goals include



Sen. Dennis Smith says he is willing to discuss proposals that call for federal solvency regulation.

improving NCOIL's financial condition through measures like raising dues and establishing a foundation for education activities.

Sen. Smith assumed the presidency of NCOIL at the beginning of this year, 11 months earlier than he expected.

He was elected as NCOIL's president-elect in November 1993. However, he became NCOIL's president on Jan. 1, succeeding former New York state Assemblyman Howard Lasher. Mr. Lasher was required by NCOIL's bylaws to resign as president when he left the state Assembly to take a seat on the New York City Council.

Sen. Smith served in the Missouri House of Representatives from 1978 until he was elected to the Senate in 1982.

He has served as the Senate Republican Caucus chairman and is now a member of several committees, including insurance; appropriations; aging, mental health and elderly affairs; education; ways and means; public employees retirement; gubernatorial appointments; rules and joint rules and resolutions; and ethics and apportionment.

Sen. Smith bought the independent agency that bears his name—Dennis Smith & Associates Insurers—in 1986, though he had been associated with the firm's predecessor company since 1973. The agency writes all lines of property/casualty coverages, as well as individual and group life and health policies.

He holds a bachelor of science degree from Oklahoma Baptist University in Shawnee. **BI**

Competition increasing for brokers

Return to entrepreneurial roots key to future growth: Execs

By LOUISE KERTESZ

Large regional brokers face the same challenges as other American businesses as insurers turn to cost-cutting and downsizing.

But to continue growing, brokers can return to their roots as entrepreneurial organizations, say executives at three large regional brokers who spoke at Russell Miller Inc.'s National Insurance Symposium, held last month in San Francisco.



"We are going to face pressures to reduce expenses and maintain profitability," said John P. Folsom, president and chief executive officer of Raleigh, Schwarz & Powell Inc., a Tacoma, Wash.-based broker.

Regional brokers face an added challenge: Publicly held brokers "are restructuring to come after the business enjoyed by the large regionals," he said. "We see that as another challenge, or another opportunity, if you will."

Several changes during the next five years will try the souls of independent agents and regional brokers, Mr. Folsom predicted: First, average commission rates will drop by 20% to 40%; and insurers will reduce the number of agencies with which they do business.

Although many insurers now expect an independent agency to produce between \$500,000 and \$1 million in annual premium volume, in five years insurers won't do business with an agency generating less than \$2 million in annual volume, he said.

In the face of these challenges, large independent agencies "should get back to their historical and original basis for creation. . . . The true value of the independent agents was and has been a proactive pursuit of entrepreneurial activity combined with relationship-building designed to serve customers while making a reasonable return," Mr. Folsom said.

During years when independent agencies were multiplying, this "cottage industry" was profitable and served its customers well, he said. But "the cottage industry is dying," thanks to "the consolidation of the agency system."

"Many of the original entrepreneurs were acquired by large, public brokers," which "have brought aboard technicians, service account executives and managers to run the business," he said.

The progress of consolidation is "anathema to the entrepreneurial activity" that created the large regional brokers. By and large, national brokers "are into management, politics and paperwork," he said.

Meanwhile, professional managers, like Mr. Folsom, have joined regional brokers and have emphasized "budgeting and planning and maximizing profitability" to complement the entrepreneurial spirit of providing service to customers, he said.

The continuing success of the large regional brokers depends on several things, Mr. Folsom said.

"We have to go out and find entrepreneurs—entrepreneurs who know how to sell," he said. "We have to retool our professional managers to incorporate a managerial process that encourages entrepreneurial activity."

The challenge is to create entrepreneurs who will operate "in a new and different way," he said.

Apart from entrepreneurship, Raleigh, Schwarz is focusing on a number of other tactics "as a way of succeeding in the future," Mr. Folsom said.

The first is "embracing business segmentation and reducing the number of carriers we represent. . . . The day of the generalist broker is going to die, if it hasn't already," he said.

Raleigh, Schwarz is building its sales and support staff around specific business segments to differentiate itself from generalist national brokerages, he said.

Besides emphasizing automation, the broker is also "defining

Continued on next page



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Marketing to affinity groups

By LOUISE KERTESZ

Targeted customer service strategies build effective connections

Brokers and insurers must refine strategies for developing and marketing insurance products to affinity groups, a huge market that the industry can't afford to ignore.

The process of selling to affinity groups needs to be revamped, said Frank A. Patalano, president of the Professional Liability Division of National Union Fire Insurance Co. of Pittsburgh, Pa., a unit of American International Group Inc.

Mr. Patalano, along with two other affinity group marketing experts, spoke at the National Insurance Symposium Leadership Conference sponsored by Russell Miller Inc. last month in San Francisco.

Affinity group marketing is "a particularly good way to get a product to market," he said.



"From the insurance company point of view, the affinity group is a natural prospect. It can offer a natural channel of distribution...marketing efficiency and productivity and persistence," Mr. Patalano said.

"The operative word is 'can,'" he emphasized.

"From my point of view, the process can get bogged down pretty badly" in battles over price. And, some associations are "very demanding and sometimes only marginally involved and marginally influential" in the process of getting the right insurance product for their memberships.

Another problem is that program administrators get caught in conflicts between representing the associations, the insurers and their own interests, he said. "Communications are disjointed and muddled frequently, and in the end what you get is independent agen-

das and efforts."

And, sometimes "customer needs get subjugated to the political interests of association groups," Mr. Patalano said.

As a result, there's "a little unhappiness everywhere and enough basis to overhaul the process" of marketing insurance products to affinity groups, he said.

To improve the process, all parties involved in affinity group marketing have to "achieve a common focus," which ultimately must be on the policyholder, he said.

The potential of selling coverage

Continued on next page

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Continued from previous page
quality services and educating and training staff accordingly." Brokers should adopt standards and define "a minimum level of standards and service" for their staff to follow.

John T. Lockton III, chairman and CEO of The Lockton Cos. in Prairie Village, Kan., maintained that his brokerage has "stayed the course" and remained entrepreneurial.

"We're not doing things any differently today with 450 associates than we did 10 years ago with 50," said Mr. Lockton, adding that he is not only Lockton's top executive, he's also the firm's top producer.

During the past decade Lockton's revenues have grown to more than \$50 million from less than \$5 million, he noted. Still, "we're pretty much exactly what we were 25 years ago (when the family business was founded)" — a sales organization.

Mr. Lockton joked that this focus makes him feel like "the Lone Ranger" of the brokerage business.

Unlike most other brokers, "an absolute Lockton philosophy is that producers will produce," while marketing and servicing responsibilities are handled by other employees, Mr. Lockton explained.

A "creative compensation" structure gives producers the incentive to meet sales goals. The corporation is guaranteed a pretax profit equaling 10% of revenue by contract with the producers. If the ratio of expenses to revenue is 52%, and 10% goes to the corporation, then 38% is the projected commission paid to producers each month based on their books of business, Mr. Lockton explained.

Lockton producers are "the best-paid in the industry," he boasted. "It's a producer-driven system."

Another broker, Merton J. Segal, chairman of Meadowbrook Insurance Group in Southfield, Mich., noted that his company has grown because "we are in the alternative risk business. Captives are us," he said.

Meadowbrook's growth demonstrates "how the insurance industry has moved from being commodity-driven to being service-driven." Meadowbrook began as a retail agency 39 years ago. Now, "we're captive managers, we're agents and brokers, we're insurers and reinsurers...we manage several insurers and several public entity pools. We're consultants, underwriters, actuaries."

Meadowbrook's revenues, which totaled \$18.2 million in 1992, have grown by 22% to 25% a year for the past several years by helping clients customize their risk financing programs by, for example, forming captives, according to Mr. Segal.

In 1976, Meadowbrook helped form a group captive in Bermuda for heavy conveyor manufacturers and has gone on "to develop this theme for other associations and individual companies."

"In 1970, we were considered mavericks...even dangerous," he said. Yet Meadowbrook was simply helping clients that "had been abandoned by the (traditional) market."

When "another crunch" in the market developed in 1985, as clients were "being deserted by fronting carriers and reinsurers," Meadowbrook started its own insurer—Star Insurance Co.—to front for its clients' captives. Star is now an admitted insurer in 44 states. **BI**

Agent/Broker Topics

Marketing

Continued from previous page
through affinity groups is "staggering," Mr. Patalano pointed out.

There are about 100,000 professional and trade organizations in the United States, an increase of about 40% in the past 10 years. Seven out of 10 Americans belong to at least one affinity group, and the groups' total membership is about 500 million people, he said.

"For a sales guy, that's quite a prospect list," he observed.

"The question is: How do you get at it? And how do you get at it in the future?"

The present is "clouded," because it is "driven by price," as associations and members try to determine whether a product's value

justifies its cost. "I have the most difficult part of that equation. I have the intangible product... whose intrinsic value is not very apparent to people."

Association members "are not that impressed" by a letter that explains that National Union is an A+-rated insurer with a secure balance sheet, Mr. Patalano explained.

That's a "pretty tough message to get across on a mass-market basis," he said. "The process tends to treat product as commodity... and everyone in the process is under pressure to get a lower price."

In addition, there is jockeying for leadership positions in associations, and business "takes a back seat as a result of that process." And because of the lack of continuity in association leadership,

leaders often make short-term business decisions, which pose another challenge to affinity group marketers, he said.

But, "it really doesn't make any difference what's going on today.

ing) catalog-sales approaches to supplement face-to-face sales," he said.

"The public is getting more comfortable with alternate delivery systems and finding them more

Seven out of 10 Americans belong to at least one affinity group, and the groups have about 500 million total members, says Frank A. Patalano of National Union. 'For a sales guy, that's quite a prospect list.'

What's really important is what's going on tomorrow," Mr. Patalano said.

Insurance companies are increasingly doing "more with less, (us-

comfortable than traditional methods," he said.

"Anybody who has done business with L.L. Bean (can) understand how a company in a very

crowded field can differentiate itself on an incredible scale and have some success. That is basically the customer-service model we will have to sign on to and work toward if we're going to be successful in the affinity market business."

Credit card marketers and Freeport, Maine-based mail-order retailer L.L. Bean Inc. "are setting the pace" for marketing, agreed Rufus J. Williams III, chairman of Johnson & Higgins/Kirke-Van Orsdel Inc. in New York, a joint venture brokerage.

Marketing to affinity groups, which "has been around for 30, maybe 40 years," was once a low-risk, high-return business. That is because there was little competition and great consumer demand. To succeed now, however, affinity group marketing must become more sophisticated, he said.

Customers are much more demanding, since their standard of service is being set by MasterCard and Visa, which market heavily to affinity groups.

Affinity group members expect "top-flight online services and superior offerings at a discount," Mr. Williams said.

Since nearly all affinity groups already have endorsed general property/casualty insurance programs, the market for those products is saturated. So marketers must go after "the niche demand within the association," he suggested.

"Customers' needs and demands must be identified and met with rifle-shot accuracy," Mr. Williams observed.

Implementing this strategy requires "a bold underwriting partner with vision and staying power," he said. Such a partner must have a "long-term appetite for market share."

At Chicago-based Aon Specialty Group Inc., a unit of Rollins Hudig Hall Group Inc., affinity group marketing is called "program marketing." The key question at Aon Specialty is, "What is the need and what should the product be?" said Michael D. Rice, chairman, president and chief executive officer.

Once the product is identified, Aon Specialty believes successful program marketing demands "critical mass. We must feel we can be pre-eminent, if not predominant."

A successful program marketer must identify a partnership "and make sure everyone gets what they expect." The insurer must make an underwriting profit, the affinity group must determine what it wants from making the product available to its members and the customer must receive "a good product at a fair price."

Direct marketing is "a process you commit to. That's the first specialization," he said, noting that Aon Specialty's automated processing facility has three separate ZIP codes to facilitate quick response to consumer requests.

Before launching a product, Aon Specialty is "prepared to spend a lot of money not to do something," using focus groups and pricing tests to determine whether a program will be successful.

"We believe change is an ally. We look for change all the time," said Mr. Rice, who said he believes health care reform will present an opportunity for "supplemental insurance products."

For a program to be successful, the affinity groups must have "the same commitment to the program" as its underwriters and perhaps assume some risk, for example, in an association captive. **BI**

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Insurance industry yet to profit from improving economy

By MARK A. HOFMANN

The U.S. economy appears to be emerging from the recession, productivity has picked up and inflation remains low. Some industries are even hiring new workers.

But the recession hasn't ended for property/casualty insurers. Years of a soft market are taking their toll, while the aftermath of the hard market of the mid-1980s still presents challenges.

Even as the economy as a whole rebounds, the insurance industry continues to undergo fundamental change, with a new emphasis on technology to perform the jobs that, before layoffs, were performed by thousands of employees, said Mike Morrissey, chief executive officer of Parsippany, N.J.-based analyst Firemark Group.

Those jobs won't come back, he said.

Of course, insurance and business cycles do not necessarily coincide. "Traditionally, there has been very little relationship between the economic cycles and the insurance cycle," said Sean F. Mooney, senior vp and economist for the Insurance Information Institute in New York.

When a recession hits, for example, General Motors Corp. manufactures fewer cars and suffers a decline in revenue, he said. Home-

builders cut back and may be forced out of business. But during the same recession, insurers can continue to insure the cars already on the road and the houses already built.

Even though the recession of the early 1980s was the worst to hit the nation since the Great Depression, insurers "just sailed through," he said. But the seas were rougher during the most recent downturn and are unlikely to be much smoother as the economic recovery continues.

Before the mid-1980s, corporations considered insurance simply a "nuisance cost," said Mr. Mooney. Then the market abruptly turned, forcing risk managers to shop for coverage. Now risk managers are extremely price-conscious and are able to take advantage of an alternative risk financing marketplace that did not exist a decade ago.

The combination of sophisticated buyers and new options will make it more difficult for insurers to recover, Mr. Mooney said. Also adding to the difficulty: rising interest rates and, most likely, a declining stock market. No longer will insurers be able to reap impressive capital gains by selling assets, and a significant stock market drop "could give the shock needed to move to a harder market," he said.

Increasingly, insurers' future will

be linked with that of the alternative markets that sprang up in the mid-1980s, said Don Hardigree, director of the Institute of Insurance and Risk Management at the University of Nevada-Las Vegas.

In the past, premium lost by insurers during recessions eventually

cillary services that are needed by policyholders that turn to alternative markets.

