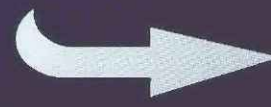


APRIL 7, 1997

# Business Insurance

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Reporting Weekly on Corporate Risk, Employee Benefit and Managed Health Care News  
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# Business Insurance

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

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## KAL to appeal record verdict for pre-crash pain and suffering

UNIONDALE, N.Y.—Korean Air Lines has filed a motion to set aside a \$2.1 million verdict to the father of a college student killed by the downing of Korean Air Lines Flight 007 in 1983.

The verdict was based on the claim that the plaintiff, Alice Ephraimson-Abt, experienced pain and suffering while the plane plummeted toward the sea after a Soviet missile struck it off Sakhalin Island. Verdicts based on pre-death pain and suffering in airline crashes are rare, lawyers say.

See Updates on next page

## Employers get a break on portability compliance

By JERRY GEISEL

WASHINGTON—Regulatory agencies are easing employers' burden of complying with a federal law that curbs their ability to deny coverage to employees with pre-existing medical conditions.

That federal law will force tens of thousands of employers to modify their health care plans to meet the new requirements, which are aimed at making it easier for workers to change jobs without fear they will lose coverage for pre-existing conditions.

In general, employers can deny coverage for up to 12 months for new employees' pre-existing conditions. But that exclusionary period must be offset by employees' prior coverage. For example, if a new employee had coverage for six months from a prior employer, his or her new employer could deny coverage for a pre-existing condition for a maximum of six months.

The key to implementing these new requirements—which for many employers will kick in on Jan. 1—is a certification state-

ment indicating how long employees had coverage. Employers will have to provide these certification statements to employees when they lose coverage, such as when they terminate employment.

This certification requirement begins June 1. And many employers are not aware of this deadline.

"You don't have a lot of time to react and get things in order," said Frank McArdle, a consultant with Hewitt Associates L.L.C. in Washington.

But the federal agencies—the

See Conditions on page 30

## Partner Re diversifies through SAFR acquisition

By GAVIN SOUTER

HAMILTON, Bermuda—In an apparent about face, Partner Re Ltd., which has championed the need for Bermuda property catastrophe reinsurers to focus exclusively on that business, is about to become one of Bermuda's most diverse reinsurers through the purchase of Paris-based Societe Anonyme Francaise de Reassurances.

While the two companies will maintain separate operations, Partner Re's \$950 million acquisition will expose it to risks outside property catastrophe lines for the first time.

Previously, Partner Re President and Chief Executive Officer Herbert N. Haag has forcefully argued that reinsurers should stick to their areas of expertise.

However, SAFR management has the expertise necessary to justify the diversification, Mr. Haag said. Conversely, the non-proportional reinsurance expertise at Partner Re will help SAFR grow, he said.

But any post-acquisition growth by Partner Re or SAFR will likely not match the stellar growth Partner Re managed to attain in its first few years, analysts say.

The deal has an unusual structure and centers around the minority shareholding Swiss Reinsurance Co. in Zurich has in both Partner Re and SAFR.

Swiss Re had previously announced it would increase its stake in SAFR to 78.4% from 21.56% by buying up the 46.8% owned by Paris-based Assurances Generales de France and the 10.04% owned by Athena Assurances, an affiliate of Paris-based

See Partner Re on page 17

## Employment liability risks grab attention of managers

By SALLY ROBERTS

Employment practices liability suits are no longer a backburner risk exposure.

In fact, 74% of risk managers responding to a recent survey said their companies faced employment practices lawsuits in the past year.

Discrimination and sexual harassment allegations and employment practice liability lawsuits—particularly in the wake of the headline-grabbing cases against Texaco Inc. and Mitsubishi Motor Manufacturing Co. of America—are commanding increased attention among risk managers.

The survey of 247 risk managers conducted by Chicago-based Aon Risk Services Cos. Inc. offers a barometer of risk managers' concerns and attitudes on a range of topics, including: their profession, broker consolidation, government and public policy and use of the Internet. The study will be released next week at the Risk & Insurance Management Society Inc. conference in Atlanta.

For the past nine years, New York-based Alexander & Alexander Services Inc. has conducted the survey.

A&A was acquired in December by Aon, a prime example of the hot trends addressed in the study.

Another trend closely tracked by risk managers is employment practices liability.

Of the risk managers who said cases against their companies were litigated, 47% of the risk managers said their companies won, another 47% said their companies settled while the remaining 6% report losing, the survey said.

Despite these statistics, 61% of the surveyed respondents said they do not carry employment practice liability insurance.

"There's a general feeling that management does not do as good a job" enforcing policies and procedures aimed at mitigating potential discrimination problems if they know they are insured, said Rick Broderick, director of risk management for VF Corp., a Wyomissing, Pa.-based appar-

### New partners

The acquisition of SAFR will help Partner Re diversify its business. 1996 premium distribution by lines of business.

	Partner Re	SAFR
Property	97%	45%
Automobile	0	20
Other casualty	0	3
Life	0	7
Marine and aviation	0	7
Credit and surety	0	5
Other	3	13
Gross premiums written 1996	\$206 million	\$700 million

Source: Partner Re Ltd.

GRAPHIC BY ADAM DOI

## Soft market forces facility to shift its book to CNA

By MARK A. HOFMANN

INDIANAPOLIS—Soft commercial insurance market conditions have claimed a risk retention group formed to help members cope with now-distant hard market conditions.

American Justice Insurance Reciprocal (A Risk Retention Group), which is sponsored by the National Sheriffs' Assn. of Alexandria, Va., has agreed in principle to move its existing book of business to Chicago-based CNA Insurance Cos.

The move reflects competitive market conditions, Tom Dickman,

vp of JWF Specialty Co. in Indianapolis, said last week.

JWF Specialty administers the Indianapolis-based group. AJIR was formed in 1990 to succeed the troubled Star Pool, an NSA-sponsored, Illinois-domiciled self-insurance pool that was the target of a half-dozen cease-and-desist orders during its brief existence (BI, Feb. 5, 1990).

The continuing soft liability market may force other risk retention groups to reconsider whether their current underwriting practices best meet their members' needs, observers say. AJIR's decision is "fairly self-

explanatory," said Mr. Dickman. Even successful alternative risk vehicles find the current marketplace "difficult" to operate in, he said.

In a March 20 letter announcing the plan to 140 AJIR subscribers, mostly sheriffs' departments and agents, the risk retention group reported that it had posted "mixed results" last year. Although premium volume grew 12% to \$4.25 million, surplus dropped 13.4% to \$1.44 million. "This decrease is primarily attributable to an increase in claim losses incurred during 1996, re-

See RRG on page 20

### Hot topics

Aon surveyed risk managers on a variety of current topics and issues.

**Employment discrimination litigation**  
74% faced employment practices litigation in the past year



**Industry consolidation**  
66% say recent brokerage consolidation has not affected them



**Internet**  
77% have access to the Internet, and 67% have e-mail links to their brokers or consultants



**Integrated benefits**  
70% are not integrating any combination of workers compensation with group medical, long- or short-term disability and sick pay



Source: Aon Risk Services Cos. Inc.

GRAPHIC BY JOHN HALL

## Updates

### Airline wants verdict set aside

Continued from previous page

Generally, awards to the surviving family of plane crash victims are based on the deceased's future earnings. But because Ms. Ephraimson-Abt was in college, that was inapplicable.

Of the verdict, \$2 million was for Ms. Ephraimson's pre-death pain and suffering, while \$135,000 was for her father's loss.

Previous awards in airline crashes that have been based on pain and suffering prior to the crash have not been this large, said Lee Kreindler of Kreindler & Kreindler in New York. He frequently represents crash victims but did not represent the plaintiff in this case.

The attorney for the airline, George Tompkins Jr. of Tompkins Harakas Elsasser & Tompkins in White Plains, N.Y., said this verdict is the largest from Flight 007 for pre-death pain and suffering, surpassing the previous high of \$1.3 million.

### CNA faces suit over ADA

CHICAGO—The Equal Employment Opportunity Commission is suing CNA Financial Corp. for allegedly discriminating against people with disabilities.

According to a lawsuit filed by the federal agency's Chicago office last week, CNA and subsidiary Continental Casualty Co. allegedly refused to reasonably accommodate and ultimately fired a former computer programmer who suffered from a herniated cervical disk.

In a statement, the EEOC also alleges the insurer discriminated against disabled individuals as a class because the company "adheres to a policy that requires a person returning to work to be able to immediately resume what CNA describes as all 'normal' work activities without regard to whether the employee needs a reasonable accommodation."

The claims against CNA were brought under Title I of the Americans with Disabilities Act of 1990.

A spokesman for CNA said, "We strongly believe we have fully complied with the law."

This is an important case because "It asserts rights of employees to work even though they may need accommodations," said Jean P. Kamp, an EEOC supervisory trial attorney.

The agency said it will seek injunctive relief, back wages, reinstatement and compensatory and punitive damages for the individual and the class of persons affected by the policy.

### \$675 million in cat damage

RAHWAY, N.J.—Catastrophes caused an estimated \$675 million in insured property damage during the first three months of this year, according to the Property Claim Services division of the American Insurance Services Group.

Nearly 40% of the total—\$265 million—stemmed from a series of storms that devastated portions of the South and Ohio River Valley during the end of February and early March, according to PCS (BI, March 10). PCS also reports that catastrophe-related claims for the first quarter of this year reached an estimated 364,000, a relatively low volume.

This year's first quarter ranks as the seventh-costliest on record in terms of total damage. The costliest first quarter was in 1994, when the Northridge Earthquake in California played a key role in pushing insured property damage to \$14.5 billion.

### Much of tobacco suit dismissed

MIAMI—A Florida state court judge dismissed most of a class-action suit seeking billions of dollars in damages against the tobacco industry.

The judge threw out claims seeking money for smoking-related illness. Those claims concerned allegations that the tobacco industry failed to warn about the risks of smoking, concealed its addictiveness and used advertising to hide the risks.

Circuit Court Judge Alan Postman determined, based on U.S. Supreme Court precedent, that these claims were pre-empted by the federal law that mandates warnings on tobacco labels.

The decision lets stand claims for design defect, fraud and those against the Council for Tobacco Research, an industry research group.

Robert Heim, an attorney with Dechert Price & Rhoads in Philadelphia, who represents Philip Morris Cos., said the decision "is a victory, but not one that will end the lawsuit." He added that numerous federal courts have arrived at the same decision.

A trial on the remaining claims is scheduled to start in September.

Meanwhile, Circuit Court Judge Irene Berger in West Virginia has allowed the remaining two claims in the state's suit against the tobacco industry to proceed. Those two claims are for breach of West Virginia's consumer protection and antitrust laws. In February, she had dismissed most of the state's claims seeking reimbursement for health care costs (BI, Feb. 24). The state will appeal that ruling.

Also, Liggett Group Inc.'s settlement with 22 state attorneys general has been extended to include California, San Francisco and 10 California counties. Although California has not sued any tobacco companies, it will participate on the same terms as the other states in the settlement reached last month and will receive documents and assistance from Liggett employees if the state pursues litigation against other tobacco manufacturers, as well as receiving part of any settlement fund. San Francisco and the counties will obtain the same assistance with their suits but will not participate in the monetary fund.

### Kroll to continue AIG role

NEW YORK—Security consultant Kroll Associates will continue to serve as a consultant to American International Group Inc. after its expected sale to Atlanta-based Equifax Insurance Services Group.

Equifax plans to spin off its insurance services group this summer, after which the spinoff company will acquire New York-based Kroll. The newly created company will be called ChoicePoint.

See Updates on page 30

## Predictions for 1994 results on target

# Lloyd's profit over £1 billion

By STACY SHAPIRO

LONDON—Lloyd's of London's preliminary 1994 profit of £1.01 billion (\$1.73 billion) is in line with forecasted predictions.

The results are not as good as Lloyd's 1993 global profit of £1.08 billion (\$1.68 billion), but they reflect a good year when rates were high and there were few catastrophic losses, underwriting agents note.

Lloyd's preliminary results, announced last week, are "pure" results before tax and after members' personal expenses, such as

members' agents fees. The results are based on an initial review of syndicate returns representing 94% of the market's 1994 capacity of £10.9 billion (\$16.13 billion) and projections for the remaining syndicates. There were 179 syndicates underwriting in 1994, which closed at year-end 1996 under Lloyd's three-year accounting system.

Lloyd's predicted last year that it would report a profit equal to 9.3% of the market's 1994 capacity, or £1.01 billion (BI, March 31).

The market's final tally will be announced when Lloyd's global

results are published in early June.

However, syndicate analysts Syndicate Underwriting Research Ltd. said it expects Lloyd's final 1994 profits will exceed the preliminary results. SURL estimates the market's global profit is closer to £1.17 billion (\$2 billion)—slightly larger than 1993—before members' agency fees. Lloyd's preliminary results also exclude adjustments on syndicate reserves that could be released to members, SURL states.

Neither Lloyd's nor SURL's  
See Lloyd's on page 6

## Judge dismisses lawsuits filed by EMLICO reinsurers

By DOUGLAS McLEOD

BOSTON—Reinsurers have no standing to challenge Electric Mutual Liability Insurance Co.'s controversial 1995 move to Bermuda, a Massachusetts judge has ruled.

Suffolk County Superior Court Judge Patrick J. King last week dismissed lawsuits filed by several EMLICO reinsurers against the

Massachusetts Insurance Division contesting the division's approval of the redomestication.

The lawsuits—originally filed in late 1995 by General Reinsurance Corp. units, Kemper Reinsurance Co. and Lloyd's of London underwriters—touched off an international legal battle that has raged for more than a year over the hugely insolvent EMLICO (BI, Dec. 11, 1995).

In a statement, EMLICO's Bermuda liquidators said the ruling clears a potential roadblock to approval of a settlement between the Massachusetts division, EMLICO and sole EMLICO policyholder General Electric Co. over the redomestication.

A lawyer for one of the reinsurers, meanwhile, said the case was "wrongly decided" and that rein-

See EMLICO on page 30

## Improved prognosis

Pricing should bring better year for HMOs: Analysts

By JUDY GREENWALD

The financial outlook for HMOs is improving after the squeeze that intense competition and rising pharmaceutical and outpatient costs put on 1996 profits.

With the industry's move toward rate hikes that are averaging 3% to 5%, most HMOs and analysts anticipate this year is likely to be a better year for HMOs than 1996, and next year will be even

stronger.

For 1997, "the outlook is for much more stable, perhaps improving, margins," said Mark Jamilkowski, an HMO analyst with Conning & Co. in Hartford, Conn.

In particular, "The large, more well-established and perhaps better-managed companies appear to have an improving outlook for 1997, as their pricing is ahead of anticipated medical trends, and

they seem to have a firmer grasp on the cost drivers both from the medical and administrative side," Mr. Jamilkowski said.

"The pricing trends are much better," said Todd Richter, an analyst with Dean Witter Reynolds in New York.

Much depends on the impact of cost trends when first-quarter results are released, Mr. Richter said. "The early  
See HMO on page 32

## Cleanup costs ruled 'damages'

JEFFERSON CITY, Mo.—The costs of a government-ordered cleanup of a polluted site are "damages" and are covered by general liability insurance policies, the Missouri Supreme Court has ruled.

In the ruling, the court rejected an insurer's argument that insurance policies do not cover equitable relief such as ordered cleanups.

In another pollution ruling, New York's highest court ruled that a Long Island-based policy-

holder could not redeem cleanup and defense costs under its liability policy.

The New York Court of Appeals ruled that the word "sudden" in the pollution exclusion included a temporal element.

This is the first ruling by the Missouri Supreme Court on insurance coverage for mandated cleanups.

The New York high court's ruling that the word "sudden" in the pollution exclusion included a temporal element had been held

before. However, it is the first time that the state's highest court has ruled there is no duty to defend if the pollution was not sudden.

In *Farmland Industries Inc. vs. Republic Insurance Co.*, the Missouri Supreme Court overturned a lower court's decision to exclude coverage for compulsory cleanup under Superfund.

The insurers argued that the term "damages" means legal damages and does not cover equitable  
See Pollution on page 24

## Inside

• A recent court decision points up the fact that Superfund reform requires legislative, not judicial, action, one of this week's editorials says. **PAGE 8**

• Bermuda has its first-ever female premier, and she supports "across-the-board economic growth." **PAGE 25**

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# Quackenbush fined \$50,000 in flap over campaign funds

By JOANNE WOJCIK

SACRAMENTO—California Insurance Commissioner Chuck Quackenbush has agreed to pay a \$50,000 fine for violating state campaign disclosure laws by understating more than \$100,000 in contributions from insurance industry donors.

Meanwhile, the American Names Assn. Inc., a group of U.S. investors in Lloyd's of London, charges that the commissioner is siding with Lloyd's in its securities fraud suit because the market was a major contributor to his 1994 campaign.

Mr. Quackenbush filed an amicus curiae, or "friend of the court," brief March 20 in the 9th U.S. Circuit Court of Appeals in Los Angeles seeking reconsidera-

tion of its March 6 decision to allow U.S. names' suit against Lloyd's to go forward in federal court.



Mr. Quackenbush

The 9th Circuit had agreed with a San Diego trial court's 1995 decision to dismiss the portion of the suit addressing state securities laws (*BI*, Sept. 18, 1995).

But the appellate court ordered the trial court to hear arguments over whether Lloyd's violated federal securities laws when it re-

cruited U.S. investors for the market.

Mr. Quackenbush's amicus brief supports Lloyd's assertion that the entire suit should be dismissed because the names gave up their right to sue the market in U.S. courts when they signed their investment contracts.

The contracts included a "forum selection" clause that required all litigation against Lloyd's to be filed in the United Kingdom, explained attorney Dean Hansell, a partner in the Los Angeles office of law firm LeBoeuf, Lamb, Greene & MacRae, which represents Lloyd's.

In his brief, Mr. Quackenbush asserts that if Lloyd's were put on trial for federal securities laws, it would subject the business of

See *Fine* on page 16

# Alternative market bias dwindling, regulator says

By RODD ZOLKOS

CHICAGO—The alternative risk financing market has grown to the point that both traditional insurers and state regulators seem to be accepting the need to work with it rather than against it, a state regulator says.

"Both the conventional insurance market and regulators have come to accept the alternative insurance market," said Michael J. Moriarty,

supervising examiner in the financial condition property/casualty bureau of the New York Department of Insurance. "Perhaps it's an 'if you can't beat them, join them' mentality."

"We have to adapt to the alternative insurance market in the regulatory community," Mr. Moriarty said as part of a panel on regulatory relationships at the

National Risk Retention Assn.'s annual conference last month in Chicago. "It's not the government's job to tell the insurance market which way it should go," he said.

"The alternative insurance market is here to stay, and that's what's changing the attitudes of insurance regulators," Mr. Moriarty said.

Another panelist said Mr. Moriarty's words bode well for the future of the relationship between risk retention groups and other alternative risk financing vehicles and state regulators.

"I think we're seeing as we listen to Mike Moriarty an end to the antagonism between the alternative markets and regulatory agencies," said Philip C. Olsson, principal with the Olsson, Frank and Weeda P.C. law firm in Washington and counsel to the NRRRA.

Another panelist, Jeffrey P. Johnson of the Primmer & Piper law firm in Montpelier, Vt., cautioned, though, that some state insurance regulators either don't understand or are wary of the Risk Retention Act, the federal law that allows risk retention groups to operate nationwide after meeting the licensing requirements of one state.

"The basic point is the beat goes on, and while we found many state regulators who understand the Risk Retention Act, we found many others who still don't like it," Mr. Johnson said.

Mr. Moriarty agreed that many regulators don't like the law. "I think states still generally oppose the Risk Retention Act, but only because it was forced on us by the federal government," he said.

While he said he thinks many viewed the Liability Risk Retention Act of 1986 as "an act of convenience by Congress—it was a

See *RRGs* on page 12

# Coalition teams with HMOs in the name of quality care

By JOANNE WOJCIK

KANSAS CITY, Mo.—A Kansas City employer coalition is hoping it can improve health care quality and standardize outcomes data reporting by working side-by-side with area health maintenance organizations in crafting health plan objectives.

The coalition has established guidelines to help employers and HMOs contract on the basis of performance rather than other measures such as cost. The coalition anticipates that cost savings will be a byproduct of the program.

The objectives integrate wellness and preventive health, occupational health, high-risk pregnancy prevention, behavioral health and traditional medical care. They rely heavily on performance measures estab-

lished by the Washington-based National Committee for Quality Assurance and the Portland, Ore.-based Foundation for Accountability. The objectives also focus specifically on how health care is being delivered locally—something existing measures such as the NCQA "report cards" have yet to do.

Some health care industry experts say that the coalition's data collection goals are a fairly tall order, given that HMOs currently have limited data collection technology.

Still, the coalition is offering up "Model Performance Objectives for Employer-HMO Contracting" as a starting point for standardizing HMO performance measures, explained Robert L. Brown, president of the 100-member Mid-America Coalition on Health Care, which over the years has worked to de-

velop a model voluntary private sector health reform initiative.

After the conclusion of a nine-to-12-month pilot project scheduled to begin this summer, the objectives will be implemented over a three- to five-year period, according to Mr. Brown. It took the coalition nearly two years to develop the guides.

"The coalition believes strongly that collaboration among employers and health plans is the most productive path for reform of the health system, improvement in the delivery of care and containment of health costs for employers and employees," he said.

"Wouldn't it be great for the Fortune 500 companies, including the five or six that are here, to agree on something like performance contracting? That way the health plans would say,

See *Coalition* on page 31

# PBGC premium cuts sought

Agency surplus cited by employer group

By JERRY GEISEL

WASHINGTON—With the Pension Benefit Guaranty Corp. reporting its first surplus ever, employer groups are calling on Congress to pass legislation to lower the insurance premiums employers with defined benefit plans pay the agency.

As expected, the PBGC last week reported an \$869 million surplus in its single-employer insurance program for fiscal 1996. The program pays benefits to workers and retirees in underfunded corporate pension plans that the agency has taken over. Typically, the PBGC terminates underfunded pension plans and assumes their benefit obligations when companies are in such financial difficulty that they no

longer can afford to make contributions to the plans or when companies go broke and are liquidated.

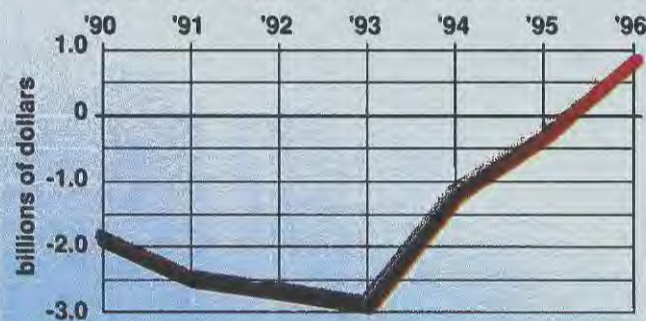
The PBGC's surplus was announced by President Clinton, the first time the nation's chief executive has reported on the agency's financial results.

President Clinton said the PBGC has made a "remarkable recovery." He noted that it was only a few years ago that the agency's financial future was so bleak that some people believed a federal bailout—along the lines that was implemented in the 1980s for the beleaguered savings and loan industry—was in the offing.

Indeed, in 1993, the PBGC touched bottom with a \$2.9 billion deficit, the difference between assets and guaranteed

See *PBGC* on page 16

## After years of deficits, PBGC is in the black\*



\* For single-employer insurance program. Source: Pension Benefit Guaranty Corp.

GRAPHIC BY JOHN HALL

# High court to rule on expert testimony

By MARK A. HOFMANN

WASHINGTON—The U.S. Supreme Court has agreed to review a Georgia case involving how much discretion a district judge can exercise in determining whether expert testimony is admissible.

The case, *General Electric Co. vs. Robert K. Joiner*, arose when Mr. Joiner claimed his exposure to polychlorinated biphenyls—better known as PCBs—had caused him to develop lung cancer. Mr. Joiner, a chief electrician for the city of Thomasville, Ga., sued General Electric and other manufacturers of electrical equipment, claiming they should be held liable for his condition.

The case went before the U.S. District Court for the Northern District of Georgia, where a judge in 1994 cited the 1993 U.S. Supreme Court ruling in *Daubert vs. Merrell Dow Pharmaceuticals Inc.* to disallow Mr. Joiner's use of certain expert witnesses. The *Daubert* ruling, which involved birth defects allegedly caused by a woman's ingestion of the antinausea drug Bendectin during pregnancy, sets criteria for federal court judges charged with deciding whether an expert's testimony is sufficiently grounded in science

to be admissible.

The district court judge said the testimony of two experts in the *Joiner* case did not meet the criteria.

"Evidence of causation in human beings was lacking and... although in certain instances scientists may use some kinds of animal studies as an indication of causation of a particular human disease, in this case such support was absent because there were only two studies, they used massive doses and their findings were only preliminary," wrote the court.

Mr. Joiner appealed to the 11th U.S. Circuit Court of Appeals in Atlanta. In a 1996 ruling, two of the three judges hearing the case said the district court had gone too far in its interpretation of the *Daubert* decision; a third sided with the district court. General Electric appealed to the Supreme Court.

In its petition for review, GE said "one more circuit here has taken a position on the unavoidable question left unanswered by this court's decision in *Daubert vs. Merrell Dow Pharmaceuticals Inc.* That question is what is the standard of review to be applied by the courts of appeal when

See *Supreme* on page 16

# Survey

Continued from page 1

However, Mr. Broderick said the biggest reason for employers not purchasing EPL insurance is that it hasn't adequately met coverage needs in the past, "and it's been fairly pricey."

VF Corp. does not carry EPL coverage, but "we're looking at it," Mr. Broderick said. "It's a much better policy today."

Another major issue facing risk managers is within their own departments. The most important career-related issue over the next five years, according to 67% of the respondents, is increasing the value of the risk management function.

"It's an evolving situation where corporations demand more out of the risk management function and risk managers are rising to it," said Ed Kiessling, managing director of Aon Risk Services in New York.

"Risk managers have to have skills, knowledge and information they've not had to have before," added Rick Voss, chairman of Aon Worldwide Resources in Chicago.

In fact, 76% of respondents said their function is expected to contribute to the company bottom line.

As they focus on meeting the challenges of their own role, survey respondents are not yet expressing general concern that mergers and acquisitions among brokers are going to be problematic for risk managers.

Despite rapid consolidation in the brokerage industry, 66% of the risk managers surveyed said their companies have not been adversely affected.

Since the survey was conducted, however, Marsh & McLennan Cos. Inc. acquired Johnson & Higgins. That latest and largest deal may have provided the critical mass of consolidations necessary to prompt more risk managers to critically analyze the potential impact on their companies.

"The question was posed right at the time our merger was being undertaken," said Mr. Voss, referring to the A&A deal. A lot of risk managers have thought about the effects of brokerage consolidation "more in the last three weeks than in the last three or four months," he said.

"Particularly with the Marsh and J&H deal, a lot of risk managers that think in terms of the two-broker concept now are pondering if they want two brokers or if they want to change their philosophy," said Mr. Kiessling.

David Strode, assistant treasurer and director of banking, capital markets and risk management for Northrop Grumman Corp. in Los Angeles and a longtime client of A&A and J&H, does not think the consolidation will affect his company. "I don't think the services they provide me are going to be enhanced because they are bigger. They had enough clout before to get the job done," he said. "They can't do a heck of a lot

more for me."

While industry consolidation may be of greater concern today, integrating workers compensation programs with disability, group medical and other benefit programs hasn't climbed to the top of their agendas.

The survey defines benefit integration as the "coordinated approach to administration, management information, benefit delivery payment and communications involving any combination of workers comp with group medical, long- or short-term disability and sick pay."

Seventy percent of the surveyed risk managers said their companies are not currently integrating any of these benefits, and 59% said they are not even considering the issue.

"I think there really is an interest" in benefit integration, but "it's not quite as easy as it seems," Mr. Broderick said. Not only do companies face "protectionism" from each of the different departments, but the "insur-

ance industry itself does not want to do it."

When it comes to items higher on risk managers' priority lists, the survey shows they may be finding help as close as the click of a mouse.

More and more risk managers are surfing the Internet, according to the survey.

In last year's survey, only 25% of the risk managers said they regularly surfed the net. This year, 77% said they have access to the Internet, and 92% said technology is making their jobs easier.

In addition, 67% of the risk managers reported having e-mail links to their brokers and/or insurance consultant.

The growth of computer use comes down to two things: "the ever-increasing sophistication of risk managers and the demand and thirst for information among those professionals," said John Lumelleau, executive vp and managing director-business development for Aon Risk Services in New York.

While risk managers say having an electronic link to their broker is important, the single most vital service a broker can provide is innovative risk management solutions, survey respondents said.

Marketing expertise, responsiveness, information and global servicing are also on the list of services that risk managers need brokers to provide.

In terms of public policy, a majority of risk managers do not place much confidence in the 105th Congress to make progress on such issues as Superfund, tort reform and product liability.

Congress will not succeed in changing the Superfund liability system, according to 71% of the risk managers surveyed; Congress will not make any significant changes in product liability laws, according to 80% of the respondents; and Congress will not make any headway in tort reform initiatives, according to 77% of the respondents.

For the ninth consecutive year, a majority—60%—of the risk managers rank caps on non-economic and punitive damages as the most important civil justice reform issue.

And despite the Liggett Group Inc.'s recent settlement of tobacco liability suits with more than 23 states and its admission that tobacco is addictive and causes cancer, 62% of risk managers surveyed said they do not believe there will be a legislative solution to the tobacco controversy.

One step risk managers hope Congress won't take is expansion of the Family and Medical Leave Act, with 43% of the surveyed risk managers saying that move would have a negative impact on corporate America.

Risk managers cite the effects of downsizing on their companies, saying that an extended loss of employees under FMLA would create additional costs, lowered productivity and heightened stress on the remaining workers.

