

# Business Insurance

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

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## Early May trial appears likely after drug settlement thrown out

CHICAGO—A May 7 trial may be the next step in class-action litigation brought by thousands of independent pharmacists against drug manufacturers after a federal judge in Chicago threw out a proposed settlement last week.

Siding with pharmacists who argued the settlement did nothing to address a two-tiered pricing system they charge is unfair to retail drugstores, U.S. District Judge Charles P. Kocoras rejected the settlement, in which 15 manufacturers would have paid

*See Updates on next page*

## Aetna, U.S. Healthcare deal to blend breadth with savvy

By JUDY GREENWALD

HARTFORD, Conn.—Aetna Life & Casualty Co.'s planned \$8.9 billion acquisition of U.S. Healthcare Inc. means employers will have access to a firm with Aetna's national reach and U.S. Healthcare's managed care skills.

With U.S. Healthcare executives dominating its managed care business, the combined company will aim to apply the smaller, more aggressive company's HMO expertise on a national scale and to continue offering Aetna's range of products, including behavioral health, vision care, dental, pharmacy and group life and disability insurance.

The companies say that after the deal Aetna will provide health services to a total of 23 million people. Enrollment in its managed care plans would be 10.3 million, including 6.5 million in health maintenance organizations and point-of-service plans, making

Aetna the nation's second-largest HMO (see chart). Another 3.8 million people would be covered by its indemnity plans.

Employee benefit managers welcome a stronger Aetna managed care operation, but are uncertain whether the deal will bring lower cost products (see story, page 22).

"From a market share perspective, this certainly puts them on the map in the health care business," commented Gloria Vogel, managing director and senior insurance analyst at Ladenburg, Thalmann & Co. Inc. in New York.

The purchase, which is expected to be completed the third quarter of this year, would be financed with \$5.3 billion in cash, \$2.7 billion in new common stock, and

\$900 million in preferred stock. Much of the money will come from Aetna's sale of its property/casualty operations to Travelers Corp. (BI, Dec. 4, 1995), which won regulatory approval April 1.

Aetna projects that combining the companies could generate within 18 months an extra \$300 million after taxes from growing HMO enrollment, cost cutting and cross-selling. Aetna said the combination would reduce operating and medical expenses, but did not say how many jobs it plans to cut.

Both boards have approved the deal, which involves the formation of a Connecticut-domiciled holding company, Aetna Inc.

U.S. Healthcare shareholders are to receive \$34.20 in cash, *See Buyout on page 21*

**Employers ask if new Aetna will cost less .....Page 21**

**Who's who in the new Aetna regime.....Page 22**

### Combining two very different companies ...



Bureaucratic  
HMOs, dental,  
vision plans  
National  
(100+ markets)  
Diffuse strategy

Management  
Products

Scope

Managed care  
performance

Customers

Founded

1995 profits

1995 revenues

Entrepreneurial  
Limited to HMOs

Concentrated  
in Northeast  
HMO specialists

Emphasizes  
smaller companies

1975 in Blue Bell, Pa.

\$381 million

\$3.5 billion

\* For Aetna Health Plans.

### ...would create the nation's No. 2 HMO

Total HMO/POS plan enrollment

1) Kaiser Permanente	6.9 million <sup>1</sup>
2) Aetna/U.S. Healthcare	6.5 million
3) Prudential	4.6 million* <sup>2</sup>
4) United Healthcare	4.5 million <sup>2</sup>
5) CIGNA	3.9 million <sup>1</sup>

\* Includes enrollment in HMO/POS plans managed. <sup>1</sup> As of March 1. <sup>2</sup> As of Dec. 31, 1995. Sources: Industry analysts, company reports.

GRAPHIC BY KIM ROME

## Crash puts focus on crisis planning

### Execs' deaths signal need for crisis management

By MARK A. HOFMANN

WASHINGTON—The deaths of a dozen U.S. business executives in a plane crash last week during a trade mission to Bosnia and Croatia underscore the need for succession planning and crisis management plans, management consultants say.

Risk managers have a key role in preparing their employers for the unexpected, say consultants. Unfortunately, executives aren't always open to discussing the possibility of their own incapacitation or death, many experts note. In addition, consultants are divided over just how much security is provided a corporation by a key-employee life insurance policy.