"The insurance industry still insists that what it sells is insurance," said Neil Doherty, professor of insurance and risk management at the University of Pennsylvania's

to the poor showings of many insurers: The premium volume lost to the alternative markets is likely to stay lost; the recent spate of natural catastrophes has dampened property insurers' profits; state regulation has been uneven; and the liability insurance market is still being battered by enormous increase in claims cost.

Mr. Doherty suggested three management responses:

- First, improve asset/liability management by better matching the maturation of assets with that of liabilities.

- Second, devise more complete risk management packages for corporations. Insurers "need to recognize they're in the risk management business and that the needs of the corporations are risk management needs, not insurance needs."

- Third, insurers need to step up lobbying efforts at both the state and national level, he said.

Mr. Doherty noted that in the current climate, multiline insurers may have an advantage over niche underwriters because they can still spread risks over many types of exposures and a wide geographic range.

As the economy gains strength, certain types of insurers are sure to profit. Increased infrastructure spending means more business for financial guarantee insurers, said Firemark's Mr. Morrissey. And more employment means increased workers compensation premium volume.

But, ironically, the recovery could be bad news for some insurers. Auto insurers, for example, may find themselves paying out more in claims without necessarily adding to their premium base. As the economy improves, people tend to drive more, which leads to more accidents, Mr. Morrissey explained.

No matter what their focus, insurers will have to get more efficient if they want to compete, said Gloria Vogel, first vp of Lehman Bros. in New York. Multiline insurers aren't only facing premium dollars lost to the alternative market, but their health insurance operations face challenges from health maintenance organizations as well, she said.

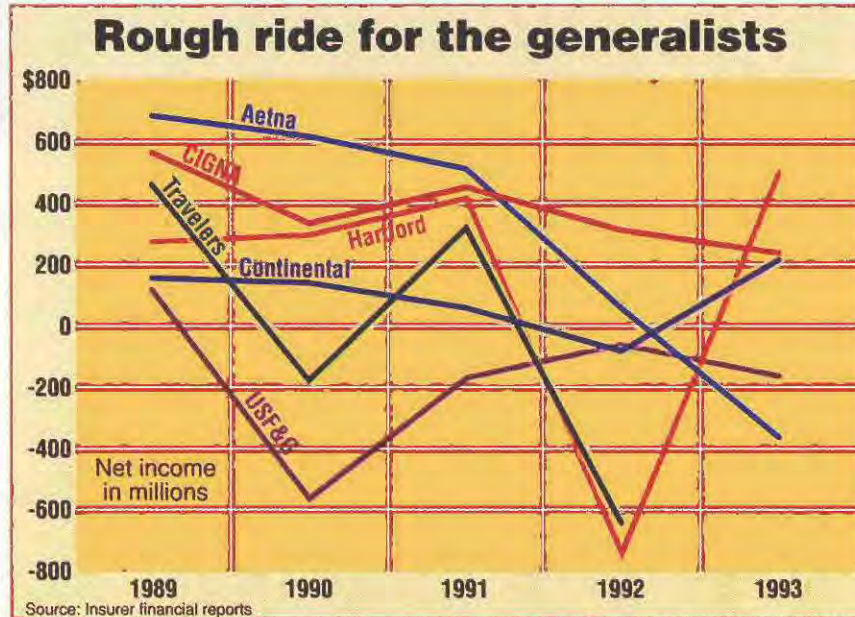
"Most of the generalists have become increasingly less generalists," said Alan Levin, senior vp at Standard & Poor's Insurance Rating Services in New York.

"By being a generalist, you have difficulty responding to the needs of specific markets," he said. The specialists "start eating the generalists."

"You are going into an environment that's more customer-driven," said the III's Mr. Mooney. That means there's less of a "wholesaler" environment, and multiline companies will have to downsize and specialize more than in the past. However, the multiline companies will survive and not evolve into purely niche underwriters, he predicted.

Mr. Levin said insurers don't want to get rid of the "muscle" of their business, such as claims and underwriting expertise, and are hesitant to lay off employees dur-

Continued on next page



returned. But the premium lost to the alternative market isn't likely to come back, he said. Insurers will have to take a more aggressive stance in financing higher layers of coverage and providing the an-

Wharton School of Business in Philadelphia. Instead, "insurers need to be able to move with the tide and address the risk management needs of large corporations."

Several factors have contributed

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System perils lurk in failure to plan

Errors and waste can be reduced by setting controls

By SALLY ROBERTS

Errors and waste are the most common sources of problems in agency information systems, an information systems expert says.

While disasters like fires, earthquakes and hurricanes can destroy entire computer systems and result in huge losses, errors and waste are much more likely to occur—and in the long run can be very expensive, he said.

Mistakes like double entries, improper applications and file erasing, and such wasted tasks as repetitive work, unnecessary processing steps and unclear procedures "occur in small increments, every day, many times a day," said George Hertzberg, president of PAGE Assured Systems Inc., a Fort Lee, N.J.-based consortium of independent consultants and educators in management, security, audit and control of information systems.

Because they happen so frequently and thus add up, errors and wastefulness constitute a larger computer problem for insurance agencies than disasters, fraud and theft, which in comparison occur much less often, according

to Mr. Hertzberg.

Any insurance agency installing a new computer system is inviting lost time and effort, Mr. Hertzberg told agents at the second annual ACORD Conference, which was held March 6-9 in Dallas. Agencies should establish control procedures to prevent this from happening, he advised.

"Whenever change occurs—like a new computer—that change brings with it new procedures, new corporate policies, new interpretations and new policy standards."

A major problem is the tendency to avoid the planning process, he said. Many agency managers think that since implementing controls will not affect this year's bottom line, the cost involved is not worth it.

Results from controls come over the long term, Mr. Hertzberg stressed. "For in the long term, disasters will occur; therefore, preparation is cost-effective."

Controlling errors and waste means having corporate standards and policies in place, he explained.

The single greatest source of error is inadequate training. "It's easy to postpone" training because the expense involved does not immediately enhance the bottom line, he noted.

Establishing internal controls requires commitment by management, Mr. Hertzberg said. Unfortunately, that can be tough to get, because controls are a long-term investment.

Another danger for agency systems is power failure. Although it's a common occurrence, it can mean disaster and business interruption. "This can destroy data if it's not adequately protected," Mr. Hertzberg said.

Fires are another peril that could result in system losses. "Don't have your computer center directly below or above the cafeteria or boiler room" because that is where most fires originate, he warned, adding that most of the damage to computers in a fire is caused by water and smoke, not

the actual fire.

Contingency planning is a must, he said. A plan provides guidelines and also provides discipline for running a business. Agencies also have to test the plan—"if not, it doesn't work." People have to be trained in how to respond to new scenarios of what can go wrong.

One problem with contingency plans is that many people keep them in the office as paper documents. "Have a copy of the plan outside the location" of the place of business, Mr. Hertzberg advised, so that the contingency plan is not lost in a catastrophe.

Other potential loss catalysts include computer viruses, "hackers" and fraud. However, "they don't occur with a great deal of frequency," he said.

Viruses can be easily averted if employees are prohibited from bringing in software from home and using it without first checking for a virus. "Don't assume all software is going to be safe. If you have an agency with more than a few computers, use one computer to test anything new that is brought in."

In addition to not protecting against viruses, "most agencies don't practice safe computing," he said, noting that hackers can decipher passwords, giving them access to information.

"Hackers used to be a nice 'techie' guy that liked to play with computers," he said. Now they are more "mischievous."

Agencies should do more than simply have "sophisticated passwords." A password should "never be words or strictly numerical. It should be mixed and mean nothing to anyone." Passwords also should be changed every 30 days, Mr. Hertzberg said.

Unfortunately, if passwords are changed so frequently, users tend to write them down because they can't remember them. However, in the future, voice recognition will replace passwords that must be memorized, Mr. Hertzberg predicted. **BI**

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Recession

Continued from previous page

ing lean times. Some were hiring when they shouldn't have been, and some may have been so hesitant to trim any fat during the recession that ultimately they had to make massive layoffs.

Now, though, these companies may not have to do much more cutting. "They have to digest" what they've already cut, said Lehman Bros.' Ms. Vogel, who refused to rule out the possibility of more downsizing in the future.

Still, it does not appear that insurance company employment will increase even if the economic recovery proceeds strongly.

Firemark's Mr. Morrissey said he felt "very strongly" that there will be no surge in insurance employment as the recession ends. "Finally, technology has started to take hold and become more than an expensive accounting system."

Unlike their life insurance counterparts, property/casualty insurance companies have not really embraced automation as a means of cutting costs. Thus, technology is the most likely area in which insurers will make improvements, said Mr. Mooney. "I don't think you'll see them expanding the employment base."

UNLV's Mr. Hardigree said that insurers will have to rely more on forecasting technology, particularly in the wake of increasing catastrophe losses.

Although insurance company management has been evolving and becoming more effective, there's still room for new blood, he said. The industry can rely on two sources for that: One is bringing in talent from other industries; the other is to actively recruit from university risk management and insurance programs, he said. **BI**

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Agent/Broker Topics

Karpinski up to New Jersey challenges

By MICHAEL SCHACHNER



Drew Karpinski

When agency executive Drew Karpinski accepted New Jersey Gov. Christine Whitman's nomination to become insurance commissioner last month, he knew that some serious problems were waiting for him.

First and foremost was the state's 4-year-old Market Transition Fund, which provides personal auto insurance to high-risk drivers. With the fund already \$1.3 billion in debt, the department last year sought money from insurers to

keep it afloat; that money is now in escrow pending a lawsuit.

Insurance affordability and availability are also pressing problems. Insurers have left the state in recent years, citing poor market conditions, and few new companies have taken their place.

Daunting as these problems are, Mr. Karpinski thinks that with hard work, and some cooperation from the governor's office and the state Legislature, he can work things out. "Here in New Jersey we have a reputation that leaves a lot to be desired," said Mr. Karpinski, 53, who co-founded multiline agency Burkar Associates Inc. in Parsippany in 1969. "There are im-

provements we need to make.

"My job as commissioner is to make things better for consumers, and to do that, there must be a sound market that's selling good products that are available and affordable to all consumers."

The quickest way to get to this point, he said, is for the department to improve relations with the insurance industry. "In the past, (communication) was one of our weaknesses. We have to be more responsive and timely with our interaction with the companies that serve our consumers."

The new commissioner, who majored in economics at Colgate University, equates running an

agency to having front-row seats at a ball game. "As an agent, you're sitting right in the center of things and you're tied to consumers, the government and the companies you represent all at the same time. It's an important perspective that should help me out."

Although most of his career has been spent on the agency side, Mr. Karpinski has been on the other side of the fence. From 1964 through 1969, he worked for Chubb & Son Inc. in New York and for Sentry Insurance Co. in Morristown, N.J.

Now that he's a regulator, he'll also be calling on his days when, as president of the Professional Insurance Agents of New Jersey in 1984-1985, he lobbied lawmakers.

"There are a lot of challenges, but I feel we can do some good things. I'm a hard worker and we want to do a lot here. One of the most important things is to make the department more communicative and responsive. That may not sound very specific, but it is. And, we'll know we've reached that point when insurers are looking to come to New Jersey rather than leaving it," said Mr. Karpinski.

"Drew is very intelligent. I'd call him a student of the business. But he has some very serious problems to tackle," said Terry Ryan, president of Hanson & Ryan Inc., an agency in Totowa. "The MTF debt, health insurance and workers comp are all problems that weren't solved by the previous administration" headed by Gov. James Florio.

Mr. Ryan also hopes that Mr. Karpinski will be an advocate for agents and brokers in the state. "We could always use an advocate in Trenton. When companies struggle, the first thing they do is cut commissions. While, there may be no regulatory answer to this, I would hope that Drew does something to require companies to at least pass those commission savings on to consumers rather than just pocketing the money."

As to whether Mr. Karpinski sees himself as an advocate of the consumer, agent or insurer, he said the consumer must come first. But, for that to happen, all members of the insurance industry must be on the same page and satisfied with their positions.

Mr. Karpinski's nomination is expected to be confirmed by the New Jersey Senate this month. **BI**

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Partners

Continued from page 3

sign up out of 23,000 lives," said Reese Smith, director of employee benefits for San Francisco-based apparel giant Levi Strauss & Co. Most of the participants live in San Francisco and about half of the participants are women signing up their boyfriends, he said.

Companies that offer the coverage say it's not expensive, even with a few added administrative costs.

At Levi Strauss, in fact, claims for domestic partners are running much lower than claims for other dependents, Mr. Smith said. "Domestic partners cost us about 15% of what a spouse costs."

Employers should consider several things before offering medical or other employee benefits to domestic partners. First and most importantly, they need to clearly define "domestic partner." Most domestic partner definitions include three requirements: the partners must be involved in a committed relationship; must live together; and must be financially interdependent.

Some employers require employees and their companions electing domestic partner coverage to sign an affidavit to document the existence of a domestic partnership.

Levi Strauss requires partners to live together, be financially interdependent and represent themselves as life partners, said Mr. Smith.

The firm also "developed a guiding principle," when it extended coverage to domestic partners in 1992. "Whatever we do for spouses, we do for domestic partners," he said.

"We define domestic partners as anyone of the same or opposite sex with whom you make a household and make a commitment," Ms. Lonnergan said. In addition, Ben & Jerry's requires such couples to reside together at least six months before qualifying for the coverage. That requirement, however, is at the request of the insurance company that writes stop-loss insurance for the company's self-insured group health care plan.

There is another problem that a company should consider before offering benefits to domestic partners: community backlash. For instance, Apple Computer Inc.'s plans to build a sales support facility in Williamson County, Texas, almost fell through last year when county commissioners learned that the company offers domestic partner benefits and temporarily blocked tax incentives promised to the company (BI, Dec. 13, 1993).

Consultants and employers say health insurers are reluctant to underwrite domestic partner coverage and most firms that want to offer the benefits must self-insure their health care plans. Employers that want to offer benefits other than medical coverage may meet with resistance from life insurers, they add.

And, health maintenance organizations may impose a surcharge on an employers' total premiums if they offer domestic partner coverage.

The Health Insurance Assn. of America said it did not know whether any of its members would write health care coverage for domestic partners.

In 1988, Ben & Jerry's approached CIGNA Corp., its group health insurer at the time, with a request to underwrite the coverage, but the insurer refused, Ms. Lonnergan said. A CIGNA spokesman was unable to confirm that account.

In 1989, Ben & Jerry's found an insurer, Consumers United Insurance Co., that agreed to underwrite the coverage and to reimburse alternative providers, like chiropractors,

acupuncturists and homeopathic physicians. The premiums for the plan were not more expensive. "In fact, they were lower than CIGNA's premiums for the first couple of years," she said.