The survey also found:

- Seventy percent of the respondents said they use alternative risk financing as part of their risk management strategy, while 30% do not.

- Fifty-nine percent of the surveyed risk managers said their workers comp costs are improving, while 33% said costs are stabilizing and 6% said costs are increasing.

About 75% said they have workers comp managed care programs in place.

- Fifty-five percent of the risk managers report increased worker complaints of repetitive motion injuries.

For a free copy of the survey, contact Paul Cristiano at Aon Risk Services, 914-742-3093. Free copies also will be distributed at Aon's booth at the Risk & Insurance Management Society, Inc. conference in Atlanta April 13-18.

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# Provident acquires comp case manager GENEX

CHATTANOOGA, Tenn.—Life and accident insurer Provident Cos. Inc. has acquired GENEX Services Inc. and GENEX Services of Canada Inc.

Terms of the transaction were not disclosed.

Wayne, Pa.-based GENEX, a subsidiary of First Data Corp., provides case management, vocational rehabilitation and related services to corporations, third-party administrators and insurance companies in the management of disability and workers compensation claims.

GENEX will operate as an independent subsidiary of Chattanooga, Tenn.-based Provident. GENEX's current management team, headed by Peter C. Madeja, president and chief executive officer, will remain in place. Mr. Madeja also will be-

come an executive vp of Provident.

## Consultants acquired

ITASCA, Ill.—Arthur J. Gallagher & Co. has acquired insurance benefit consulting companies Arnold & Co. of Troy, Mich., and Byerly & Co. of Denver.

Terms were not disclosed.

Arnold & Co., which offers retirement planning and actuarial services, will merge with the Itasca, Ill.-based broker's Gallagher ABOW Inc. unit.

Byerly & Co., which offers group benefit consulting services and administers health purchasing cooperatives, association group medical, life and disability programs and Section 125 plans, will operate under its own name as a Gallagher unit.

## Markets

### HCC, AVEMCO merge

HOUSTON—HCC Insurance Holdings Inc. and AVEMCO Corp. are combining in a merger that will offer an expanded market to buyers of commercial aviation insurance, property, energy and other coverages.

A stock-for-stock transaction valued at about \$230 million means Frederick, Md.-based AVEMCO will operate as a wholly owned subsidiary of Houston-based HCC.

HCC is the parent of surplus lines subsidiaries Houston Casualty Co. and Trafalgar Insurance Co., both of Houston. The surplus lines insurers

specialize in general aviation, large property and blue water marine risks. These companies wrote about \$225 million in 1996 gross premiums.

HCC also owns LDG Management Co., a managing general agency in Wakefield, Mass., that specializes in accident and health business. IMG Insurance Co. in Amman, Jordan, is an HCC subsidiary that writes non-U.S. marine and energy business.

AVEMCO Corp., which will continue to operate as a subsidiary, is the parent of AVEMCO Insurance Co. and U.S. Specialty Insurance Co. of Frederick, Md.

Those companies, both admitted insurers, wrote gross premiums of about \$105 million last year, mostly for commercial aviation and personal aircraft risks.

In a statement announcing the merger, which is subject to regulatory approval, HCC executives said the "synergism between the two companies would result in increased underwriting capabilities and expansion opportunities, particularly in the aviation field."

HCC projects the new company will write more than \$250 million in gross premiums on commercial and personal aviation risks in 1997.

For more information, call 713-690-7300.

### Hilb acquires Gow

GLEN ALLEN, Va.—Hilb, Rogal & Hamilton Co. has acquired Gow Management Services and the operating assets of S.H. Gow & Co. Inc. The Gow operations offer insurance agency and risk management services in Buffalo, Rochester and Syracuse, N.Y. Terms of the transaction were not disclosed. **BI**

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## Lloyd's

Continued from page 2

forecasts include syndicates that have a 1993 or prior year open, though most of these open years have been closed into Equitas Ltd.

SURL predicts Lloyd's 1995 results will be about 9.4% of its capacity of £10.17 billion (\$15.91 billion), or about £957 million (\$1.5 billion).

Lloyd's best-performing syndicate in 1994 was nuclear syndicate 1176, managed by Cox Newton & Harman Ltd. The syndicate produced a 44% return on capacity of £29.4 million (\$43.5 million), or £12.9 million (\$22.1 million).

Cox Insurance Holdings P.L.C., the parent of Cox Newton, managed six syndicates in 1994 with total capacity of £388.9 million (\$575.4 million). Cox states that its syndicates produced total preliminary profits of £76 million (\$130.2 million).

Other top performing syndicates include two managed by Bankside Syndicates Ltd. Syndicate 45, one of the most popular syndicates in the market because of its consistent results, produced a profit of 31.4% on its capacity of £25.6 million (\$37.9 million). And syndicate 561 produced a profit on 34.8% of its capacity of £45.3 million (\$67 million).

Results do not always tell the whole story, however. Syndicate 952, managed by Archer Managing Agents Ltd., also was one of the best performing syndicates in 1994, producing a 33.8% return on a capacity of just £1.2 million (\$1.8 million). However, the excess-of-loss syndicate produced large losses in the previous two years and has since shut down.

The worst-performing syndicate was syndicate 657, also managed by Archer, which produced a 41.4% loss on its capacity of £42.9 million (\$63.5 million). This syndicate and syndicate 240, also managed by Archer with a small loss in 1994, have been left open.

Separately, Equitas Ltd. today will unveil details of its balance sheet as of Sept. 4, 1996, the day it began to reinsure Lloyd's syndicates' liabilities up to 1992. The figures should reveal how much Equitas received from Lloyd's, the extent of claims paid off by syndicates last year, the reinsurer's outstanding liabilities, and how much it received in reinsurance premiums.

The last figure given by Lloyd's, at the end of 1995, indicated that reinsurance premiums were forecast to be about £14.7 billion (\$22.83 billion), though some claims were paid after that date. **BI**



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## Opinions

## Don't bank PBGC savings yet

THE LATEST FINANCIAL results from the Pension Benefit Guaranty Corp. are very good indeed.

The PBGC reports that its main insurance fund now enjoys an \$869 million surplus, a stunning improvement from three years ago, when the agency's deficit had mushroomed to about \$2.9 billion.

Indeed, the agency's financial situation once was so bleak that some members of Congress feared that the only thing preventing the PBGC from defaulting on its obligations to pay benefits to workers and retirees in failed pension plans the agency took over was a taxpayer-supported bailout.

The reasons for the PBGC turnaround are straightforward. A generally robust economy has meant that fewer big companies with hugely underfunded pension plans are going down the tubes. Indeed, it has been four years since the PBGC has taken over pension plans with anything close to jumbo-size unfunded liabilities—that is, more than \$200 million.

The booming equities market also has been a key factor in the PBGC's new-found financial strength. Simply put, the agency has been racking up high rates of return on the assets it holds, such as shares of stock.

In addition, premium income has increased substantially because of changes mandated by legislation enacted several years ago that raised termination insurance premiums for employers with the most severely underfunded plans.

In the wake of the PBGC's financial recovery, some business groups, as we report on page 3, are saying it is time to reduce PBGC premiums.

Premiums, to be sure, have soared during the agency's 22 years of operation. Congress initially—and unrealistically—set the annual premium at \$1 per plan participant when the PBGC was established in 1974. As losses proved higher than forecast, the premium has been raised several times and now is \$19 per participant for employers with fully funded plans and is substantially higher for those with underfunded plans.

While we would like to see the premium cut, such action is premature.



Much of the PBGC's financial improvement is due to the good economy and a booming stock market. But the economy will not stay strong forever and, as the past two weeks have shown, the stock market's upward momentum is not assured.

Inevitably, the economy will weaken and companies will collapse. That will result in the transfer of their underfunded pension plans to the PBGC. And, if the equities markets slip, the PBGC will not earn the high rates of return it recently has enjoyed.

When that happens, the PBGC will need its current surplus of premium income to assure it doesn't once again get into such a deep financial hole.

Eventually—perhaps five or six years from now—when legislation enacted in 1994 that imposes stiffer funding rules goes fully into effect, the PBGC will be relatively well-insulated from big losses. By then, if the funding reforms work as well as intended, a premium decrease would be welcome and in order.

## Time to mobilize for reform

RELIEF FROM SUPERFUND's retroactive liability provisions is not going to come from the courts.

That has been made clear time and again, most recently by the 11th U.S. Circuit Court of Appeal's reversal of a district judge's 1996 finding that Congress had never meant for Superfund to apply liability retroactively.

That decision comes as a disappointment to some Superfund reformers who followed the case, hoping it signaled an erosion of the retroactive liability scheme. But the original decision in *United States vs. Olin* was merely an anomaly; courts have uniformly upheld the retroactive liability provisions of Superfund.

With that spark of false hope extinguished, it is time for Superfund reformers to focus and redouble their efforts where it counts and where it belongs: in Congress.

Lawmakers have dragged out the debate over Superfund for far too long. The Comprehensive Environmental Response, Compensation and Liability Act that created Superfund was scheduled to be reauthorized in 1994 but still remains in limbo.

Indeed, this is the third Congress that has had the opportunity to reform the program. The 103rd and 104th

Congresses failed to do so; it is now up to the lawmakers of the 105th.

With agreement among legislators and businesses that the current system is flawed, it is imperative that reformers take that sentiment and build on it. Even the Clinton administration agrees that some reform is needed, though it has failed to embrace any suggestions for doing so.

There is one reform bill before Congress, and it is inadequate. S. 8, proposed by Senate Republicans, would get rid of much of the imposition of joint and several liability and would inject a needed dose of good sense into remedy selection. But it also would leave retroactive liability largely intact.

Better legislation is needed, but it isn't going to happen without pressure on lawmakers and the administration from the business and insurance communities.

While the reversal of the *Olin* decision came as a disappointment to some, it still can do some good as a call to arm-twisting for Superfund reformers.

This is a legislative problem and demands a legislative rather than judicial solution.

## Letters to the editor

*Business Insurance* welcomes letters to the editor. The section is intended to be a forum for readers' opinions and comments. We reserve the right to edit letters for clarity or space. We will not publish unsigned letters. Please send your letters to Letters to the Editor, *Business Insurance*, 740 N. Rush St., Chicago, Ill. 60611; fax: 312-280-3174; e-mail: [pwinston@crain.com](mailto:pwinston@crain.com)

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*Business Insurance's* World Wide Web site provides a forum for readers and other interested in risk management, employee benefits and insurance-related issues to engage in an unmoderated exchange of ideas and information. We encourage anyone with questions or observations about these topics to participate. Visit <http://www.businessinsurance.com/forums/>

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# RRGs

Continued from page 3

response without a responsibility," Mr. Moriarty added that "In any event, I think what many regulators have failed to recognize is that it's a law."

Stressing that "Litigation should be a remedy of last resort," Mr. Olsson suggested it's a lack of that understanding that's behind the legal wrangling over risk retention group regulation in Louisiana.

Litigation "is necessary when a state interprets the Risk Retention Act differently from the NRRA and differently from the other members of the NAIC, and that's the kind of situation that's led to the litigation in Louisiana," Mr. Olsson said.

The NRRA challenged a Louisiana law that imposed capitaliza-

tion and other requirements on risk retention groups licensed in other states and that want to do business in Louisiana.

**'By and large, I think if you look at the risk retention experience, it has been a wild success,' says Jeffrey P. Johnson of the Primmer & Piper law firm.**

While saying he thinks federal Judge John V. Parker's June 1996 ruling will be upheld in the case of *NRRA vs. Brown*, Mr. Olsson said, "We have to be ready for a whole variety of questions from the appeals court in New Orleans."

After Judge Parker ruled in the NRRA's favor last year (*BI*, June

10, 1996), Louisiana appealed his verdict. Oral arguments on the appeal are scheduled to begin April 28.

Mr. Johnson said he thinks the experience with risk retention groups shows that much of what Congress hoped to accomplish with enactment of the Risk Retention Act has, in fact, been achieved.

Risk retention groups have proved a good source of needed

coverages for their members, stabilized prices in the market and have given consumers options to the traditional market, he said.

And, Mr. Johnson added, they've had a very good track record, "particularly given that right from the start they are providing coverage that was not available in the traditional market."

"By and large, I think if you look at the risk retention experience, it has been a wild success," Mr. Johnson said.

On other regulatory fronts, Mr. Moriarty suggested that changes in the National Assn. of Insurance Commissioners accreditation process fit the goals of NAIC accreditation.

Those changes emerged with the resolution of a long-running accreditation dispute with Vermont over that state's approach to risk retention group regulation.

"The goal of accreditation is to achieve a consistent high standard of regulation among all the states," Mr. Moriarty said.

Under what's become a more "streamlined" accreditation process, only portions of the NAIC's model law that are "absolutely critical" will be considered in accreditation decisions, Mr. Moriarty said.

The New York examiner suggested that in today's climate in which commercial liability coverage is widely available, there is no threat of a federal takeover of insurance regulation and there is a viable alternative market, regulators "can probably take more time to deliberate when we do make big policy decisions."

In New York, "We have a reputation as a heavy-handed regulator," Mr. Moriarty conceded. "That's something that we're trying to change."

He added that he expects a bill to allow the formation of captives in New York to be reintroduced this year.

The convergence of financial and insurance markets raises the question of potential shifts in regulatory responsibilities, and there are questions about who will regulate the insurance subsidiaries of banks, Mr. Moriarty noted.

While officials in the federal Office of the Comptroller of Currency have indicated they don't want to regulate insurance, "I think it's a little naive for the states to take that to mean the feds want no part of regulating these activities," Mr. Moriarty said.

Gregory S. Katz, a senior associate with the Wilson, Elser, Moskowitz, Edelman & Dicker law firm in New York, moderated the session. **BI**

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## Meeting draws 34 RRGs

CHICAGO—The 9th Annual Conference of the National Risk Retention Assn. held March 23-25 in Chicago attracted 170 attendees.

The 34 risk retention groups represented at this year's conference was a record for the NRRA gathering. The conference also drew 14 exhibitors.

**NRRA**

Speaking as guest of honor at this year's conference, Dennis Chookaszian, chief executive officer of Chicago-based CNA Insurance Cos., told attendees that in the insurance market's current climate the nature of relationships can change from day to day as companies look for opportunities to do business with one another.

"What we are seeing today with other insurance companies and risk retention groups is that you are a partner one day and a competitor the next day," Mr. Chookaszian said.

Discussions are underway to hold the 1998 NRRA conference in conjunction with next year's Captive Insurance Companies Assn. annual conference scheduled for March 15-18 at the Hyatt Grand Champions Resort in Indian Wells, Calif. For more information call the NRRA at 800-999-4505.

# Risk groups told to expand services to survive the competitive market

By **RODD ZOLKOS**

CHICAGO—Faced with a continuing soft insurance market, many risk retention groups will face tough competition unless they expand their services to policyholders, a panel of experts suggests.

"If you're going to stay in today's marketplace and be stagnant and use the Risk Retention Act and just be a carrier, you're going to face tremendous competition," said William T. McPherson, an assistant vp at Commonwealth Risk Services in Philadelphia, which assists agents in designing insurance programs for clients.

"You all are flexible enough to say, 'Let's go out there and form a new product,'" urged Mr. McPherson, who spoke as part of a panel on Creating Global Growth in the Alternative Market at the National Risk Retention Assn.'s annual conference in Chicago last month.

"Growth for risk retention

**The global market 'is an opportunity for a risk retention group to expand beyond its horizons,' says William McPherson.**

groups involves expanding the product line for members," said Patrick Sheehy, an associate with DP Mann Underwriting Agency in London. Mr. Sheehy added that the European markets are eager to provide reinsurance for risk retention groups.

Steven J. Nunn, a director at Ballantyne, McKean & Sullivan Ltd., a London-based reinsurance broker, said there are several reasons the London market views alternative markets as preferred risk categories.

Among other things, alternative markets tend to offer focused underwriting with a high level of professionalism, he said. Alternative market entities also are typically highly dependent on reinsurance, he said, which is seen as a plus in London because that leads to stable and long-term relationships.

Those relationships are viewed positively, Mr. Nunn said, usually involving the formation of personal bonds that last over several years.

While five to 10 years ago reinsurance support for risk retention groups was almost exclusively by U.S.-based reinsurers, today it's much more widely available from international markets, Mr. McPherson said.

Richard P. Marshall, a vp with Frontier Insurance Group in Rock Hill, N.Y., said that while a soft market has slowed the formation of new risk retention groups, that doesn't mean existing ones can't continue to grow.

If a risk retention group expands its product lines, it has more control over its members' insurance programs.

And continued consolidation among insurance companies and brokers will give policyholders fewer and fewer choices, according to Mr. Marshall.

Many policyholders will be scared by that decrease in choice,

he predicted, driving them to risk retention groups.

Risk retention groups should look at providing workers compensation and property coverages to members, Mr. Marshall said, while Mr. McPherson said they could also look into providing life and health coverages.

While the federal Liability Risk Retention Act limits the groups to

underwriting liability coverages for members, there are ways to expand beyond liability lines, the panelists suggested.

Mr. Marshall suggested a risk retention group could partner with a fully licensed insurer, purchase a licensed insurer or create its own agency to sell additional coverage lines.

The latter option, offering a

source of fee-based income, could help provide a financial cushion when there is a "hiccup" in the risk retention group's financial performance, according to Mr. Marshall.

Mr. McPherson suggested that risk retention groups also could look to offshore captives to provide to members some of the coverages that risk retention groups

are prohibited from offering by federal law.

"We are in a global market, and it is an opportunity for a risk retention group to expand beyond its horizons," Mr. McPherson pointed out.

The session was moderated by Gregory S. Katz, a senior associate with the law firm of Wilson, Elser, Moskowitz, Edelman & Dicker in New York. **B**

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## PBGC

Continued from page 3  
benefits promised to participants in plans the agency has taken over.

Since then, though, the PBGC's financial condition has markedly improved with the deficit shrinking to \$1.2 billion in 1994 and \$315 million in 1995. That improvement is the result of several factors including the lack of any major underfunded terminations and robust investment income on assets the agency holds. In addition, legislation passed in 1994 has forced companies with underfunded plans to accelerate contributions to their pension programs.

In fact, the PBGC's financial condition has so improved that it sets the stage for premium reductions, according to the ERISA Industry Committee, a Washington-

based benefits lobbying group.

"Lowering premiums would be an extraordinary way of reducing taxes and increasing the attractiveness of defined benefit plans," said ERISA Industry Committee President Mark Ugoretz.

But PBGC Deputy Executive Director and Chief Financial Officer Anthony Calhoun said action to reduce premiums is premature.

"The surplus follows a good economic period. PBGC needs to build a reserve that will be sufficient to protect the insurance during economic downturns," Mr. Calhoun said.

The current annual PBGC premium—paid by employers with fully funded defined benefit plans—is \$19 per plan participant, up from \$1 in 1974. Employers with underfunded plans pay a variable rate premium in which premiums are linked to their plans' funding levels. **BI**

## Supreme

Continued from page 3  
reviewing a district court's exclusion of proffered expert testimony?"

The petition noted that 10 courts have accorded trial courts wide discretion, while two—including the 11th Circuit—have held the opposite.

Mr. Joiner's attorney responded that it is not the province of the district court to decide whether it agrees with the expert's conclusion. Instead, the district court should confine itself to determining whether the methodology used to reach the conclusion is scientifically sound.

No date has been set for oral arguments.

In another case involving expert witnesses, the court agreed late last month to review a Missouri case in

which a jury heard testimony from a former General Motors Corp. employee who had agreed not to testify against his former employer without written permission. Ronald Elwell had agreed to the restriction

The Bakers' mother had died in a fiery crash while she was riding in a GM Blazer, and a jury awarded the Bakers \$11.3 million in damages. The 8th U.S. Circuit Court of Appeals ordered a new trial, hold-

### Ten appellate courts have accorded trial courts wide discretion in ruling on expert testimony, while two courts—including the 11th Circuit—have held the opposite.

as part of his settlement of an employment suit with GM approved by a Michigan court.

But the U.S. District Court for the Western District of Missouri allowed Mr. Elwell to testify about GM fuel systems in *Kenneth Baker and Steven Baker vs. GMC*.

ing that Mr. Elwell was bound by the Michigan court settlement, though Mr. Elwell claimed that GM itself had broken the agreement before he testified in district court.

The Supreme Court will review whether the testimony should have been allowed. **BI**

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## Fine

Continued from page 3  
insurance to inherently incompatible dual regulation, which would seriously disrupt, if not entirely halt, the business of insurance in this country."

"The commissioner is clearly fulfilling his duties as the chief insurance regulator to protect the policyholders of California by enforcing the names' contract obligations," LeBoeuf Lamb's Mr. Hansell said.

However, American Names Assn. President Howard Johnson claims Mr. Quackenbush is intervening in the lawsuit as a payback for Lloyd's campaign contributions.

One of the complaints against the commissioner that led to the \$50,000 fine is his alleged "incestuous" relationships with the companies he regulates, Mr. Johnson said.

"His judgment... appears suspect and should be considered by the state in its investigation of the department," Mr. Johnson said.

Mr. Quackenbush negotiated the fine, which will be paid with personal funds, with staff of the Fair Political Practices Commission, a state agency that enforces campaign disclosure laws. The five-member commission will vote April 9 on whether to approve the fine.

This fine is unrelated to an investigation launched last year by the state attorney general's office, which is examining, among other things, potential conflicts of interest that department personnel may have in dealing with the insurance industry (*BI*, Aug. 19, 1996).

"This was just another drum that they wanted to beat," said Chuck Bell, a partner with Bell, McAndrews & Hiltachk in Sacramento who represents Mr. Quackenbush on campaign-related issues. "But there's no relation between the two," he added, referring to the fine and the amicus brief.

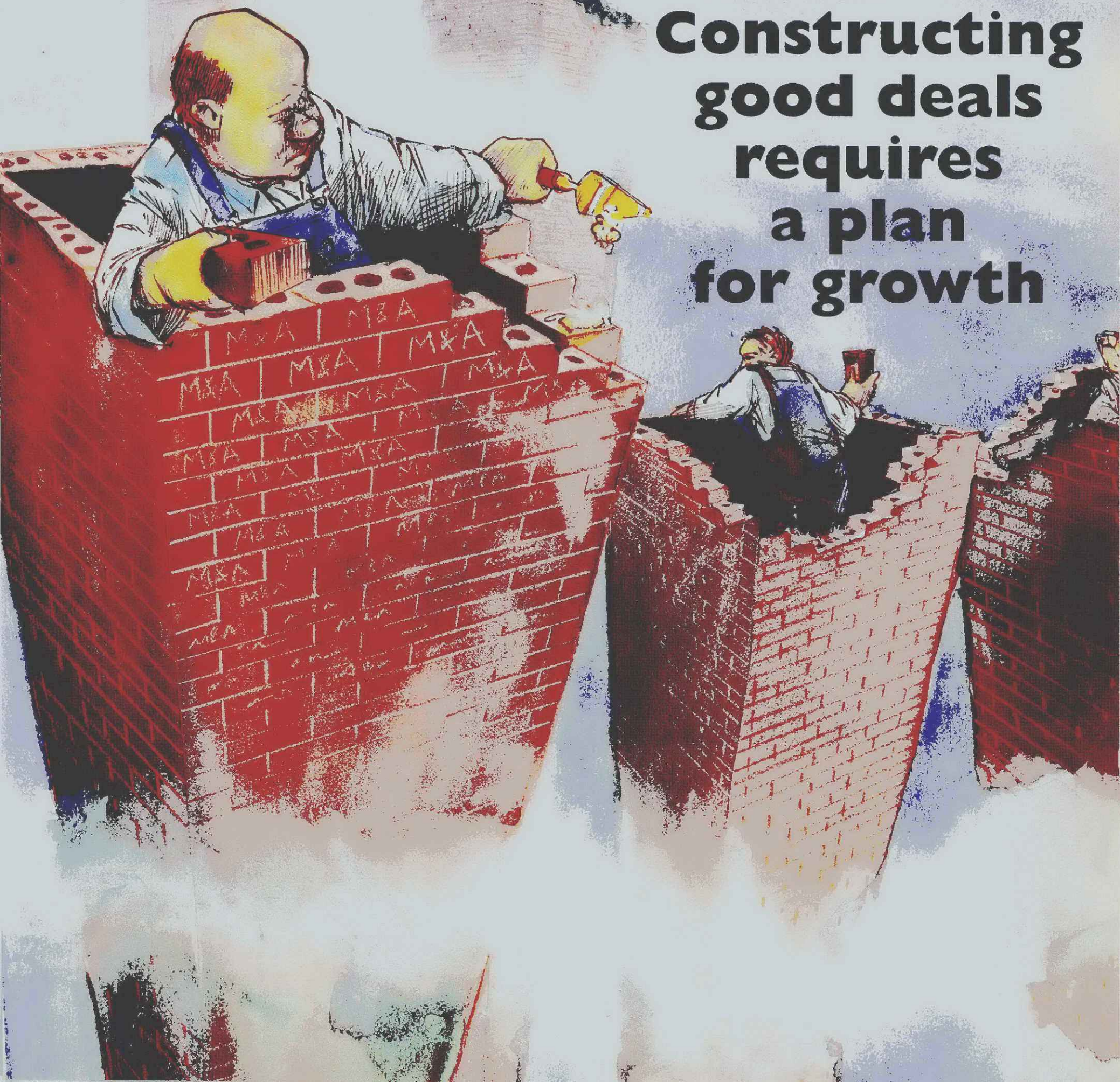
Mr. Bell explained that the underreporting occurred because the contributions were added manually rather than with an electronic calculator, which resulted in an error in the cumulative totals. He said that entries of individual contributions were accurate, but there were errors in adding the totals.

# Agent/Broker Topics

A monthly editorial section sent exclusively to agents and brokers

## Mergers & Acquisitions

**Constructing  
good deals  
requires  
a plan  
for growth**



# Mergers involve more than meets balance sheet

By TODD J. BEHME

**T**he subjective issues surrounding brokerage mergers and acquisitions are important enough that they can scuttle a deal that otherwise looks good.

A lack of trust or comfort with a potential partner can prompt buyers to walk away even from deals that might have been profitable. Bad chemistry, personalities that don't fit and clashing corporate cultures all are possible deal-breakers.

If there are problems in these areas, "even if their numbers are good—I don't think that would be a good acquisition at all," said Bernard H. Mizel, chairman and chief executive officer of USI Insurance Services Corp. in San Francisco.

USI, a little less than three years old, has made about 50 acquisitions in that time and had 1996 annualized revenues of about \$160 million.

Mr. Mizel and two other broker executives said they look for strong potential partners that fit USI's

strategic and geographical needs. They do not look to scoop up operations in need of open-brokerage surgery.

"We do not believe you can turn bad deals around," Mr. Mizel said.

Brokerages that acquire other firms also need to determine how much influence they will exert on new holdings.

Timothy J. Cunningham emphasizes the importance of the "qualitative piece" to clients looking for agencies to acquire. That non-financial piece of a deal is "absolutely critical," said Mr. Cun-

ningham, principal at Insight Management Consulting Group in Westchester, Ill., who as part of his business works with insurance brokerages looking to make acquisitions.

"The quality is as important as the numbers," he said.

If his clients don't like or trust the other side, Mr. Cunningham recommends they quash the prospective deal.

Determining whether there is cultural and value fit is critical, Mr. Cunningham said. For example, perhaps one party has a reputation

## Mergers & Acquisitions



for hard work, while in the other, principals golf three times a week, he said.

"You may just find that the value system is out of sync."

Mr. Cunningham said his job as a consultant is to identify such impasses and tell clients if he's concerned about the parties' ability to integrate.

"I think the only way you get there is through dialogue," he said, adding that "open, direct and forthright communication is absolutely essential" in all issues related to the transaction.

Mr. Cunningham tries to battle what he says is a tendency to put off negotiating the stickiest points. "I always urge my people to deal with the deal-breakers first," he said.

If the target has got real problems, financial or otherwise, tinkering with the terms will not change the facts.

"A bad deal or a poor firm will always be a bad deal or a bad firm," he said. "There are certain things you can't overcome."

Producer compensation can be a sticking point, he said; sometimes it's a deal-breaker, and sometimes a difference can be overcome.

Some issues may best be dealt with gradually, Mr. Cunningham said, because employees have been taken out of their "comfort zone." For example, he said, he would not recommend a buyer cut salaries immediately after completing an acquisition.

Many firms fall down because they have "deal fever" but don't have a strategy, he said.

That's not a problem at Arthur J. Gallagher & Co., which over the past dozen years has built mergers and acquisitions into what an executive said is one of the brokerage's core competencies.

Gallagher wants strategic partners who can grow with Gallagher, said Warren G. Van Der Voort, corporate vp and director of mergers and acquisitions for the publicly held, Itasca, Ill.-based company.