The U.S. executives were among the more than 30 people killed with U.S. Commerce Secretary Ronald Brown in last week's crash of a U.S. military jet as it approached the Croatian city of Dubrovnik. The U.S. executives were primarily in the engineering and high-technology fields and were attempting to tap markets in Bosnia and Croatia.

"I think these private citizens will have a very difficult time suing the United States for wrongful death *See Crash on page 4*



Mr. Brown

## L.A. subway stops at Sedgwick

By JOANNE WOJCIK

LOS ANGELES—Sedgwick James Inc. hit pay dirt by refusing to participate in rebidding for the Los Angeles subway construction project's brokerage business.

At the same time, the Los Angeles Metropolitan Transportation Authority board may have unearthed some new insurance program savings.

The MTA late last month chose Sedgwick James to be its sole brokerage on the subway construction project, even though the U.S. unit of Sedgwick Group P.L.C. had decided not to respond to the agency's request for proposals for a brokerage to handle

### MTA picks non-bidder over other brokers

all of its construction insurance needs.

The MTA had requested the new proposals after a 1995 audit by Ernst & Young L.L.P. suggested that the agency could save money by not using multiple brokerages for different lines of coverage.

At the time, the transit agency divided its brokerage business among three firms. Under a series of three-year contracts with one-year extensions, Willis Corroon Corp. had placed the project's environmental and professional liability coverages and

Johnson & Higgins had placed the rest of the insurance coverage. Sedgwick James provided administrative support services.

When Sedgwick James notified the MTA that it was not planning to respond to the RFP, the agency asked the brokerage to enter into negotiations separate from the RFP process.

Without considering any of the other bids, the MTA board awarded Sedgwick James the sole construction brokerage contract during a March 27 meeting.

MTA officials did not explain their decision at the meeting and did not return calls by *Business Insurance*.

*See Subway on page 19*

## Good news and bad at Lloyd's

### New report backs R&R plan, but not all names back report

By SARAH GODDARD

LONDON—Just as Lloyd's of London is nearing the homestretch of its ambitious reconstruction and renewal plan, the troubled insurance market continues to find obstacles in its path.

The same day that the market's run-off reinsurer Equitas Ltd. jubilantly announced it had won conditional authorization from the British government, the head of a group of litigating Lloyd's names withheld support for the market's so-called R&R plan.

Alan Porter, deputy chairman of the Lloyd's Names Assn.'s Working Party,

wrote to names March 29 saying he could not add his signature to those of Sir David Berriman, chairman of the Assn. of Lloyd's Members, and Damon de Laszlo, chairman of the Litigating Names Committee, both of whom had signed a report endorsing the R&R plan as a better option for names than putting the market into runoff.

In a letter to names, both Sir David and Mr. de Laszlo said they regretted Mr. Porter's decision, adding that his reasons for withdrawing support seemed to be "largely beyond (the report's authors') terms of reference." Sir David and Mr. de Laszlo both com-

mended the report to all names.

Mr. Porter, Sir David and Mr. de Laszlo all are members of the Validation Steering Group, which was set up to review the R&R plan on behalf of names, independently of Lloyd's. The steering group hired London law firm Slaughter & May to investigate the legal ramifications of the rescue plan compared with alternative methods of dealing with Lloyd's old-year problems.

Slaughter & May concluded that "if Lloyd's goes into runoff, we think it unlikely that any section of the Lloyd's *See Lloyd's on page 23*

## Updates

### Drug settlement thrown out

Continued from previous page

\$409 million to some 40,000 pharmacies.

He said he threw out the offer, reversing his initial position, because pharmacists persuasively testified last month that the cash payout would be beside the point if drug makers were permitted to continue their pricing practices.

He had approved the settlement in February after pre-trial proceedings in which pharmacists accused leading U.S. drug companies and drug wholesalers of giving deep discounts to HMOs, hospitals and mail-order pharmacies to ensure their brand-name products were purchased (*BI*, Feb. 19). The suit was filed under the Sherman Antitrust Act, alleging de facto price fixing across the pharmaceutical industry.