When Consumers United stopped writing business in 1993, Ben & Jerry's decided to self-insure its group health plan, in part so it could offer more extensive preventive services.

There are tax implications for employers that offer domestic partner coverage. Because unmarried partners are not recognized as dependents under Internal Revenue Code section 106, employees must pay taxes on any employer health plan contributions.

The tax does not discourage participants, though. "Employees who selected domestic partner coverage did so because they needed it. I think they'd rather pay the tax than go without the coverage," said Ms. Mughnera of BC/BS of Mass. **BI**

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CSX

Continued from page 1
employer. It appears that the transaction has been designed for the benefit of CSX and its affiliates rather than for the benefit of the plans," the department said.

CSX declined to comment. But Bruce Wright, the company's attorney with LeBoeuf, Lamb, Greene & MacRae in New York, said, "We are disappointed with the position the Department of Labor has taken."

CSX last June first sought to win Labor Department approval to reinsure two group life insurance plans through its Vermont captive. Approval is required because benefit plan transactions between related companies normally are prohibited by federal law.

The CSX case was being closely watched by captive experts who saw new opportunities for em-

ployers to take tax deductions for property/casualty premiums paid to their captives by using their captives to insure or reinsure employee benefit coverages.

Such deductions, according to these experts, would be possible because:

- Several appellate courts have ruled that a parent company can deduct premiums paid to a captive as long as the captive writes a significant amount of unrelated business. In one case, the 9th U.S. Circuit Court of Appeals ruled that a parent could deduct premiums paid to its captive even if as little as 30% of the captive's premium volume came from unrelated business (*BI*, Feb. 4, 1992).

- The Internal Revenue Service has ruled that employers can deduct group term life insurance premiums paid to their captives because these premiums represent unrelated business (*BI*, April 26, 1993).

Thus, according to this reason-

ing, if a company funds employee benefit coverages through a captive, the captive could be considered as writing a significant amount of outside business. That would increase the likelihood that the parent would be able to deduct the property/casualty premiums it paid to the captive.

If the Labor Department had approved the CSX arrangement, "there would have been a significant new opportunity for captive owners to diversify their business" in an attempt to deduct property/casualty premiums paid to the captive, said Richard C. Heydinger, director of risk management services at Hallmark Cards Inc. in Kansas City, Mo.

"A lot of us were hoping that new ground would be broken" in the CSX case, added Mr. Heydinger, former president of the Vermont Captive Insurance Assn.

By rejecting CSX's application, "an approach of tremendous interest to employers appears to

have been shut down," said Henry Saveth, a principal with A. Foster Higgins & Co. Inc. in New York.

Some captive experts say, however, that the Labor Department ruling may not totally shut the door on employers' attempt to deduct property/casualty premiums by also funding employee benefit coverages through their captives.

If presented with a different set of facts, like a higher percentage of unrelated business and more than just a general commitment to share cost savings with employees, the Labor Department might rule differently, they contend.

"This is not the final nail in the coffin to this approach," asserted Arthur Koritzinsky, a senior vp with Johnson & Higgins in New York. "Other companies will approach the Department of Labor where the facts are different and be able to present a more convincing case."

Captive experts also note that nothing in the Labor Department's letter to CSX indicates that the 50% test—in which no more than 50% of a captive's premiums be generated by funding parent company risks—is an iron-clad rule.

During its initial filings with the Labor Department, CSX didn't explicitly say that it wanted to reinsure the group term life benefits through its captive to enhance the tax deductibility of property/casualty premiums paid to the captive.

Company officials earlier said that CSX hoped to stabilize and eventually reduce the cost of the group life coverage by reinsuring it with the captive.

Insurance foundation raises \$27,545

CHICAGO—The annual Angus Robinson Jr. Memorial Foundation St. Patrick's Day raffle raised \$27,545 for the educational foundation.

The raffle, which is held in conjunction with Aon Risk Services' annual St. Patrick's Day party in Chicago, was won by Fran Lockwood of Marblehead, Mass. First prize was a trip for two to Ireland or \$4,000 cash.

The second prize, Waterford crystal, was won by Roger Bassi of Palatine, Ill.

The Angus Robinson Jr. Memo-

Aetna Life Insurance Co. and Prudential Insurance Co. of America now write CSX's group term life insurance coverage. CSX had proposed that Aetna and Prudential would continue to write the policies, but the CSX captive, one of Vermont's largest, would reinsure 100% of the risk.

However, in a subsequent letter to the Labor Department, Edward Scallet, a LeBoeuf, Lamb attorney in Washington representing CSX, made an indirect reference to tax considerations.

Anything that lowers the cost of benefits without increasing risks to plan participants should be supported by the department, Mr. Scallet wrote. "This is true whether the savings result from increased cash flow in the affiliated insurer or tax benefits that may arise under the Internal Revenue Code" (*BI*, Jan. 3).

The Labor Department, in its rejection letter, said it recognized that there are "apparent" tax advantages associated with CSX's proposal. But, "CSX failed to adequately demonstrate any objective cost savings that would inure to the benefit of the plans as a result of the proposed arrangement."

In 1992, the last year for which figures are publicly available, CSX Insurance Co. reported earned premiums of \$64.5 million, including \$56.4 million in property/casualty insurance and reinsurance premiums related to CSX-affiliated risks.

CSX estimated that its group term life plans, which cover about 32,000 employees and retirees, generated about \$12 million in premiums in 1993. **[E]**

Tort reform

Continued from page 3
Civil Justice Reform Group have supported and will continue to support these existing groups."

Martin Connor, president of the American Tort Reform Assn., agreed that the new group is a complement to ATRA, not competition. ATRA officials have met with some of the leaders of the group, whose membership overlaps with ATRA.

"We have a very cordial relationship," said Mr. Connor, who recently tendered his resignation as ATRA's president but agreed to stay on until a successor is named.

He said the fact that the bulk of the Civil Justice Reform Group's members are manufacturers has a significance beyond the ability to build up significant war chests.

"There's more involved here than money. These are companies with large numbers of employees and dealer networks" that could be mobilized to promote tort reform, said Mr. Connor, who is also currently heading Stateside Associates Inc., an Arlington, Va.-based state issue management firm.

Bill Fay, executive director of the Product Liability Coordinating Committee, welcomed the new

group as "one more arrow in the quiver."

He said the PLCC has concentrated on enacting federal product liability, while the new group is focusing on the state capitals. "We're not in competition." **[E]**



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	1993	1992
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Earnings from continuing operations per common share	\$2.62	\$1.91
Shareholders' equity	\$235.5 million	\$57.3 million

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SPHERE DRAKE Insurance p.l.c.

Total shareholders' equity

1993	1992
£106.2 million	£75.4 million



SPHERE DRAKE Insurance (Bermuda) Limited

Total shareholders' equity

1993	1992
\$104.0 million	\$0.2 million

Copies of the three annual report and accounts for the year ended 31st December 1993, from which the above is extracted, are available from

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INTERNATIONAL

U.K. insurers report big gains in profits

By ADRIAN LADBURY

—LONDON—The big five U.K. multiline insurers' profits rebounded sharply in 1993 to a collective pre-tax profit of just more than 1 billion pounds (\$1.48 billion), excluding investment gains.

In 1992, the five insurers suffered a collective pre-tax loss of just less than 100 million pounds (\$151.5 million) and in 1991 they lost nearly 1.3 billion pounds (\$2.43 billion) in 1991.

The 1993 profit, like the improvement in 1992, was attributed to more selective underwriting, higher premiums, lower claims and cost control.

Mild weather, improvement in the housing market that has reduced private mortgage indemnity losses and healthy overseas markets all helped to boost the insurers' results.

But analysts predict that the insurers' recovery will be short-lived. Rates already have flattened for most U.K. lines of business and are falling in some.

Commercial Union P.L.C., one of the bigger players in the London market, warned that the arrival of new capacity at Lloyd's already has depressed rate levels after two years of increases.

The biggest profit on paper was posted by Guardian, formerly known as Guardian Royal Ex-

change P.L.C., with a pretax profit of 751 million pounds (\$1.11 billion) compared with a 150 million pounds profit (\$227.2 million) in 1992.

But Guardian is the first of the insurers to adopt a new accounting standard that recognizes investment gains. All U.K. insurers will use that standard after Jan. 1.

According to a Guardian spokesman, under the old system the company would have posted a 1993 pre-tax profit of 183 million pounds (\$270.7 million) and 3 million pounds profit (\$4.5 million) in 1992.

"The increase in worldwide premiums written from 2.24 billion pounds (\$3.39 billion) to 2.61 billion pounds (\$3.86 billion) indicates the

success achieved in retaining a large quantity of business while increasing premium rates substantially," said Sid Hopkins, Guardian's chief executive.

General Accident P.L.C. reported a 294.9 million pretax profit (\$436.3 million), compared with a loss of 29.3 million (\$44.4 million) for 1992.

Nelson Robertson, GA's group chief executive, was particularly pleased with a reduction in the company's worldwide underwriting deficit to 229 million pounds last year (\$338.8 million) from 510.1 million pounds (\$772.5 million) in 1992. GA actually made a U.K. underwriting profit of 59.7 million pounds (\$88.3 million).

GA was pleased with its U.S. performance and the absence of catastrophe losses in 1993, but the insurer said its North American results were depressed by Canadian storm losses and the high cost of property reinsurance in the United States and Canada.

Sun Alliance Group P.L.C. reported a pretax profit of 221.7 million, (\$328 million), compared with a 1992 net loss of 129.6 million pounds (\$196.3 million).

Sir Roger Neville, Sun Alliance's group chief executive, is retiring July 1 and will be replaced by Managing Director Roger Taylor.

Although the improved housing

Continued on next page

Australian ruling unsettles insurers

CANBERRA, Australia—Liquidators of bankrupt companies can obtain information on the limits of auditors' and accountants' professional liability policies, Australia's High Court has ruled.

Australian insurers say the ruling is yet another factor that will increase professional liability insurance rates for auditors and accountants. The federal government is considering legislation that would limit Australian auditors' liability (*BI*, Feb. 21).

Greg E. Brown, professional indemnity underwriter for C.E. Heath Casualty & General (Professional Liability) Pty. Ltd. in Sydney, a unit of Melbourne-based C.E. Heath International Holdings Ltd., said the decision will make claims against auditors more difficult to settle because liquidators will seek the policy limits, rather than base their demands on the extent of the auditors' negligence.

It will "raise unreasonable expectations in the eyes of liquidators," he said. Litigation will drag on because there will be less incentive to settle out of court, which will raise legal costs, Mr. Brown said.

Therefore, insurers will have no option but to raise premiums, he added.

The decision by High Court Judge Daryl Dawson follows hearings in two lower courts—the South Australian Supreme Court and the South Australian Appeal Court.

John Sheahan, the liquidator of the failed Duke Group of companies, sought information on the group's auditor's professional indemnity insurance. After the Supreme Court and Appeal Court granted the liquidator that right, the auditors, the Nelson Wheeler & Co. accounting firm in South Australia, appealed to the High Court. But Judge Dawson rejected the firm's application to keep its coverage details confidential.

Michael Barrett, an Adelaide attorney who specializes in liquidation, said the decision will affect only accountants and auditors doing work for companies that subsequently go into liquidation. But Mr. Barrett, a senior partner with Kelly & Co., agreed that the largest professional liability claims faced by Australian accountants were for audit work for liquidated companies.

"That's where the big dollar claims have been," he noted.

The decision "sets a dangerous precedent, where the focus is placed on how much money is available rather than the legal issues involved," Mr. Barrett said.

—By Kate McIlwaine

Reports lift mood in London

10 Sturge syndicates show '91 profit; Merrett will return

By ADRIAN LADBURY

LONDON—Prospects for Lloyd's of London members who joined after 1990 are looking increasingly bright after managing agency Sturge Holdings P.L.C. reported that 10 of its 13 current syndicates will report profits in the 1991 underwriting year.

The good news was confirmed by another leading Lloyd's managing agent.

The confident mood in London was further reinforced as Merrett Holdings P.L.C. Chairman Stephen Merrett confirmed rumors that he plans to return to underwriting by next year.

However, there were still stark reminders that Lloyd's still has a mountain of problems to overcome. Results for the 18 Sturge syndicates that are no longer underwriting continue to deteriorate.

Sturge released its 1991 syndicate results independent of its corporate earnings report because Lloyd's has moved up its deadline for syndicate solvency figures to March 28, about a month earlier than in previous years. Lloyd's will report its 1991 global results later this spring.

The top performer among the Sturge syndicates in 1991 was aviation syndicate 998 with an 8.3% return on capacity of 12.4 million pounds (\$23.9 million), producing a profit of just over 1 million pounds (\$1.9 million). Life syndicate 429 ranked second with a 7.4% return on capacity of only 4.4 million pounds (\$8.5 million). The other eight profitable syndicates produced

margins between 0.6% and 5.6%.

But losses by some Sturge syndicates brought the average profit margin for the 13 active Sturge syndicates down to 1.19%. For instance, non-marine 122—which has left its 1990 accounts open—reported a 16.9% loss on capacity of 60.4 million pounds (\$116.6 million), while motor syndicate 330 reported a 17% loss on capacity of 102.8 million pounds (\$198.4 million).

"The Sturge portfolio of 13 syndicates trading in 1994 shows a successful track record... Sturge believes that the radical steps taken in the restructuring of the group outlined in the 1993 group accounts have provided its Lloyd's operations with a stable platform for the future," the company said.

Sturge announced last year that

eight of its syndicates would cease underwriting (*BI*, May 10, 1993).

Worst hit of the 18 inactive Sturge syndicates were the two that John Rew, chairman of Sturge Names Action Group and co-publisher of the Chatset Ltd. Lloyd's league tables, plans to make the subject of Lloyd's loss reviews and legal actions.

By percentage loss, Marine syndicate 428 suffered worst with a 65% loss on 1991 capacity of 32 million pounds (\$61.8 million), producing a 1991 loss of 20.8 million pounds (\$38.9 million) for the 1,338 members. The biggest loser in cash terms was non-marine syndicate 210 which reported a loss of 55.7 million pounds (\$104.2 million) in 1991, which equaled a 25% loss on 222.9 million pounds (\$416.8 million).

Continued on next page

Australian bank wins right to deduct IBNR reserves

By KATE McILWAINE

SYDNEY, Australia—Australian companies that self-insure their workers compensation risks are welcoming a federal court decision that allows tax deductions for incurred-but-not-reported losses and claims reported but not yet paid.