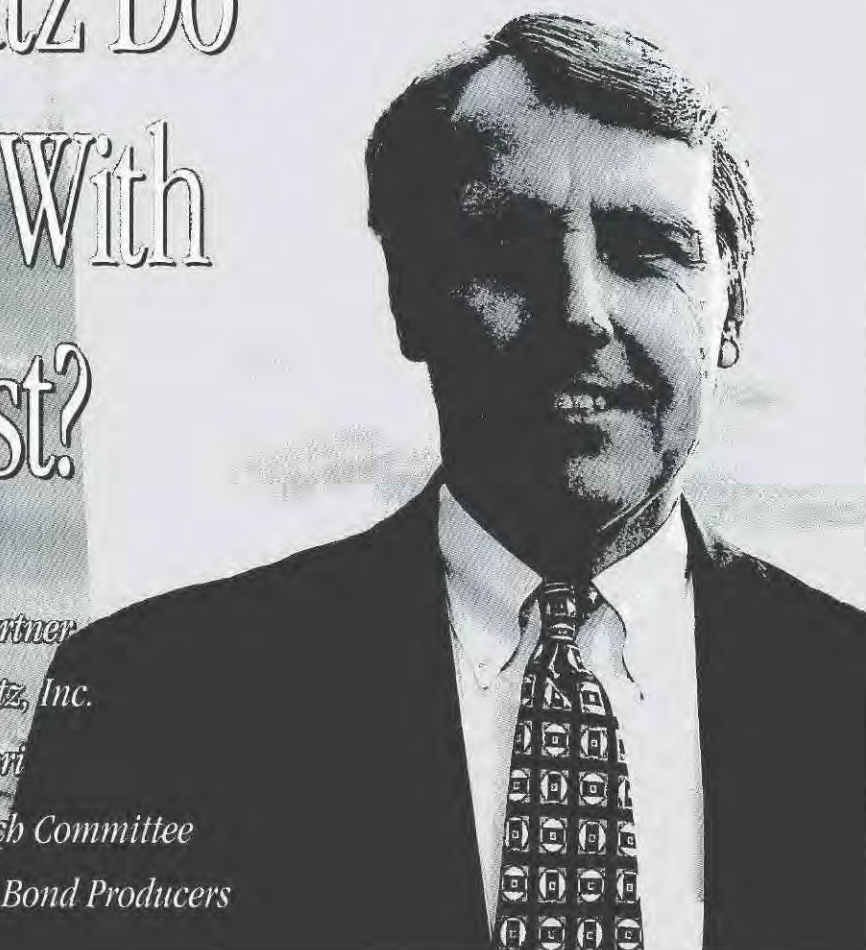
The broker is not looking to get into new businesses but wants to build by acquiring firms that help it grow in already established key areas, he said. He also wants to build Gallagher's franchise operation, he said, noting that geographically, "We're not everywhere we'd like to be." Gallagher would like to expand existing branch operations, for example, in cities including Dallas, Detroit

See Issues on page 21D

## Why Does Dennis Lutz Do Business With Amwest?

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## Agent/Broker Topics

## Issues

Continued from page 21B  
Philadelphia and Phoenix.

Gallagher now makes eight to 10 acquisitions a year and over the past 12 years has made more than 40. It had 1996 U.S. revenues of almost \$457 million, he said, and about 45% of that comes from merger partners.

Gallagher looks for young, entrepreneurial firms that are seeking to capitalize their investment. A merger with Gallagher provides the target firm instant liquidity and opportunities for the acquired firm to grow, Mr. Van Der Voort said.

"We're not interested in just buying some revenue and earnings," he said.

Mr. Van Der Voort also said he does not look to make deals quickly. He said Gallagher acquisitions in general take five to six months, but they can happen in as short as three months or take as long as a year or two.

The potential partner sets the pace, he said, noting that sometimes Gallagher and another firm will partner on something but never actually merge.

Mr. Van Der Voort has been involved in mergers and acquisitions since 1985, when then-President and CEO Robert E. Gallagher wanted someone with

sales and operating experience to help the company build through acquisitions, said Mr. Van Der Voort, who has been

**'We're not looking to change their organization appreciably,' says Warren G. Van Der Voort of Arthur J. Gallagher & Co.**

with Gallagher since 1967 and was area president of Chicago metro branch operations before transitioning into the full-time merger role. Mr. Gallagher now is the broker's chairman.

The broker has a highly developed process that focuses on building relationships. That makes those tougher issues easier to handle, Mr. Van Der Voort said. In some situations, where Gallagher or someone with the potential partner has voiced a concern, the parties may back off, and Gallagher may take a fresh look down the road, he said.

He did note that "people don't like change," and problems that have been associated with mergers and acquisitions can make potential partners uneasy.

"I have to overcome that," he said, adding he sometimes enlists other Gallagher merger part-

ners as spokesmen.

James Riedman does something similar. Mr. Riedman, president of Rochester, N.Y.-based Riedman Corp., encourages potential partners to call branch managers.

Riedman Corp. focuses on middle markets—smaller than the big cities—and emphasizes networks, Mr. Riedman said.

The company makes eight or 10 acquisitions a year, he said. It produced slightly less than \$290 million in premium volume in 1996 (BI, March 17).

"We certainly take a traditional approach to the financial end of the business," he said, noting that aspect clearly is "going to work or not going to work."

But he, too, has walked away from deals in which he felt "uneasy" with the cultural fit or when a potential partner's key player or line of business was not consistent with Mr. Riedman's company's values or positions.

"We clearly will back away from transactions" as will sellers, he said.

Mr. Riedman noted that it's the success of the combined operations, not merely in negotiating, that will indicate whether a merger is successful. "The real challenge to anybody" is the post-acquisition management, he said.

Brokerages simply looking to make deals can find plenty of "junk" to buy and probably can make the deals work all right, he said. But that's not for him. "We would much rather find an organization that's well-regarded," he said.

Mr. Riedman also said brokerages looking to acquire should "try to remain disciplined about it."

He said a lot of deals going on today aren't sensible. And sometimes brokerages looking to be acquired are letting good deals pass them as they hold out for something unrealistic from a bidder.

Messrs. Riedman and Van Der Voort said their companies allow their partners autonomy in conducting business after the deal is completed.

"We're not looking to change their organization appreciably," Mr. Van Der Voort said, noting that too much imposition can hurt the new partner's growth. "We don't want to be sending edicts from the ivory tower."

However, some things will need to be combined, he said, such as benefits and pension plans.

Partners will have the chance to adapt gradually to Gallagher approaches, and Gallagher will want to ensure consistency, he said.

And, while Riedman Corp. allows freedom in conducting insurance business, it expects partners to come on board in areas such as data processing, benefits and compensation.

"With regards to those issues, we're pretty dogmatic," he said. BI

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# Profitability is a buyer's best friend

## Sellers also should examine suitors carefully

By MICHAEL PRINCE

If you make money, the buyers will come.

In an era of wide-scale merger and acquisition activity, insurance agencies looking to sell will receive plenty of interest from buyers—and get the best price—if the agency is successful, consultants and agents agree.

"A good, well-rounded agency that is well run will never have a

problem selling," said Larry Marsh, president of Marsh, Berry & Co., a Concord, Ohio-based agent/broker management consulting firm.

The best approach for a seller is to "look at their agency as an investment and assess what kind of return they are getting as owners," Mr. Marsh said. "This gives an indication of what the buyer will see."

The key factor in attracting a buyer is the agency's profits.

"Value and ability to maximize

value is totally dependent on one's ability to deliver sustainable earnings," said Timothy Cunningham, principal with Insight Management Consulting Group in Westchester, Ill. "If you run a good business, you will get the maximum value. If it's a dog, you will get dog-like value."

Mr. Cunningham said that earnings averaging in the 12% to 15% range for five years demonstrate to prospective buyers the success of the agency.

Also important is showing a constant stream of profit that will con-

tinue. This can be done by avoiding a heavy reliance on one program or account that, if lost, would cripple the agency. Therefore, a good product mix with distribution among personal lines, group programs and benefits, but without reliance on one program or account, is essential.

A seller also should strive to ensure that top producers' compensation not exceed 30% of their book of business, Mr. Cunningham said. If the producer's pay is higher than those at the acquiring company, it might mean a pay cut after the

## Mergers & Acquisitions



deal to bring the pay in line with the other producers, creating an unhappy key employee. "That could sometimes be a deal-breaker," he said.

It is also critical to make sure the key producers and employees are pleased with the deal.

"You're buying relationships," Mr. Cunningham said, and these need to be firmly in place for the deal to succeed. This can be accomplished by institutionalizing the business so "the relationship is with the producer and agency and not just with the producer."

Bernard Mizel, chairman and chief executive officer of USI Insurance Services Corp. in San Francisco, has significantly grown his company through acquisitions and could become one of the 10 largest brokers of U.S. business following recent consolidation among larger brokers. He said he looks for targets that combine strong financial performance, quality leadership and an excellent reputation.

A seller should carefully scrutinize a buyer as the seller frequently becomes an equity holder in the merged company or receives money from the sale over a number of years, Mr. Mizel added. "Don't ever consider a sale to someone without a strong balance sheet and substantial cash reserves," he said. He also warned against selling to a company with substantial debt, as they might go bankrupt.

A seller, Mr. Mizel said, should look five years past the sale when evaluating the prospects of the buyer. The buyer must have a "commitment to the future and there is a clear plan the buyer has to grow the company."

Banks now represent a growing pool of buyers because of the liberalization of laws restricting banks' sale of insurance. Typically, banks look beyond value and income figures of the insurance agency and seek to buy expertise, said Bobby Reagan, president and CEO of Reagan & Associates in Atlanta. "Banks are really looking to buy experience that will allow them to generate insurance revenues on existing customers," he said.

A seller should therefore "present clearly the opportunity the buyer can realize through their expertise," he said. If this is done well, it may lead to a better offer from a bank than from another agency.

See **Selling** on page 21H



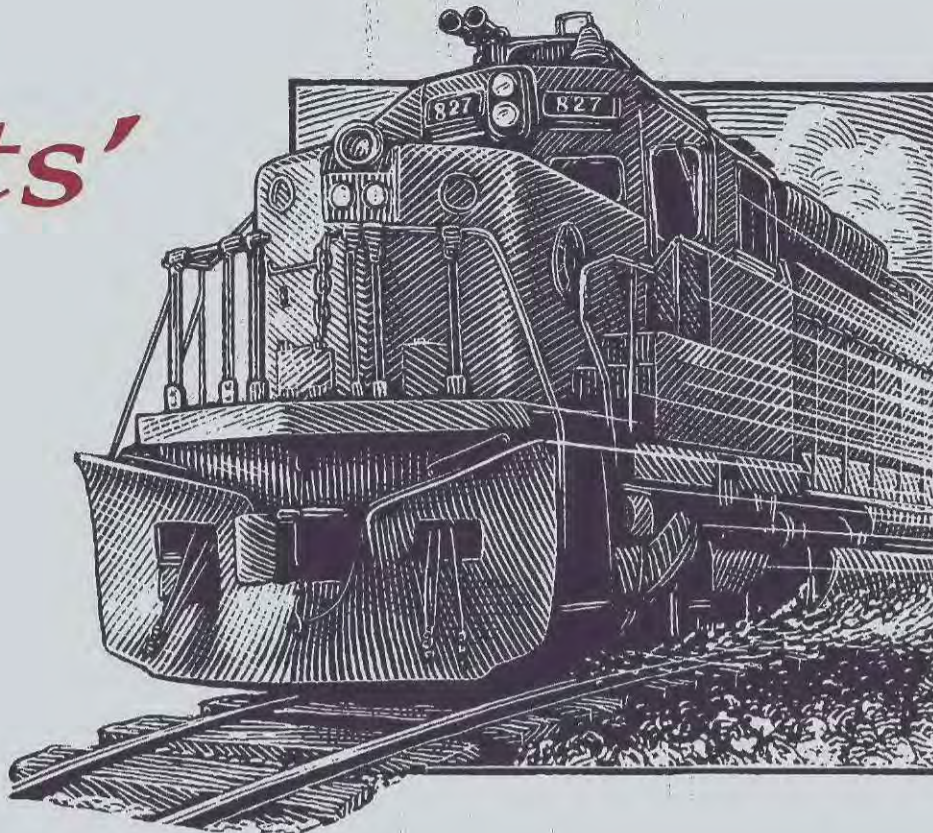
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# Don't let clients get lost in the process

## Many risk managers realize producers may not always be aware of moves

By MICHAEL BRADFORD

**A**gents and brokers playing the merger and acquisition game would be wise not to keep their clients on the sidelines.

Risk managers want to know what's going on with their agent or broker when the intermediary is involved in a merger or acquisition, and they would prefer to hear it from the horse's mouth.

"The key element is openness from the broker to the risk manager," said Donald R. Weber, a former broker who now is president of Shoemaker-Weber Inc., a Pismo Beach, Calif.-based insurance agency consulting firm. Shoemaker-Weber is a division of IR Group in Sacramento, Calif. "Without it, the trust factor becomes a problem."

And trust usually is the No. 1 quality risk managers seek when selecting an intermediary, Mr. Weber stressed.

"In one word: communication," agreed P. Richard Hacken-

## Selling

Continued from page 21F

In addition, what will interest a bank is a demonstration "that the agency can understand the culture of the bank and integrate the agency into the culture of the bank," said Ken Crerar, president of the Council of Insurance Agents & Brokers in Washington.

Although taking a long-term approach to building the business is preferred, Mr. Reagan said that for those wanting to sell on short notice some things can be done to maximize value. "These don't necessarily change the substance of the operation but will make it more attractive to the buyer," he said.

These include investing money to improve the balance sheet, cleaning up the accounts receivable, upgrading the technology and eliminating unnecessary employees.

Also, Mr. Reagan recommended that sellers emphasize their strong points and openly provide information to eliminate uncertainties the buyer might have about the agency. A buyer's uncertainties about the insurance agency lowers the value, he said. Openness includes bringing forward any negative aspects. "If you are open with these issues, you can effectively minimize them," he said.

Despite the success that some quick fixes might provide, all agree buyers look for a profitable business.

"Run it like a business," Mr. Cunningham advises potential sellers. "Be profitable and grow." **BI**

burg, chief executive officer of Willis Corroon Corp.'s Risk Management Services national practice group in Nashville, Tenn.

Risk managers "want and expect candor, honesty and pragmatic communication" regarding a merger or acquisition involving their broker, he said.

In recent months, plenty of risk managers have looked to brokers for such candor and

honesty about how they as buyers will be affected by a merger or acquisition. Headline-grabbing acquisitions have included Marsh & McLennan Cos. Inc.'s acquisition of Johnson & Higgins (*BI*, March 17) and Aon Group Inc.'s purchase of Alexander & Alexander Services Inc. (*BI*, Dec. 16, 1996). Aon earlier acquired Bain Hogg Group P.L.C. (*BI*, Oct. 21, 1996).

Brian D. Casey, director of risk management and loss prevention at Corning Inc. in Corning, N.Y., made it smoothly through

both those transactions involving the mega-brokers.

Corning has coverages placed by Aon and J&H. Mr. Casey said the acquisitions "for me were a non-event in both cases."

He agrees that risk managers should be in the loop about what is taking place—to an extent. Brokers in an acquisition should "provide the risk manager early on with as much information as possible," Mr. Casey explained.

"Having said that, most people that we deal with in the trenches

## Mergers & Acquisitions



don't know anything until it's  
Continued on next page

## To make worry lines disappear, more employees

100%

50%

30%

WORKSITE PRODUCT ACCEPTANCE

30%

% of Employees with a life insurance agent

Continued from previous page public knowledge anyway," he remarked. "And I don't think we as risk managers deserve to know anything before the main people at the brokerage know."

"It is nice to feel that as a risk manager you are plugged in and know how the acquisition will affect you," said Millicent W. Workman, risk manager at Mueller Industries Inc. in Memphis, Tenn.

"There obviously was a great deal of assurance that things would continue to work well," she said of the period when her broker, Aon, completed its acquisition of A&A. "The important thing is communicating with the

risk manager, letting them know what's going on."

Ms. Workman knows well the challenge in keeping everyone informed about the details of a merger or acquisition. "We are working on our fourth acquisition," she said of Mueller Industries. "So I can certainly be sympathetic to the process."

Ms. Workman agreed with Mr. Casey that not every producer knows a merger or acquisition is coming and therefore isn't able to tell the risk manager but, if possible, it's better to hear the news from the intermediary than the television.

"The broker needs to have a plan to communicate with the

client quickly," Ms. Workman said.

Mr. Weber agreed the risk manager "would be extremely pleased to hear the news before it gets into the press." He is aware, however, "that most account executives are not at the level to know what's going on," particularly at large brokers.

Most risk managers understand that some of the details of a merger or acquisition have to be kept under wraps to avoid violating securities laws, Mr. Hackenburg noted.

"But once the gong rings," he said, "what the risk manager wants to know is: what are the basic reasons for the merger,

what does it mean to me, what will happen to my team, etc."

Risk managers know that "these companies are in a business, that business is becoming difficult and there are business reasons for the mergers," Mr. Hackenburg stated. "Risk managers understand the reasons; what they want to know is how it will impact them."

Mr. Weber pointed out that a broker can take advantage of an upcoming acquisition to solidify relationships with risk managers. "It can be a very good thing for a broker to be proactive and say, 'Why don't we sit down and look at your program to see what changes there could be as a result

## Mergers & Acquisitions



of the merger?"

That approach could be especially helpful when a smaller broker is involved, because in those cases it is more likely that "relationships affect the business," he added. Brokers should use the opportunity to show the risk manager what services will be gained by dealing with a different, larger organization, Mr. Weber said.

"Every situation is so unique in this area," he said of risk manager/broker relations. "Obviously, the smaller the account, the less (the risk manager) cares about a merger as long as the principal will be there. They want to know that there is going to be the same service if not better."

While there have been some negative comments among some who think mergers and acquisitions might lead to subpar service, Mr. Hackenburg said: "I don't think too many people are in knee-jerk reactions at this time. Most view these mergers as good for the industry and good for themselves." ■

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# Regional brokers continue to thrive, grow while big brokers grapple with consolidation

By SUSAN BARD HALL

The alphabet houses are growing larger, but the regional insurance brokers are gaining ground, too, by concentrating on their strengths, which include a culture that is both entrepreneurial and service-oriented.

In addition to having a distinc-

tive business culture, there are several other areas that distinguish the privately held regionals from the larger, publicly held brokers. Among these are how they attract and service their clients; how they grow their book of business; how they recruit and retain quality producers; and how they thrive, rather than merely survive, in a business environment that is growing increasingly more international.

## Agency culture

Regional agencies and brokerage firms differentiate themselves from the alphabet houses by their "solid, strong entrepreneurial environment," as opposed to a corporate structure, explained Ken Crerar, president of the Washington-based Council of Insurance Agents & Brokers. In addition, regionals typically have "stronger roots and longer ties to their community," he said.

This entrepreneurial environment enables the regionals to move more quickly and to take advantage of new market opportunities, according to Mr. Crerar.

"The regionals can go after new niches or specialties more swiftly," he said.

Frederick England Jr., chairman of Hastings-Tapley Insurance Agency Inc. of Cambridge, Mass., agreed. "It's the battleship vs. the destroyer mentality, in that one can turn in the water more quickly than the other," he said.

## Attracting clients

Businesses can grow by attracting new clients and by selling more products and services to their existing customer base. New clients can be obtained by taking business away from the competition as well as by writing business for first-time clients—those who are totally new to the marketplace.

Tom Harvey, president of Assurex International of Columbus, Ohio, which is a network of small and midsize brokers, noted that Assurex members have enjoyed an annual premium growth of

more than 20% for the past several years.

"We grow by selling new business—taking business away from our competitors as well as by providing more products and services for our current customers," Mr. Harvey said. "We do more for the clients we have by reaching beyond insurance with sophisticated options such as helping customers to manage risk."

Mr. Harvey added that maintaining lines of communication is another way they service their clientele.

"We ask questions and we listen," Mr. Harvey said.

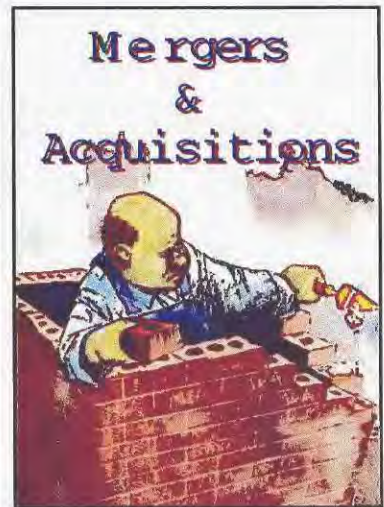
Mr. England concurred that selling more to existing customers is one way that regionals grow their book of business. For Hastings-Tapley, sales opportunities exist in personal lines as well as life insurance and employee benefits, and third-party administration, to name a few, Mr. England said.

Middle-market accounts, defined as those that generate \$250,000 or less in premium, are one category that regionals feel they are particularly adept at servicing, Mr. England explained. He said he has found that the principals of the larger firms have neither the interest nor the time to devote to this type of account.

"We are less bureaucratic and we give immense attention to an account of \$250,000 or less," Mr. England said.

Assurex members also focus their attention and resources on the mid-market, Mr. Harvey said.

"The strength of the U.S. economy lies in the mid-market. The mid-market is flourishing and that's the market we're going after," Mr. Harvey said. "When we sell to the mid-market account, they get our 'first team.' It's our 'varsity' vs. the larger broker's 'junior varsity.'"



## Getting top producers

Another way for the regionals to grow is by attracting top producers from other firms. Of late, the consolidation among the alphabet houses has been a boon for the regionals.

"Unrest among larger brokers has worked in our favor," Mr. England said.

Bruce Dunbar Jr., chairman and chief executive officer of McGriff, Seibels & Williams Inc. in Birmingham, Ala., agreed that "the turmoil taking place in the larger brokerages has given regionals another avenue to recruit."

"Ours is not a capital-intensive business, so we grow by acquiring people," Mr. Dunbar said. "This turmoil has proven to be another way to get skilled players that can produce business."

Mr. Harvey added that the recent mergers and acquisitions among the alphabet houses has created uncertainty in the marketplace, which in turn has caused producers to rethink their future career paths.

"This uncertainty in the marketplace causes good people to think about their futures," Mr. Harvey said.

The ability to attract quality producers is one sure sign of a regional broker's success. But for the regional firm to continue to thrive, it must ensure it remains positioned to retain these star performers.

To attract and retain quality producers, agencies or brokerages must make a commitment to be a sales organization as well as demonstrate a willingness to invest in high-quality, non-production staff that will support the sales side, said John M. Wepler, senior consultant with Marsh, Berry & Co. of Concord, Ohio.

"In this type of environment, producers have the time to concentrate on new business production because they can delegate to their support staff, knowing full well that they can handle these duties," Mr. Wepler said.

Another strategy that successful agencies employ to keep their top producers is using ownership in the agency as a way to reward performance and loyalty.

"The best producers are attracted to those privately held brokers who have displayed a willingness to share ownership with those who have been key to the success of the agency," Mr. Wepler said.

Mr. Harvey agreed that the prospect of agency ownership as well as the commitment that

Continued on next page

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*Continued from previous page*

locally owned and managed regionals like Assurex have made to remain independent should serve as inducements for those producers who are growing weary of explaining yet another name change to their clientele.

Indeed, employee ownership helps drive business for McGriff, Seibels & Williams, Mr. Dunbar said.

"We are employee-owned here,

**The larger brokers 'are not always as cohesive as they'd like their clients to believe,' says Frederick England.**

so all of our employees have a personal stake in the company and help to drive business," he said.

Still another commonality among successful agencies and brokerage firms is their emphasis on fiscal responsibility and keeping business on a stable footing. According to Mr. Wepler, the key components of fiscal responsibility include outgrowing overhead costs; servicing debt; adding to retained earnings; supplementing working capital; and funding the perpetuation of the business.

To satisfy their firm's needs, agents and brokers must have a well-defined sales and marketing plan. Also, producers' goals are quantified and formalized in writing and their progress toward these goals is reviewed frequently, Mr. Wepler said.

### Competing internationally

As business becomes increasingly more international, the question arises as to whether regionals can compete with the larger brokers.

The Council's Mr. Crerar said that technology makes that possible for regional companies.

"With technology, a broker can do business anywhere in the world," he said.

Mr. Crerar added that rather than initiating international business themselves, regionals have been the beneficiaries of business that existing clients have cultivated overseas.

"Regionals can follow their clients without bricks and mortar," Mr. Crerar said.

Networks are another way that regionals can compete with larger firms.

For example, Hastings-Tapley's Mr. England explained that his agency is part of Intersure Ltd., a network of about 40 small to mid-size agencies. The network enables member agencies to exchange business information if it is deemed necessary to service a large account—be it international or domestic.

He said he doesn't feel regionals are at a competitive disadvantage vis-a-vis the larger brokers in the international arena.

"The larger brokers can put on a wonderful show about assistance from other offices, but they are not

always as cohesive as they'd like their clients to believe," Mr. England said.

Larger brokers enjoy name recognition and clout that some larger clients seek out, which might put the regionals at a disadvantage if they decide to pursue this business, he said.

"If a client is large, sometimes they want to use a large firm because they may feel it is more prestigious," Mr. England said.

But he said that when it comes to underwriting, the bottom line is that regionals have access to the same insurance companies as the alphabet houses.

"It's the protection you are selling," Mr. England said. **BI**

## A/BT Briefs

### Bank ventures

WASHINGTON—Agents and brokers should consider partnerships with banks rather than waiting for laws on unresolved issues, a trade group says in a white paper.

Agents can effectively partner with banks, which do not have experience in all insurance areas, especially non-commodity products such as commercial lines, the Washington-based Council of Insurance Agents & Brokers said in a release announcing the white paper.

To benefit from this potentially lucrative market, agents and brokers should look into the potential of a partnership with a bank or financial institution, which could range from selling an agency to a bank to creating a joint venture, the Council said in its release.

A joint venture is preferred, the Council said, because each party would be able to retain autonomy and could emphasize its strengths.

Expectations of each party also must be clear, according to the white paper, which was authored by Timothy J. Cunningham, principal of Insight Management Consulting Group in

Westchester, Ill.

Council members can obtain the report, "Banking On The Future: How Insurance Brokers and Banks Can Profit," for free by calling Karen Seidman at 202-783-4400.

Copies of the report are available to non-members for \$25 each.

### Consumer report

WASHINGTON—A report released recently by the National Assn. of Professional Insurance Agents discusses how insurance companies and agencies can benefit from the opportunities

See A/BT Briefs on next page

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## A/BT Briefs

Continued from previous page  
posed by demographic changes in U.S. society.

"Doing Business with the New Insurance Consumer" provides an extensive report on all of the seminars, speeches and presentations that were part of the National Assn. of Professional Insurance Agents' 1996 Company Conference in Dearborn, Mich.

A panel of industry representatives looked at how companies and agencies can reach out to women and minorities as consumers and potential industry professionals, the Washington-

based PIA said.

The report, which was financed in part by the Multicultural Business Group at the St. Paul Fire & Marine Insurance Cos., is free to PIA members and \$25 for non-members. Call Lenora Cox at 703-836-9340 to request an order form. Order forms also may be obtained by calling PIA's fax-on-demand service at 703-518-1390 and asking for document #1184.

An executive summary, which also is included in the print report, may be found on the World Wide Web at [www.pi-anet.com](http://www.pi-anet.com).

### Crop cooperation

MINNEAPOLIS—The National Assn. of Crop Insurance Agents

has formed an alliance with the Independent Insurance Agents of America to "ensure the future of the federal crop insurance program for the farming community by increasing NACIA's presence" in Washington, the NACIA says.

Deanna Orwig, NACIA's president, said in a statement that it is important for her organization to take part in the crop insurance debate.

"Over 25,000 crop insurance agents nationwide will be affected by the negotiations that are currently taking place regarding funding for the 1998 federal crop insurance year. So, it's critically important for NACIA to be an advocate for crop insurance agents

and farmers alike," Ms. Orwig said in the statement.

The "very tactical move" combines NACIA's thousands of crop insurance agents with technical expertise and the lobbying power of the IIAA and will maximize the efforts of both groups, Harlan Rise, the Minnesota Independent Insurance Agents' state national director for IIAA, said in the NACIA release.

### Electronic system

ROLLING MEADOWS, Ill.—A business partnership has been established to provide the insurance industry with an electronic communications system designed to handle commercial lines risks.

Rolling Meadows, Ill.-based Delphi Information Systems Inc. and Greenwich, Conn.-based IVANS Inc. signed a letter of understanding earlier this year.

Combining cd.connect from Delphi and MailConnect from IVANS will create a service allowing users to compile, manage and communicate commercial lines risk information between agents and brokers and companies, Delphi said in a release.

According to Delphi, cd.connect addresses the challenges of applying electronic data interchange to commercial risks. It also uses agency-established workflows in combination with collaborative messaging for true single-entry multiple company interface for commercial An option for cd.connect, a Lotus Notes-based product, can be purchased to facilitate the attachment of various files.

Once gathered by cd.connect, IVANS' MailConnect will handle information exchange. MailConnect allows the seamless, secure and economical exchange of messages, documents and forms among insurance industry partners' different e-mail systems, Delphi said.

"Today, commercial risks are handled with a hodgepodge of information—some e-mail, some fax and some paper-based," Rita Waters, IVANS senior vp, said in a Delphi statement. "Together, cd.connect and MailConnect will allow the consistent gathering and exchange of this information electronically." **BI**

## Pension program benefiting P/C brokers

By REGIS COCCIA

Brokers long have played an important role in distributing property/casualty insurance, and now a major insurer is hoping to use brokers' existing relationships with midsize companies to sell pension products as well.

Philadelphia-based CIGNA Corp., one of the nation's largest commercial insurers, is turning to those same brokers to market its defined benefit pension services.

It's a partnership that benefits both the insurer and the broker, according to Mark Lynch, senior vp and consulting actuary in Hartford, Conn., at the insurer's CIGNA Retirement & Investment Services division.

"Brokers would be able to deliver more value and cement relations with their customer," he said. In addition, "Brokers can increase the amount of pension business they do through their pension consulting practice."

As the soft property/casualty market  
See CIGNA on next page

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# CIGNA

Continued from previous page  
ket continues, brokers and insurers are looking for additional sources of revenue, he noted.

So far, several brokers have expressed an interest in CIGNA's program, and one already is seeing its business grow as a result.

"It's going to be a major source of revenues for us," said Ken Spencer, chairman of the consulting division of Meeker Sharkey Financial Group Inc. in Cranford, N.J. "We're looking for 15% growth a year" in all areas, including pensions.

Meeker Sharkey derives about 25% of its income from benefit business, which includes retirement consulting, Mr. Spencer said. The broker had 1995 gross revenues of about \$23.5 million.

In the two years since Meeker Sharkey formed an alliance with CIGNA, the broker has attracted clients with a total of more than \$27 million in defined benefit pension plan assets, he said.