"He (Judge Kocoras) recognized that you really can't have a meaningful settlement when the condition that's being complained about isn't changed in any way," said David Melnick, a Milwaukee attorney representing the pharmacists. The settlement would have required druggists to give up their rights to sue the drug companies on pricing in the future.

The drug companies, which are tentatively scheduled to begin the trial May 7, will not have to prove the basic legality of discounting, which Judge Kocoras said is "the epitome of a competitive system." But the pharmacists are entitled to get the same discounts if they can affect the manufacturer's market share in the same way, he said.

Chances are good that a trial can be averted, Mr. Melnick said. Judge Kocoras "sent a very strong signal to all the parties that this is a very good time to settle all the issues at stake," Mr. Melnick said.

### CIGNA and Michigan to talk

LANSING, Mich.—Michigan Insurance Bureau officials are scheduled to meet CIGNA Corp. officials today to discuss the regulators' demand that CIGNA post nearly \$344.9 million in added protection for Michigan policyholders that CIGNA moved into its new runoff operation for long-tail liabilities.

John Schoonmaker, director of legal resources for the Insurance Bureau, confirmed the amount regulators are seeking and the meeting. However, he declined to comment further, explaining that regulators are "at a delicate place in the negotiations."

A CIGNA spokesman would not comment.

The additional policyholder protection would represent a significant additional financial commitment by CIGNA to the runoff operation for environmental and asbestos liabilities.

Under CIGNA's reorganization, which a group of rival insurers and policyholders is challenging in a Pennsylvania appellate court, the insurer strengthened its reserves for long-tail liabilities by more than \$1 billion last year and committed \$500 million of capital to the runoff operation. In addition, its active operations could provide the runoff entity at least \$50 million of capital generated by dividends they pay their holding company over the next several years and \$800 million of excess-of-loss reinsurance. The runoff entity could draw on those sums if its initial \$200 million surplus drops to \$25 million.

Michigan Insurance Commissioner D. Joseph Olson has expressed concerns about the adequacy of the runoff operation's reserves (*BI*, Jan. 22), though CIGNA officials contend the entity will be able to cover its long-tail liabilities three times over.

### Pension proposals expected

WASHINGTON—The Clinton administration—possibly as soon as this week—is preparing to release pension simplification legislation.

While much of the legislative package is expected to be a recycled version of earlier proposals, lobbyists say the administration may propose a ban on asset reversions from overfunded pension plans.

Such a change would undo a 1994 law that allows employers to remove surplus assets from overfunded plans and transfer the assets to special accounts to pay for retiree health care expenses, as long as the pension plan still is at least 125% funded after the reversion.

Others, though, say, the administration only will affirm its opposition to Republican efforts to expand asset reversions. President Clinton last year vetoed a budget bill in part because of a provision that would have allowed employers to remove surplus pension assets to pay for their other employee benefit programs.

### Science to judge implant harm

DALLAS—A panel of scientific experts will try to determine once and for all whether a link exists between silicone implants and disease after two New York judges issued a combined order last week.

At the same time, a Dallas jury handed implant maker Bristol-Myers Squibb Co. a victory in a lawsuit on that very issue.

Two Dallas area women, Laura Samuelson and Wendy Werner, had alleged that a variety of ailments were caused by their implants, which were manufactured by Medical Engineering Corp., a unit of Bristol-Myers. They sought \$500,000 each.

The defense asserted that so far scientific evidence has not proved any link between implants and disease.

It was this debate over the health effects of silicone that prompted federal judges Jack B. Weinstein and Harold Baer Jr. to establish a procedure for creating an expert panel to review the scientific issues involved in these suits. In a combined order, the two judges appointed a three-person panel to select scientists in such fields as toxicology and epidemiology to review all the studies to determine whether silicone implant use is linked to disease.

The order is the first move by judges nationwide to bring court-appointed scientists into the debate over implant safety.

Meanwhile, with the Dallas victory, four implant manufacturers now have won nine of their last 10 implant cases taken to a verdict.

See Updates on page 22

# Columbia deal raises questions

## Purchase of Blues plan would blur provider/insurer lines

By ROBERT KAZEL

NASHVILLE, Tenn.—Once clear-cut, the roles of health care provider and health insurer are getting blurry.