In a unanimous decision, a three-judge panel sitting as the Full Bench of the Federal Court ruled that Australia & New Zealand Banking Group Ltd. was entitled to a deduction of \$779,594 Australian (\$554,681) from its taxable income for reserves set aside to cover workers comp claims for the fiscal year ended Sept. 30, 1986.

The ANZ Bank was registered as a self-insurer in the state of Victoria after the Victorian government statutory workers comp plan, known as Workcare, went into effect on Sept. 1, 1985. ANZ sued the Australian Taxation Office after it refused to allow a tax deduction for the reserves.

The case first was heard by a single federal court judge who found in favor of the Commissioner of Taxation that unpaid claims could not be deducted from taxable income.

The judge had ruled that workers comp reserves were identical to money that companies set aside for vacation pay and long-service leave, a paid vacation entitlement that employers are sometimes required to give to longtime employees, which are not tax-deductible. He also ruled that provisions for IBNR and unpaid claims could not be "reasonably esti-

mated" and therefore deductions could not be claimed for reserves.

The full bench overturned both findings.

Bryan Gething, chairman of the Australian Workers' Compensation Self-Insurance Assn., said self-insurers throughout Australia welcomed the decision. Although the decision formally applies only to self-insurers registered under the Victorian legislation, the Accident Compensation Act, it will set a precedent for self-insurers in other Australian states.

Mr. Gething, who also is workers comp manager for Sydney-based Unilever Aust. Pty. Ltd., a Unilever Corp. unit, said the decision may be worth millions of dollars to some large self-insured companies. Unilever is registered as a self-insurer in Victoria and New South Wales.

Eighteen companies self-insure in Victoria, representing about 5% of the workers comp premium volume in the state, Mr. Gething said. In New South Wales, self-insurers represent about 10% of the premium pool, and, in South Australia, self-insurers constitute between 40% and 50% of the premium pool.

Mr. Gething said he did not expect the Australian Taxation Office to appeal to the nation's High Court, because the decision was unanimous.

The rules governing self-insurance vary from state to state. Self-insurance generally is cost-effective only for large companies, many of which prefer to self-insure because they want to manage their own claims and rehabilitation services.

France discloses few details on UAP sale

PARIS—Details of the upcoming sale of the French government's 50% stake in France's largest insurer, Union des Assurances de Paris, are being kept firmly under wraps.

The French Finance Ministry announced last month that, as expected, it will relinquish its control over UAP. The government is planning to allocate about 10% of the stock to so-called noyaux durs, or "long-term investors," and another 10% to the company's employees. The employees will be able to buy their shares at reduced prices.

The French government last May announced plans to sell its stakes in three leading multiline insurers as part of a program to privatize 21 state-owned companies (*BI*, June 7, 1992).

The government also announced last month that it has approved the privatization of Assurance Generales de France, the nation's second-largest insurer, at a later date. The government owns a 57.1% stake in AGF.

Groupe des Assurances Nationales, the third-largest state-owned insurer, also will be eventually privatized.

Insurers and analysts have said privatization may encourage more competition in the French insurance market and lower premium rates. Shareholders in the insurers also could receive increased dividends after privatization, analysts have said (*BI*, Dec. 20, 1993).

The UAP privatization has generated much investor interest, but the French government seems to have

decided not to disclose information, such as the percentage of the company that will be offered to the general public or its post-privatization marketing strategy, until the stock issue is ready to commence, analysts said.

One analyst at a French-owned stock brokerage said that the government's action is unusual. "Usually we have presentations by the company to analysts shortly after the year-end results are published, but this time there is nothing," he said.

A UAP spokeswoman in Paris said that the company has no information to issue concerning its privatization.

The stock analyst said he expects that the long-term investors that

Continued on next page

INTERNATIONAL

Big Five

Continued from previous page
market helped reduce the domestic mortgage indemnity losses that wrecked Sun Alliance's 1991 results (BI, March 16), these claims are still significant for the more exposed insurers, like Sun Alliance and Royal Insurance Holdings P.L.C.

"The underwriting profit in U.K. personal lines business was materially assisted by mild weather conditions, but it also reflected firm rating and risk selection. The DMI loss declined to 89 million pounds (\$131.7 million). As the economic climate and housing market improve we expect the losses to continue to moderate," said Sir Roger.

Sun Alliance reported 186 million pounds (\$281.7 million) in domestic mortgage indemnity losses in 1992.

Commercial Union P.L.C. reported a pretax profit of 218 million pounds for 1993 (\$322.5 million), compared with 31 million pounds (\$46.9 million) the previous year. But CU certainly is not bullish about London market business.

"London market business produced an underwriting loss of 94 million pounds (\$142.4 million), reflecting adverse claims experience from business written in earlier years. Premium rates continued the improvement which commenced some two years ago, although the new capacity at Lloyd's started to make an impact towards the end of the year. The benefit from these rate increases is largely deferred by the three-year accounting basis for marine business," CU said in its financial report.

CU's 1992 loss from London market business totaled 92 million pounds (\$139.3 million).

Royal Insurance Holdings P.L.C. reported a profit this year of 151 million pounds (\$223.4 million) after a loss of 119 million pounds (\$180.2 million) in 1992.

Royal, as did the others, pointed to much improved U.K. underwriting results and singled out its new direct auto insurance operation, Royal Insurance Direct, as a big contributor to the year's results.

Royal was the only big U.K. insurer to report reduced profits in the United States. The insurer's U.S. profits fell to 15 million pounds (\$22.2 million) in 1993 from 24 million pounds (\$36.3 million) in 1992. Richard Gamble, group chief executive, cited "an unusually high level

of weather losses."

But despite the big return to profits in 1993 among the multiline insurers, analysts are not over-enthusiastic about their future.

"The U.K. insurance cycle is likely to peak in the current year. Claims trends are running below the long-term averages, and almost all rate increases have now ceased—some personal lines are now experiencing rate reductions," John Chester, analyst with S.G. Warburg Securities Ltd., wrote in his post-results summary.

"The momentum of past rate increases should carry profitability forward into 1994, but our forecasts incorporate a 5% decline in the U.K. underwriting margin in 1995, and this equates to a reduction in profits of up to 100 million pounds for the most exposed companies," he said. **BI**

London

Continued from previous page
lion) of capacity supplied in 1991 by 6,662 members.

Syndicate 210 is forecast to lose between 24 million and 31 million pounds (\$36.3 million and \$46.9 million) in the 1992 accounting year, a loss of between 15% and 22% on capacity of 141.4 million pounds (\$264.4 million) supplied by 5,234 members. The 1991 and 1992 losses come on top of a nearly 135 million pound loss for the syndicate's 1990 year (\$204.5 million).

The deterioration "shows that the decision by Sturge to commute the cover on 210's unlimited (reinsurance) policy"—bought in 1974 from Fireman's Fund Insurance Co. and Kemper Reinsurance Co. to cover long-tail U.S. liabilities excess of

\$20 million for 1969 and prior years—"is likely to prove disastrous and cannot conceivably have been in the best interests of the names," Mr. Rew said.

Syndicate 435, managed by D.P. Mann Underwriting Agency Ltd., announced last week it has made a 5.5% profit on its 1991 underwriting capacity of just more than 68 million pounds (\$131.2 million).

The syndicate, which has produced an average 10% return in the last eight underwriting years, has 1994 capacity of 205 million pounds (\$303.3 million), 17% of which is corporate capital.

The syndicate, led by underwriter David Mann, writes mainly U.S. business. Seventy percent of its current book is property insurance, while 30% is casualty coverage.

Finally, Mr. Merrett, who was forced to close his syndicates after

members agents pulled their support late last year, announced his return to underwriting as he released corporate results for the year ending Sept. 30, 1993. "Talks continue with advisers with a view to re-entering the underwriting business through a new venture and not necessarily at Lloyd's."

Sources close to him later confirmed that he aims to raise about \$200 million in capital to offer up to \$400 million in premium capacity.

Merrett Holdings, whose income is mainly from insurance services and loss adjusting, posted a pretax loss of just more than 3 million pounds (\$5.6 million) for fiscal 1993. Mr. Merrett blamed it on the costs of reorganizing its loss adjusting operations and the lack of profit commission from syndicates in the 1990 year, which would not have been paid until the 1993 fiscal year. **BI**

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UAP

Continued from previous page
the French government has in mind would be other French financial institutions, like Banque Nationale de Paris, which itself was recently partially privatized; French industrial companies like oil giant Total, which also is part state-owned; and possibly existing shareholders like Winterthur Swiss Insurance Co.

These long-term investors would reinforce existing cross-ownerships in UAP and thus protect it from any future hostile takeovers.

In addition to being a 19% shareholder in UAP, Banque Nationale will manage the UAP privatization process.

"We expect also that the president of UAP will always be a political appointment by the government even after the privatization process," the analyst said. He said the government would choose an insurance industry outsider.

UAP reported a 32% increase in profits for 1993 to 1.45 billion French francs (\$245.4 million).

—By Maria Kielmas



Motion

Continued from page 2

blems caused by repetitive work like inserting clips or screws to assemble parts, sanding parts, trimming or cutting products, or loading finished products.

A thorough ergonomics approach should begin with management commitment.

"The most successful programs occur when the plant manager buys into it," he said.

Ideally, a company's top managers will create an ergonomics team of engineers, health and safety staffers and line workers. Sometimes however, it is helpful to have an outsider participate as a catalyst.

For example, some University of Michigan researchers played that role in an ergonomics program at an automotive plant in a 1982-

1983 in which Mr. McGlothlin participated.

The ergonomics team's first goal is to identify health and productivity problems by analyzing plant records, observing plant operations, and conducting interviews and surveys.

Videotaping workers can help identify problems, but it is time-consuming. The first 15 minutes is usually worthless because it takes that long for a worker to become used to the camera and settle back into a typical work rhythm, he said.

Another way to spot problems: Study workers' gloves because wear points equate to stress points.

An ergonomics team should then select demonstration projects based on where the greatest need or impact may be.

At Harley-Davidson Inc. in Milwaukee, for instance, a joint la-

A thorough ergonomics approach should begin with management commitment. 'The most successful programs occur when the plant manager buys into it,' says James D. McGlothlin, a research occupational ergonomist at NIOSH.

bor/management team focused on the flywheel milling area, where employees and company medical staff had reported a number of musculoskeletal disorders.

The next step is the time-consuming but essential work of performing task description and analysis.

In the automotive plant study, the job analysis included determining the scope of the job, the "cycle" time from start to finish, tool handling time, the posture of the upper extremity while the

task is being performed, and physical stresses such as force and vibration.

At the Harley-Davidson motorcycle plant, ergonomists discovered that one worker lifted, moved and positioned more than 28,000 pounds of metal flywheels in eight hours. Each flywheel weighed between 15 to 19 pounds pre-milled and about 26 to 33 pounds after being fully assembled with components.

If possible, it is a good idea to classify hazardous tasks into

high-, medium- and low-hazard categories, as did a study of back injuries at a Pennsylvania chemical plant in the 1980s.

Once workers' tasks are well-defined, the next step is to redesign tasks, trying to solve problems, Mr. McGlothlin said.

Ergonomic teams must think about solutions that are long-term as well as short-term, though ergonomics will often determine whether long-range programs can be put in place, Mr. McGlothlin pointed out.

Steps that require significant capital will have to be sold to upper management and one way to do this is to use the "discounted payback" method of capital budgeting. This method could help show that equipment designed to reduce worker injuries would return the cost of the initial investment through savings of future dollars which would have otherwise been paid for medical and compensation costs.

Regardless of finances, worker participation is critical to the success of any program, he said. "If workers don't get involved in the process of change, you don't have a program."

Only after all these steps have been followed should the changes be implemented and their effect measured.

Measurements can include employee-centered concerns such as discomfort and injury rates as well as employer-centered concerns like productivity and quality.

The best solutions are those that not only help the worker do the job more safely, but also increase productivity, which increases management support, he said.

For example, fabricating a soft plastic thumb clip to replace most of the metal clips used in the assembly of an automotive console not only reduced tendinitis but increased productivity and reduced costs at the automotive plant, he said.

The last step in the process is to continue to refine the solutions in light of new problems and new developments.

"One of the most important lessons I've learned in this business is that when you come up with an idea, or a recommendation or a solution, it is not the final solution. You are always going through iterations of change because ergonomics and the problems it presents are very dynamic and they can change," Mr. McGlothlin said. **BI**

Strippers

Continued from page 3

from coercing an employee to patronize any person in the purchase of anything of value as a condition of employment and prohibited from sharing in gratuities or tips received by the employee in the course of their employment.

"It's hard to comprehend how (the Mitchell brothers) got away with this," said Ms. Ross, who is representing the dancers. After 1988, the Mitchell Theatre started requiring the strippers to sign an agreement that they were independent contractors, and then ceased providing the entitlements, she said. "It's completely unlawful."

James Mitchell, owner of the O'Farrell Theatre, is free on \$500,000 bail while he appeals a 1992 voluntary manslaughter conviction in the much-publicized slaying of his brother and partner, Artie Mitchell. Mr. Mitchell could not be reached for comment. **BI**

RIMS Preview - April 11th

Ad Closing: March 30th

Highlighting upcoming events and sessions of the 32nd Annual RIMS Conference in New Orleans including a special "take out" section full of information for conference attendees.

Captives/Risk Manager of The Year - April 18th

Ad Closing: April 6th

This issue, distributed at the RIMS conference, profiles the 17th annual Risk Manager of the Year and the Risk Management Honor Roll and also includes our exclusive Directory of Captive Managers.

RIMS Report: Employee Benefits & Workers Comp - April 25th

Ad Closing: April 13th

BI editors will provide an in-depth perspective on the issues and trends highlighted at the RIMS employee benefits & workers comp sessions.

RIMS Report: Risk Management - May 2nd

Ad Closing: April 20th

This final, comprehensive look at the RIMS Conference will detail the presentations and conclusions of the RIMS risk management sessions.

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* Nationwide Survey on Business Insurance,
The Wall Street Journal, 1992
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CARFM raising funds to help raise awareness of captives

PALM SPRINGS, Calif.—The Coalition of Alternative Risk Funding Mechanisms is seeking financial support to mount a grass-roots communications and lobbying campaign to increase understanding of captives and other self-insurance vehicles.

The coalition—whose members include several risk management and captive organizations like the Risk & Insurance Management Society Inc.—was formed last year (BI, June 28, 1993). Since its formation, CARFM has met quarterly with the NAIC to discuss issues relevant to captive and other self-insurance programs.