CIGNA "invested a lot of time and resources" in finding new defined benefit clients, Mr. Lynch said. "We determined that we have good products and services but not access to contacts. We thought it was a natural" to seek brokers' help.

He said the insurer is looking to form a partnership with at least one broker in every metropolitan area of the country and will pay brokers a commission for "networking and opening up doors" that lead to sales.

The market segment CIGNA is

targeting is midsize companies with pension plan assets of \$5 million to \$50 million, or about 250 to 5,000 employees, Mr. Lynch said.

"Property/casualty brokerage firms have relationships with and have the ability to influence" these kinds of midsize companies, he said.

CIGNA not only can manage those pension funds, but it also can counsel employees and provide actuarial consulting, said Mr. Lynch. "We pay about 265,000 retirees every month, so that's something we've figured out how to do," he said.

That capacity and experience was one of the reasons Meeker Sharkey decided to work with CIGNA on pension benefits, Mr. Spencer said.

Most regional brokerage firms lack the resources and can't afford to invest in the technology needed to administer pension programs, he pointed out. For example, Meeker Sharkey has actuaries on staff, but it doesn't have the personnel or computer systems to administer large plans. As a result, CIGNA's services were very attractive.

"This was a great deal for us," Mr. Spencer said. CIGNA's pension services provide Meeker Sharkey access to the insurer's considerable resources, he added.

In addition, the program is helping the broker's benefit division keep pace with its property/casualty side.

"We're trying to mirror the prop-

erty/casualty operation," Mr. Spencer said.

Because many of Meeker Sharkey's property/casualty clients have more than 200 employees, a size of employer that commonly offers defined benefit pension plans, it made sense for the broker to go after that business as well, he explained.

So far, the response from clients has been positive.

"Human resource people are very, very happy" with CIGNA's defined benefit program, Mr. Spencer said. "CIGNA has been at it a long time. They put a big investment into their systems, and they remained committed to the defined benefit market at a time when others were getting out of it."

Mr. Lynch said: "We have a lot of flexibility. Our primary focus is to gain access to new business situations. And customers like the idea of going to one place" for property/casualty and pension products.

"We tell customers, 'You're getting an organization that knows you and the resources of a huge organization that can provide the technology'" to support their needs.

"This is an opportunity that we didn't want to pass up, and neither should property/casualty brokers," he said.

For more information, contact Mark Lynch at CIGNA Retirement & Investment Services, 860-725-2186. **BI**

## Errors & omissions

• Due to a production error, a photograph misidentified the authors of two articles that appeared in the March 3 *Agent/Broker Topics* section.



Mr. Spina

Steven C. Spina, assistant vp for Zurich-American Specialties, a strategic business unit of Schaumburg, Ill.-based Zurich-

American Insurance Group, wrote an article on underwriting liability risks for managed care organizations.

Ken A. Crerar, president of the Council of Insurance Agents & Brokers in Washington, authored an article in the March 3 section on international opportunities for agencies and brokerage firms. **BI**



Mr. Crerar

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## Zurich unit targeting smaller global risks

By REGIS COCCIA

**A**n increasing number of U.S. companies are doing business abroad, and a program created by Zurich-American Insurance Group is offering coverage tailored to small to midsize international exposures.

Zurich Global Express in Schaumburg, Ill., a unit Zurich-American, provides a variety of coverages, including property, general liability, inland marine and foreign voluntary workers compensation.

"It's like a shopping list of coverages," said Elaine Rothbauer, Zurich Global Express' vp and director.

"It's a package you can tailor to meet the needs of the customer going overseas," she said.

While Zurich is one of the biggest writers of international property/casualty business—it ranked second in a 1996 *Business Insurance* list of the 10 largest, based on 1995 foreign premium volume of \$14.6 billion (*BI*, Nov. 18)—the insurer found that clients with small international exposures lacked coverage scaled to their needs, Ms. Rothbauer said.

"Market research indicated more U.S. companies were starting to do business overseas," she said, adding that Zurich's domestic units also found that clients were beginning to operate abroad.

Most of the foreign exposures are minimal, such as employees traveling abroad, low-volume exporting or companies with only a few office operations internationally, she said.

"That type of business wasn't within the strategic plan" of Zurich International, the unit that handles

large international risks, Ms. Rothbauer explained.

As a result, the insurer created Zurich Global Express as a separate unit designed to cover smaller international risks. Zurich Global Express began underwriting March 1, 1996, and so far has written more than 200 accounts, according to Ms. Rothbauer.

Zurich's network of brokers and agents distributes the coverage.

"Seventy-five percent of the business we're writing, we're writing with a sister organization (at Zurich). They're writing the domestic, while we're writing the foreign package," she said.

Zurich Global Express customers come from both the manufacturing and service industries, including law, consulting and accounting firms. For example, the program can cover a plastics maker with a plant in the United Kingdom and a consulting firm that has opened offices in a few countries.

Other property and casualty risks Zurich Global Express will cover include U.S. companies attending product exhibitions abroad and exporters using warehouse facilities, Ms. Rothbauer said.

Coverage is based on property and general liability forms developed by the Insurance Services Office Inc. "We've tailored an ISO-

based product and enhanced it to meet the needs of international exposures," she said.

Limits are flexible, though typically \$1 million to \$2 million for general liability, and various coverage extensions are automatically included, Ms. Rothbauer said. For example, Zurich Global Express extends \$250,000 of coverage for up to 180 days for a newly acquired building.

"You need to offer some extensions of coverage, so if they (the customer's operations) grow you don't need to endorse the policy," she said. "We can increase the limits to fit the client's needs."

Although the average Zurich Global Express customer generates an annual premium of \$7,500, the program doesn't limit its clients by size. "The U.S. company can be any size. The key is the size of the international" exposure, Ms. Rothbauer said.

However, "once the risk gets over \$100,000 in premium and needs local policies in more than five countries, they probably want a tailored insurance program" available from Zurich International, she said.

Ms. Rothbauer said she expects to see much more international insurance business in the future.

"I see this as a market that's changing a lot. A few years ago, there were companies endorsing the domestic (policy). Now, more and more companies have international packages."

For more information on Zurich Global Express, contact Elaine Rothbauer at 847-605-7648. **BI**

## 'Sales attitude' key to agency success

By MICHAEL BRADFORD

**I**nsurance agencies that want to be at the top of the competitive heap will hire the best producers they can find, train them well and never deviate from a commitment to be the best in their business, according to a study by the Independent Insurance Agents of America.

The study identified what "the very best sales organizations in the country were doing" to consistently keep themselves on top, according to Shirley Lukens, vp-agency management and technology for the Alexandria, Va.-based IIAA.

The IIAA teamed up with Emory University in Atlanta and Atlanta-based consulting firm Reagan & Associates and canvassed those top-notch insurance agencies as well as other businesses to determine the characteristics of their sales success.

The survey grew out of the IIAA's annual Best Practices study, which is conducted to help agents benchmark their company's business. That study tipped the IIAA that many agents considered their

greatest weakness to be sales.

Speaking at the AMS Users' Group's national conference in New Orleans earlier this year, Ms. Lukens said the study identified several characteristics that agents could incorporate to improve their operations.

"The No. 1 thing that we found is that sales is an attitude, not a department," she said. "It starts at the top with the leadership. Everyone in these companies thinks sales," and how their contributions will affect sales.

Successful insurance sales organizations engage in thorough planning throughout the company on a regular basis to "determine where they want to go, what they want to be, who they want their customers to be," Ms. Lukens pointed out.

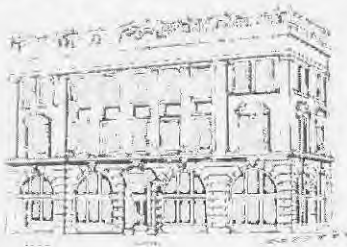
The one thing those organizations did not deviate from was a commitment to be "the best of the best. That was part of their competitive advantage," said Vernell H. Hogan, agency management consultant at the IIAA.

"In order for their culture to work, they had to have everyone in the organization have the same type of attitude," she added.

That meant spending a lot of time selecting the right employees, *See Sales on page 21P*

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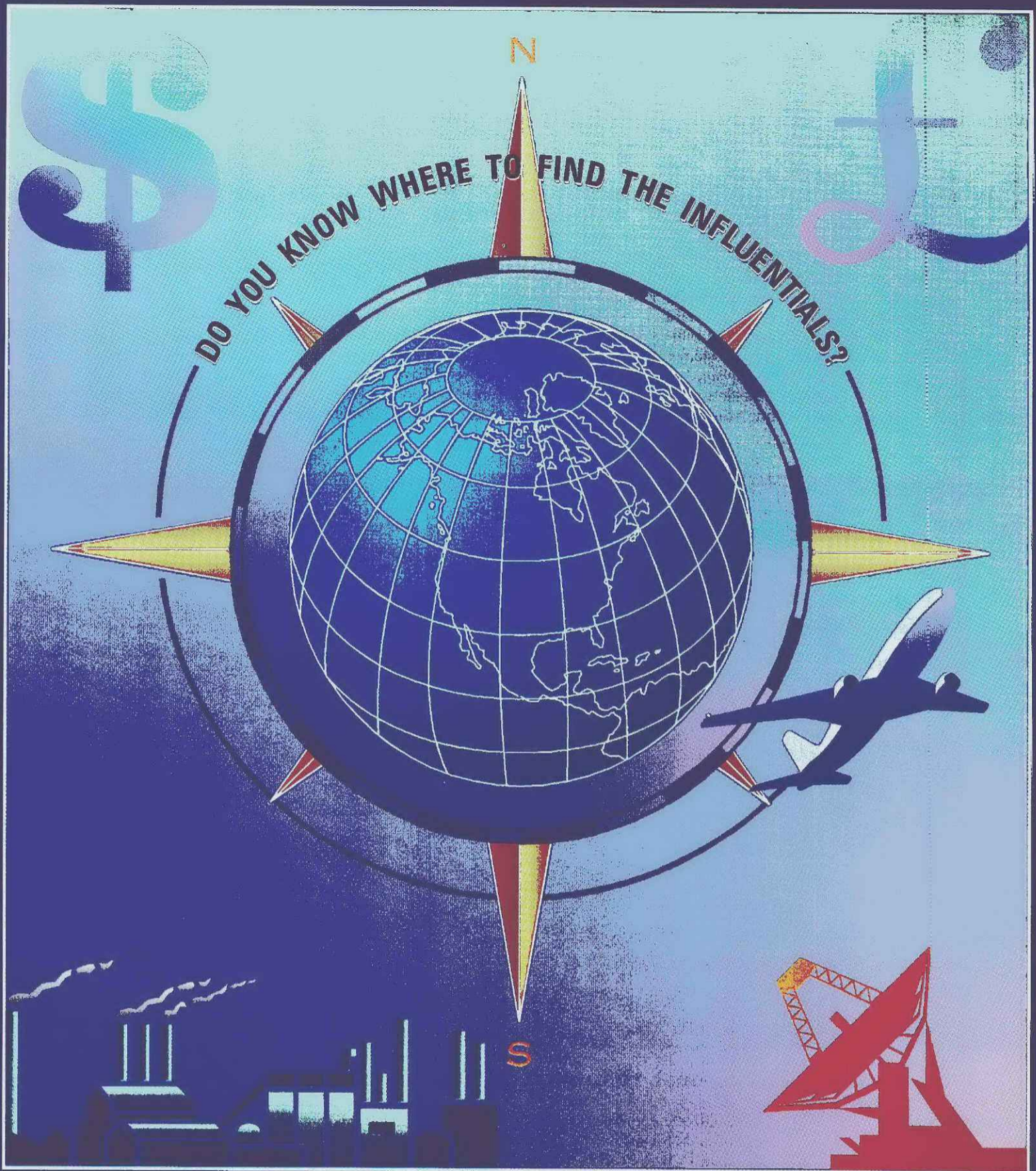


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Agent/Broker Topics

# Sales

Continued from page 21N

Ms. Hogan pointed out, "and they were really were very picky about who they let come into the agency."

Ms. Lukens pointed out that the survey found the most successful companies were "very, very good about finding what qualifications they wanted in their sales people and then not compromising. They didn't hire someone because they could walk and breathe. They had to have certain qualifications," she said.

Because these successful sales organizations were so meticulous about who they hired, they invested heavily

in their employees once they were on board, Ms. Lukens noted.

Training was a priority and was continuous, she said. "Personal development training, sales training and technical training was very well established and disciplined."

Companies that hire well have a few techniques in common when interviewing candidates, Ms. Hogan said. "We found that for the most part there was a structure, a list of questions that they asked."

Some of the questions were asked to determine if the candidate could function as part of a team both within the agency and with a customer or prospect, Ms. Hogan explained.

"They would ask questions like, 'Tell me about a time when you

were on a team or a committee and everything worked really well, it clicked, you didn't have any major blowups or personality conflicts.'"

After being asked why the candidate thought the process worked well, the question was reversed to uncover a time when the team approach failed and why.

Ms. Hogan said, "The kinds of questions they are asking are designed not only to find out if a person is team-oriented, but also to start uncovering attitudes."

As Ms. Lukens pointed out, "all these organizations felt that attitude was the key" to success, Ms. Hogan noted. And while employees "have to have a certain amount of aptitude and be able to learn and grow...they

felt that they could train the people. That would be the easy part. They had to have the right attitude to fit with the culture of the organization and be successful."

Successful sales organizations also used role-playing in the interview process.

"In some instances they would present case studies," said Ms. Hogan, asking how the candidate would handle a sales situation that had actually occurred.

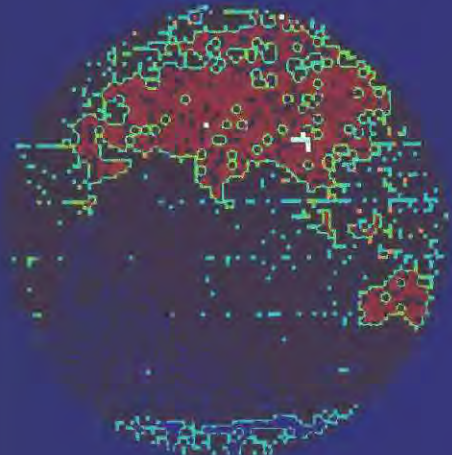
"They also used peer interviews very effectively," she said. "If they made it through the first couple of interviews, then they would have lunch with one or two of the producers in the agency" to help find out if they fit in with other workers.

Producers shared their work experiences and gave the candidate an idea of what it would be like to work at the company. Candidates also visited with other employees like customer service representatives or workers they would be dealing with if hired.

Successful companies also considered the ethics of a candidate, Ms. Hogan said.

Ms. Lukens noted that one question used by a company in the survey asked candidates how far they would go to protect the reputation of the agency. "They looked for candidates that would say, 'I would not lie.' Period. If they don't say those words exactly, they're not a candidate." **BI**

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## Conference draws 2,000

**B**ourbon Street jazz, sunny skies and a host of educational sessions lured scores of technical minded insurance agents to New Orleans for the AMS Users' Group's 21st National Conference earlier this year.

The conference, held Feb. 27 to March 1, registered 2,000 at the New Orleans Marriott for sessions on topics ranging from

best hiring practices to technical applications of agency systems.

The AMS Users' Group is an Irving, Texas-based non-profit organization that provides computer education and training. Its more than 8,500 members are independent insurance agents who use information systems provided by vendor Agency Management Services Inc. of Windsor, Conn.

Next year's conference is scheduled for April 23-26 in San Antonio, Texas. Information is available from AMS Users' Group, 433 E. Las Colinas Blvd., Suite 630, Irving, Texas 75039-5532; 214-869-1355.

Agent/Broker Topics

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# Partner Re

Continued from page 1

bank Worms et Cie (BI, March 3, 1997).

Once the purchase is completed, Swiss Re will make an offer for the remaining publicly held shares of SAFR. Partner Re will then buy all of the SAFR stock from Swiss Re for about \$800 million in cash and 6.45 million in Partner Re common shares. The value of the Partner Re shares, some of which are being sold at a previously agreed option price, is about \$150 million.

As a result of the transaction, Swiss Re will increase its stake in Partner Re to 21.8% from 11.1%. As part of the deal, Swiss Re has agreed to own no more than 30% of Partner Re.

Swiss Re will make a capital gain of about 100 million Swiss francs (\$69.3 million) on the deal.

Circumstances dictated the structure of the deal, Mr. Haag said.

AGF and Athena had indicated they wanted to sell their shares in SAFR, so Swiss Re offered to buy them rather than let SAFR fall into the hands of a rival, such as Munich Reinsurance Co., he said.

Swiss Re considered keeping SAFR and integrating it with its existing operations, a Swiss Re spokesman said.

"But we already have a presence in France, and we share many of the same clients with SAFR, so there was not much synergy. For Partner Re it represents a real diversification," he said.

The SAFR book of business includes property, casualty, marine and aviation, life, and credit and surety business (see chart, page 1).

SAFR also will bring geographic diversification to Partner Re. More than 70% of SAFR's premiums are derived from Europe and only 12% from North America. More than half of Partner Re's premiums are derived from North America and less than 20% are derived from Europe.

The SAFR purchase will allow Partner Re to diversify without adding new capacity to an already competitive reinsurance market, Mr. Haag said. By retaining the management of SAFR, Partner Re will gain the expertise necessary for diversification, he said. And Partner Re has the expertise necessary to help SAFR develop its non-proportional reinsurance business.

"It was a unique opportunity that we were able to take advantage of through our relationship with Swiss Re," Mr. Haag said.

The need to diversify has been acknowledged by all the Bermuda catastrophe reinsurers who enjoyed huge rates when they set up in 1992 and 1993 but have watched the rates, and premiums, fall in the past two years.

For example, Partner Re wrote gross premiums of \$206 million in 1996, down 10.8% from \$230.9 million in 1995.

Several of the Bermuda companies entered new areas, such as marine and aviation and property excess insurance.

SAFR will significantly boost Partner Re's premium volume. SAFR wrote \$700 million in gross premiums in 1996. Net premiums were about \$610 million because SAFR bought substantial retrocessional reinsurance. Much of that retrocessional business will now remain in the group, Mr. Haag said.

Partner Re/SAFR will have a combined equity of about \$1.8 billion, Mr. Haag said.

Partner Re is paying a reasonable price for SAFR, compared with some of the high-priced reinsurance acquisitions last year, but SAFR will not bring huge return-on-equity growth potential to the new group, said Weston Hicks, senior research analyst at

Sanford C. Bernstein & Co. Inc. in New York.

"In its core business of property catastrophe reinsurance, Partner Re was a very high return company, and now it is taking a substantial part of its capital and investing it in a mainstream reinsurer, which is unlikely to generate anything like the returns of its core business," Mr. Hicks said.

But with the falling rates in the property catastrophe market, Partner Re was left with little alternative to diversifying other than returning capital to shareholders, he said.

The deal also illustrates the growing strength of Bermuda companies in the worldwide reinsurance market, said Susan Spivak, vp in the insurance group research department at Donaldson, Lufkin & Jenrette Securities Corp. in New York.

"It's further evidence of the Bermuda reinsurance companies increasing their presence in the global marketplace," she said. **BI**

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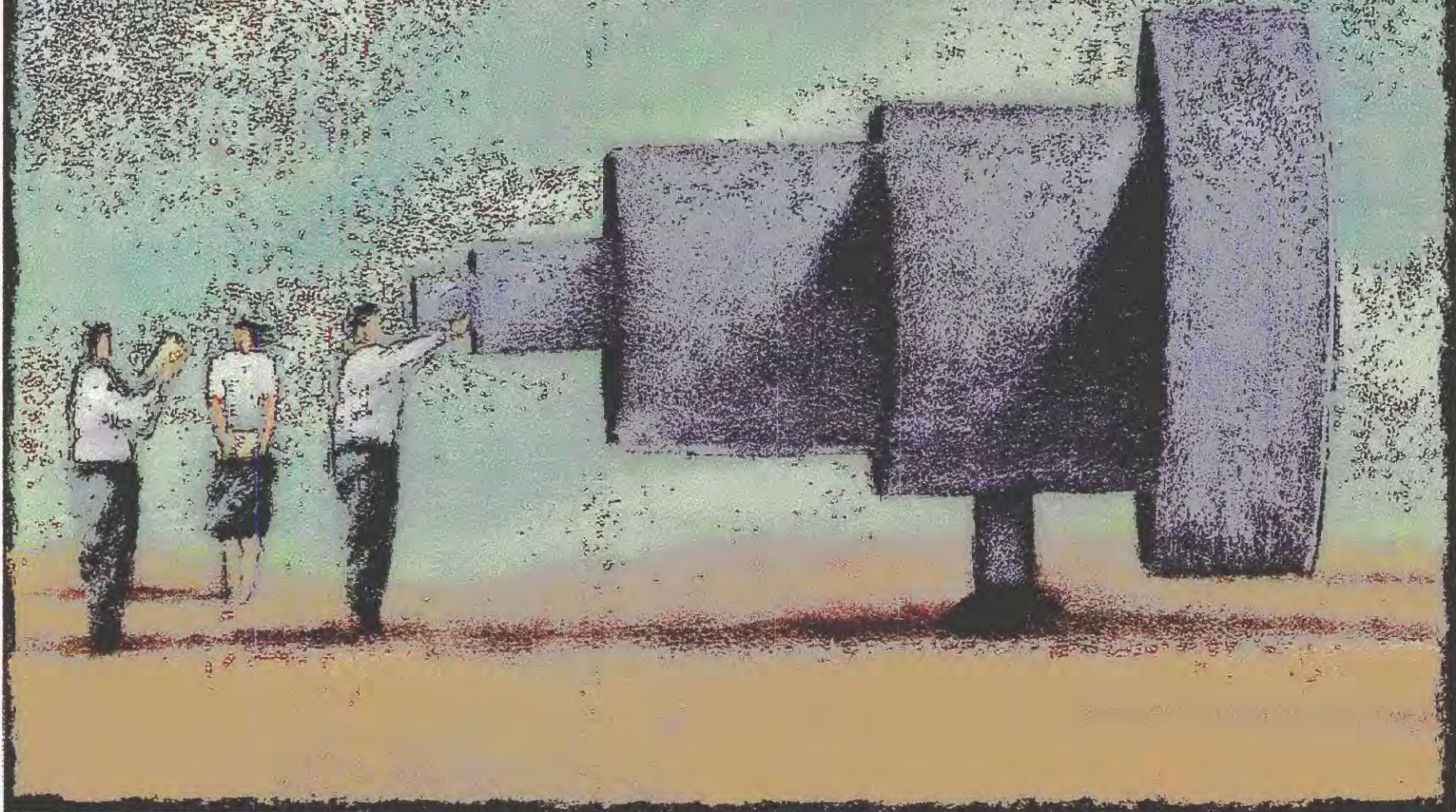
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RS: Reader Service, SS: Starch Study

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# ASK A RISK MANAGER

**Q**

**How can risk managers improve the use of actuarial work and leverage their relationships with actuaries?**

**A**

Risk management deals with a wide variety of specialty functions, and risk managers must know them all well or have someone reliable he or she can depend on to cover on the ones they don't. Risk managers also must know all key aspects of their companies and their industries in order to fulfill their responsibilities.

Thus our plates are pretty full, and knowing something well still doesn't necessarily translate into being a subject matter expert. Consequently, actuarial science is likely to be one of those accountability areas in which we may not be as deep as we are expected to be.

If you manage a large company retaining sizable risk, you're probably well-versed in reading actuarial reports, if only because you have a captive—where actuarial evaluations are required by the domicile—or as a result of your own internal and/or external accounting rules.

Midsized to small companies, being more frequent users of traditional risk transfer arrangements, may never even have thought they had a need in this area.

But, regardless of your company size or program design, leveraging actuarial data and the relationship with an independent actuary or your insurer's actuary can lead to improvements in your program and your ability to design more efficient risk financing arrangements and sell risk in the marketplace, whether insurance or capital markets.

First, let me assure you that you don't need to be a mathematician to understand or effectively use actuarial reports. At first glance, the typical report may appear overwhelming and complicated. In fact, if done well it should be neither, though it should be comprehensive. A good actuary can make his work both readily understandable to the average risk manager and useful to accountants, auditors and our friends in tax, all of whom have some vested interest in actuarial outcomes.

While actuaries perform many tasks to meet a number of risk management objectives, risk managers most frequently rely on actuaries to:

- Forecast their future losses.
- Evaluate or measure the development of losses already incurred.

Risk managers should be aware of many other services actuaries provide and selectively use them to their advantage. Some of these include:

- Budgeting and accruing for retained loss.
- Designing and evaluating cost allocation and claim charge-back programs.
  - Assessing liabilities associated with mergers, acquisitions and divestitures.
- Identifying loss trends that require special attention.
- Contributing to captive and other alternative risk financing feasibility studies.

It's important to understand that the accounting organization will have much to say about and take great interest in the actuarial process, especially as it relates to substantial liabilities, both already incurred and likely to be incurred in the future.

In fact, you can expect that the actuarial approach of your firm may in large part be driven by two things: generally accepted accounting principles and the risk-bearing philosophy, be it liberal or conservative or something in between, of the senior team. Thus, in order to team with your actuary to work toward your organization's goals, you should develop a solid working relationship and a meeting of the minds about objectives and strategy with both your accountant and your chief financial officer, as well as key members of their teams.

You'll need at least a fundamental understanding of GAAP standards as they relate to casualty risks. Next, you'll need to understand what size unplanned liability is "significant" to your accountant and chief financial officer. Don't assume annual revenues, profits or net worth are necessarily the measures used to define risk-bearing capacity or philosophy.

In fact, earnings per share, or EPS, may be a much more important measure for a publicly traded company. In that case, a more conservative philosophy would suggest little or no tolerance for variance in EPS results against stated targets; therefore, management may want to assume little or no risk of an unplanned loss. This would tell you and your actuaries that risk retention per loss and in the aggregate would be small relative to the size of the company.

Similarly, this would dictate a very conservative forecasting and evaluation approach that will mean selecting actuarial methodologies that support these tactics and, for example, might mean forecasting to a much higher probability level that the actual values will not exceed the forecast values.

Clearly in order to accomplish these goals and put in place the necessary tactics to do so, it is critical to develop a solid relationship with your lead or supervising actuary. He or she must have as accurate and detailed an understanding of management's financial goals, objectives and risk tolerance as the risk manager. This means the risk manager must include the company's actuary in much of the strategic risk management planning discussions as would allow him or her to support these goals and objectives.

Integral to the actuary's effectiveness will be the accurate, timely and comprehensive communication of:

- Key operating priorities.
- Key strategic growth objectives.
- Historical loss experience.
- Historical and projected exposures (e.g. sales, payroll, transactions, man-hours, etc.)
- Any shifting in risk-bearing philosophy.
- Key loss prevention and control programs, both current and planned.
- Any significant change in the key financial targets.

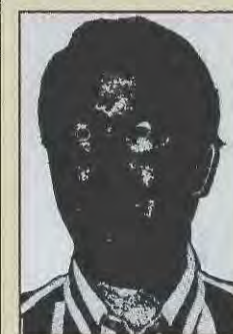
With this information, the actuary will be able to deliver services that will generally align with the company's objectives and hopefully minimize unplanned liabilities that would hurt the balance sheet or income statement.

Finally, much the same information as mentioned above is necessary to design a risk financing program that meets the needs of your company and its shareholders. The accurate forecast and evaluation of your losses and exposures is a key tool in your arsenal only to the extent that you develop the actuarial, accounting and chief financial officer relationships, making you better able to design and implement effective risk financing programs. **BI**

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

*This month's column on risk management issues is written by Christopher E. Mandel, director of risk management at PepsiCo Restaurant Services Group in Louisville, Ky. Dennis*



**Mr. Mandel**

*J. Nirtaut, managing director of compensation and benefits for Andersen Worldwide S.C. in Chicago, answers questions on employee benefit plans. William J. Miner, an actuary with Watson Wyatt Worldwide in Chicago, answers actuarial questions on benefits issues. And, Richard E. Sherman, president of Richard E. Sherman & Associates Inc. in Ashland, Ore., answers actuarial questions in the casualty field.*

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

## Heavy lifting against orders does not preclude comp

An employee who violated his employer's instructions to avoid heavy lifting on the job and subsequently injured his back could still receive workers compensation benefits, according to the Supreme Court of Oregon.

Brian Andrews was employed as a plumber's helper. He advised his supervisor about his prior back problems and was told that he should not engage in heavy lifting on the job in the future. While on the job, Mr. Andrews injured his back while helping to carry a 200-pound espresso machine. He filed for workers comp. A referee awarded him benefits, the Compensation Board reversed, finding that his violation of his employer's instructions placed his injury outside the course and scope of his employment. The Court of Appeals affirmed the board decision.

The state supreme court said "it is inescapable that a general rule denying compensation for injuries sustained as the result of a worker's failure to follow an employer's instructions is not compatible with the Worker's Compensation Act." The court was of the opinion that the simple fact of disobedience to an employer's orders is not of

### Legal Briefs

such overarching significance that it, alone, can render an ensuing injury non-compensable. The court said the board should have decided the question of compensability by deciding whether Mr. Andrews was engaged in an activity within the boundaries of his ultimate work. The case was returned to the board for further determination of this issue.

*Andrews vs. Tektronix Inc.*, Supreme Court of Oregon, May 9, 1996 (BI/04/J.-\$10).

### ERISA funds subject to attachment

Funds disbursed from an Employee Retirement Income Security Act plan by cashier's check are subject to attachment, according to a Minnesota appellate court.

Steven C. Noble pleaded guilty to embezzling funds from his employer, Community Bank Henderson. He was ordered

to pay restitution. When Noble later requested disbursement of his interest in the bank's ERISA plan, the bank petitioned for an attachment of his benefits. The trial court granted the petition. The bank then issued a cashier's check to Mr. Noble in the amount of \$15,972.42, his vested interest less income tax withholding. Upon delivery of the check to Mr. Noble's attorney, a deputy sheriff seized the check and attached it pursuant to the trial court's order.

Mr. Noble appealed, arguing that Minnesota law prohibited the attachment of benefits distributed under ERISA. The court said, however, that ERISA supersedes state law insofar as they may relate to any qualified employee benefit plan.

*Community Bank Henderson vs. Noble*, Court of Appeals of Minnesota, July 23, 1996 (BI/05/F.- \$10) **BI**

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

## RRG

Continued from page 1

sulting in an overall net loss of \$489,757. National competition for AJIR continues to be intense, making it increasingly difficult to maintain market share and still increase subscriber surplus," according to the letter.

"We still exceed the minimum surplus requirement of Indiana," stressed Mr. Dickman, who added that there was no particular reason for last year's increase in losses.

"CNA will be writing new business, and we're going to be encouraging

our members to move to the CNA program," said Mr. Dickman. CNA will not, however, be assuming AJIR's existing liabilities, he said.

In the March 20 letter, AJIR noted that "subject to final approval from AJIR's subscribers and the Indiana Department of Insurance, AJIR has agreed in principle to move its existing book of business to CNA during 1997."

"We're in the process of determining what those procedures will be," said Mr. Dickman.

"We're not dissolving the reciprocal until such a time as a proper reinsurance agreement is put in place that is acceptable to the members and the

Indiana Department of Insurance," he said.

"AJIR will continue to honor all its

### The soft marketplace is a 'very serious threat to risk retention groups right now,' says Watson Wyatt's Jane Rastallis.

existing contractual obligations until such time as they are closed and cease to exist, or transferred through an ac-

ceptable reinsurance arrangement on behalf of its subscribers. Once these obligations are fulfilled, any remaining assets will be dispersed equitably per AJIR's Subscriber's Agreement," according to the March 20 letter.

CNA was interested in the business, and JWF Specialty was looking for a new partner, said a spokeswoman for CNA.

The insurer is underwriting the entire program via its Columbia Casualty Co. subsidiary, which is a non-admitted insurer. The program is being offered nationwide, through CNA's independent agent system.

The CNA program will offer public officials liability, law enforcement li-

ability, emergency medical technician liability and employment practices liability. It will offer limits of up to \$5 million, with higher limits possible in certain circumstances through reinsurance. There will be no coverage gaps during the transfer.

Two program managers will handle the business for CNA. Berkeley Risk Services Inc. of Minneapolis will handle everything but county business, while JWF Specialty will retain county business.

"JWF will continue to service all existing reported AJIR claims to their conclusion as well," said the letter announcing the shift.

Consultants with no ties to AJIR agree that soft market conditions are putting new pressures on risk retention groups.

"It's part of the maturation process for risk retention groups. As they continue to look at their financial outcomes and position in the marketplace, it may be sensible to occasionally look at alternatives to maintaining risk retention underwriting," said Paul W. Pinckney, a principal with Tillinghast-Towers Perrin in Irvine, Calif.

Mr. Pinckney said he is aware of "a couple of instances" where alternatives have been considered, including the merging of a major risk retention group with an offshore captive underwriting similar business.

"But we know of no specific instance where the risk retention group leadership has chosen the commercial market, although it's not tremendously remarkable since one of the driving factors with risk retention groups is looking out for members' best interests over time," Mr. Pinckney said.

The soft marketplace is a "very serious threat to risk retention groups right now," said Jane Rastallis, senior consultant in the risk and insurance practice in Watson Wyatt Worldwide's Boston office.

Reconsideration of the risk retention approach may be expected to continue because many of the groups have formed based on one or the other of two conflicting philosophies, said Ms. Rastallis.

At one extreme is the risk retention group formed by a "very solid" group that is committed to the risk retention group. Participants in this type of risk retention group maintain a close relationship with the group and share the view that "if they're doing things right, they'll always be doing things better than the commercial insurance marketplace," according to Ms. Rastallis.

In other risk retention groups, participants regard the risk retention group "as just another insurance source," Ms. Rastallis said. If members of such groups can find cheaper coverage elsewhere, they bolt, she said.

Meanwhile, in an unrelated development, the Colorado Department of Insurance continues to hold a risk retention group formed by dentists under a confidential order of supervision. The National Dental Mutual Insurance Co., A Risk Retention Group, was placed under supervision earlier this year.

Alan Schmitz, an attorney with the Denver law firm Hall & Evans, which represents the risk retention group, said that National Dental continues to pay claims and was put under supervision because its surplus was "skating close" to the \$1.5 million minimum required under Colorado law.

The risk retention group was formed in 1986. In 1995, it had about 400 members and premium volume of \$587,219.

The department refused to comment on the group's status, saying that such information was confidential.

Joanne Wojcik contributed to this report.

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# Myers risk management head at Caliber Systems

**Thomas P. Myers** has joined Caliber Systems Inc. in Akron, Ohio, as director of risk management for the transportation company.

Before arriving at Caliber Systems, Mr. Myers was director of insurance at U.S. Home Inc. in Houston and director of risk management at TECO Energy Inc. in Tampa, Fla.

He replaces Lyle Paradise, who accepted a position as senior director of risk management at Loews Cos. Inc. in North Wilkesboro, N.C.

Mr. Myers is responsible for design, implementation and evaluation of Caliber Systems' risk management program. Caliber Systems is the parent of freight transportation companies and other subsidiaries.

He reports to Don Brown, vp of human resources.

Mr. Myers attended the University of Illinois and holds the Chartered Property & Casualty Underwriter, Associate in Risk Management, Associate in Loss Control Management and the Associate in Marine Insurance Management designations.

\*\*\*

**James L. Lipari**, 53, has joined USLIFE Corp. as senior vp-human resources.

Mr. Lipari, who works from the insurer's operations center in Neptune, N.J., is responsible for all human resources activities at the New York-based life insurance company and its 11 subsidiaries. He succeeds John G. Kelly, who retired.

Prior to joining USLIFE, Mr. Lipari was principal of an organization providing human resources services to small and medium-sized companies.

He reports to Michael LeFante, executive vp-administration.

Mr. Lipari earned a master of business administration degree from Fairleigh Dickinson University in Rutherford, N.J., and a bachelor of science degree in economics from St. Peter's College in Jersey City, N.J. He is a member of the Vice Presidents Chapter of the Society of Human Resources Managers and a member of the board of directors of the Meadowlands Chamber of Commerce.

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**Tom Saltonstall**, 48, has been

## Comings & Going: Buyers

named vp-human resources at HPR Inc., a Cambridge, Mass.-based vendor of medical management and physician profiling software systems.

Mr. Saltonstall comes to the newly created position after working as vp for human resources at National Medical Care Inc. in Waltham, Mass.

Mr. Saltonstall is responsible for the human resources group and facilities and office services functions at HPR. His duties include recruiting new employees for the company.

Mr. Saltonstall reports to Marcia J. Radosevich, chief executive

officer.

He earned a bachelor of arts degree in American government and a masters of public administration degree from Harvard University.

\*\*\*

**John Mayers**, 42, has been promoted to vp-risk management and insurance at Textron Inc. in Providence, R.I.

Prior to his promotion, Mr. Mayers held the post of director of risk management and insurance at Textron since 1993. He joined the company in 1986 as a senior financial analyst.

In his new role, Mr. Mayers will

assume the new responsibility of overseeing the company's environmental, health and safety functions while continuing to direct the risk management and insurance departments.

He reports to Wayne W. Juchatz, executive vp and general counsel.

Mr. Mayers earned a bachelor of political science degree and a master of business administration and public policy administration from Purdue University.

\*\*\*

**Kristopher Disbrow** has been named risk manager, safety coordinator and purchasing officer for Fond du Lac County, Wis.

Before taking the job, Mr. Disbrow, 40, was an independent

consultant in Waupun, Wis. In his new position, he reports to Allen Buechel, the Fond du Lac county executive.

Mr. Disbrow earned a bachelor of business administration degree in finance and accounting from the University of Wisconsin at Oshkosh and is working on a master of business administration degree at the same school.

He is a certified public accountant and certified management accountant.

As a member of the state committee of the Wisconsin Institute of Certified Public Accountants, Mr. Disbrow makes presentations to high school groups on non-traditional financial careers.

He is a member of the Institute of Management Accountants and is on the speakers bureau of the University of Wisconsin-Oshkosh School of Business Administration. **BI**



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## Datebook

### APRIL

**APRIL 13-15. Intro to Financial Analysis-Life/Health Insurance** seminar in Chicago, sponsored by A.M. Best Co. and The College of Insurance; \$950. **Also April 13-15** in San Francisco. The College of Insurance, 101 Murray St., New York, N.Y. 10007-2132; 212-962-4111.

**APRIL 13-18. The 35th Annual RIMS Conference & Exhibition** in Atlanta, sponsored by the Risk & Insurance Management Society Inc.; \$845 for members, \$1,045 for non-members. RIMS, 655 Third Ave., New York, N.Y. 10017-5637; 212-286-9292.

**APRIL 14-15. Pricing and Rate Making in Plain English** seminar in Chicago, sponsored by Dorman Consulting Associates; \$895. **Also May 1-2** in Boston. Dorman Consulting Associates, 1 Haverhill Court, Beachwood, Ohio 44122; 216-464-5678.

**APRIL 14-16. Fundamentals of Compensation** course in Brookfield, Wis., sponsored by International Foundation of Employee Benefit Plans; \$825 for members, \$975 for non-members. IFEBP, 18700 W. Bluemond Road, P.O. Box 69, Brookfield, Wis. 53008-0069; 414-786-6700.

**APRIL 14-17. The National Managed Health Care Congress** in Washington, sponsored by NMHCC; \$1,595. NMHCC, P.O. Box 360034; Boston, Mass. 02241-0634; 888-446-6422.

**APRIL 14-18. Beyond the Basics of Health Care Cost Management** conference in Los Angeles, sponsored by International Foundation of Employee Benefit Plans; \$1,375. IFEBP, P.O. Box 69, Brookfield, Wis. 53008-0069; 414-786-6710, ext. 8257.

**APRIL 15-16. Spring Legislative Conference: Employee Benefits Issues in the 105th Congress** in Washington, sponsored by the National Employee Benefits Institute Foundation Inc.; \$125 for members, \$275 for non-members. National Employee Benefits Institute, 601 Pennsylvania Ave., N.W., Suite 750, North Washington, D.C. 20004-2601; 800-558-7258.

**APRIL 17-18. Increase Revenue through Broker & Agent Management Programs** forum in Orlando, Fla., sponsored by Info-

line; \$1,295. IBC USA Conferences Inc., 225 Turnpike Road, Southborough, Mass. 01772-1749; 508-481-6400.

**APRIL 17-18. Ergonomic Guidelines for Computer Use** course in Boston, sponsored by the Harvard School of Public Health; \$395. Harvard School of Public Health, 677 Huntington Ave. LL-23, Boston, Mass. 02115-6023; 617-432-1171.

**APRIL 17-18. National Lead Litigation Conference 1997** in Boston, sponsored by Mealey Publications Inc.; \$695. Mealey Publications, P.O. Box 446, Wayne, Pa. 19087-0446; 800-MEALEYS or 610-688-6566.

**APRIL 20-23. 1997 Insurance Fraud Management Conference** in Nashville, Tenn., sponsored by American Insurance Services Group Inc.; \$550. AISG, 85 John St., New York, N.Y. 10038; 212-669-0400.

**APRIL 21. Pension Simplification and DC Plan Workshop** in Kansas City, Mo., sponsored by Corbel; \$305. **Also May 6** in Phoenix and **May 8** in Bellevue, Wash. Attn.: Client Service Center, Corbel, P.O. Box 47720, Jacksonville, Fla. 32247; 800-326-7235.

**APRIL 21-22. Disability Income Insurance Workshop** in Hartford, sponsored by LOMA; \$175 for LOMA members, \$340 for non-members. Merna Beacham or Cherie Mosley, LOMA, 2300 Windy Ridge Pkwy., Suite 600, Atlanta, Ga. 30339-8443; 770-951-1770.

**APRIL 22-24. 50th Consecutive Reinsurance Seminar** in Dallas, sponsored by Reinsurance Management Institute; \$675. Professor Bruce Evans, Graduate School of Management, University of Dallas Station, 1845 E. Northgate Drive, Irving, Texas 75062-4799; 214-721-5360.

**APRIL 22-24. Pension Basics Seminar** in Indianapolis, sponsored by Corbel; \$695. **Also May 13-15** in Baltimore. Attn.: Client Service Center, Corbel, P.O. Box 47720, Jacksonville, Fla. 32247; 800-326-7235.

**APRIL 23. The Fundamentals of Health and Welfare Plans** conference in New York, sponsored by the New York Metropolitan Area Chapter of IS-CEBS; \$150. Kathy Kogut, International Society for Certified Employee Benefit Specialists, P.O. Box 307, Grand Central Station, N.Y. 10017; 212-564-4433.

**APRIL 23. Fundamentals of Risk Management and Advanced Risk Financing Techniques** workshop in Pittsburgh, sponsored by the CPCU Society; \$125 for members, \$135 for non-members. The CPCU Society, 720 Providence Road, P.O. Box 3009, Malvern, Pa.; 610-251-CPCU.

**APRIL 23-25. 1997 PIA of Kentucky Annual Convention** in Lexington, Ken., sponsored by Kentucky Professional Insurance Agents; \$250 for members and \$310 for non-members. PIA of Kentucky, P.O. Box 4205, Frankfort, Ky. 40604-4205; 502-277-0839.

**APRIL 24. Connecticut Insurance Day** in Cromwell, Conn., \$65 before April 9, \$70 after. Gertrude M. Sweeney, 141 Porter St., Manchester, Conn. 06040; 860-643-5367.

**APRIL 24. Fundamentals of Risk Management and/or Advanced Risk Financing Techniques** seminar in Cleveland, sponsored by the CPCU Society; \$125 for members, \$135 for non-members. The CPCU Society, 720 Providence Road, P.O. Box 3009, Malvern, Pa.; 800-932-CPCU.

**APRIL 24-25. Asbestos Litigation 1997: Evolving Issues, Emerging Issues** conference in New Orleans, La., sponsored by Andrews Publications; \$800. Dave Cassada, Andrews Continuing Education Institute, 175 Strafford Ave., Bldg. 4, Suite 140, Wayne, Pa. 19087; 800-345-1101.

**APRIL 27-29. 8th Annual Managed Care Law Conference** in San Diego, sponsored by American Assn. of Health Plans; \$795 for members, \$1,045 for non-members. AAHP, Conference Office, 1129 20th St., NW, Suite 600, Washington, D.C. 20036; 202-778-3269.

**APRIL 28-29. Strategies to Profit from Specialty Niche Insurance Programs in Property & Casualty Insurance** seminar in Los Angeles, sponsored by International Quality & Productivity Center, Insurance Advisory Council, and Insurance and

Reinsurance Trends; \$895. IQPC, 150 Clove Road, P.O. Box 401, Little Falls, N.J. 07424-0401; 800-882-8684.

**APRIL 28-29. Financial Analysis: Property/Casualty Insurance** in Chicago, sponsored by Fells Road Group Inc./Michael Conn Associates Inc.; \$1,050. Fells Road Group Inc./Michael Conn Associates Inc., 271 Route 46 West, Suite D-207, Fairfield, N.J. 07004; 201-227-5955.

**APRIL 28-29. Tobacco Litigation 1997: Going Beyond the Pleadings** conference in New Orleans, La., sponsored by Andrews Publications; \$800. Dave Cassada, Andrews Continuing Education Institute, 175 Strafford Ave., Bldg. 4, Suite 140, Wayne, Pa. 19087; 800-345-1101.

**APRIL 29. Assn. of Professional Insurance Women Inc.'s Luncheon** in Chicago, sponsored by APIW; \$30 for members, \$35 for non-members. Karen Tucker, *Business Insurance*, 740 N. Rush St., Chicago, Ill. 60611-2590; 312-649-5319.

**APRIL 29. An Introduction to Daily Valuation and Recordkeeping** seminar in Natick, Mass., sponsored by Corbel; \$295. **Also May 1** in New York. Client Service Center, Corbel, P.O. Box 47720, Jacksonville, Fla. 32247; 800-326-7235, ext. 1139.

**APRIL 29. The CGL Policy: Important Changes** workshop in Princeton, N.J., sponsored by the CPCU Society; \$125 for CPCU members, \$135 for non-members. The CPCU Society, 720 Providence Road, P.O. Box 3009, Malvern, Pa.; 610-251-CPCU.

**APRIL 29. Insurance Insolvency Breakfast Seminar** in London, sponsored by Clifford Chance; no charge. Pam Marsh, Clifford Chance, 200 Aldersgate St., London, EC1A 4JJ, United Kingdom; 44-171-600-1000.

**APRIL 30. Spring Symposium of the Illinois Assn. of HMOs: Managing the Health of Managed Care** in Rosemont, Ill., sponsored by IAHO; \$200 for members, \$285 for non-members. IAHO, 500 N. Dearborn, Suite 1128, Chicago, Ill. 60610; 312-321-0341.

**APRIL 30-MAY 1. Administering an Employer's Workers' Compensation Program** seminar in Dearborn, Mich., sponsored by Michigan State University; \$695. Human Resources Education and Training Center, Michigan State University, 422 S. Kedzie Hall, East Lansing, Mich. 48824-1023; 517-355-9591.

**APRIL 30-MAY 1. Flexible Benefits Course** in Brookfield, Wis., sponsored by International Foundation of Employee Benefit Plans; \$550 for members, \$650 for non-members. IFEBP, 18700 W. Bluemond Road, P.O. Box 69, Brookfield, Wis. 53008-0069; 414-786-6700.

### MAY

**MAY 1. TXANS' Annual Nonsubscriber and Workers' Compensation and Alternatives Conference and Exhibition** seminar in Austin, Texas, sponsored by The Texas Assn. of Responsible Nonsubscribers (TX-ANS); \$225 for members, \$255 for non-members. TXANS, 206 West 13th, Austin, Texas 78701; 512-477-7357.

**MAY 1-3. The Third Annual Public/Private Behavioral Healthcare Summit** in Washington, sponsored by CentraLink; \$795 before April 18, \$995 after. CentraLink-P, 4370 Alpine Road, Suite 108, Portola Valley, Calif. 94028-7927; 415-851-8411.

**MAY 3-6. The 21st Annual Educational Conference & Membership Meeting of the Aviation Insurance Assn.** in Tampa, Fla., sponsored by AIA; \$350 for members, \$575 for non-members. John P. Donica, AIA, P.O. Box 2966, Redmond, Wash. 98073 800-354-7918.

**MAY 4-6. 29th Annual Midwest Claim Conference** in Arlington Heights, Ill., sponsored by the Chicago Claim Assn.; \$205. David Loveless, Midwest Claim Conference, P.O. Box 401, McFarland, Wis. 53558-0401; 630-859-1100, ext. 5625.

**MAY 4-7. The Financial Inforum** conference in Jacksonville, Fla., sponsored by LOMA; \$795 for members, \$1,590 for non-members. Angie Norman, LOMA, 2300 Windy Ridge Pkwy., Suite 600, Atlanta, Ga. 30339-8443; 770-984-6438.

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**MAY 5-7. PCS Catastrophe Conference** in San Antonio, sponsored by Property Claims Services; \$345 for members, \$445 for non-members. PCS, 85 John St., New York, N.Y., 10038; 908-388-5700.

**MAY 5-7. Product Management Skills and Techniques** seminar in Boston, sponsored by Dorman Consulting Associates; \$995. Dorman Consulting Associates, 1 Haverhill Court, Beachwood, Ohio 44122; 216-464-5678.

**MAY 5-9. Fundamentals of Employee Benefits Management** course in Brookfield, Wis. sponsored by The International Foundation of Employee Benefit Plans; \$1,375 for members, \$1,625 for non-members. Also **July 14-18, August 18-22 and September 22-26.** Registrations Department, IFEBS, P.O. Box 69, Brookfield, Wis. 53008-0069; 414-786-6710, ext. 8257.

**MAY 6. Harold H. Hines Jr. Memorial Symposium: The Use and Abuse of Class Action Lawsuits** in Chicago, sponsored by the Chicago and Northeast Illinois Chapters of the Risk & Insurance Management Society Inc., Insurance School of Chicago and *Business Insurance*; no charge for invited guests. Insurance School of Chicago, 175 W. Jackson Blvd., Suite 2200, Chicago, Ill. 60604; 312-427-2550.

**MAY 8. D&O, Fiduciary Liability, and Employment Practices Liability: Coverage Aspects and Marketing Strategy** workshop in Uniondale, N.Y., sponsored by The CPCU Society; \$85 for members, \$95 for non-members. CPCU, 720 Providence Road, P.O. Box 3009, Malvern, Pa. 19355-0709; 610-251-CPCU.

**MAY 8-9. Employers' Managed Health Care Assn.'s 16th National Conference** in Washington, sponsored by MHCA; \$450 for members, \$550 for non-members. Sheila Reilly, Employers' Managed Health Care Assn., 1401 Eye St. NW, Suite 900, Washington, D.C. 20005; 202-218-4121.

**MAY 8-9. Drug and Medical Device Litigation Seminar** in Chicago, sponsored by Defense Research Institute Inc.; \$545 for members, \$595 for non-members. DRI, 750 N. Lake Shore Drive, Suite 500, Chicago, Ill. 60611; 312-944-0575.

**MAY 12. Fundamentals of Illinois Environmental Law Compliance Course** in Chicago, sponsored by Government Institutes; \$399. GI, Suite 200, 4 Research Place, Rockville, Md. 20850; 301-921-2345.

**MAY 12. Mergers & Acquisitions: A Risk Management Approach to Identifying and Treating the Loss Exposures** workshop in Overland Park, Kan., sponsored by The CPCU Society; \$85 for members, \$95 for non-members. CPCU, 720 Providence Road, P.O. Box 3009, Malvern, Pa. 19355-0709; 610-251-CPCU.

**MAY 12-14. Financial Analysis: Life/Health Insurance** seminar in Philadelphia, sponsored by Fells Road Group Inc./Michael Conn Associates Inc.; \$1,250. Also **Sept. 10-12, and Oct. 15-17.** Fells Road Group Inc./Michael Conn Associates Inc., 271 Route 46 West, Suite D-207, Fairfield, N.J. 07004; 201-227-5955.

**MAY 15. Southern Employee Benefits Conference Spring Fly-In** in Atlanta, sponsored by Southern Employee Benefits Conference; \$175 for members, \$300 for non-members. Southern Employee Benefits Conference, P.O. Drawer 47309, Atlanta, Ga. 30362; 770-458-6233.

**MAY 15. Society of Insurance Financial Management** quarterly meeting and luncheon in New York, sponsored by SIFM; \$50 for members, \$90 for non-members; Kelly A. McCabe, Executive Risk Inc., 82 Hopmeadow St., P.O. Box 2002, Simsbury, Conn. 06070-7683; 518-851-9780.

**MAY 15-16. 7th Annual Institute: Contemporary Reinsurance and Excess Insurance Issues** in New York, sponsored by Glasser LegalWorks; \$895. Also **June 5-6** in Chicago. Glasser LegalWorks, 150 Clove Road, Little Falls, N.J. 07424; 800-308-1700.

**MAY 15-16. Life, Health and Disability/ERISA Litigation** seminar in Chicago, sponsored by Defense Research Institute Inc.; \$500 for members, \$550 for non-members. DRI, 750 N. Lake Shore Drive, Suite 500, Chicago, Ill. 60611; 312-944-0575.

**MAY 19-20. Insurance Law: What Every Lawyer and Businessperson Needs to Know** seminar in New York, sponsored by the Practising Law Institute; \$795. Michelle Schwartz, PLI, 810 Seventh Ave., New York, N.Y. 10019; 800-260-4PLI.

**MAY 19-21. Utilizing and Operating Group Owned and Rent-A-Captives to Cover Workers' Compensation, Employee Benefits, Property & Casualty, Professional, Product and General Liabilities** conference in Bermuda, sponsored by International Business Communications; \$1,495. IBC USA Conferences Inc., 225 Turnpike Road, Southborough, Mass. 01772-1749; 508-481-6400.

**MAY 28. Catastrophes and Insurance** workshop in Deerfield Beach, Fla., sponsored by The CPCU Society; \$85 for members, \$95 for non-members. CPCU, 720 Providence Road, P.O. Box 3009, Malvern, Pa. 19355-0709; 610-251-CPCU.

## JUNE

**JUNE 3. Reviewing Boiler and Machinery Coverages** workshop in Dallas, sponsored by The CPCU Society; \$75 for members, \$85 for non-members. CPCU, 720 Providence Road, P.O. Box 3009, Malvern, Pa. 19355-0709; 610-251-CPCU.

**JUNE 5-6. Financial Analysis: Property/Casualty Insurance** in Philadelphia, sponsored by Fells Road Group Inc./Michael Conn Associates Inc.; \$1,050. Also **Sept. 25-26 and Oct. 30-31.** Fells Road Group Inc./Michael Conn Associates Inc., 271 Route 46 West, Suite D-207, Fairfield, N.J. 07004; 201-227-5955.

**JUNE 9. Excel Basic for Risk Management** workshop in Atlanta, sponsored by Shelter Island Risk Services; \$395. Also **June 11** in Chicago, **June 12** in New York, **Sept. 22** in Roswell, Ga. and **Dec. 4** in New York. Shelter Island Risk Services, P.O. Box 568, 14 Tarkette Road, Shelter Island, N.Y. 11964; 800-749-1535.

**JUNE 10. Excel Advanced for Risk Management** workshop in Atlanta, sponsored by Shelter Island Risk Services; \$445. Also **June 13** in New York, **Dec. 3** in Chicago and **Dec. 5** in New York. Shelter Island Risk Services, P.O. Box 568, 14 Tarkette Road, Shelter Island, N.Y. 11964; 800-749-1535.

**JUNE 12-13. Risk Management and Risk Financing in Europe** conference in

Cologne, Germany, sponsored by Risk & Insurance Research Group Ltd., 1,750 DM. Risk & Insurance Research Group Ltd., 44 Maiden Lane, Covent Garden, London WC2E 7LJ; 44-0171-836-0614.

**JUNE 15-17. The Expense Management Exchange** conference in San Diego, Calif., sponsored by LOMA; \$595 for members, \$1,190 for non-members. Greg Storey, LOMA, 2300 Windy Ridge Pkwy., Suite 600, Atlanta, Ga. 30339-8443; 770-984-6453.

**JUNE 16-17. Corporate Legislative Benefits Forum** in Washington, D.C., sponsored by the Corporate Benefits Institute of the International Foundation of Employee Benefit Plans and the International Society of Certified Employee Benefit Specialists; Before **May 6:** \$510 for members, \$610 for non-members; after **May 6:** \$560 for members, \$660 for non-members. IFEBS, 18700 W. Bluemound Road, P.O. Box 69, Brookfield, Wis. 53008-0069; 888-33-IFEBS.

**JUNE 16-19. The Disease Management Congress** in New York, sponsored by The National Managed Health Care Congress Inc.; \$995 for members, For non-members: \$1,495 before April 14, \$1,595 after. NMHCC Inc., P.O. Box 360034, Boston, Mass. 02241-0634; 617-505-8000.

**JUNE 18-19. Third Annual Environmental Sampling, Onsite Analysis and Sample Preparation Conference** in Pittsburgh, sponsored by PACS Inc.; \$420 before April 30, \$495 after. PACS Inc., 409 Meade Drive, Coraopolis, Pa. 15108; 412-457-6576 or 800-367-2587.

**JUNE 22-25. The Trustees and Administrators Institute** in Lake Tahoe, Nev., sponsored by the International Foundation of Employee Benefit Plans; \$675 for members, \$750 for non-members. IFEBS, P.O. Box 69, Brookfield, Wis. 53008-0069; 414-786-6700.

**JUNE 22-25. American Society of Appraisers International Appraisal Conference** in Houston, sponsored by ASA; \$395 for members, \$445 for non-members before **May 23;** \$495 for members, \$545 for non-members after **May 23.** ASA Headquarters, P.O. Box 17285, Washington, D.C. 20041; 800-272-8258.

**JUNE 23-24. Health Care Stop Loss: Innovative Strategies for Risk Contracting and Carve-Out Negotiation** conference in

Chicago, sponsored by Infoline; \$1,295. IBC USA Conferences Inc., 225 Turnpike Road, Southborough, Mass. 01772-1749; 508-481-6400.

**JUNE 23-27. Fundamentals of Industrial Hygiene** conference in Atlanta, sponsored by American Industrial Hygiene Assn.; \$955 for members, \$1,095 for non-members. Also **Oct. 6-10** in Seattle. AIHA, Continuing Education Department, 2700 Prosperity Ave., Suite 250, Fairfax, Va. 22031; 703-849-8888.

**JUNE 26-27. Global Risk Management Solutions: Advanced Risk Financing Strategies for Canadian and U.S. Companies** conference in Toronto, Ontario, sponsored by International Business Communications; \$1813.65 Canadian. IBC USA Conferences Inc., 225 Turnpike Road, Southborough, Mass. 01772-1749; 508-481-6400.

## JULY

**JULY 13-17. Strategies for Growth** seminar in Mexico City, sponsored by International Insurance Society Inc.; \$1,450 for members, \$1,750 for non-members; \$600 for academic or government. International Insurance Society Inc., Box 870223,

Tuscaloosa, Ala. 35487-0223; 205-348-8974.

**JULY 20-23. National Symposium on Workers' Compensation** in New Brunswick, N.J., sponsored by the Center for Management Development of Rutgers University; \$595. Center for Management Development, Rutgers, P.O. Box 5062, New Brunswick, N.J. 08903-5062; 908-445-5639.

**JULY 22-24. The 17th Annual National Workers' Compensation and Occupational Medicine Seminar** in Cape Cod, Mass., sponsored by S.E.A.K. Inc.; \$525. Steve Babitsky, S.E.A.K. Inc., P.O. Box 729, Falmouth, Mass. 02541; 508-540-8304.