CARFM also is planning a grass-roots media and lobbying campaign that will initially be financed by contributions from member associations, which include RIMS, the Vermont Captive Insurance Assn., the Colorado Assn. of Captive Entities, the Captive Insurance Cos. Assn. and the National Risk Retention Assn.

"But we don't have money in our respective treasuries that is necessary to maximize, to coordinate this political clout. It's impossible to do just with the trade associations," said Peter J. Gerken, senior vp of Oilmen's Insurance Plan, a

CARFM is soliciting financial and other support directly from employers, says Peter Gerken.

Bermuda-based specialty reinsurer for petroleum marketers.

Therefore, CARFM is soliciting financial and other support directly from employers, Mr. Gerken said during a session on captive

regulation at the recent CICA conference in Palm Desert, Calif.

"What we need is your individual company support," whether it be writing letters to state regulators and federal lawmakers or making a financial contribution to the cause, he said.

"If we do nothing as CICA members and insurance consumers... we will be the football being fought over by federal and state officials..."

"Why not ask the question, 'What regulations ought we have?' and have a debate where we can participate?" he asked. "You can't affect this question at all by being on the sidelines."

—By Joanne Wojcik

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Fronting

Continued from previous page transactions," he said.

"Since capital costs are an integral part of the pricing of insurance products, the cost of captive programs will again increase unnecessarily."

The results could prove even more detrimental if the formula is applied directly to a captive that is operating as an insurer rather than as a reinsurer, he added.

"For example, the formula would discount, by up to 30%, the value of affiliated common stock often held by captives as assets," he said. "The formula also provides penalties for significant growth in premium volume, a situation that is quite common in new captive programs," he said.

"It is not difficult to see why captive owners feel threatened" by the NAIC's new fronting and risk-based capital model laws, Mr. Brown observed. "It would appear that this effort was an at-

tempt to specifically regulate captives," a market that historically "has existed free from most regulation to the benefit of insureds and the traditional insurance market alike."

Risk managers unaffected by the NAIC model laws still must be concerned with the regulatory changes because "all insurance consumers" have "a substantial interest in the viability of alternative risk transfer vehicles and the alternative insurance market," Mr. Brown warned. **BI**

Hines speakers announced

Four experts in risk management, commercial insurance and total quality management will participate in the 1994 Harold H. Hines Jr. Memorial Symposium, to be held May 10 in Chicago.

The symposium's theme is "The Search for Quality in Insurance and Risk Management."

Panelists will be: William H. Bolinder, president and chief executive officer of Zurich American Insurance Group in Schaumburg, Ill.; Aleta Holub, vp/manager of quality, First National Bank in Chicago; William G. Marshall, treasurer, Nalco Chemical Co. in Chicago; and J. Bransford Wallace, vice chairman, Willis Corroon Corp. in Nashville, Tenn.

The symposium is co-sponsored by the Chicago and Northeastern Illinois Chapters of the Risk & Insurance Management Society Inc., The Insurance School of Chicago and *Business Insurance*. It honors the late Harold H. Hines Jr., who at the time of his death in 1984 was president of Rollins Burdick Hunter Co., now known as Rollins Hudig Hall Group Inc.

The panelists will discuss how the quality management movement can be transferred to a service business, the new demands and responsibilities of the commercial insurance consumer, and what quality improvement efforts are under way among insurers, brokers and other service suppliers, and their customers.

The format will be questions posed to the panelists by the symposium's moderator, Kathryn J. McIntyre, publisher and editorial director of *Business Insurance*. Audience members also will be invited to pose questions.

The symposium, which is free of charge to invited guests, will be held at the Union League Club of Chicago, 65 W. Jackson Blvd. Registration will begin at 3:15 p.m., and the program will begin at 3:30. A reception will follow the program at 5:15 p.m.

To request an invitation to the symposium, contact The Insurance School of Chicago, 175 W. Jackson Blvd., Suite 2200, Chicago, Ill. 60604; 312-427-2520; fax: 312-427-8528. **BI**

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Largest U.S. reinsurers' 1993 results

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

Reinsurers	Net reinsurance premiums written 1993	Net reinsurance premiums written 1992	Policyholders surplus (reinsurers only)	Net income 1993	Losses & loss adjustment expenses	Loss ratio	Underwriting expenses	Expense ratio	Combined ratio 1993	Combined ratio 1992
1. General Re	\$2,275,346	\$2,176,759	\$3,835,551	\$643,732	\$1,556,652	70.6	\$703,170	30.9	101.5	108.4
2. Employers Re	2,223,513	1,486,090	1,618,082	220,869	1,735,250	81.6	510,912	23.0	104.5	104.6
3. American Re	1,358,704	1,009,732	1,079,284	120,593	806,183	64.8	471,865	34.7	99.5	102.8
4. North American/Swiss Re	776,409	680,542	655,415	31,781	532,063	73.3	294,168	37.9	111.2	135.9
5. Prudential Re	760,526	704,207	607,688	105,938	612,532	81.0	221,309	29.1	110.1	145.7
6. Munich Re	669,135	618,175	733,974	39,857	538,047	81.9	219,286	32.8	114.7	122.8
7. Transatlantic/Putnam	631,693	481,868	533,253	62,488	465,396	80.1	171,281	27.1	107.2	111.4
8. Berkshire Hathaway	534,312	607,152	N/A	N/A	356,286	79.5	74,387	16.6	96.1	122.9
9. Constitution Re	453,889	382,532	286,328	31,442	311,210	69.9	146,896	32.4	102.2	115.6
10. The St. Paul Cos.	431,242	343,045	N/A	N/A	327,696	83.0	116,190	26.9	109.9	187.1
11. F&G Re	398,033	243,211	N/A	N/A	256,125	67.4	98,352	24.7	92.1	93.8
12. Hartford Re Mgt. Co.	375,400	N/A	N/A	N/A	274,700	74.2	90,300	24.1	98.3	N/A
13. TIG Re Co.	346,109	354,283	329,616	59,030	259,931	78.5	107,951	31.2	109.7	110.2
14. NAC Re	336,941	268,023	406,163	30,361	214,222	69.9	138,230	41.0	110.9	126.9
15. National Re	332,560	252,303	355,743	54,515	191,271	63.8	119,866	36.0	99.8	103.3
16. Kemper Re	266,006	309,650	403,472	651	285,864	103.7	78,895	29.7	133.4	117.9
17. SCOR U.S. Group	236,866	205,544	271,895	34,735	161,843	71.1	77,201	32.6	103.7	123.4
18. Winterthur Re	218,948	217,822	210,765	40,191	159,774	73.3	71,605	32.7	106.0	121.5
19. CIGNA Re	214,283	320,997	188,891	(4,688)	271,407	103.0	47,116	22.0	125.0	123.4
20. Underwriters Re	182,168	141,038	247,717	29,935	142,586	81.7	46,078	25.3	107.0	107.5
Totals for Top 20	13,022,083	10,802,973	11,763,837	1,501,430	9,459,038	76.12	3,805,058	29.2	105.3	117.4
Total for all companies	15,087,680	13,107,990	16,762,626	1,885,129	11,100,018	76.4	4,607,076	30.5	106.9	119.0

Source: Reinsurance Assn. of America and Business Insurance

Reinsurers

Continued from page 3

in Bermuda and London in the past year may "start to suggest" an easing of rates during the July or January 1995 renewals, said Paul Malvasio, vp and chief financial officer of NAC Reinsurance Corp. of Greenwich, Conn.

On the other hand, the California quake, which occurred on an unknown fault and caused unexpected damage, "should keep the demand up, and probably the pricing firm," Mr. Malvasio said.

Meanwhile, casualty reinsurance rates will remain soft.

"Casualty rates appear to be flattish everywhere. I don't see any movement in the near term," said Conning's Mr. Ransom.

S&P's Mr. Levin agreed. "Overall, rates are very weak, well below where they need to be," he said. "There's just nothing forcing companies to improve their rate adequacy."

If reinsurers can navigate through the catastrophes, "you'll have a good year in property and you'll probably have a mediocre year in casualty," said Mr. Malvasio.

But even if casualty rates do not deteriorate further, "the pricing does not reflect the decline in yields" caused by the fall in interest rates over the past several years and the current turbulence in the stock market, which is "putting a damper on opportunities to enhance earnings," he said.

"We would like to think that all these forces at some point would change the market, but we don't see it happening yet," he said.

Steven H. Newman, chairman, president and chief executive officer of Underwriters Reinsurance Co. in Woodland Hills, Calif., agreed that no dramatic turn in the casualty market is likely soon.

In the past, when the market has been about to turn, "you would detect a great deal of anguish just before prices are starting to move up. The tenor of the conversations would typically be that this is the only thing that we can do." But today, "I still hear people talking about strategies, about refocusing their business," Mr. Newman said.

"I'm hard-pressed to identify more than a few (reinsurance) players who have pulled back very

heavily," he said.

While reinsurers already are worried about this year's catastrophe losses, they faced relatively few catastrophes last year.

The U.S. reinsurance industry reported a 106.9% combined ratio for 1993, according to a survey of 60 reinsurers by the Washington-based Reinsurance Assn. of America. This compares with the 119% combined ratio reported by a comparable group of reinsurers in 1992, when results reflected Hurricane Andrew, Hurricane Iniki and other catastrophes.

The 106.9% combined ratio for the entire year is a slight deterioration from the 106.7% combined ratio reported for the nine-month period ended Sept. 30, 1993, but better than the 107.2% combined ratio reported for the first half and the first quarter's 107.9%.

The 20 largest U.S. reinsurers fared even better. They posted a 105.3% combined ratio for 1993. The 19 reinsurers in that group that reported results for 1992 had a 117.4% combined ratio.

The Top 20 reinsurers reported a 106.4% combined ratio for the nine-month period, while slightly different groups of Top 20 reinsurers posted a 106.2% combined ratio for the first half and a 110% combined ratio in the first quarter.

Net reinsurance premiums written for all U.S. reinsurers increased 15.1% to \$15.09 billion in 1993 from \$13.11 billion in 1992, which compares with a 16% increase to \$10.87 billion for the nine-month period. The 19 largest reinsurers that reported results for both years posted a 17.1% increase in volume to \$12.65 billion from \$10.8 billion.

1993 was the third consecutive year that the reinsurance industry's premium volume increased more rapidly than the primary insurance industry's "and the gap has widened," said Michael Smith, an analyst with Lehman Bros. in New York. "A lot of it has to do with property rates going higher."

In addition, the "gutting" of financial reinsurance products by accounting regulations "has resulted in a shift away from low-margin financial reinsurance to higher-margin traditional products," Mr. Smith said.

Another reason for the premium growth is that a larger share of primary insurance business is be-

ing written by smaller regional companies, in part because of pull-backs by national companies, said Conning's Mr. Ransom. These regional companies have to buy more reinsurance, "so the market share shifts that are happening at the primary level are happening in such a way that they're benefiting the reinsurance market."

Furthermore, some of the reinsurance business that had been

demand for reinsurance products increases.

"Property rates may have reached a peak, but at the same time, the rates, terms and conditions in the property reinsurance market remain punitive, so the profit will continue to show up in this group."

Mr. Cheney also observed that "reinsurers will have a comparable year to '93 overall in terms of

'I think clients are concerned about security,' says Kaj Ahlmann, chairman, president and CEO of Employers Re. 'They are very disturbed by all the problems they have seen in the London market in general and at Lloyd's in particular.'

written at Lloyd's of London is now being written by U.S. reinsurance companies, Mr. Ransom said.

Peter A. Cheney, executive vp and chief financial officer of National Reinsurance Corp. in Stamford, Conn., said another reason for reinsurers' increased volume: "The primary companies are reacting to the effects of Andrew, fairly high catastrophe losses in 1993 and now again in 1994." This has created a trend to buy more reinsurance that is likely to continue, he said.

Going forward, it will be "more of the same," Mr. Smith predicted. "I think reinsurance premiums are going to continue to grow faster than the market overall," as the

underwriting results. I don't see the earthquake being anywhere near the factor to reinsurers as it is to the primary companies, for a couple of reasons."

One is that reinsurers typically do not reinsure earthquake risks on a stand-alone basis. If they write on an excess-of-loss basis, much of the quake loss may be within primary insurers' retention levels. This means reinsurers will suffer disproportionately fewer losses than they did with Hurricane Andrew, he said.

Secondly, Allstate Insurance Co. and State Farm Group, two of the insurers hardest hit by the earthquake, did not have reinsurance.

But, Kaj Ahlmann, chairman,

president and CEO of Employers Reinsurance Corp. in Overland Park, Kan., said that with insured losses from the earthquake rising every day, and with reinsurers starting to receive claims from the winter storms as well, "I think we're off to the worst start ever." 1993 will not be a good year for reinsurers, he added.

Meanwhile, the related trends of "flight to quality" and industry consolidation continue, reinsurance experts say.

"I think there's certainly some consolidation that's going on," and this can be expected to continue this year, said Michael R. Pinter, chairman and CEO of Kemper Reinsurance Co.

Pointing to the greater premium growth among larger reinsurers, Mr. Ransom said: "What that says to me is that the trend of reinsurance toward the bigger, stronger companies is continuing. The flight to security, which is the phrase everyone has used, is continuing. That's been a story for a few years, but it's still happening."

"I see a consolidation in the business. I think clients are concerned about security. They're concerned about the commitment from the smaller players," Mr. Ahlmann said.

"They are very disturbed by all the problems they have seen in the London market in general and at Lloyd's in particular, and that's why they are trying to find some players they are sure will be around for a long period of time," he said. **BI**

Condo lawsuit settled for \$19.3 million

By JUDY GREENWALD

OAKLAND, Calif.—A \$19.3 million settlement in a condominium construction defect lawsuit could be the largest such settlement in California, say attorneys for the plaintiffs.

Condominium owners had contended in the suit that the use of a new material made of Styrofoam in constructing their 30-story condominium project in Emeryville, Calif., in 1985 was inappropriate for its location, which was directly in the path of winds and rain blowing through the Golden Gate Bridge, said Jack Provine, the Walnut Creek-based attorney who

represented the Pacific Park Plaza Homeowners Assn. in the case.

The suit also charged that the construction itself was faulty.

Under the terms of the settlement, \$18 million will be paid by units of Talegen Holdings Inc. on behalf of the developer in the case, Tower House Associates, and the contractor, Lathrop/Kiewit Joint Venture, said Paul Terry, an attorney with Angius & Terry in Walnut Creek who assisted in the negotiations.