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# Pollution

*Continued from page 2*  
relief. But, the Missouri Supreme Court ruled that a reasonable understanding of "damages" by a layperson would include a compulsory cleanup. "Because the ordinary meaning of 'damages' includes legal and equitable relief, use of the term 'damages' is sufficient," said Chief Justice Ann K. Covington.

In *Northville Industries vs. Nation-*

*al Union*, the New York Court of Appeals in Albany rejected a policyholder's pollution claim when it ruled that the term "sudden" in an insurance policy pollution exclusion includes a temporal element.

In upholding an appellate division ruling, the court also ruled that the insurers did not have a duty to defend the policyholder against claims from third parties.

The dispute arose from a claim filed by Northville for the cleanup of nearly 2 million gallons of gasoline that

leaked from storage tanks at facilities in Holtville and East Setauket, N.Y., in 1986 and 1987.

Northville claimed more than \$100 million in cleanup and defense costs. "Eliminating the temporal aspect from the meaning of sudden in the exception to the pollution coverage exclusion would render the sudden and accidental contingencies of the exception unavoidably redundant for unintended pollutant discharges," said Judge Howard Levine.

—By Gavin Souter

## Insider Trading

**Aetna Inc.:** Joseph T. Sebastianelli, officer, exercised an option for 2,811 shares of common at \$35.56 each on Feb. 26, and now directly and indirectly holds 32,892 common.

Aetna stock closed at \$87.38 a share on March 27.

**Chubb Corp.:** Gail E. Devlin, vp, exercised an option for 1,857 shares of common between \$14.31 and \$17.50 each on Feb. 11. To cover expenses of the transaction Mr. Devlin turned in 523 of them for \$56.56 each on Feb. 11, and now directly and indirectly holds 26,895 common.

Donn H. Norton, vp, exercised an option for 6,228 shares of common at \$36.03 each on Feb. 14, and now holds 18,463 common.

Chubb stock closed at \$55.50 a share on March 27.

**CIGNA Corp.:** Donald M. Levinson, vp, exercised an option for 31,785 shares of common between \$72.31 and \$119.50 each from Feb. 14 to Feb. 24. To cover expenses of the transaction Mr. Levinson turned in 16,800 of them between \$157.25 and \$160.69 each from Feb. 14 to Feb. 24, and now directly holds 48,993 common.

Byron D. Oliver, divisional officer, exercised an option for 8,894 shares of common between \$75.06 and \$106.31 each on Feb. 26. To cover expenses of the transaction Mr. Oliver turned in 5,071 of them for \$155.69 each on Feb. 26, and now directly holds 24,007 common.

Gary A. Swords, vp, exercised an option for 1,997 shares of common between \$75.06 and \$120.38 each from Feb. 24 to Feb. 28. To cover expenses of the transaction Mr. Swords turned in 1,180 of them between \$154.13 and \$157.25 each from Feb. 24 to Feb. 28, and now directly holds 3,784 common.

CIGNA stock closed at \$151.00 a share on March 27.

**Fremont General Corp.:** Wayne Robert Bailey, vp, exercised an option for 124,371 shares of common between \$5.05 and \$15.00 each from Feb. 3 to Feb. 21, and sold 94,671 shares between \$29.88 and \$30.13 each from Feb. 3 to Feb. 21, and now directly and indirectly holds 271,756 common.

Alan William Faigin, officer, sold 2,125 shares of common between \$29.50 and \$29.63 each on Feb. 25, and now directly and indirectly holds 51,054 common.

James Everest Little, officer of subsidiary, exercised an option for 181,283 shares of common between \$5.05 and \$15.00 each from Feb. 20 to Feb. 21, and sold 144,733 shares between \$29.88 and \$30.00 each from Feb. 20 to Feb. 21, and now directly

and indirectly holds 271,760 common. James Albert McIntyre, chairman, exercised an option for 541,329 shares of common between \$5.05 and \$15.00 each on Feb. 21, and sold 296,329 shares at \$29.88 each on Feb. 21, and now directly and indirectly holds 3,756,490 common.

Raymond George Meyers, vp, exercised an option for 86,668 shares of common between \$5.05 and \$15.00 each from Feb. 20 to Feb. 21, and sold 67,468 shares between \$29.88 and \$30.00 each from Feb. 20 to Feb. 21, and now directly and indirectly holds 207,640 common.

Louis Joseph Rampino, president, exercised an option for 226,833 shares of common between \$5.05 and \$15.00 each on Feb. 21, and sold 161,833 shares at \$29.88 each on Feb. 21, and now directly and indirectly holds 501,713 common.

Fremont General stock closed at \$28.38 a share on March 27.

**General Re Corp.:** Charles Barr, vp, exercised an option for 600 shares of common at \$120.94 each on Feb. 4, and sold them at \$163.00 each on Feb. 4, and now directly and indirectly holds 1,518 common.

William P. Barr, vp, exercised an option for 20,000 shares of common at \$30.81 each on Feb. 25, and sold them at \$48.00 each on Feb. 25, and now directly holds 3,029 common.

Ronald E. Ferguson, chairman, exercised an option for 6,800 shares of common between \$90.44 and \$113.00 each on Feb. 4. To cover expenses of the transaction Mr. Ferguson turned in 5,092 of them for \$164.00 each on Feb. 4, and sold 261 shares in the open market at \$165.75 each on Feb. 4, and now directly and indirectly holds 77,885 common.

Christopher Garand, vp, sold 1,844 shares of common between \$165.25 and \$165.38 each on Feb. 7, and now directly holds 4,748 common.

Tom N. Kellogg, vp, sold 2,000 shares of common between \$162.75 and \$163.00 each on Feb. 7, and now directly and indirectly holds 21,834 common.

John P. Kent, officer, exercised an option for 1,071 shares of common between \$32.44 and \$35.06 each on Feb. 13. To cover expenses of the transaction Mr. Kent turned in 1,061 of them for \$48.63 each on Feb. 13, and now directly holds 6,574 common.

General Re stock closed at \$161.00 a share on March 27.

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

# Year 2000 coverage now available

NEW YORK—Insurance to protect companies against damage due to the so-called "Year 2000" computer crisis is available from the Minet Group and AIG Global Risks.

The Millennium Insurance Policy, with limits of up to \$100 million, protects against disrupted business or third-party lawsuits relating to computer system failure.

Computer experts warn that many companies' computers are vulnerable to serious or total disruptions as the year 2000 approaches. Without reprogramming, many computers cannot distinguish the year 2000 from the year 1900. That could create mistakes in everything from customer

bills to insurance to bank accounts.

The policy covers business interruption, contingent business interruption and third-party liability such as directors and officers and errors and omissions.

The policy term is from inception until Jan. 1, 2001, covering any losses occurring in the policy period. There will be a pre-underwriting audit by data experts, and premiums will be set according to risk.

For information, contact Wendy Baker at Minet Inc., 212-782-6000.

## Products & Services

### Spare parts service

PHILADELPHIA—A new service that locates spare parts for large industrial machinery that has failed or been damaged is available to customers of CIGNA International.

CIGNA International Technical Lines' parts locating service uses a database to keep track of spare parts at original equipment manufacturers, parts suppliers, distributors and plants operated by other CIGNA customers.

The service may be especially valuable for large machinery, such as boilers, turbines and compressors, when spare parts are difficult to obtain and down time may be very costly to a company.

Data is updated continuously and uses a computerized search engine.

The service is free to CIGNA customers. For information, contact Bill Tichansky, assistant vp, 215-761-6665.

### Appraiser directory

HERNDON, Va.—Complete listings of accredited appraisers for every specialty can be found in a new directory published by the American Society of Appraisers.

The directory, with more than 3,100 society-credentialed appraisers listed, includes such specialties as machinery; antiques and collectibles; gems and jewelry; and technical specialties such as cost surveys.

Appraisers must have two years of full-time experience to be listed as accredited members or five years of full-time experience to be accredited senior appraisers.

The directory may be purchased for \$12. Contact ASA Publication Sales, 800-272-8258. **EI**

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## INTERNATIONAL

## Global Briefs

**Holocaust survivors and heirs** filed suit last week in U.S. District Court for the Southern District of New York against seven European insurers that they allege refused to honor World War II life insurance policies taken out by Jews and other victims of Nazi persecution. They are seeking class-action status on behalf of more than 10,000 individuals they say are owed billions of dollars. The insurers named in the suit are: Assicurazioni Generali S.p.A.; Allianz Holdings A.G. and two of its subsidiaries, Wiener Allianz A.G. and Riunione Adriatica Di Sicurtà S.p.A.; Assurances Generales de France Vie; Der Anker Allgemeine Versicherungs A.G.; and Bavarian Reinsurance Co. . . . A London underwriting agency that wrote an **alien abduction policy** for the members of the Heaven's Gate cult is reserving £39 million (\$64.5 million) that could be used to pay claims related to the cult members' suicides last month in California. Good-fellow Rebecca Ingrams Pearson Ltd. wrote a policy that would have paid if members of the group were abducted by aliens. Although no abduction occurred, "You never know with American juries," said Simon Burgess, director of the agency. Mr. Burgess said the mass suicide was a "dreadful shock" to the agency, which no longer will offer the alien abduction coverage. . . . Norway's leading insurer, **Storebrand ASA**, and the country's second biggest bank, **Christiana Bank**, will merge following regulatory approval. They say their financial service operations complement one another and that the merger will increase the range and diversity of financial services offered. It will also create a "larger and stronger" group to compete with the foreign institutions expanding into Norway, they said. . . . U.K. supermarket group **J. Sainsbury P.L.C.** will tell private pension providers within seven days how much it would cost to reinstate its employees to its pension plan. More than 600 of its employees fell victim to **Britain's personal pension selling fiasco** of the past decade, which saw thousands of individuals persuaded by agents of personal pension providers to leave company pension plans in favor of personal pensions that provided less protection. Although J. Sainsbury has no responsibility in the matter, Sainsbury said it would expedite the return of its employees to its plans from those that have fallen behind in meeting government timetables for compensating victims. . . . U.K. insurance broker **Lambert Fenchurch Group P.L.C.** and German broker **Pantaenius GmbH & Co.** of Hamburg have agreed to form a general insurance broker joint venture in Germany. Lambert will acquire 40% of Pantaenius for £1.67 million cash (\$2.76 million) plus the share capital of Lowndes Lambert Deutschland A.G. . . . Lloyd's broker **Manning Beard Ltd.** changed its name to **Manning Williams Ltd.** at the start of April after the appointment of Andy Williams as joint managing director with Geoffrey Latham. Mr. Williams, who has been an underwriter and broker for more than 30 years, will bring experience in catastrophe and finite business to the company's established book of personal accident, health, kidnap and ransom and aviation business. . . . **ACE London Underwriting Ltd.** will assume the management of **Methuen Underwriting Ltd.** marine and non-marine syndicates. **ALU** also will merge Lloyd's syndicate 322 with syndicate 47 and syndicate 204 with syndicate 219. . . . Swiss insurer **Zurich Group** has launched a new corporate identity to reflect its refocused role as a provider of financial protection and asset and investment management services. The changes in corporate identity include a modified trademark eliminating the word "Insurance."

## Woman premier a first in Bermuda

HAMILTON, Bermuda—For the first time, Bermuda has a woman premier.

Late last month, Pamela Gordon was sworn in as the island's premier, succeeding David Saul, who resigned earlier in the month after polls showed he could be an election liability for the ruling United Bermuda Party.

Ms. Gordon, who at 41 also is Bermuda's youngest-ever premier, previously was minister for the Environment, Planning and Natural Resources, appointed in 1995 by then-Premier Saul.

She was encouraged to enter politics by former Premier Sir John Swan, who appointed her to the Bermuda Senate in 1990. She was appointed in 1992 minister of

Youth, Sports and Recreation by then-Premier Swan. In 1993 she was elected as a Member of Parliament. Then-Premier Saul reappointed her as Minister of Youth, and later to her most recent post.

Ms. Gordon is the daughter of late labor activist E.F. Gordon, whose "fight and hope for equality, opportunity, fairness and decency" she cited in "A Special Message to Bermuda" distributed by the UBP.

The UBP has been traditionally viewed as pro-business, and Ms. Gordon's message also stressed that the party will continue to support "across-the-board economic growth," including international business.

Ms. Gordon will attend the Risk & Insurance Management Society Inc. conference in Atlanta next week along with Finance Minister E. Grant Gibbons.

Outside of politics, she is the mother of two children and was a senior manager at a time-share resort in Bermuda.

The unopposed election of Ms. Gordon by the UBP is expected to put the government in a better position to win the next election, which must be held by October 1998, where she will face Jennifer Smith, the leader of the opposition Progressive Labor Party.

—By Gavin Souter



Pamela Gordon is the first woman and the youngest-ever premier in Bermuda. She will attend the RIMS conference.

## Australia claims spot at reinsurance table

By KATE TILLEY

GOLD COAST, Australia—Australia's answer to Monte Carlo's annual reinsurance Rendez-Vous, which debuted last month on Queensland's Gold Coast, reinforces Australia's position as a major player in the international reinsurance market, organizers say.

Australia, where reinsurers now underwrite annual gross reinsurance premiums of about \$2 billion Australian (\$1.57 billion), is rapidly developing as a major reinsurance center, said Roger Burn, deputy chairman of Sydney, Australia-based Reinsurance Australia Corp. Ltd. (*BI*, Sept. 2) and head of the Reinsurance Forum organizing committee.

The Reinsurance Forum should help "put Australia on the map," he added.

Mr. Burn predicts the Australian reinsurance market's gross premium volume

could "easily double in five years"

The conference drew 212 delegates, including 115 from overseas, according to Mr. Burn. Nineteen delegates came from North America and 71 from the United Kingdom.

Some participants noted that more Asian delegates might have come if the conference had not coincided with the peak renewal season of March 31 in Japan, Korea and India. In Australia, 60% of business renews June 30.

Organizers hope the forum will become a complement to Monte Carlo's Rendez-Vous de Septembre.

Like Monte Carlo, the Reinsurance Forum had few formal presentations, with delegates arranging their own meetings and discussion groups. "It's a relaxed atmosphere, so you can achieve a lot more in a short period of time," Mr. Burn said.

See Forum on next page

## Coverage in place for Spain wrecks

MADRID, Spain—The Spanish government has liability coverage for two fatal train crashes in Spain last week.

The state-owned Spanish rail network Red Nacional de Ferrocarriles, or RENFE, has liability coverage for injured passengers written by Spanish insurer Mapfre Seguros Generales S.A.

Ticketed passengers will be compensated for injuries and hospitalization costs, a RENFE spokeswoman in Madrid said.

She would not give any details of how families of those passengers killed in the accidents would be compensated. No estimate of total financial losses from the crashes has

been given, and no more insurance information was available.

RENFE is investigating the accidents and will give the results to an investigative judge.

The first derailment occurred near Pamplona in Navarre province. At least 18 people were killed, and 94 were injured.

The causes of the derailment have not been made official, but local press reports have suggested the train was speeding.

The second derailment occurred on the same day about 19 miles northeast of Madrid. There were two deaths and 22 injuries in that accident.

—By Maria Kielmas



This March 31 train wreck in northern Spain killed at least 18.

## Picture of risk, business changing

By SARAH GODDARD

NOTTINGHAM, England—A new industrial revolution is taking place, and risk managers, insurers and brokers must prepare to meet the challenges such change is bringing.

Businesses are entering the third industrial revolution, a revolution driven by technology, markets, entrepreneurship, demographics, globalism and environmental change—

**airmic**

and risk management is in the center, explained Tom Cannon, chief executive of the Management Charter Initiative and visiting professor of business at Kingston University in the United Kingdom.

As this revolution brings market and social turbulence and new opportunities, organizational structures and management systems, the changes will result in new risks.

The professor was one of several speakers who addressed the Assn. of Insurance & Risk Managers' 1997 annual conference, entitled "Leadership—New Frontiers for Risk Management," held last month at the East Midlands Conference Center at the University of Nottingham.

AIRMIC Chairman Derek Brighton told attendees that insurers must move from a "neat package" approach to risks and policies and adapt to changing organizations.

Also, as layers of management have been reduced, it is more important than ever for risk managers to truly understand their organizations, he said.

Mr. Brighton, head of the group insurance and risk department at Reed Elsevier (UK) Ltd., warned risk managers and insurers that their future is bleak if they do not address the challenges they face.

"For a risk manager, proactivity and planning for the future has to be at the forefront," he said. "I believe risk management is at a watershed.

See AIRMIC on page 29

## Forum

Continued from previous page

Andrew Chua, reinsurance underwriter for Sydney-based insurer MMI Ltd., said the forum provides an opportunity to "cement relationships."

Paul Allison, executive director-international with the Sydney office of reinsurance broker Minet Burn & Roche Pty. Ltd. and a member of the forum's organizing committee, said that although not a lot of cedents attended, the forum holds promise of providing cedents with greater access to the Australian market.

"People have been trying to get into this market by facsimile, without success," Mr. Allison said.

Mr. Allison said the forum was an opportunity to "post-mortem the last renewals with underwriters," and that many preferred to do that "face to face."

"We're trying to optimize business coming into this market. People may not realize, for example, that GIO has 15 (reinsurance) underwriters. This market's not being used to the extent it should yet," said Mr. Allison.

GIO Reinsurance, a unit of Sydney-based GIO Holdings Ltd., has been the dominant Australian reinsurer for more than a decade.

Mr. Allison predicts exponential growth for Australia's reinsurance market, noting that Reinsurance

Australia Corp., launched in 1993, has enjoyed strong growth.

"Timing's everything," he said. "ReAC's market entry was terrific timing. GIO came into the market at a very hard period, they were paying a lot of money for their own reinsurance and thought, 'Why don't we start writing reinsurance?' It was a clear management strategy, and it grew rapidly."

The latest company to enter the

tal markets. Creative underwriting and "a willingness to do more unusual things" are the keys to success for Australia, New York-based Mr. Ghose said.

Mr. Williams said the company's experienced underwriters already have strong market relationships, which allowed it to write \$113.6 million since November 1996.

Eighteen months ago North American insurers did not consider

**'One \$20 billion catastrophe's not going to make the market go hard; it might need to be a \$100 billion catastrophe or a series of \$20 billion catastrophes,' says Paul Allison.**

Australian market, New Cap Reinsurance Corp. Ltd. in Sydney, briefed the industry on its plans.

New Cap Re started writing business in November 1996, and Paul L. Williams, deputy managing director, said the company plans to write \$225 million Australian (\$176.9 million) in gross premiums in its first year.

Udayan D. Ghose, New Cap Re chairman, said Australia is the only market where new capacity is required to meet the demands of insurers, and that capacity has developed independent of the U.S. capi-

tal market, New Cap Reinsurance Corp. Ltd. in Sydney, briefed the industry on its plans. However, once those insurers realized the market already was writing \$1.2 billion Australian (\$943.7 million) of business, they had a different attitude.

"That figure surprises the heck out of them," Mr. Williams said.

New Cap Re cedes 65% of its business to its Bermuda sister company, New Cap Reinsurance Corp (Bermuda) Ltd. New Cap Reinsurance Corp. Holdings Ltd. in Bermuda owns both.

## World Insurance Network's benefits Down Under touted

By KATE TILLEY

GOLD COAST, Australia—Founders of the World Insurance Network hope the system will help bring more business to brokers around the world, and Australia's insurance industry will share in those opportunities after receiving access to WIN later this year.

Dennis Mahoney, WIN chairman and deputy chairman/chief executive officer of Aon Group Ltd. in London, told the Australian Reinsurance Forum last month that WIN is the only independent global network in which the world's then six largest brokers, now four, are taking part (BI, Jan. 27).

The network, formed by Alexander & Alexander Services Inc., Aon Group Inc., Johnson & Higgins, Marsh & McLennan Cos. Inc., Sedgwick Group P.L.C. and Willis Corroon Group P.L.C., allows electronic exchange of underwriting and claims information worldwide.

He said insurers and brokers are losing market share to alternative markets and that using WIN to cut costs and compete is a way to secure the industry's future.

"There's nothing new about it; we must give more for less," Mr. Mahoney said. "If we can lower the price, we ought to be able to sell more."

Reinsurance brokers are losing market share through "disintermediation," the trend to use intermediaries less. Reinsurers are "endeavoring to move closer to the original insureds" and to "bring the ultimate risk-taker into a more direct relationship with the risk buyer."

Six U.S. and U.K. insurers are testing WIN, and 12 have signed

up to use it, Mr. Mahoney said. WIN allows electronic transfer of documents globally to any participant's computer. Documents can be modified and returned.

Although Mr. Mahoney would not disclose how much the system cost, he said savings of 30% to 40% in transaction costs are expected.

Outlining WIN's plans, Mr. Mahoney reassured those at-

**'The WIN concept will not have as big an impact in Australia as in the London market,' says Paul Williams.**

tending the forum that the system will not become obsolete as technology advances. "We're not heading into a technological cul de sac," he said.

But not all Australian reinsurers are praising the network. While they see its advantages for standard transactions—particularly for non-lead reinsurers on a slip, they say face-to-face negotiations still are necessary, particularly for specialized risks.

"The WIN concept will not have as big an impact here as in the London market" because the London market is much bigger and writes more coverage suitable to the network, said Paul L. Williams, deputy managing director of Sydney-based New Cap Reinsurance Corp. Ltd.

"It will clearly reduce the overhead load of reinsurance brokers and, unquestionably, the savings associated with that will

be passed on to the clients," he noted, but he added it would not replace personal communications.

He agreed "disintermediation" is a future trend for the whole insurance industry and that the number of players in the process will drop.

"Yes, for commodity-like business that will happen, it will become a principal-to-principal transaction," he said. "But, for us, because of the kind of deals that we do, brokers are very important. They almost perform a backroom-type function for us, and it's on a variable rate cost, rather than a fixed rate cost."

Mr. Williams predicted brokers' business will split between those doing standard transactions and those who may even begin to put capital at risk in specialty transactions.

"Maybe if a reinsurance slip is only placed 90% overnight or over the holidays, the broker may use his balance sheet to hold it until he can off-load it, similar to an investment bank. The big houses will use their balance sheets to differentiate" themselves from other brokers, he noted.

Roger Burn, deputy chairman of Sydney-based Reinsurance Australia Corp. Ltd. and head of the Reinsurance Forum organizing committee, said ReAC is "very much driven by face-to-face negotiations because we lead so much business."

"WIN will have some impact, especially among younger brokers who are more computer-oriented. It will deliver business in greater quantities."

He said WIN is "a long-term tool" to improve efficiencies in the industry but will not become the dominant method of trans-

Mr. Williams agrees the forum will serve to increase the worldwide awareness of Australia as a reinsurance center.

An attraction for cedents is Australian underwriters' "creativity." "A lot of what we write is non-standard, not what you would loosely call commodity business," he noted.

Mr. Williams said New Cap Re would focus on "structured deals much more than commodity business, particularly as the market stays soft."

He does not view GIO Re as a competitor, saying 95% of the business New Cap Re had written so far is new. "There's a demonstrable need for new capacity; it's new transactions, we're not eating out of the same pie," he said, noting GIO is a shareholder in New Cap Re.

There were other similarities between the Rendez-Vous and the Australian Reinsurance Forum. During last year's Rendez-Vous, delegates kept watchful eyes on hurricanes Fran and Hortense (BI, Sept. 23, 1996). During the forum, Cyclone Justin, which was later downgraded to a rain depression, hovered off the north Queensland coast as delegates pondered the soft reinsurance rates that epitomized the most recent renewal season.

Growth in the Australian market and the soft rates were primary conversation topics poolside at the forum. Few were prepared to predict when the market might turn, de-

spite occasional rain squalls due to Cyclone Justin, about 1,240 miles to the north.

MBR's Mr. Allison said it would take far more than a single cyclone to increase reinsurance rates.

"One \$20 billion catastrophe's not going to make the market go hard; it might need to be a \$100 billion catastrophe or a series of \$20 billion catastrophes. It could be a big Japanese quake followed by another California quake and a bad hurricane, or just one major hurricane hitting West Palm Beach and going up into the Florida panhandle," he noted.

Adam Hedley, a director of Sydney-based reinsurance broker Australian Independent Reinsurance Services Pty. Ltd., which entered the market 18 months ago, said that in a soft market, reinsurance underwriters must be innovative to get business, and Australia "has always sold itself on that."

Australian underwriters are prepared to be flexible, he noted.

While Lloyd's broker Harman, Wicks, Swayn owns AIRS, Mr. Hedley said it is independent. "We do business with 15 to 20 Lloyd's brokers; this is purely an investment" for the owners, he noted.

Next year's forum will be held March 6-10, again at the Gold Coast's Sheraton Mirage Hotel. For more information, contact Paul Allison at Minet, Burn, Roche Pty. Ltd. at 61-2-9251-2200. **BI**

## U.K. ruling defines fire brigade liability

By CAROLYN ALDRED

LONDON—U.K. firefighters can be sued for negligence if they take action that worsens a situation while fighting a fire, according to the U.K. Court of Appeal.

However, in a landmark judgment consolidating three separate cases, the Appeal Court judges also ruled that fire brigades cannot be sued for failing to respond to an emergency call, responding too late or making a mistake.

By consolidating the appeals of three different cases brought against fire authorities, the ruling broadly defines the extent of liability of fire brigades in England and Wales.

The judgment means that fire brigades are no longer immune from liability for negligence in fighting a fire.

The decision "is of considerable significance and will be welcomed with mixed blessings by fire and local authorities who have responsibility for firefighting operations," according to a statement from defense law firm Davies Arnold Cooper.

Under the consolidated judgment: Hampshire County Council lost its appeal of a June ruling that it must pay £16 million (\$26.3 million) in compensation as a result of negligence in fighting a 1990 fire at the U.K. headquarters of Digital Equipment Co. Ltd. in Basingstoke, about 40 miles southwest of London.

The judges found the fire officer on the scene negligent in turning off the sprinklers and therefore held the Council liable to Digital and Capital & Counties P.L.C., the building's owner, for the subsequent damage.

Hampshire Council, which is uninsured for the loss, will seek permission to appeal to the House of Lords, the senior court of England and Wales, said a Council spokesman.

The Council is defending the action vigorously "for the sake of fire

authorities throughout the land," said Council Chief Executive Peter Robertson, who fears the judgment could lead to "defensive firefighting" and "legal battles."

Recycling company John Munroe (Acrylics) Ltd.'s claim against the London Fire Brigade and Civil Defence Authority was dismissed. The judges held that the fire brigade, which failed to find smoldering debris that subsequently flared up, had no legal duty to respond to the fire or even to perform competently at the scene.

A claim by the Church of Jesus Christ of Latter-Day Saints for £1.8 million (\$2.9 million) in compensation for the destruction of a Mormon chapel at Huddersfield in 1992 was dismissed. The fire brigade had failed to extinguish the fire after being unable to locate the nearest fire hydrants.

A fire brigade is not under a common duty to answer a call for help and is not under any duty of care to do so, the judges ruled.

"If they fail to turn up or fail to turn up on time because they have carelessly misunderstood the message, got lost on the way or run into a tree, they are not liable," according to the ruling.

The court also concluded that the "fire brigade did not enter into a sufficiently proximate relationship with the owner or occupier of premises to come under a duty of care merely by attending at the site and fighting the fire."

However, as in the Hampshire case, "there was no question that a fire officer, like anyone else, may be liable in tort to a person who is injured as a direct result of his actions or omissions," the judgment stated.

In finding the fire officer negligent in turning off the sprinklers, the judges found that no reasonably well-informed and competent firefighter could have made such a decision. **BI**

INTERNATIONAL

# Costs not overshadowing value of U.K. health plans

U.K. employers increasingly view health care as an important employee benefit, though companies are anxious about rising costs, according to a recently published survey.

Of 337 companies of various sizes that responded to a Hogg Robinson Financial Services Ltd. survey, 90% provide private health care benefits to their employees.

While 43% of respondents said they offer health care benefits to maintain a healthy workforce and 41% provide the benefits to get employees back to work more quickly, 32% also cited providing health care benefits as important in retaining employees.

Although "14% of employers would discontinue the employer-sponsored health care provision if they had the choice... it seems reasonable to conclude that the value attached to private health care by employees has served to deter employers

from abandoning" their health care plans, the report stated.

While appreciating the value attached to the plans by employees,

## The chief concern of companies is rising costs, with some seeing 11% to 15% increases in the past year.

companies have several concerns about providing health care. The chief concern, which 78.5% of respondents cited as their major concern, is rising costs. Thirteen percent of companies complained that costs had risen 11% to 15% during the past year.

The second major concern of employers was reduced coverage by insurers, followed by increased usage by plan members; increased insurance premium tax; and the administrative burden on employers.

Meanwhile, employers are adopting a variety of approaches to cap the cost of providing health care benefits, Hogg Robinson found.

According to the survey:

- 31% of employer respondents have increased employees' contributions, introduced a deductible in an attempt to reduce claims and shift some cost to employees.

- 20% have a managed care program.

- 11% have psychiatric coverage exclusions.

- 9% use hospital networks.

- 3% use coinsurance.

Free copies of the survey are available from Hogg Robinson Healthcare, Hogg Robinson House, 42/62 Greyfrars Road, Reading, Berkshire, England RG1 1NN; 0118-939-5328; fax: 0118-957-5488; <http://www.hogg-robinsonfs.co.uk>.

—By Carolyn Aldred

# COFACE, Brazilian bank form export credit insurer

PARIS—Brazil will soon have its first export credit insurer.

French export credit insurer COFACE Group is entering into a joint venture with Rio de Janeiro-based Banco de Brasil, the largest Brazilian bank, and four other local insurers, to create a Brazilian credit insurer, COFACE said in a statement.

The other insurer partners are: Bradesco Seguros, Sul America Seguros, Bamerindus Seguros and Minas Brasil Seguros. Announcement of the new company coincided with the March visit of French President Jacques Chirac to Brazil.

The new private credit insurer will operate in a similar way to COFACE itself. It will write coverage both on its own behalf and as an agent for the Brazilian government. Brazilian companies will be able to insure their political and commercial export risks with the new company.

According to Francisco Dornelles, Minister of Brazilian Industry, Commerce and Tourism, the availability of a local source of export credit insurance is expected to increase the volume of Brazilian ex-

ports by \$500 million per year.

In France, COFACE provides short-term export credit insurance on a private basis and also acts as agent for the French government in writing medium- and long-term export credit and political risks.

According to its year-end 1996 figures, credit insurance managed by COFACE on behalf of the French government in 1996 generated a surplus of 5.1 million French francs (\$908,820), having been almost balanced in 1995. Gross written premiums exceeded claims for the first time in 15 years.

"The improvement is not due to the French government withdrawing from active support of exporters, nor offering less support to major exporting companies. On the contrary, the credit policy adopted in 1996 and the one announced for 1997 are more flexible than in previous years. The surplus is the result of both the improved financial situation of debtor countries, and a more active management" of debt, which is covered by consolidation agreements, the COFACE statement said.

—By Maria Kielmas

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## UNITED STATES BANKRUPTCY COURT SOUTHERN DISTRICT OF NEW YORK

In re :  
: Petition of Colin Graham Bird and Paul Anthony  
: Brereton Evans, as Joint Provisional Liquidators  
: of NORTH ATLANTIC INSURANCE  
: COMPANY LIMITED, f/k/a BRITISH NATIONAL  
: LIFE INSURANCE SOCIETY LIMITED AND  
: BRITISH NATIONAL INSURANCE COMPANY  
: LIMITED,  
: a Debtor in a Foreign Proceeding.

### NOTICE OF HEARING ON REQUEST FOR A TEMPORARY RESTRAINING ORDER

YOU ARE HEREBY NOTIFIED THAT ON OR ABOUT MARCH 12, 1997, A PETITION WAS FILED PURSUANT TO SECTION 304 OF THE UNITED STATES BANKRUPTCY CODE BY THE JOINT PROVISIONAL LIQUIDATORS OF NORTH ATLANTIC INSURANCE COMPANY LIMITED ("NORTH ATLANTIC" (97B-41602 (TLB))) IN THE UNITED STATES BANKRUPTCY COURT FOR THE SOUTHERN DISTRICT OF NEW YORK ("BANKRUPTCY COURT").

YOU ARE HEREBY FURTHER NOTIFIED THAT THE BANKRUPTCY COURT HAS ISSUED A TEMPORARY RESTRAINING ORDER:

(1) ENJOINING THE HOLDERS OF ANY PROPERTY OF NORTH ATLANTIC IN THE UNITED STATES FROM TRANSFERRING, RELINQUISHING OR DISPOSING OF THAT PROPERTY, OR ITS PROCEEDS, TO THIRD PARTIES;

(2) INSOFAR AS IT RELATES TO NORTH ATLANTIC, ENJOINING THE COMMENCEMENT OR CONTINUATION OF ANY JUDICIAL, QUASI-JUDICIAL, ADMINISTRATIVE OR REGULATORY ACTION OR ANY ARBITRATION PROCEEDING OR PROCESS WHATSOEVER (INCLUDING ANY DISCOVERY IN CONNECTION THEREWITH) INVOLVING NORTH ATLANTIC OR ANY OF ITS PROPERTY OR ANY PROCEEDS THEREOF IN THE UNITED STATES;

(3) ENJOINING THE ENFORCEMENT OF ANY JUDICIAL, QUASI-JUDICIAL, ADMINISTRATIVE, ARBITRATION OR REGULATORY JUDGMENT, ASSESSMENT, AWARD OR ORDER AND THE COMMENCEMENT OR CONTINUATION OF ANY ACT, ANY ARBITRATION OR ANY JUDICIAL, QUASI-JUDICIAL, ADMINISTRATIVE OR REGULATORY PROCEEDING TO CREATE, PERFECT OR ENFORCE ANY LIEN, SET-OFF OR OTHER CLAIM AGAINST NORTH ATLANTIC OR ANY OF ITS ASSETS OR THE PROCEEDS THEREOF IN THE UNITED STATES;

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(5) ENJOINING DRAWS UNDER ANY LETTER OF CREDIT ESTABLISHED BY, ON BEHALF OR AT THE REQUEST OF, NORTH ATLANTIC, OR THE WITHDRAWAL FROM, SET-OFF AGAINST OR OTHER APPLICATION OF PROPERTY THAT IS SUBJECT OF ANY ESCROW, TRUST OR SIMILAR AGREEMENT OR ARRANGEMENT IN WHICH NORTH ATLANTIC HAS AN INTEREST, IN EXCESS OF WHAT IS EXPRESSLY AUTHORIZED BY THE TERMS OF THE CONTRACTS AND ANY RELATED TRUST OR OTHER AGREEMENT PURSUANT TO WHICH SUCH LETTER OF CREDIT, ESCROW, TRUST OR OTHER SIMILAR AGREEMENT OR ARRANGEMENT HAS BEEN ESTABLISHED;

(6) PROVIDING THAT PETITIONERS AND THEIR UNITED STATES' COUNSEL ARE ENTITLED TO (I) NOTICE OF AND OTHER INFORMATION REGARDING ANY DRAW ON ANY SUCH LETTER OF CREDIT OR THE WITHDRAWAL, SET-OFF OR OTHER APPLICATION OF PROPERTY IN WHICH NORTH ATLANTIC HAS AN INTEREST TOGETHER WITH INFORMATION SUFFICIENT TO PERMIT PETITIONERS TO ASSESS THE PROPRIETY OF SUCH ACTION, INCLUDING COPIES OF ANY AGREEMENTS PURSUANT TO WHICH SUCH DRAW, WITHDRAWAL, SET-OFF OR OTHER APPLICATION WAS MADE AND REQUIRING THAT SUCH NOTICE AND OTHER INFORMATION BE FURNISHED CONTEMPORANEOUSLY THEREWITH AND (II) A TURNOVER OF FUNDS RESULTING FROM THE DRAW OF ANY LETTER OF CREDIT OR THE APPLICATION OF FUNDS SUBJECT TO ANY TRUST, ESCROW OR SIMILAR ARRANGEMENT IN EXCESS OF THE AMOUNT THAT IS EXPRESSLY AUTHORIZED BY THE TERMS OF THE CONTRACT, TRUST OR OTHER AGREEMENT TO WHICH SUCH LETTER OF CREDIT, TRUST, ESCROW OR SIMILAR ARRANGEMENT WAS ESTABLISHED; AND

(7) REQUIRING ANY ENTITY THAT HAS A CLAIM OF ANY NATURE OR SOURCE AGAINST NORTH ATLANTIC AND WHICH IS A PARTY OF ANY ACTION OR PROCEEDING IN WHICH NORTH ATLANTIC IS OR WAS A PARTY OR IN WHICH A LIABILITY OF NORTH ATLANTIC MAY BE ESTABLISHED, TO PLACE PETITIONERS AND THEIR UNITED STATES COUNSEL ON THE MASTER SERVICE LIST OF ANY SUCH ACTION OR OTHER LEGAL PROCEEDING AND TO TAKE SUCH OTHER STEPS AS MAY BE NECESSARY TO ENSURE THAT SUCH COUNSEL RECEIVES (I) COPIES OF ALL DOCUMENTS SERVED BY PARTIES TO SUCH ACTION OR PROCEEDING OR ISSUED BY THE COURT, ARBITRATOR, ADMINISTRATOR, REGULATOR OR OTHER OFFICIAL HAVING JURISDICTION OVER SUCH ACTION OR PROCEEDING AND (II) ANY AND ALL CORRESPONDENCE OR OTHER DOCUMENTS CIRCULATED TO PARTIES NAMED ON ANY SERVICE LIST.

ALL PARTIES IN INTEREST DESIRING A COPY OF THE DOCUMENTS FILED WITH THE COURT MUST DELIVER A WRITTEN REQUEST TO DAVID B. STRATTON, PEPPER, HAMILTON & SCHEETZ, 1201 MARKET STREET, SUITE 1600, WILMINGTON, DELAWARE 19801, (302) 656-8865 (FAX). COPIES WILL BE PROVIDED, UPON REQUEST, TO INTERESTED PARTIES BY OVERNIGHT MAIL.

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of Finance ..... 3,166  
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other Financial Personnel ..... 2,973

**Risk/Employee Benefits:**  
Vice Presidents, Directors, Managers, and other  
related department personnel of: insurance, risk,  
employee benefits, personnel, compensation,  
pension, safety, security, industrial relations,  
human resources and employee/  
labor relations ..... 17,043

**Sub-total ..... 30,511**

Associations ..... 290  
Government, Unions and  
Educational Institutions ..... 946

**Commercial Consumers**

**Sub-total ..... 31,747**

Insurance Agents and Brokers ..... 8,588  
Insurance Companies ..... 1,327  
Accountants, Actuaries,  
Attorneys & Consultants ..... 2,831  
Adjusters, Appraisers, TPAs, Captive Managers  
& Health Care Providers ..... 1,624  
Others Allied to the Field ..... 966

**Total Qualified ..... 53,083**

Non-qualified ..... 9  
Single Copy Sales ..... 16

**TOTAL CIRCULATION ..... 53,108**

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## INTERNATIONAL

## AIRMIC

Continued from page 25

We can create for ourselves a wonderful opportunity—or risk seeing our role become marginalized by failing to grasp the initiative.”

Risk managers in the United Kingdom already are seeing new risks from the changing corporate governance requirements, pointed out Mr. Brighton.

And U.K. companies in general still have “spectacular failings in this crucial area of risk identification and risk control,” Mr. Brighton added.

The impact of changing management structures, highlighted by Mr. Cannon, also concerns risk managers.

“Organizations may be leaner and meaner, but this often means greater exposure” to risk control failure, he said. With fewer staff doing more work, some risks may

not be receiving sufficient attention.

But is the insurance community keeping pace? The recent frenzy of mergers and acquisitions may have shifted the focus away from the customer, and the long-term impact has yet to be identified.

“Will they have a negative impact on the availability of capacity and levels of service?” Mr. Brighton asked.

Mr. Brighton criticized the insurance industry’s short-term approach and its thinking “in terms of neat packages of risks.”

In particular, the industry should address the problem of the insurance cycle and outdated products and instead think of long-term relationships and innovation.

“Our message is simple,” he said. “Change your mind-set. Be innovative, be bold—and dare to be different. Above all, please listen to us.”

Another speaker at the AIRMIC conference, Ron Forrest, chair-

Bermuda, as a reflection of the convergence of insurance and capital markets.

Every day, the capital markets conduct about \$3 trillion in transactions, compared with total insurance industry capacity of \$25 billion to \$50 billion.

Certain risks are just too big for the insurance market to bear currently, and the capital markets are able to accommodate them, Mr. Forrest

said.

Another trend Mr. Forrest identified was shorter distribution chains.

“The market will not tolerate inefficiencies,” he warned, and capital sources fluctuate.

Finally, the electronic age is “a very, very powerful factor going

forward,” said Mr. Forrest. At some point, brokers will be able to place business from their desks with insurance companies around the world, but the client also will be able to do so, leaving a question mark hanging over the future of brokers.

And the increasing move toward self-insurance must also be a pre-occupation with brokers and insurers.

In order to face this and other challenges, the insurance industry must unite, Mr. Forrest said.

“It is very difficult when considering major issues to see how it can be done in a fragmented market. . . . Somebody has to speak on behalf of the whole industry,” he said.

But risk managers also need to play their part, advocating risk management within their businesses. It will be a future role and challenge “to increase acceptance and the authority of risk management,” he concluded. **BI**

**‘Our message is simple,’ says AIRMIC’s Derek Brighton. Insurers should ‘be innovative, be bold—and dare to be different. Above all, please listen to us.’**

man of Aon Risk Services, talked about other trends facing the risk management and insurance industries.

He called the growing securitization of risk a trend that will continue into the 21st century and cited insurers such as ACE Ltd. and Mid Ocean Ltd., both based in

## Risk managers’ association gets new look

### Redesigned logo emphasizes group’s primary focus

By SARAH GODDARD

NOTTINGHAM, England—A new identity and strategy to carry it into the 21st century was unveiled by the Assn. of Insurance & Risk Managers as the finale to its annual conference, held March 24-27 at the East Midlands Conference Center at the University of Nottingham.

A little more than a year before, AIRMIC put together a strategic group to prepare a plan to take the organization into the next millennium, explained Derek Brighton, chairman of AIRMIC and a member of the six-person group.

AIRMIC members and other entities, including the Confederation of British Industry, Assn. of British Insurers, Institute of Directors and the London International Insurance & Reinsurance Assn., all were can-

vassed for their views on the risk managers’ organization’s effectiveness and its future direction.

“The process involved analyzing AIRMIC’s strengths as well as its weaknesses, clarifying any confusion over its central messages, and determining how we could become more focused to provide better value to members,” Mr. Brighton explained.

As a result, it became clear that the organization “needed to reposition ourselves and revisit our mission and aims,” he said.

Having considered AIRMIC’s direction and intentions, the strategy group decided that the organization’s mission distilled into “anything which raises the profile and the standards of risk management.”

That will be achieved through several means, including: widening industry’s understanding of risk management; lobbying key decision-makers; playing an active role

in the international arena; and supporting members through exchanging risk management information through seminars, workshops and conferences.

But in order for AIRMIC’s new strategy to be a success, it needs to be supported by “a set of core values that we can all subscribe to,” said Mr. Brighton, “because in our mission to be seen as a serious player and risk

manager, our actions need to tell the world that we are responsive.

forward-looking and stable.”

Actions taken by the organization’s members will be the most convincing demonstration of these core values, but AIRMIC also is addressing the issue by revamping its visual identity.

Its logo, as “the most succinct visual expression of our values,” has been redesigned.



## Annual conference draws nearly 400

NOTTINGHAM, England—Almost 400 delegates attended this year’s Assn. of Insurance & Risk Managers annual conference, which was held at the East Midlands Conference Center at the University of Nottingham March 24-27.

Attendees included risk managers, lawyers, brokers, insurers, loss adjusters, captive managers, trade association representatives, students, academics and consultants.

Although the majority came from the United Kingdom, others traveled from Ireland, Guernsey, Gibraltar, Germany, Bermuda, Barbados, the Isle of Man and the United States of America to attend. Particularly welcomed by AIRMIC Chairman Derek Brighton were Louis J. Drapeau, president of the New York-based Risk & Insurance Management

Society Inc.; Brian Crews, president of the Australian Risk & Insurance Management Assn.; and Des Vernon, president of the South African Risk & Insurance Management Assn.

More than 60 organizations participated in the conference exhibition, drawing attendees to their booths with a variety of attractions, from virtual skiing and grand prix driving competitions to jugglers and caricaturists. One exhibitor, taking account of the Easter holiday immediately following the conference, handed out hundreds of chocolate rabbits.

Next year’s conference will be at the same location March 30-April 2. For more information, contact AIRMIC, 6 Lloyd’s Ave., London EC3N 3AX; 171-480-7610; fax: 171-702-3752.

—By Sarah Goddard

## Lloyd’s chairman reveals lessons in leadership

By SARAH GODDARD

NOTTINGHAM, England—Listening to others is an important leadership lesson, Lloyd’s of London Chairman Sir David Rowland told a group of risk managers recently.

“Most certainly, one of my early conclusions was that borrowing other people’s acquired experience must be a better way of equipping oneself less painfully than stumbling untutored along the path of learning only by one’s own mistakes,” Sir David explained.

Sir David spoke at the Assn. of Risk & Insurance Managers’ 1997 annual conference, held last month at the East Midlands Conference Center at the University of Nottingham.

He said that he learned many other leadership lessons in his almost 40 years as a Lloyd’s broker before he took the helm of Lloyd’s, just as the 308-year-old market was reaching the height of its troubles.

One of the most important lessons was that “a strong team working together in harmony to-

wards a shared goal outperforms the most brilliant group of individuals.”

Sir David used this principle in 1990 when putting together a group of market practitioners and consultants that studied Lloyd’s position and its future.

In selecting the task force members, he relied on another belief:



“I had learned by then that the only sensible way to run anything was always to endeavor to hire people brighter than I was myself, to use their ideas and to acknowledge them with gratitude,” he said.

Do not be afraid of hiring and working with people more intelligent than yourself, he said. “Just be grateful that you can be dragged along in the wake of their ability.”

Sir David pointed out that in-

The new logo brackets the “R” and “M” in the center of the text, symbolizing that risk management is “at the heart of AIRMIC,” explained Mr. Brighton. The brackets “emphasize protection, stability yet with movement, for responsiveness,” he said.

Stability is denoted by retaining AIRMIC’s shield, a symbol of the association’s history, “and by building on our past we can deliver responsive, imaginative and responsible strategies for the future,” he added.

Nevertheless, it takes more than a change of corporate identity to bring about such change—it takes people. Mr. Brighton noted.

“If people do not identify with AIRMIC, then all the visualizations in the world will not help us deliver our mission,” Mr. Brighton said.

“We have reached the end of the beginning. We have laid down the foundations for the future. Over the next 12 months, we will all have an opportunity to help shape the organization the way we want it,” he said. **BI**

insurance companies now attract the “top-class, second-class people,” but to go a step higher, salaries must increase to compete with other professions. The top graduates want to feel like they are “part of the best team,” he said.

Because of its roots in a collection of family businesses, Lloyd’s had attracted the best and worst talent, said Sir David.

The market attracted the best because it was a place that “could get you seriously rich,” and the worst because it was a haven for the lazy who could reside in the family business.

Over the recent turbulent times, the worst have been weeded out, and Lloyd’s has been nurturing new talent through its graduate training program, he said.

A key task of any leader is “to secure good succession,” said Sir David. But most of all, a good leader needs a sense of commitment, passion and purpose, together with good communication skills. **BI**

# EMLICO

Continued from page 2  
 Reinsurers likely will appeal.

EMLICO, a longtime GE general liability insurer, moved to Bermuda in July 1995 after spinning off its non-GE liability business into a former subsidiary, Electric Insurance Co. Within months, it declared itself drastically underreserved for GE pollution and asbestos claims and insolvent by more than \$500 million.

Reinsurers didn't find out about the move until after the liquidation filing. They quickly filed suit against the insurance division to reverse the redomestication, charging they had not received adequate notice of EMLICO's reorganization and that state law doesn't allow redomestication to a foreign country.

Reinsurers also charge that EMLICO misled regulators about its solvency as part of a plot with GE to take advantage of Bermuda liquidation laws that allow accelerated recoveries from reinsurers.

The Massachusetts division filed motions to dismiss the reinsurers' complaints, arguing among other things that reinsurers have no standing to question the decision.

In a ruling last week, Judge King agreed. The statute under which Insurance Commissioner Linda Ruthardt allowed EMLICO to redomesti-

cate "mandates that the commissioner consider the best interests of policyholders," the judge wrote. The reinsurers "are not policyholders of EMLICO. Rather, they are merely potential creditors of EMLICO. Since (they) are not policyholders of EMLICO, they are not within that class of persons protected by the statute."

While state law also allows "any person aggrieved" by a decision to seek judicial review, the reinsurers failed to show they are aggrieved in a "legal sense" or that "substantial rights have been prejudiced," Judge King found.

Reinsurers' "allegations of possible harm and possible future consequences of the commissioner's decision fail to satisfy these prerequisites for standing," he ruled. The reinsurers "have no contractual or statutory right to condition EMLICO's reorganization" on obtaining their approval.

The judge also cited a Pennsylvania court's ruling that reinsurers could not challenge CIGNA Corp.'s reorganization because they were neither creditors nor policyholders (*BI*, March 10).

Judge King also turned aside reinsurers' arguments that he should expand the definition of "standing" because "the entire insurance regulatory scheme may be affected if the defendants are allowed to escape unscathed after their fraud upon the commis-

sioner," Judge King wrote.

"It is not for this court to expand those definitions to fit the facts of this case," he concluded.

EMLICO liquidators hailed the ruling as clearing a "potential impediment" to their proposed settlement, which would make the Massachusetts division ancillary receiver of EMLICO. In a hearing last month, Supreme Judicial Court Justice John M. Greaney, who must approve the settlement, questioned what would happen if he OK'd it and Judge King later ruled the redomestication illegal.

A hearing on the settlement is scheduled May 6.

Meanwhile, another Massachusetts judge has ordered that EMLICO documents subpoenaed by the Insurance Division should not be altered, destroyed or shipped out of state until further notice. Lloyd's had sought the order after noting the settlement requires the division to turn over control of all EMLICO material to the Bermuda liquidators.

In addition, a Massachusetts state legislator has introduced a bill that would require the insurance commissioner to hold a public hearing in any case where there are grounds to believe a company has made "deliberate misrepresentations" to gain a regulatory approval. The Legislature's Joint Committee on Insurance may vote on the bill, triggered by the EMLICO case, during the week of April 14. **BI**

# Conditions

Continued from page 1

Departments of Health and Human Services, Labor and Treasury—involved in implementing the health care portability law, are easing some compliance burdens for a transition period.

In interim regulations released last week, the agencies said that in the case of employees who lost coverage between July 1, 1996, and Sept. 30, 1996, employers only have to provide certification statements to those employees who specifically ask for the statements.

In addition, for those employees who lost coverage between Oct. 1, 1996, and June 1, 1997, employers only have to provide a simple notice. This one-page notice, which is printed in the interim regulations, briefly explains the health care portability law. The notice must tell employees

from whom they can get the certification statement. At the bottom of the model notice is a section in which employees can make a request for a certificate of coverage for themselves and for their dependents.

Benefit experts welcome this model notice. "This is a good transition rule. Employers can use a form that has been blessed by the federal government," noted Chip Kerby, a principal with William M. Mercer Inc. in Washington.

Another break involves dependents of employees who request or receive certification statements. Until June 30, 1998, an employer does not have to provide names of dependents, but only the type of coverage—single, employee plus spouse or family coverage—on the certification statement. That flexibility is important because some employers may not have names of dependents, noted Mary Case, a principal with The Kwasha Lipton Group in Fort Lee, N.J.

While these transition rules—scheduled to be published in the April 8 Federal Register—are welcomed, other provisions in the interim rules are troublesome, benefit experts say.

One chief trouble spot: a requirement that employers give notice to employees within 60 days of any material reduction in benefits or services.

An example of such a reduction in services would be a health maintenance organization that is reducing the size of its network in a certain geographic area, a change that some employers might not even be aware of immediately, noted John Piro, a Hewitt consultant in Rowayton, Conn.

In addition, the agencies failed to provide any guidance on whether corporate wellness plans that charge higher premiums for individuals who engage in certain behavior, such as smoking, violates a provision of the health care portability law that bars discrimination on the basis of health status. **BI**

# Delivering plan data via e-mail

WASHINGTON—The Labor Department is recognizing that paper isn't the only way for employers to give employees information about their benefit plans.

Tucked into the health care portability regulations is a Labor Department proposal that gives employers the green light, effective June 1, to use electronic communication systems, such as internal e-mail, to distribute to employees summary plan descriptions and modifications to the SPDs.

Under the Employee Retirement Income Security Act, SPDs, which describe an employer's benefit plans, must be distributed to employees within 90 days of their joining a plan or within 120 days of an employer starting a plan.

Employees also must receive a summary of material modifications made to a plan within 210 days after the end of the plan year in which the change or changes occur. Updated SPDs must be provided every five years, and new SPDs have to be issued every 10 years.

While many employers dislike preparing and distributing SPDs,

believing relatively few employees read them, the Labor Department is at least making the burden a little lighter.

Under the interim regulations, health care plan SPDs and modifications can be delivered to employees electronically.

But the Labor Department does attach conditions for using electronic delivery systems. Employers or plan administrators must ensure that employees receive the information. That could be accomplished through the use of a return-receipt feature common in many corporate e-mail systems or surveys of participants by the plan administrator, the Labor Department says.

Employers also must give employees the right to obtain SPDs and updated information in paper form at no charge upon request.

Currently, the Labor Department electronic delivery proposal applies only to health care SPDs. But the department is asking for public comment on whether electronic delivery systems should be extended to other employee benefit plans and disclosures, such as summary annu-

al reports and individual benefit statements.

Benefit consultants welcome the Labor Department's embrace—albeit a limited one—of new technology to communicate benefit plan information to employees.

"The Labor Department is setting the stage for a new era in benefit plan communication. Electronic delivery systems are a much faster and more environmentally friendly system of providing information to employees," said Henry Saveth, a principal with A. Foster Higgins & Co. Inc. in New York.

While the Labor Department proposal is limited just to health care SPDs, experts say it may be only a matter of time before the department broadens its proposal.

"This is important because the SPD is the heart and soul of disclosure. If the department is permitting the use of electronic delivery systems for SPDs, it follows that one day it will allow these systems to be used" to communicate other types of benefit plan information, Mr. Saveth added.

—By Jerry Geisel

# Updates

## Kroll to continue AIG role

Continued from page 2

The terms of the transaction were not made public.

Kroll is a 25-year-old security consultant that provides services to AIG policyholders and others.

## Ruling threatens Blues merger

NEWARK, N.J.—Blue Cross & Blue Shield of New Jersey will appeal a court ruling that creates a serious snag in its effort to merge with Anthem Inc., a large for-profit health insurer based in Indianapolis.

New Jersey Superior Court Judge Alvin Weiss declared last month that the New Jersey Blues, under state statute, is a charity. The plan therefore would most likely have to form a large charitable foundation to be permitted to convert to a for-profit mutual company. The Blues plan brought the case to court, seeking a declaratory judgment.

Consumer groups have estimated the New Jersey plan might be required to set aside as much as \$1 billion for charity, though Banking and Insurance Commissioner Elizabeth Randall has not yet ruled on the matter. Ms. Randall has been reviewing the matter at the same time it has been in the courts.

"The company was disappointed with the court ruling but didn't consider it a surprise," a spokesman for the Blues plan said, adding that this ruling is "the first round."

"Blue Cross & Blue Shield of New Jersey is not a charity, and it's never been one," he said.

The plan may, if necessary, ask the state Legislature to specify that it is not a charity, he said.

In other Blue developments, Owings Mills, Md.-based Blue Cross & Blue Shield of Maryland last month signed a definitive agreement with Washington-based Blue Cross & Blue Shield of the National Capital Area. The two not-for-profit plans intend to combine under a newly created not-for-profit holding company.

## Company to terminate pension

WEST ALLIS, Wis.—Allis-Chalmers Corp. has notified the Pension Benefit Guaranty Corp. that the company intends to terminate its underfunded pension plan, which has about 9,800 participants.

Allis-Chalmers, which in the 1960s was one of the largest private employers in Wisconsin, now has just two employees, while a subsidiary, which repairs equipment Allis-Chalmers once made, has only several dozen workers.

Estimates of its pension plan's unfunded liability range from \$15 million to \$30 million. In 1985, the PBGC took over another Allis-Chalmers plan, which had \$170 million in unfunded liabilities and at the time was the biggest loss the PBGC had incurred.

## Sodarcac to sell division

MONTREAL—Sodarcac Inc. is selling its brokerage division that handles small commercial accounts and personal lines business.

Current management of the Dale-Parizeau division of Dale-Parizeau International Inc. is buying the division for an undisclosed amount. The division's business represents 30% of the total volume of Dale-Parizeau International and 17% of Montreal-based Sodarcac's business. The brokerage has not released 1996 revenues, but based on 1995 revenues, the division generated about \$12.5 million.

Dale-Parizeau International will continue to handle large, complex commercial lines brokerage accounts.

The sale is part of a strategic review of Sodarcac's brokerage operations, said Denise Chabot, vp-finance and treasurer at Sodarcac.

## Briefly noted

Aon Group Inc. and Centre Reinsurance (U.S.) have sealed a \$100 million catastrophe equity put program with Horace Mann Educators Corp. that will help recapitalize the Springfield, Ill.-based insurer in the event of a large catastrophic loss. A similar program was sold to RLI Corp. of Peoria, Ill., last year (*BI*, Oct. 14, 1996). . . Lloyd's of London reinsurer Equitas Holdings Ltd. has appointed Scott P. Moser as its claims director effective May 1. Mr. Moser, currently president of Envision Claims Management Corp. of New Jersey, succeeds Jim Teff, who is resigning because of his wife's poor health. Mr. Teff will become a full-time consultant to Equitas, concentrating on major claims. Mr. Moser, who also will join the board of Equitas, is a lawyer with an extensive background in environmental, pollution and asbestos-related claims, which are the bulk of the liabilities Equitas is reinsuring for Lloyd's syndicates. . . Bayer Corp. will appeal the \$2 million verdict awarded in Indianapolis last month to a couple whose son died of AIDS from HIV-tainted blood clotting products for hemophiliacs. Also, in Houston, two other manufacturers of the blood products, Alpha Therapeutic Corp. and The Armour Pharmaceutical Co., were found not liable in separate trials over the products. . . Foundation Health Systems Inc., the company created just last week with the merger of Foundation Health Corp. and Health Systems International Inc., said it has acquired Advantage Health, a Pittsburgh-based group of managed health care companies, for \$12.5 million in cash. . . The combined ratio for workers compensation climbed to 101% in 1996, up from 97% in 1995, according to preliminary estimates from the National Council of Compensation Insurance in Boca Raton, Fla. However, premium volume dropped 5% to \$24.9 billion in 1996, as employers continue to self-insure or use large-deductible plans. . . United Air Lines Inc. is appealing a \$3 million wrongful termination verdict awarded to a former Oakland, Calif., worker who claimed he was discriminated against because of his Muslim faith and dismissed after complaining about fellow workers' anti-Muslim comments. . . Kohlberg Kravis Roberts & Co. is giving financial backing to James R. Fisher, the former chief financial officer of American Reinsurance Co., to set up Fisher Capital Corp. in Princeton, N.J. Mr. Fisher will advise KKR on insurance industry investments.

# Coalition

Continued from page 3

"Wow, we know what you're coming in for," Mr. Brown suggested.