Tower House is a limited partnership that included San Francisco-based Pacific Union Co. and Philadelphia-based Penn Mutual Life Insurance Co., he said. Partic-

ipants in Lathrop/Kiewit are Benicia, Calif.-based Lathrop Construction Co. and Omaha, Neb.-based Peter Kiewit Sons Inc. Their attorneys could not be reached for comment.

In October, a \$1.1 million settlement was reached with San Francisco architectural firm Whisler-Patri, which is insured by the Reliance Insurance Group, Mr. Terry said.

Settlements with others in the case brought the total to \$19.3 million, said Mr. Terry. Litigation in the case is still continuing between the contractor and developer and some of the project's subcontractors, he said. **BI**

Liabilities

Continued from page 1

ugly issue," said John H. Snyder, senior vp of Best's property/casualty division, who co-authored the 20-page study along with W. Dolson Smith, a senior analyst. "If Washington doesn't act quickly on the Superfund issue, this problem will continue to fester. Large-scale reserve additions will be necessary and there'll be a major reduction in surplus growth into the next century," Mr. Snyder said.

As if those estimates, which Best describes as its "expected scenario," were not ominous enough, the company also calculated a worst-case scenario. Under it, insurers would have to bolster reserves by \$623 billion, spread over 20 years for asbestos and 30 years for environmental claims.

The net present value of those additions is \$252 billion—or 138% of the industry's 1993 capital and surplus. Additions of this magnitude would add 2.8 percentage points to the industry combined ratio annually over the next 25 years.

Either way, "a number of insurers are likely to experience surplus depletion, or at least a slowing of surplus growth for a period of years that could affect their ability to compete," Best's report says. "Some may even become insolvent or be forced to merge with stronger companies."

That would put a large portion of the U.S. property/casualty industry at a competitive disadvantage with foreign and newly formed insurers.

"Logic says that if you carry baggage with you into the next century you'll be at a disadvantage compared to those companies without the exposure," said James Satterfield, vp-environmental products with Reliance Reinsurance Corp. in Philadelphia.

"This strain on resources will force insurers to access capital and, in turn, raise prices, which will open the door to international insurers and new companies not strapped with these liabilities," said Stephan Christiansen, a senior vp with consulting and investment firm Conning & Co. in Hartford, Conn.

This is not the first time that analysts have predicted huge pollution and asbestos problems for insurers. In 1990, Tillinghast estimated net environmental and asbestos liabilities for the primary insurance industry would total \$37 billion to \$426 billion over a similar time period. The net present value of these reserve additions, as of 1990, ranged from \$26 billion and \$213 billion.

"In 1990, we said these future liabilities would result in distortions between insurers that wrote liability business in the 1960s and 1970s and those that did not. I think this new report once again raises the question

about whether we as a nation have the will to spend trillions of dollars to clean up these polluted sites," said Amy Bouska, a Tillinghast principal in Minneapolis.

Best did have one bit of positive news for liability insurers: an improvement in what it calls the "survival ratio," defined as the number of years it would take an insurer, based on current levels of environmental and asbestos claims payments, to exhaust its existing environmental loss reserves.

For both environmental and asbestos claims, the survival ratio rose to 6.4 at year-end 1993, compared with 5.8 in 1992, 5.6 in 1991 and 5.2 in 1990. The survival ratio will reach 6.9 by the end of this year, Best estimates.

For environmental claims alone, the survival ratio rose to 6.9 in 1993, compared with 6.1 in 1992, 5.4 in 1991 and 5.9 in 1990. The ratio will rise to 7.5 by the end of 1994, Best projects.

Survival ratios, though, vary greatly among individual insurers. Some have survival ratios as high as 20 years, while others are closer to zero and are literally living "from hand to mouth."

Best estimates that insurers added nearly \$2.5 billion to environmental reserves last year, a 22.5% increase from \$2.04 billion in reserve additions in 1992.

Insurers added \$4.29 billion in both asbestos and environmental reserves in 1993, up 20.2% from \$3.57 billion the previous year, Best says. Those reserves now stand at \$12.59 billion. The asbestos reserve additions include additions made by Chubb Corp. and CNA Insurance Cos. in connection with an agreement by the insurers to pay \$3 billion to settle asbestos personal injuries claims against Fibreboard Corp. (BI, Sept. 6, 1993).

Best pointed out that Chubb, CNA, CIGNA Corp., The Home Insurance Co. and Travelers Corp. all engaged in "significant reserve strengthening" in 1993.

These companies were among the leading underwriters of liability insurance before absolute pollution exclusions became universal in 1986.

"Realistically, the cost of reserve strengthening will fall hardest on only a portion of the industry," said Conning's Mr. Christiansen. "Therefore, the companies without this exposure will be able to write business in the future without being subject to a severe strain on resources. We'll be seeing a further migration between the haves and the have-nots."

In the report, Best listed the 50 largest writers of product liability and other forms of liability insurance in 1967, the year after the industry changed to an occurrence-based policy from an accident-based policy. It also listed the 50 largest writers in 1975, two years after the

"gradual and non-sudden pollution" exclusion was added to CGL policies.

At or near the top of each list were Aetna Casualty & Surety Co., Travelers and IIT Hartford Insurance Group. Other companies that appeared in the top five at least once were: CNA; Crum & Forster Inc., now Talegen Holdings Inc.; Insurance Co. of North America, now part of CIGNA; and Liberty Mutual Insurance Co.

Best points out that some commercial insurers' exposure to environmental and asbestos liabilities is out of proportion in comparison with their surplus.

The 50 largest underwriters of "other liability" insurance in 1992—led by American International Group Inc.—wrote 83% of the industry's total liability premium volume, but accounted for only 55% of the industry's total surplus. When the large personal lines writers with limited environmental/asbestos exposures are excluded from this group, the remaining 47 insurance groups account for only 40% of the industry's total surplus.

"The amount of surplus these 47 insurers had at year-end 1992—\$65 billion—appears modest relative to the industry's potential environmental and asbestos discounted required reserve additions we have projected under our expected and worst-case scenarios—\$132 billion and \$252 billion—even though we project these additions would occur over the next 20 to 30 years," Best said in the report.

One major wild card in the Best projections is reform of the Superfund law, which expires Sept. 30. Were Congress to alter the law significantly—by greatly restricting joint and several liability, for instance, or by permitting less rigorous cleanups for certain sites—it could significantly alter insurers' liability.

"Ultimately, the deep-pocket approach of Superfund, which expects insurers to pay the cost of cleanup and litigation, could pull the industry down if nothing is done. Superfund as it's written is nothing but a tax on insurers to fund a social problem," Mr. Christiansen said.

Some industry analysts observe that basing insurers' future environmental liabilities on the current Superfund law, as the Best study does, is unrealistic.

"Superfund expires in September, and while it's not inconceivable that it will be extended in its current form for a finite period of time, to assume that it won't be changed for 25 years is unreasonable," said Alan Levin, senior vp with Standard & Poor's Corp. in New York. "But if you do assume that it won't be overhauled, I can't quarrel with Best's assertion that reserves will have to be bolstered by \$132 billion," he added. **BI**

viding services to any plan governed by federal pension law. The suit alleges that the Jackson-based plan was deliberately mismanaged and resulted in more than \$785,000 in unpaid benefit claims.

- Sued bankrupt Salt Lake City employee leasing firm Americor Employer Support Services, affiliated companies and its owner, Errol L. Phillips, for allegedly diverting money from benefit payments to cover more than \$1.2 million in illegal commissions and expenses. The suit was filed in U.S. District Court in Salt Lake City.

- Sued principals of the National Council of Allied Employees International Union Local 555 of Encino, Calif., to prevent them from operating benefit programs. The suit, filed in U.S. District Court in Los Angeles, alleges that \$1.1 mil-

lion was diverted from payment of health claims to people and companies affiliated with the plan, which was underwritten by another defendant, American Healthcare Underwriting Managers Inc. (BI, Dec. 13, 1993).

- Asked the U.S. District Court in Oklahoma City to liquidate a MEWA sponsored by Contract Services Union Local 211. The department charges that more than \$4.1 million was shifted from claims payments to enterprises and people affiliated with the plan. Claims worth about \$1.3 million were unpaid.

In each case, the Labor Department is seeking full restitution from the defendants.

None of the five organizations could be reached for comment. Four had no phone listings. **BI**

Updates

Health reform ad war rages on

WASHINGTON—More health care reform salvos are filling the airwaves as two groups that favor aspects of President Clinton's plan set out to win over convince legislators who don't.

The Campaign for Health Security is running a series of radio ads targeted at members of Congress who do not support the president. The consumer and labor coalition, which favors a single-payer system, said its members nevertheless believe the Clinton bill passes seven basic tests that demonstrate true reform. The tests are universal coverage by a certain date, an employer mandate, comprehensive benefits, affordability, real cost control, quality care and a state single-payer option. Late last month, the coalition asked legislators to pledge their support for legislation containing those seven items.

The campaign is aimed at members of the House Ways and Means Committee who do not support the Clinton bill. The campaign stresses advertising, door-to-door canvassing and telephone banks. Radio ads were run in the districts of such Clinton bill opponents as Reps. Jim Cooper, D-Tenn., and Marge Roukema, R-N.J., during Congress' Easter recess.

Meanwhile, the Health Care Reform Project launched its own \$500,000 advertising campaign aimed at members of the House Energy and Commerce Committee. The campaign, which involves radio and television ads, stresses how the president's plan would help small businesses and middle-class citizens. The group—which represents a broad spectrum of business, labor and citizens groups—is not affiliated with the White House or the Democratic National Committee.

P/C insurers' profits soar

NEW YORK—The U.S. property/casualty insurance industry produced \$18.5 billion in net income in 1993, more than triple the \$5.8 billion during catastrophe-ridden 1992, according to the Insurance Services Office Inc. and the National Assn. of Independent Insurers.

The ISO and NAII data are consolidated estimates for the entire industry based on companies that account for 96% of the nation's property/casualty insurance premiums.

In comparison, 23 major property/casualty insurers surveyed by *Business Insurance* reported a 71.3% increase in net income to \$5.8 billion in 1993 from \$3.4 billion in 1992 (BI, March 28).

According to the ISO and NAII survey, the industry's combined ratio improved to 107.3% last year from 115.7% in 1992. Net written premiums increased 5.6% to \$240.6 billion from \$227.8 billion. And underwriting losses were cut almost by half to \$18.7 billion from \$36 billion.

Net investment income decreased 4.9% to \$32.1 billion from \$33.7 billion, while policyholder surplus increased 11.5% to \$181.8 billion from \$163.1 billion.

Briefly noted

The New York Senate has approved a bill that would require the state Insurance Department to retaliate against states that impose fines or regulatory restrictions on New York-based insurers. S.B. 6648, sponsored by state Sen. Guy Veleva, is a response to the National Assn. of Insurance Commissioners' decision to pull New York's accreditation (BI, Feb. 21). The bill awaits action in the House. . . **Hilb, Rogal & Hamilton Co.**, which has been plagued by a problematic computer system in its third-party claims administration unit, intends to sell the unit to John Alden Life Insurance Co. of Miami. Terms were not disclosed. . . **John E. Fisher** will retire as CEO of Columbus, Ohio-based Nationwide Insurance Group April 7. He will be succeeded by D. Richard McFerson as previously reported. . . **General Motors Corp.** will take a \$758 million after-tax charge to recognize the cost of providing certain post-employment benefits, like disability benefits, to former or inactive workers. Recognition of these costs is required under FAS 112. . . Guidelines for employers to comply with federal filing rules for health plan data are expected to be published this month. The guidelines, which had been expected last month, are now being reviewed by the Office of Management and Budget. Separately, Sen. John McCain, R-Ariz., introduced legislation, S. 1993, to repeal the so-called **Medicare Data Bank** law, which employers have criticized as overly burdensome. . . The U.S. attorney in Baltimore has indicted two former **Blue Cross & Blue Shield of Maryland** officials on mail fraud charges. The indictments allege Edward T. Zimmerman and Claude H. Holeman used plan funds to set up their own business and directed plan business to an out-of-state computer company they partly owned. The Maryland Blues were the subject of a U.S. Senate investigation last year, and policyholders are suing more than a dozen former plan directors and officers to recover funds lost through alleged mismanagement (BI, April 12, 1993). . . **National Medical Enterprises** signed an agreement to sell 47 psychiatric facilities to Charter Medical Corp. for about \$200 million. NME paid \$89.9 million last December and \$125 million last September to settle insurer suits that charged the hospital chain fraudulently billed them for mental health claims (BI, Oct. 4, 1993; July 27, 1992). . . Insurers in New York will not have to contribute to the state's **Property/Casualty Insurance Security Fund** this year. The guaranty fund, which by law must have at least \$150 million in assets, is fully funded. . . The New York Insurance Department has denied **Empire Blue Cross & Blue Shield** an 8.8% rate increase for small commercial and individual policyholders, citing Empire's improved financial condition. . . A New York federal judge has given preliminary approval to a roughly \$2.4 million settlement fund for claimants allegedly defrauded in a health insurance plan sponsored by **Consolidated Local Union 867**, a defunct union headed by convicted con man William Loeb. Empire Blue Cross, one of the plan's insurers, has agreed to contribute \$1.5 million toward the settlement, with the balance contributed by several brokers and agents. Empire and dozens of agents, brokers and others were named in a class-action suit filed last year.

MEWAs

Continued from page 2

the department.

In the five actions taken last Thursday, the Labor Department:

- Sued Dallas-based Employee Staffing Services Inc., several related companies and their managers in U.S. District Court in Dallas to recover losses from alleged mismanagement of some 300 health plans. The department charges the companies, created by Charles M. Houck, left participants holding the bag for more than \$1 million in unpaid medical bills.

- Asked the U.S. District Court in Jackson, Miss., to permanently bar employee leasing firm Jobmate Affiliated Cos. Inc., and its affiliates and owners from managing or pro-

Health costs

Continued from page 1

The lack of regulation of provider fees, perverse incentives that result from fee-for-service medicine and the drive by providers to maximize profits are responsible for increases in health care costs, these HMO executives say.

Individual HMO executives, however, were surprised that their peers had pinpointed provider greed as the leading cause for rising health care costs.

"That surprised me because I would say providers are responding to the rules of the game and the incentives we gave them," said Dr. Roger Taylor, executive vp and chief medical officer for PacificCare Health Systems Inc. in Cypress, Calif.

"In the health care market, there are incentives that make (physicians) order more tests than necessary because there is a lack of cost-consciousness." Providers—and patients—have been insulated from costs and responsibility and accountability, he said.