Instead, "If you look at what employers are asking for in the country, and also locally, they're all frequently asking for different things or they don't ask for anything," Mr. Brown said.

While few industry experts are familiar with the coalition guidebook, as it was just released, those that reviewed it were impressed.

"It's nice to see they took a multi-employer approach," said Tim Beck, Buck Consultant Inc.'s Southern California health and welfare practice leader in Los Angeles.

"If we can all get on the same page, then we can share the cost."

In fact, it was this quest for standardization that enabled the coalition to win the support of several Kansas City-area health plans, he said.

So far, three of the plans have agreed to participate in a pilot project implementing the objectives with five separate employer groups beginning this summer, according to Mr. Brown, who declined to identify the participants until the contracts have been finalized.

The objectives, outlined in a 90-page, two-part guidebook, also may serve as an alternative to state and federal proposals to mandate similar health care quality measurements legislatively, Mr. Brown suggested.

"There's no need for 50 different systems," he said, pointing to such moves as a recent proposal by the Missouri Legislature to require health plans to participate in a statewide data reporting program similar to the NCQA's HEDIS project.

That proposal, dubbed "MOHIS" for Missouri Health Information Set, died in committee last month.

Besides attempting to standardize HMO data reporting, the coalition's guidebook directs employers and health plans to work together on developing preventive health strategies and programs, many of which the NCQA has identified as worthwhile.

In fact, it was the HEDIS project that helped the coalition prioritize preventive health areas that produce the greatest benefit in terms of total cost, improved outcomes of care and higher employee satisfaction and productivity in the workplace, according to Mr. Brown.

"The employers, when they get that focus,

can do so many things in the workplace," such as offering incentives to encourage employee participation in periodic health exams, health risk appraisals, screenings and tests, he said.

As part of its wellness objective, the guidebook also offers suggestions for improving occupational health and safety, drawing from recommendations made by the Centers for Disease Control and Prevention in Atlanta.

This was an effort to get the health plans more involved with wellness and injury prevention programs usually provided to employers by unrelated outside vendors, Mr. Brown explained.

"This approach is an effort to bring the parties together to talk about a plan," he said.

**'It's nice to see they took a multi-employer approach. If we can all get on the same page, then we can share the cost,' consultant Tim Beck says of the guidebook.**

"You need a game plan that takes you along a track that you both are monitoring."

The coalition thinks such coordination will not only improve employees' overall health quality, but reduce workers compensation claims as well.

"The focus is truly on the employee and recognizes that the employee doesn't just punch out at 5 o'clock," observed Mr. Beck of Buck Consultants.

"This is the beginning of a truly integrated approach," he said.

Ultimately, the coalition hopes such coordination will cut health care costs across the board.

"The employer could expect that HMO management would be prepared to reduce its rate to the employer if lower utilization rates occur and the employer makes greater use of wellness promotion and illness prevention programs in the worksite to slow cost levels down and improve outcomes," the guidebook states.

"Savings to the HMO should be passed on to employers under agreed-upon terms. In effect, a modified experience-rated HMO product will evolve serving as an incentive to major purchasers to establish preventive health and early treatment strategies in health benefits management," the document suggests.

Mr. Brown acknowledged it will be difficult to implement the objective that HMOs break

out each employer's experience individually. "Employers have no interest in national databases," Mr. Brown said. "They're more curious about their own workforce."

For example, rather than receiving information on the rate of an HMO's Caesarean-section deliveries or mammograms nationwide, an employer is more interested in finding out what percentage of its employees have undergone such procedures, he explained.

This objective will be difficult to achieve—few, if any, HMOs have the technology necessary to do such individualized reporting, health care industry experts warn. Because HMO physicians receive a capitated fee, there's no need for the HMO to track individual procedures.

"It's a very tall order," said Buck's Mr. Beck. "A very expensive order. One of the big problems we face is data collection. They (health plans) simply aren't set up to do this kind of data tracking."

"Plans have been good about cooperating with requests for data, but if every employer started asking for specific data, it would be overwhelming," said Dr. Christopher H. Coulter, executive director of UltraLink, a Costa Mesa, Calif.-based subsidiary of Allianz Life Insurance Co. that provides network management, consulting and administrative services to major employers.

In fact, most HMOs today are pretty much on the "honor system" when they report their HEDIS measures to the NCQA, as they don't have ready access to patient records, he said.

Because "much of the health care information is still sitting in physicians offices," the HMOs must accept each doctor's estimation of how many patients received procedures measured by HEDIS, Dr. Coulter explained.

Besides, "We've only had data from HMOs in the last 12 to 18 months," points out Armando Baez, a principal with UltraLink.

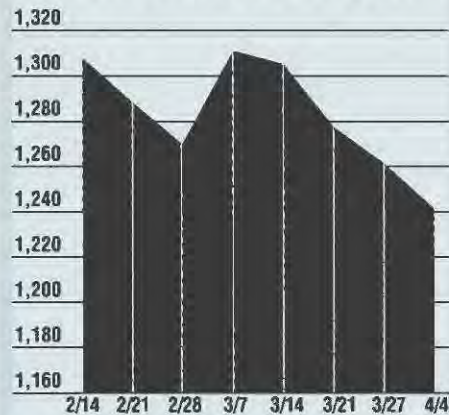
"We're at the beginning stages. At some point in the future, everything will be computerized. But for now, HMO resources are focused on other areas," he said.

But even though such data collection systems may not be in place yet, "the point is to set some goals, to give some direction," Mr. Brown insisted.

The coalition's data collection guidelines "provide a minimum level of information, and we can build on it," agreed Buck's Mr. Beck.

"You've got to start someplace," observed J. Robert Dinneen, a coalition board member and assistant vp of corporate benefits for Sprint in Westwood, Kan. **BI**

## BI Insurance Index



Base=100 on Dec. 29, 1978  
Source: Nordby International Inc.

## PCS catastrophe options

As of April 4			
Call spread	Price bid/ask	Call spread	Price bid/ask
<b>Eastern September 1997</b>			
40/60	3.1/3.9	<b>California Annual 1997</b>	
60/80	-/3	40/60	-/3.2
80/100	-/2.3	80/100	-/2
<b>National Annual 1997</b>			
80/100	4/6.5	<b>Western Annual 1997</b>	
120/140	-/E	40/60	1.5/3.2
		80/100	-/2
<b>June Midwestern 1997</b>			
10/20	1.0/1.6		

Total volume: 0 Total open interest: 11,507

For information on PCS call options, call the Chicago Board of Trade at 312-435-3674.  
Source: Chicago Board of Trade

## British Issues

April 4	Price	P/E	Div.	Yield	52 week
<b>Companies</b>	<b>pence</b>	<b>pence</b>	<b>%</b>	<b>%</b>	<b>high—low</b>
Comml Union	653	12.2	30.3	5.5	759—550
Genl Accident	808	7.8	34.3	5.3	876—613
Gdn Royal Exch	273	6.0	10.0	4.3	301—218
Independent	681	8.7	13.3	2.4	710—373
Royal & Sun	436	13.9	19.0	4.9	515—349
<b>Brokers</b>					
Bradstock	76	10.6	5.7	11.0	81—54
CE Heath	99	12.7	4.5	5.4	115—74
JIB Group	156	11.4	9.8	6.4	161—101
Lmbrt Fenchurch	105	13.6	6.4	9.0	150—101
Lloyd Thompson	197	NA	10.0	6.4	206—167
Nelson Hurst	128	NA	8.6	8.8	206—123
Sedgwick Grp	121	10.9	8.0	6.3	152—115
Steel Brl Jones	22	6.5	3.8	17.0	48—22
Willis Corroon	147	13.2	6.6	5.3	169—117

Source: Nordby International Inc.

# BI Industry Stock Report MARCH 31, 1997, THROUGH APRIL 4, 1997

### BROKERS

Company	Price	Weekly % change	Year to date % change	Year to date			
				High	Low	Vol.(000)	
Acorria Inc.	NYS	31.88	-1.92	9.91	33.75	27.25	56
E.W. Blanch Holdings Inc.	NYS	22.38	-0.56	11.18	23.25	17.75	25
Gallagher Arthur J. & Co.	NYS	31.88	-2.67	2.82	36.25	29.13	26
Hilb, Rogal & Hamilton	NYS	13.88	1.83	4.72	14.00	11.38	20
Kaye Group Inc.	NDQ	4.38	-5.41	-16.67	7.50	4.38	18
Marsh & McLennan	NYS	119.63	2.13	15.02	129.63	88.00	2336
Poe & Brown	NDQ	26.13	1.95	-1.42	27.50	22.75	61
<b>BROKERS AVERAGE</b>			-0.66	3.65			

### INSURERS/REINSURERS

ACE Ltd.	NYS	62.25	-1.97	3.53	66.38	40.50	647
Acceptance Insurance Cos.	NYS	19.00	0.66	-3.80	23.13	14.75	156
AEON N.V.	NYS	65.75	-5.73	3.95	73.63	42.25	97
Aetna Life & Casualty	NYS	86.25	-1.29	7.81	93.38	55.38	2455
AFLAC Inc.	NYS	40.00	-1.23	-8.43	44.00	28.25	1119
Allied Group Inc.	NYS	35.25	2.92	8.05	38.63	22.38	113
Allmerica Prop. & Casualty	NYS	31.25	0.00	2.88	32.25	25.00	218
Allstate Corp.	NYS	59.88	-4.01	3.46	68.25	37.38	6245
AMBAC Indemnity Corp.	NYS	65.38	-0.76	-1.51	74.00	47.00	249
American Bankers Ins.	NDQ	51.00	2.77	-0.24	59.50	32.50	555
American Financial Group	NYS	35.13	-4.42	-6.95	38.88	28.50	2052
American General	NYS	40.00	-3.32	-2.14	44.63	32.88	2338
American Heritage Life Ins.	NYS	23.88	-4.02	-9.05	27.75	19.00	43
American Indemnity/Fin'l	NDQ	13.00	-0.48	26.83	14.00	9.50	11
American International	NYS	115.25	-5.24	6.47	129.63	88.13	6797
Aon Corp.	NYS	61.88	0.00	-0.40	67.25	47.50	900
Argonaut Group	NDQ	27.50	-2.65	-10.57	34.25	27.25	31
AVEMCO Corp.	NYS	22.75	-5.70	45.80	27.38	11.75	162
Baldwin & Lyons Inc.	NDQ	17.38	0.00	-5.44	20.75	14.25	1
Berkley W.R. Corp.	NDQ	49.50	-0.75	-2.46	55.00	40.25	248
Berkshire Hathaway Inc.	NYS	36600.00	-1.88	7.33	37900.00	30000.00	1
Capital RE Corporation	NYS	41.13	-5.73	-11.80	48.00	32.50	66
CapMac Holdings Ltd.	NYS	26.00	-4.15	-21.51	36.88	23.50	64
Capsure Holdings Corp.	NYS	11.88	-2.06	3.26	18.88	8.00	62
Charwell Re	NYS	26.00	-4.59	-2.80	28.50	19.88	92
Chubb Corp.	NYS	53.13	-4.28	-1.16	62.75	40.88	4915
CIGNA Corp.	NYS	146.25	-3.15	7.04	161.63	100.75	1100
CNA Financial Corp.	NYS	102.63	-6.06	-4.09	114.75	95.75	109
EMC Insurance Group Inc.	NDQ	12.50	5.26	4.17	14.50	10.13	207
Enhance Financial Services	NYS	38.38	-1.92	5.14	39.50	26.00	186

Company	Price	Weekly % change	Year to date % change	Year to date			
				High	Low	Vol.(000)	
Everest Reinsurance	NYS	27.50	-6.78	-4.35	32.75	21.38	615
Executive Risk Inc.	NYS	44.00	-7.61	18.92	49.00	29.25	113
EXEL Ltd.	NYS	42.25	-1.46	11.55	45.13	31.75	636
Fremont General Corp.	NYS	28.00	-1.32	-9.68	32.63	21.50	215
Frontier Insurance Group	NYS	44.38	4.41	16.01	44.63	30.13	272
Gainco Inc.	NYS	9.00	-1.37	-6.49	11.75	8.75	77
GCR Holding Ltd.	NDQ	22.44	-2.45	0.84	27.25	21.50	389
General RE Corp.	NYS	154.00	-4.35	-2.38	177.75	138.75	1561
Gryphon Holdings	NDQ	14.25	-1.72	0.88	19.50	12.00	56
Guaranty National Corp.	NYS	18.25	4.29	8.96	18.38	13.50	41
Harleysville Group	NDQ	33.00	0.00	8.20	34.00	24.50	87
Hartford Steam Boiler	NYS	44.38	-1.39	-4.31	50.50	42.75	227
HCC Insurance Holdings	NYS	24.00	-2.54	0.00	32.75	19.13	435
IPC Holdings Ltd.	NDQ	23.25	-3.13	3.91	26.38	19.00	158
ITT Hartford Group	NYS	89.75	-4.45	3.33	81.00	44.50	2132
LaSalle Re Ltd.	NDQ	28.88	0.43	-1.28	29.50	19.75	317
Lincoln National	NYS	52.00	-2.58	-0.95	61.63	40.75	1890
MAIG Holdings Inc.	NYS	32.88	-4.36	-2.95	36.00	28.25	33
Markel Corp.	NDQ	108.00	0.00	20.00	113.50	78.00	24
MBA Insurance Group	NYS	94.88	-3.31	-6.30	104.63	70.13	921
Meadowbrook Insur. Group	NYS	23.00	0.00	9.52	34.13	15.25	14
Mid Ocean Ltd.	NYS	47.00	-1.83	-10.48	55.38	35.50	251
MMI Cos. Inc.	NYS	23.88	-0.52	-25.97	33.38	22.50	217
Mutual Risk Mgmt. Ltd.	NYS	35.50	-1.39	-4.05	40.00	26.88	188
NAC Re Corp.	NYS	36.00	-3.58	6.27	40.63	28.50	312
Navigators Group	NDQ	16.75	0.00	-8.22	20.25	15.75	38
Nobel Insurance Ltd.	NDQ	13.88	6.22	10.45	14.00	10.88	181
NYMagic Inc.	NYS	18.88	-1.95	4.86	21.13	17.00	37
Ohio Casualty Corp.	NDQ	38.50	-7.23	8.45	42.63	30.00	543
Old Republic Int'l	NYS	25.50	0.00	-4.67	27.75	20.13	810
Orion Capital Corp.	NYS	61.88	0.20	1.23	67.75	42.63	140
Partner Re Ltd.	NYS	34.50	-2.82	1.47	36.50	25.63	521
Penn-America Group Inc.	NDQ	11.94	-8.7	11.05	14.50	8.63	156
Philadelphia Cons. Holding	NDQ	28.50	-5.00	22.58	30.25	16.75	184
PXRE Corp.	NYS	25.38	-0.98	2.53	27.00	22.25	45
Reliance Group Holdings	NYS	10.50	-5.62	15.07	12.25	6.50	1512
Reliastar Financial Corp.	NYS	58.88	-2.68	1.95	65.38	40.00	653
RenaissanceRe Holdings Ltd.	NYS	35.38	-4.71	7.20	41.25	26.75	87
Risk Capital Holdings	NDQ	16.88	0.75	-12.90	20.75	15.88	77
RLI Corp.	NYS	31.63	-2.69	-5.24	36.63	22.38	19

Company	Price	Weekly % change	Year to date % change	Year to date			
				High	Low	Vol.(000)	
St. Paul Companies	NYS	64.13	-4.29	9.38	72.63	50.13	1203
SAFECO Corp.	NDQ	38.88	-2.81	-1.43	44.00	30.88	2522
Seibels Bruce Group	NDQ	1.81	0.00	-12.12	-3.13	1.81	72
Selective Ins. Group	NDQ	41.25	0.00	8.55	43.50	31.00	83
Sphere Drake Holdings	NYS	9.38	-2.60	5.63	11.75	8.13	78
TIG Holdings	NYS	30.75	-6.46	-9.23	38.00	27.00	1583
Titan Holdings, Inc.	NYS	16.50	-2.22	0.00	17.88	13.13	31
Tokio Marine & Fire	NDQ	50.13	-4.07	7			

# HMO

Continued from page 2

indications are cost trends will be about the same as last year," he said. Because HMOs have raised their prices, though, this means "they are better prepared."

"This year looks good because the major companies have been able to get the price increases that they need to cover medical inflation, and that's very encouraging," said Ellie Kearns, an analyst with Alex. Brown & Sons in Boston.

"We're very bullish about the outlook for our own prospects," said Greg Baird, senior vp of group sales for Woodland Hills, Calif.-based Blue Cross of California, a subsidiary of WellPoint Health Networks Inc., which reported \$202 million in net income in 1996, up 12.2% from 1995.

"I don't think we'll see deterioration," said a spokesman for Foundation Health Systems Inc. The merger between Rancho Cordova, Calif.-based Foundation Health Corp. and Woodland Hills, Calif.-based Health Systems International Inc., which led to Foundation Health Systems's creation, was completed last week (BI, Sept. 23, 1996).

Instead, the spokesman said, there will be a more stable environment for HMO earnings because the industry has been able to get at least some rate increases.

The "ultimate question" for the industry, though, is whether the rate hikes will be adequate in light of health care cost increases in some areas, said the Foundation spokesman, who noted the HMO industry has just gone through three years of generally flat or declining rates.

"People are looking at this and just wondering whether the price increases will cover the cost increases, and I think that's an open question right now," he said. "I think we'll start to see in the first-quarter earnings reports and second-quarter earnings how this

shakes out."

It may take more than a year to recover from 1996, say some observers.

"I think it'll be a rebuilding year," Michael LeConey, an analyst with National Securities Inc. in New York said of 1997.

"I think it's taking a while for them to get everything into place, to get higher prices up and sort of get things going at the rate they'd like," including gaining control of their costs, he said.

"I don't think it'll be just a dynamite year. They have a lot of work to do, and they know it," said Mr. LeConey, who added that

a lot of people have finally concluded that every day is not New Year's Eve in this industry, which seemed to be the mind-set for a while. They realize that if you are "patient and stick to your knitting, you'll get there," said Mr. LeConey.

While 1997 will be better than 1996, it could be 1998 before the HMO industry returns to good profits, said Manfred Nowacki, vp with A.M. Best Co. in Oldwick, N.J.

This year "could end up being a tough year in terms of net margins," with 1998 perhaps becoming the first time in a while that the industry "maybe gets back to some margin expansion," said Gary Frazier, managing director at Bear, Stearns & Co. in New York.

Renewal pricings were starting to improve even during the last couple of quarters of 1996, Mr. Frazier noted.

Observers say particularly outstanding results were reported by Norwalk, Conn.-based Oxford Health Plans Inc., which posted net income of \$99.6 million, up 90.1% from 1995.

Many other companies posted more disappointing earnings, some of which were due to special

charges. These included:

- Miami-based Physicians Corp. of America, which reported a net loss of \$277.7 million for the year, vs. a \$24.6 million loss in 1995.

- Los Angeles-based Maxicare Health Plans Inc., which reported \$19.4 million in net income, down 29.8% from \$27.7 million in 1995.

- Rockville, Md.-based Mid Atlantic Medical Services Inc., which reported a \$2.8 million net loss for the year vs. a \$61.1 million profit in 1995.

- Louisville, Ky.-based Humana Inc., which reported \$12 million in net income, down from \$190 million in 1995.

**'The problem was that HMOs, I think, underestimated their cost trends and, as a result, they didn't price the product properly,' says Todd Richter.**

- St. Louis-based RightCHOICE Managed Care Inc., which reported a \$2 million net loss vs. \$25.8 million in net income for 1995.

There were no surprises in fourth-quarter results, say observers.

"I think the fourth-quarter results were as expected, weaker than you might have hoped at the beginning of the year, but stronger than you might have feared at the middle of the year," said Dean Witter's Mr. Richter.

"The problem was that HMOs, I think, underestimated their cost trends and, as a result, they didn't price the product properly," Mr. Richter said.

"I don't think anybody had any kind of high hopes for the fourth quarter," said Mary O'Connell, an HMO analyst with Louis Nicaud & Associates in San Francisco.

"Management and investors pretty much acknowledged '96 was a terrible year way before the fourth quarter," Ms. O'Connell said. "Basically premiums had

been going down."

While pharmaceutical costs were a problem, "Most of it had to do with the underwriting cycle and a very competitive marketplace for premiums" that began in 1995 and continued into 1996, she said.

With a few exceptions, the HMO industry "did not have a very good year in 1996, and that was primarily due to companies trying to maintain market share or grow their business in certain geographic markets," said A.M. Best's Mr. Nowacki. "As a result there were a significant amount of HMOs chasing business, which drove premiums down, and that had a negative impact on overall profitability."

Last year "in general was a disappointing year," agreed Conning's Mr. Jamilkowski.

"Virtually every HMO, except for perhaps Oxford, had troubles with decreasing margins as a result of escalating pharmacy and outpatient costs, which were compounded by aggressive pricing in 1995."

Results were "generally lousy," said National Securities' Mr. LeConey. "I think in most cases the companies used the opportunity to write off everything in sight" with the "objective of sort of cleaning house at the end of the year."

The stocks have been doing poorly, "and they'd decided it just made sense to get everything cleaned up at year end," said Mr. LeConey.

For example, he pointed to Hooksett, N.H.-based Healthsource Inc., which reported pre-tax, non-recurring 1996 charges of \$53.4 million in connection with enhanced provider arrangements and for costs related to a restructuring of operations, including a \$40.4 million charge in the fourth quarter alone.

The HMO, whose merger with CIGNA Corp. is expected to be completed this summer, reported a 1996 loss of \$3.9 million vs. a \$56.2 million profit in 1995.

CIGNA Corp. subsidiary CHC Acquisition Corp. last week extended its tender offer for Healthsource stock from April 2 to April 30 because certain required state and federal regulatory approvals have not yet been obtained, but this is not expected to have an impact on the merger, said a spokeswoman.

Observers expect additional merger and acquisition activity. "It's probably going to slow down" though, said Best's Mr. Nowacki.

"Most of the large ones have been acquired, and in California, where a lot of the M&A activity is taking place, it's being severely scrutinized because of antitrust concerns."

But Ms. Kearns of Alex. Brown disagreed: "Consolidation is likely to continue in the field. I don't see any reason to think it will slow down. The interest in acquisition, I think, is high and will continue."

She noted that there are many potential acquisition candidates still left among private companies.

At the same time, in essence "We are now seeing both a consolidation as well as a spreading out of the market" as providers perform functions traditionally done by health insurers and HMOs, said George Karahalas, a consultant with Towers Perrin in Atlanta.

Blue Cross of California's Mr. Baird agreed competition is coming from additional sources besides other HMOs, including providers attempting to get into the business by dealing directly with employers, brokers trying to create their own programs, and employers who are forming their own purchasing alliances.

"It's a pretty interesting marketplace, and I don't see any change in this trend," Mr. Baird said. **BI**

## HMO stocks generally strong: Analysts

Larger plans looking at acquisitions have performed better than smaller plans with less capital

By JUDY GREENWALD

Larger, well-established health maintenance organizations as well as those that are likely takeover candidates are expected



to be the best stock picks among HMOs, according to analysts.

Year-to-date, HMO stocks advanced 11.68%, according to an index of eight HMO stocks tracked by *Business Insurance*. This compares to a 6.49% increase for insurance industry stocks overall and a 1.26% hike in the S&P 500.

Stock analysts include among their favorites PacifiCare Health Systems Inc., United HealthCare Corp. and Oxford Health Plans Inc.

The HMO's stock market performance this year "has been

very strong," said Todd Richter, an analyst with Dean Witter Reynolds in New York. "Stocks are not all the way back to the high set in the middle part of last year, but they're pretty close" and will continue to do well, said Mr. Richter, whose favorite stock is PacifiCare.

"I would say in general the HMOs have done relatively well," despite that health care services stocks as a group have been out of favor on Wall Street, said Ellie Kearns, a Boston-based analyst with Alex. Brown & Sons who recommends United HealthCare and Oxford Health Plans.

But, "there's definitely a tier" system, said Mark Jamilkowski, an analyst with Hartford, Conn.-based Conning & Co., discussing HMO stock performance. "You have the larger plans commonly associated with acquisition strategy. They have performed better than the small plans, which have languished with their more restrictive market expansion, limited geographic areas and perhaps less sophisticated systems and lower capital base."

For instance, companies such as PacifiCare, United Health Care, Aetna and Oxford, "clearly outperformed and continue to outperform" companies like Coventry Corp., Mid Atlantic Medical Services Inc. and Physicians Health Services Inc., Mr. Jamilkowski said.

"The stratification between the

gregate."

Their 1996 performance, Mr. Jamilkowski added, was "more an indication of how well the market performed in 1996 than the HMOs."

As for 1997, if the rest of the year follows the pattern established in the first three months, the HMOs are likely to outper-

**'I would say in general the HMOs have done relatively well,' despite that health care services stocks as a group have been out of favor on Wall Street, says Ellie Kearns.**

two groups is obvious and reflected in their stock market performance," Mr. Jamilkowski said. "The stronger companies have performed in line with the market or perhaps better... whereas these other companies have not."

"And all in all, the returns on HMOs, I think, have been at market or slightly below market ag-

form the market, said Mr. Jamilkowski.

Not everyone agrees.

"I think the stocks will only do OK with the exception of takeovers," said Michael LeConey, an analyst with National Securities Corp. in New York. "I think people have their eye on a couple of them that are clearly vulnerable" as takeover candi-

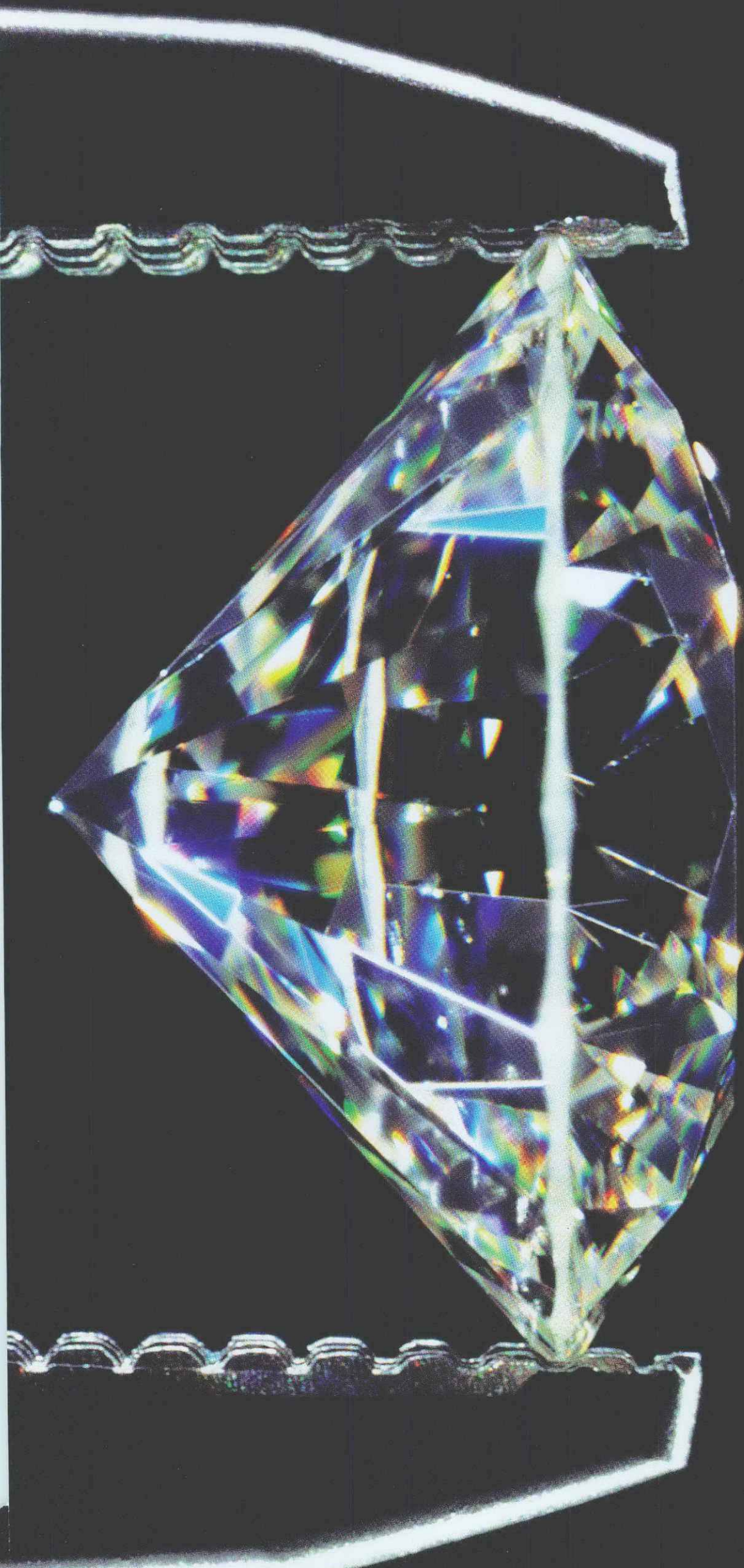
dates.

"I think the ones I would buy would tend to be ones that would be taken over," he added. "I think many companies have simply decided there's a lot more work here to do than meets the eye and if you could sell the company at a decent price go ahead and do it." Mr. LeConey said these companies include Physician Corp. of American, Coventry and Physicians Health Services.

If margins are flat this year, it does not "augur for a massive outperformance relative to the market," said Gary Frazier, managing director at Bear, Stearns & Co. in New York.

However, if, as he believes, the HMOs could do better next year, some sort of a sustainable Wall Street rally three to six months in advance can be expected.

This means the stocks could begin to get traded up in the fall or winter as people start to place their bets on margin improvements in 1998, said Mr. Frazier, who recommends United HealthCare and WellPoint Health Networks Inc.



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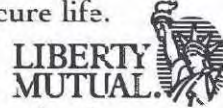


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