Others agree.

"You have to look at the whole business of how providers respond in a world of bad financial incentives and uncertainty in the market," said Richard Maturi, vp of managed network services for the Blue Cross & Blue Shield Assn. in Chicago.

"I'm certain there is some element of greed out there, but not among the whole population of physicians," said Marcy Maurer, assistant vp of operations for Group Health Cooperative of Puget Sound, an HMO based in Seattle.

"I don't know that greed motivates providers. There are natural systems and incentives in place in the fee-for-service and insurance environments" that contribute to rising costs, she said. "There are relatively few barriers in place to discourage consumers from seeking treatment and relatively few barriers to prevent providers from meeting that demand."

Physician groups are also surprised by the finding.

"I'm dumbfounded that leaders of HMOs have" singled out physicians to blame for rising costs, said Dr. James S. Todd, executive vp of the American Medical Assn. in Chicago. "It shows a total disregard for the facts."

According to the Health Care Financing Administration, physician services accounted for only 18% of total U.S. health care spending in 1991, down from 19% between 1988 and 1990.

Patient revenues have not been sufficient to meet hospital expenses for a decade, a spokes-

man for the American Hospital Assn. said. "It would be hard to characterize those losses as provider greed."

The survey data "represents HMOs' theology," Dr. Todd asserted. "Those involved in HMOs at the leadership level are convinced that any other method of practicing medicine is obscene. They talk about physician greed; I'd like to talk about HMO penuriousness."

Dr. Todd was referring to financial incentives and bonus plans in place at some HMOs that critics say could compromise patient care.

Eighty-three percent of the HMO respondents say they compensate their primary care physicians individually, much like a fee-for-service environment, rather than on a capitated basis as a group.

The majority of HMO executives responding to the survey work for independent practice associations. IPA-model HMOs tend to pay their physicians individually. "That may be why they feel this way, because—like UR companies—they are fighting with doctors one on one" to control costs, Dr. Taylor said.

"Capitation is the way in which physician compensation should be structured," said Ms. Maurer of Group Health Cooperative. "It provides the right kind of incentives. It's a mechanism to enable physicians to provide the right level of care."

AMCRA also asked managed care executives to cite their most effective cost containment strategies. Case management ranked highest in terms of its effectiveness. Coordination of care among multiple providers and physician capitation, along with concurrent bill review and the use of physician gatekeepers, also were high on the list.

"The data on case management has been clear in proving its value. There are certain cases—like end-stage renal failure, organ transplants and AIDS—where you can identify successes," Dr. Taylor said.

"We would agree with the survey findings, but I'd say an additional component is a closed formulary for prescription drugs, which for us is the fastest-rising category of expense," said Tina Brown-Stevenson, vp of medical management for United Health Plans of New England in Warwick, R.I.

"Overall, prescription drug prices are rising in the double digits," she said. But, that curve is flattening, possibly due to pressure the Clinton administration has put on drug companies to curb costs.

BC/BS Assn.'s Mr. Maturi said it is misleading to look at cost containment strategies in isolation. "That's a little like trying to look at

an athlete's ability by his body parts. It's more important to see how they fit together and complement each other."

Meanwhile, second surgical opinions, retrospective bill review and physician discounts come up short in the cost containment arena, the survey found. All respondents viewed second surgical opinion as the least effective cost containment strategy.

"Second surgical opinion had its place 10 to 12 years ago, but few studies have shown it was effective," Ms. Brown-Stevenson said. It may have had some sentinel effect, though, by making providers aware that their treatment decisions were being monitored, she said.

According to the surveyed executives, the categories of medical expenses that are rising most steeply are emergency room fees, physician and other medical professionals' charges, hospital costs and prescription drug prices.

However, the survey found that administrative expenses for HMOs may be declining.

The HMO executives responding to the survey reported administrative expenses averaged 11.6% of total HMO expenses in 1992, a much lower percentage than reported in other surveys. According to the Group Health Assn. of America, the average administrative expense reported by 276 HMOs in 1990 was 13%. And, the Health Assn. of America reported an average administrative expense of 14.2% for all private health insurers in 1992.

"Administrative expenses are declining because of consolidation. As you get fewer small health plans and more large ones, you can spread administrative costs across a larger membership base," Dr. Taylor explained.

"Our administrative expenses are decreasing because of an emphasis on total quality management internally," Ms. Maurer said. "We have re-engineered our systems because we know we need to focus on cost containment."

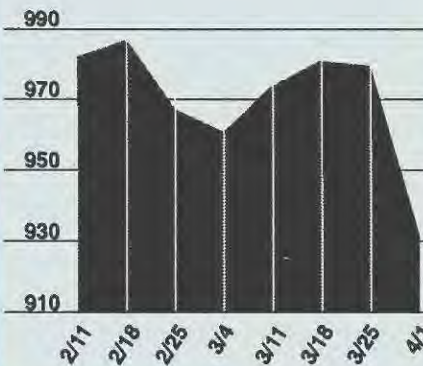
But, an HMO that is expanding and increasing its membership may incur increased administrative expenses, which are likely to be passed along to employers.

HMO leaders also reported that hospital expenses are increasing more modestly than in previous years. Executives say the use of outpatient technology and other alternatives to inpatient care have led to a decrease in the number of bed-days spent in hospitals.

Copies of "The Managed Care Executive Survey" are available for \$50 for AMCRA members and \$75 for non-members. Call the American Managed Care & Review Assn. Foundation, 202-728-0506.

BI Insurance Index

1010



Base = 100 on Dec. 29, 1978

Source: Nordby International Inc.

Insurance stocks tumbled last week, as the *Business Insurance Index* lost 48.2 points to 931.7 March 31 from 979.9 on March 25. Advancing issues for the week were led by: Seibels Bruce Group, up 6.9%; ITT Hartford Group, up 4.6%; and Navigators Group, up 3.8%. Declining issues for the week followed: Penn-America Group Inc., down 16.1%; PacificCare Health Systems, down 13.6%; and Sierra Health Services, down 12.9%. The most active issue was Travelers Corp., 3.7 million shares traded. The *BI Index* fell 4.9%; the Dow Jones 30 Industrials lost 3.7%; the NYSE Composite dropped 3.6%; and the Standard & Poor's 500 lost 3.2%.

British Issues

March 31	Price	P/E	Div.	Yield	1 week
Companies	pence		pence	%	High-Low
Comml Union	572	18.2	31.0	5.4	583-571
Genl Accident	619	12.4	34.4	5.6	629-615
Gdn Royal Exch	180	11.6	9.5	5.3	186-179
Royal	272	11.8	9.4	3.5	281-272
Sun Alliance	326	14.6	18.4	5.6	337-326

Brokers

Brokers	Price	P/E	Div.	Yield	1 week
Bradstock	139	15.6	6.9	5.0	139-138
CE Heath	375	14.4	20.5	5.3	375-374
Hogg Group	165	N/M	7.1	4.3	165-133
JIB Group	196	17.2	9.4	4.8	196-194
Lloyd Thompson	284	19.2	8.4	3.0	294-282
Lowndes Lmbt	430	13.4	18.8	4.4	430-429
PWS Holdings	73	10.7	5.0	6.8	73-73
Sedgwick Grp	210	23.1	7.5	3.6	210-204
Steel Bri Jones	145	N/M	11.3	7.8	145-129
Willis Corroon	226	20.7	8.3	3.7	228-226

Source: Philip Olsen, London * 1993 figure; others estimated

BI Industry Stock Report MARCH 28, 1994, THROUGH MARCH 31, 1994

BROKERS

BROKERS												Price		Weekly % change		Year to date % change		Annual High		Low		Vol.(000)		\$ Div.		% Yield		P/E		Book value		Mkt/Bk. value	
Accordia Inc.	NYS	27.50	-1.35	11.68	28.25	18.38	21	0.60	2.18	14	10.22	2.69	Mutual Risk Mgmt. Ltd.	NYS	24.63	-5.29	-17.92	32.75	21.16	128	0.28	1.14	16	5.71	4.31								
Alexander & Alexander	NYS	17.63	-5.37	-11.32	28.00	17.63	358	1.00	5.67	46	6.73	2.62	NAC Re Corp.	OTC	26.00	-1.42	-10.73	43.13	26.00	43	0.16	0.62	11	19.24	1.35								
E.W. Blanch Holdings Inc.	NYS	16.75	-4.29	-3.60	23.50	15.75	81	0.32	1.91	17	4.10	4.09	National Re Corp.	NYS	28.00	-3.03	-8.59	39.63	27.13	38	0.16	0.57	8	16.89	1.66								
Arthur J. Gallagher & Co.	NYS	26.50	-0.44	-20.28	37.38	26.50	45	0.88	3.09	14	7.52	3.79	Navigators Group	OTC	20.50	3.80	-41.43	39.00	16.50	39	0.00	0.00	11	16.99	1.21								
Hib. Rogal & Hamilton	NYS	11.50	-7.07	-12.38	16.75	11.13	48	0.48	4.17	19	4.51	2.55	Nobel Insurance Ltd.	OTC	8.00	-0.78	4.92	8.44	6.25	82	0.00	0.00	5	6.84	1.17								
Marsh & McLennan	NYS	83.25	-1.33	2.30	96.00	77.00	288	2.68	3.22	18	16.76	4.97	NWNL Companies	NYS	26.63	-10.55	-11.92	38.75	26.50	230	0.80	2.79	11	23.97	1.19								
Poe & Brown	OTC	18.50	-3.90	2.78	21.25	16.88	30	0.40	2.16	19	3.02	6.13	Ohio Casualty Corp.	OTC	62.50	-1.57	-2.34	72.00	57.63	50	2.92	4.67	13	47.68	1.31								
BROKERS AVERAGE												-3.4		-4.4																			

INSURERS/REINSURERS

ACE Ltd.	NYS	25.75	-3.29	-15.57	36.00	25.50	335	0.40	1.55	5	28.74	0.90	Penn-America Group Inc.	OTC	6.50	-16.13	-15.45	9.50	6.50	229	0.00	0.00	8	N.A.	N.A.
Acceptance Insurance Cos.	NYS	11.63	2.20	0.00	15.63	11.13	22	0.00	0.00	13	9.65	1.20	Phoenix Re Corp.	OTC	20.75	-11.23	-24.55	38.25	19.75	237	0.28	1.35	6	19.99	1.04
AEGON N.V.	NYS	49.88	-1.24	-8.90	58.50	43.25	10	1.22	2.45	10	34.71	1.44	Re Capital Life	NYS	27.25	-1.36	-13.83	31.88	25.63	189	1.04	3.82	-9	26.38	1.03
Aetna Life & Casualty	NYS	53.13	-3.41	-11.83	66.25	48.38	667	2.76	5.20	-10	71.84	0.74	Re Capital Corp.	OTC	13.25	0.95	-2.75	14.75	13.00	8	0.32	4.22	11	16.88	0.78
Allied Group Inc.	OTC	24.25	-3.96	-3.00	32.75	21.34	185	0.60	2.47	7	10.45	2.32	Reliance Group Holdings	NYS	5.50	-6.38	-29.03	10.38	5.50	252	0.32	5.82	6	4.22	1.30
Allmerica Prop. & Casualty	NYS	18.00	0.70	-16.44	22.16	17.50	47	0.16	0.89	4	56.97	0.32	RLI Corp.	NYS	23.88	-3.05	-10.75	27.75	23.25	24	0.56	2.35	10	22.91	1.01
Allstate Corp.	NYS	24.00	3.23	-19.33	34.25	23.00	2806	0.72	3.00	8	18.43	1.30	St. Paul Companies	NYS	77.75	-0.48	-13.37	98.00	76.38	310	3.00	3.86	8	57.84	1.34
American General	NYS	27.88	-0.45	-2.19	36.50	25.50	800	1.16	4.16	24	22.09	1.26	SAFECO Corp.	OTC	52.88	-3.64	-3.20	65.75	51.88	561	1.80	3.40	10	41.59	1.27
American Heritage Life Ins.	NYS	18.00	-1.37	-3.36	25.34	17.25	26	0.60	3.33	11	12.42	1.45	SCOR U.S. Corp.	NYS	10.38	-4.60	-17.82	10.00	10.25	14	0.36	3.47	8	16.08	0.65
American Indemnity/Fin'l	OTC	13.00	0.00	0.00	16.25	7.75	12	0.12	0.92	4	16.18	0.80	Seibels Bruce Group	OTC	1.94	6.89	10.74	2.13	0.31	62	0.00	0.00	-1	1.90	1.02
American International	NYS	84.13	0.75	-4.54	100.25	78.41	1732	0.40	0.48	14	45.25	1.86	Selective Ins. Group	OTC	27.75	-0.89	-8.26	31.00	20.50	24	1.12	4.04	17	23.11	1.20
American Re Corp.	NYS	26.75	-3.60	-5.31	40.25	23.50	175	0.00	0.00	12	14.80	1.81	Sphere Drake Holdings	NYS	15.00	-9.77	-9.09	21.63	14.75	13	0.12	0.80	6	12.17	1.23
Aon Corp.	NYS	48.00	-4.24	-0.52	58.50	45.00	192	1.92	4.00	11	33.10	1.45	Statesman Group Inc.	NYS	11.00	-12.87	-12.00	14.88	9.75	82	0.10	0.91	4	8.65	1.27
Argonaut Group	OTC	29.25	-1.68	-4.10	35.50	29.25	51	1.00	3.42	8	27.65	1.06	TIG Holdings	NYS	19.25	-2.53	-14.92	28.00	18.88	209	0.20	0.14	-9	18.49	1.04
AVEMCO Corp.	NYS	16.25	-0.76	-13.33	23.00	14.50	2	0.44	2.71	12	8.13	2.00	Titan Holdings Inc.	NYS	9.75	-10.34	-10.34	13.38	9.38	32	0.24	2.46	7	8.93	1.09
Baldwin & Lyons Inc.	OTC	14.25	0.00	-4.20	16.25	11.16	0	0.20	1.40	9	12.59	1.13	Tokio Marine & Fire	OTC	59.75	-1.24	10.65	67.00	49.25	1	0.37	0.62	39	57.72	1.04
Berkley W.R. Corp.	OTC	35.00	-7.28	6.87	48.00	32.00	50	0.44	1.26	12	28.12	1.24	Torchmark Corp.	NYS	40.25	-1.83	-10.06	61.88	40.25	348	1.12	2.78	11	17.35	2.32
Berkshire Hathaway Inc.	NYS	159.25	-0.07	-2.45	178.00	118.00	0	0.00	0.00	-	8115.28	1.96	Transatlantic Holdings	NYS	46.25	-4.64	-13.35	61.50	45.38	132	0.36	0.78	12	29.60	1.56
Capital Re Corporation	NYS	20.13	-4.17	-21.84	29.00	18.50	13	0.20	0.99	8	21.66	0.93	Travelers Corp.	NYS	35.13	-5.39	-9.65	49.50	31.22	5893	0.48	1.37	9	33.35	1.05
Capsure Holdings Corp.	NYS	13.75	-5.17	1.85	19.38	12.75	35	0.00	0.00	13	13.08	1.05	Trenwick Group Inc.	OTC	34.25	-0.72	-11.61	49.75	33.25	45	1.00	2.92	10	26.00	1.32
Chubb Corp.	NYS	73.13	1.74	-7.00	96.13	70.75	712	1.84	2.52	19	46.59	1.57	United Fire & Casualty	OTC	38.00	-7.32	5.56	44.00	34.75	15	1.08	2.84	10	28.96	1.31
CIGNA Corp.	NYS	59.38	-5.19	-6.13	70.50	56.50	345	3.04	5.12	18	78.23	0.76	Unitrin	OTC	40.25	0.63	-5.29	46.75	39.00	144	1.40	3.48	22	38.90	1.03
CNA Financial Corp.	NYS	64.50	-1.90	-18.10	100.63	64.50	200	0.00	0.00	15	77.92	0.83	UNUM Corp.	NYS	52.75	-4.74	0.48	60.13	47.75	622	0.80	1.52	13	27.55	1.91
Continental Corp.	NYS	22.63	-3.21	-18.10	34.63	22.63	431	1.00	4.42	8	38.99	0.58	US Facilities Corp.	OTC	9.00	-7.69	-24.21	14.00	8.75	87	0.00	0.00	8	10.48	0.86
EMC Insurance Group Inc.	OTC	8.88	-4.05	-6.58	11.25	8.50	4	0.52	5.86	13	N.A.	N.A.	USF&G Corp.	NYS	13.25	-8.62	-12.40	19.63	12.38	1051	0.20	1.51	14	10.60	1.25
EMPHESYS Financial Group Inc.	NYS	22.25	-1.66	N.A.	23.00	22.00	547	0.00	0.00	-	N.A.	N.A.	USLICO Corp.	NYS	17.25	-1.43	4.55	19.00	15.75	76	0.24	1.39	8	25.22	0.68
EXEL Ltd.	NYS	40.13	-4.18	-10.83	52.25	40.13	230	1.20	2.99	6	33.81	1.19	USLIFE Corp.	NYS	38.63	-3.44	-0.32	45.75	35.75	66	1.24	3.21	9	41.73	0.93
Fremont General Corp.	NYS	23.00	1.10	-4.66	28.75	21.00	134	0.72	3.13	7	23.40	0.98	Washington National	NYS	23.50	-4.57	-3.09	27.50	21.75	55	1.08	4.80	9	28.40	0.83
Frontier Insurance Group	NYS	43.50	-0.57	-0.85	50.00	36.72	57	0.60	1.38	14	16.33	2.66	Zenith National Inc.	NYS	20.88	-5.65	-5.65	29.13	20.88	61	1.00	4.79	8	17.71	1.18
Gainsco Inc.	ASE	8.88	-5.33	-1.39	15.53	7.84	78	0.04	0.45	13	3.49	2.54	Zurich Reinsurance Centr.	NYS	26.38	-1.86	-6.64	36.38	24.25	17	0.00	0.00	34	24.41	1.08
													INSURERS/REINSURERS	AVERAGE			-3.1				2.2		10.7		

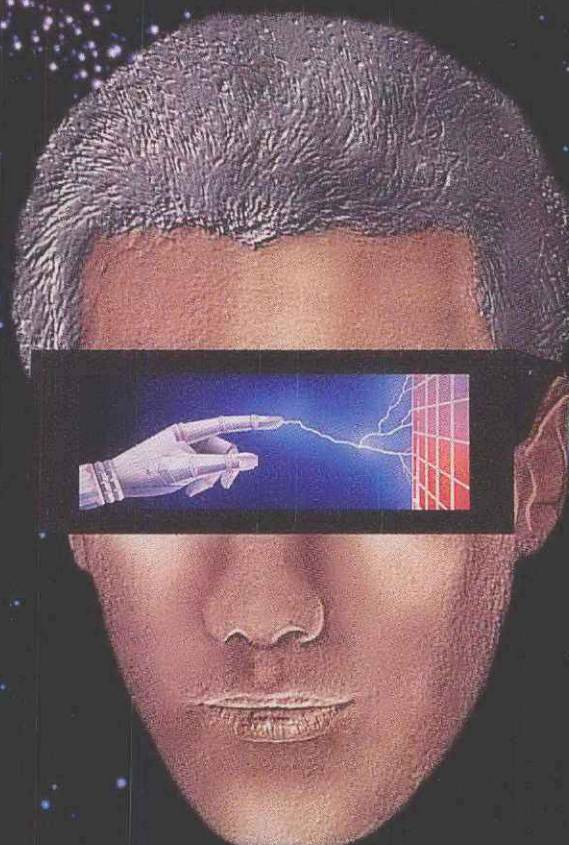
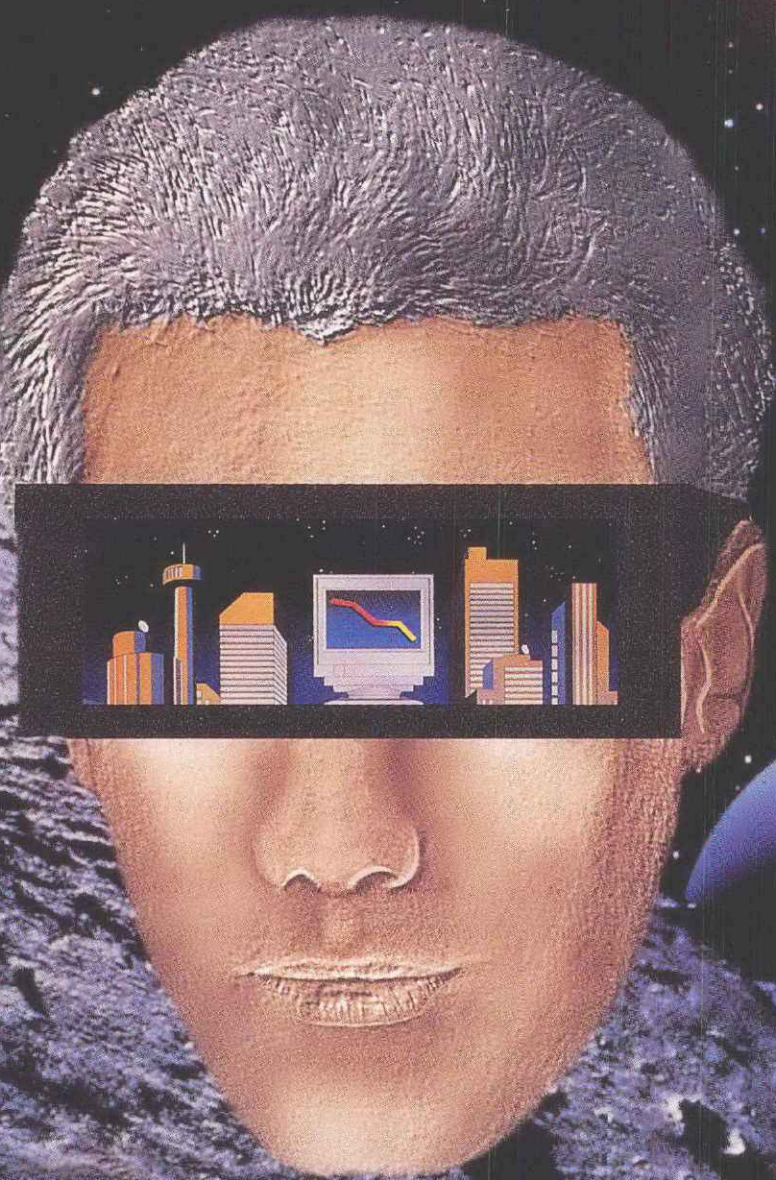
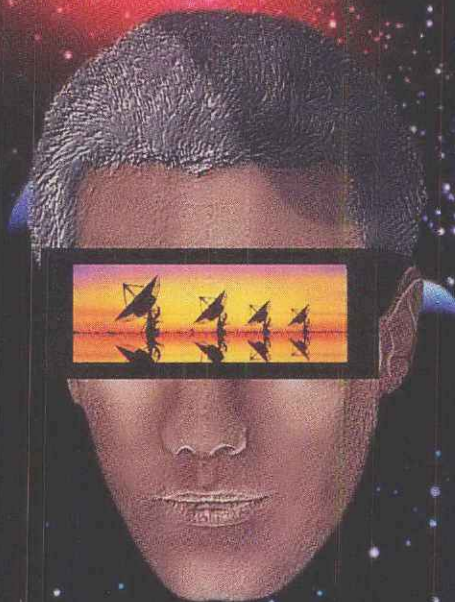
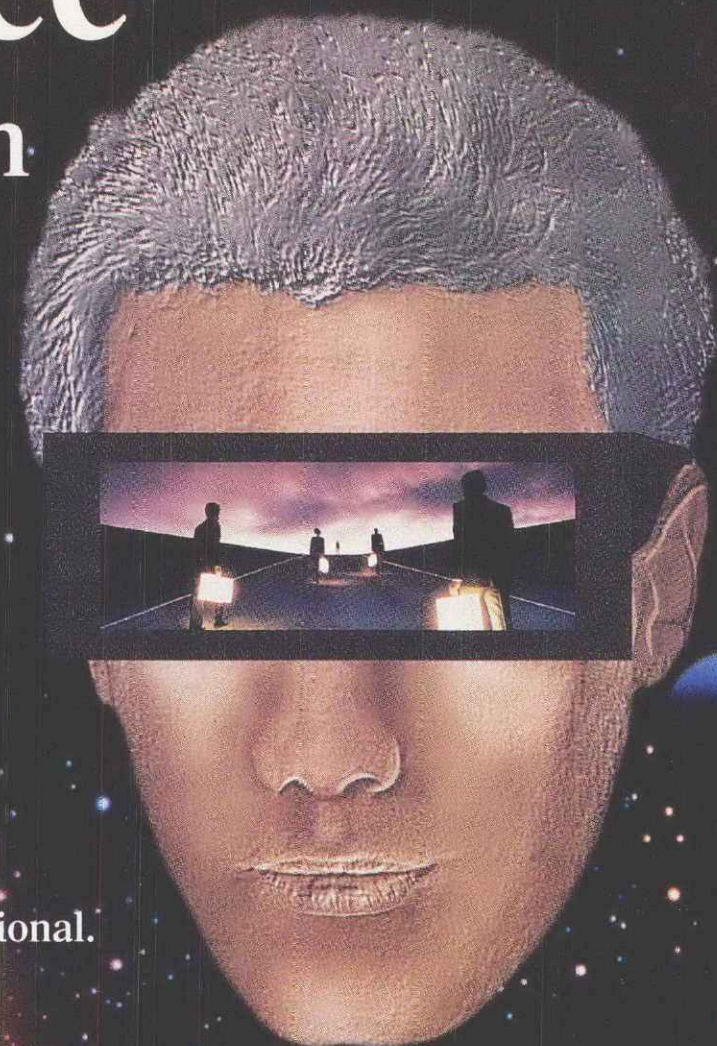
General Re Corp.	NYS	107.38	0.82	1.06	33.38	101.75	706	1.92	1.79	13	55.54	1.93													
Guaranty National Corp.	NYS	14.75	0.00	-15.71	24.75	13.75	141	0.48	3.25	10	11.81	1.25	HEALTH MAINTENANCE ORGANIZATIONS												
Harleysville Group	OTC	24.00	-3.03	-15.79	31.50	22.63	15	0.64	2.67	10	18.35	1.31	FHP International	OTC	24.25	-8.49	-6.73	30.00	18.25	1143	0.00	0.00	15	11.43	2.12
Hartford Steam Boiler	NYS	48.75	-3.70	9.55	57.75	42.63	44	2.12	4.35	77	15.80	3.09	PacificCare Health Sys.	OTC	48.38	-13.62	28.15	57.25	30.50	327	0.00	0.00	20	11.15	4.34
HCC Insurance Holdings	OTC	24.50	-4.39	-19.01	35.75	19.00	73	0.00	0.00	15	14.94	1.64	Safeguard Health Enter.	OTC	14.50	-6.45	16.00	15.50	8.00	13	0.00	0.00	17	5.71	2.54
Home Holdings Inc.	NYS	14.00	-8.20	-18.84	18.50	14.00	32	0.00	0.00	-6	19.96	0.70	Sierra Health Services	ASE	25.38	-12.88	14.04	30.75	11.50	334	0.00	0.00	18	4.60	5.52
ITT Hartford Group	NYS	85.75	4.57	-6.64	95.97	71.09	1201	1.96	2.29	12	57.11	1.50	TakeCare Inc.	OTC	73.00	-2.34	33.94	76.00	32.75	547	0.00	0.00	23	18.69	3.91
Kemper Corp.	NYS	59.38	-3.26	65.51	62.00	32.25	1750	0.92	1.55	-25	38.98	1.52	United Healthcare Corp.	NYS	42.75	-9.04	14.38	47.50	22.75	2061	0.03	0.07	34	10.64	4.02
Lawrence Insurance Group	ASE	3.50	0.00	-3.45	7.50	3.25	1	0.00	0.00	-8	4.26	0.82	U.S. Healthcare	OTC	41.00	-5.75	6.96	68.25	36.75	3434	0.80	1.95	15	6.21	6.60
Lincoln National	NYS	40.75	-2.69	-5.23	48.25	37.00	468	1.64	4.02	10	32.53	1.25	Wellpoint Health Networks	NYS	31.38	-11.31	1.62	37.00	24.00	420	0.00	0.00	17	10.94	2.87
Market Corp.	OTC	42.00	-2.04	9.09	44.50	32.25	9	0.00	0.00	10	24.68	1.70	HMOs	AVERAGE		-8.7	13.5					0.2	18		
Mid Ocean Ltd.	OTC	26.88	-3.15	-4.87	34.75	25.00	483	0.00	0.00	14	20.24	1.33	ALL COMPANIES	AVERAGE		-5.1	0.8					2.4	14		

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