Last week, the nation's biggest hospital chain declared it intended to buy most of a large state Blue Cross & Blue Shield plan, forming an unprecedented hybrid of ambitious horizontal and vertical proportions.

The plan by Nashville, Tenn.-based Columbia/HCA Healthcare to acquire the majority of non-profit Blue Cross & Blue Shield of Ohio for \$299.5 million did not surprise many industry observers who have seen the Ohio Blues

struggling against private managed care competition in recent years. The Blues plan says it has annual revenues of \$2 billion.

But the deal, which Columbia said Blue Cross of Ohio initiated, raised the question: Can a for-profit hospital chain integrate an insurer's operations into its business without becoming estranged from managed care programs?

Under the agreement, which still must be approved by Ohio regulators and BC/BS of Ohio policyholders, Columbia will set up a new corporation and absorb most of the operations of BC/BS of Ohio, which will continue in a new role as a reinsurer and guarantor of policies written by the

Columbia-owned insurer. The Ohio Blues plan also will retain most of its national accounts and will continue to service its federal employee program. Columbia said as part of the deal it will increase the Blues plan's reserves by \$300 million. The transaction is expected to be completed by year end, and officials of both entities say the 1.5 million members of the plans will be unaffected.

The strategic partnership with Blue Cross may or may not portend future acquisitions of Blues plans in other states, said Dan Moen, president of Columbia-sponsored networks. "It's always been our strategy to make deci-

See Expansion on page 12

### Changes wrought by technology to be discussed

CHICAGO—The 1996 Harold H. Hines Jr. Memorial Symposium on May 22 will focus on how rapid advancements in technology are changing the relationships between buyers and sellers.

Speakers at the 11th symposium are: Dennis H. Chockaszian, chairman and chief executive officer of CNA Insurance Cos.; Gary R. Griffin, chairman and CEO of brokerage Summit Global Partners Inc. in Dallas; Scott K. Lange, director of risk management for Microsoft Corp. and the 1995 *Business Insurance* Risk Manager of the Year; and Alan G. Page, a director of Johnson & Higgins and its chief information officer.

The panel will address questions posed by Kathryn J. McIntyre, publisher and editorial director of *Business Insurance*, after which the audience will have the opportunity to ask questions.

The symposium honors Harold H. Hines Jr., whose career in insurance and risk management spanned three decades. At the time of his death in 1984, Mr. Hines was president and CEO of Rollins Burdick Hunter Co., now part of Aon Corp.

The event is presented by the Chicago and Northeastern Illinois Chapters of the Risk & Insurance Management Society Inc., the Insurance School of Chicago and *Business Insurance*. It is free to invited guests and will be held at the Union League Club of Chicago, 65 W. Jackson Blvd., from 3:30 to 5:15 p.m., with a reception to follow.

To request an invitation, contact the Insurance School of Chicago, 175 W. Jackson Blvd., Suite 2200, Chicago, Ill. 60604; 312-427-2550, fax: 312-427-8528. **BI**

### NCCI status as non-profit may change to gain edge

By MEG FLETCHER

ORLANDO, Fla.—The nation's largest workers compensation advisory organization is considering changing to for-profit status, a move that it hopes will enable it to better compete with other data-gathering organizations.

For the first time, two leaders of the Boca Raton, Fla.-based, non-profit National Council on Compensation Insurance last week publicly voiced their support for the change.

The ideas of streamlining and strengthening the governance of group are not new, Walter E. Farnam, outgoing chairman of its board, told 700 people late last month at the group's annual issues symposium in Orlando, Fla. He is chairman and chief executive officer of General Accident Insurance Co. of America in Philadelphia.

The 75-year-old NCCI already reorganized in July 1994 to a non-profit Florida corporation from an association mainly of workers comp insurers. According to the NCCI, it does not have a non-profit classification under the Internal Revenue Code.

It will continue the process of cutting the number of directors to 11 from 21 by the spring of 1997, he said. Insurers still dominate the board, though there are more outside members than before.

"Frankly, I believe the logical next step is for the NCCI to become a for-profit organization," Mr. Farnam said.

"That would give us greater access to capital markets and also strengthen our capability of forming external alliances," he said. "Lastly, and perhaps more important, it would maintain and enhance our ability to deliver high value to our customers."

See NCCI on page 12



### 401(k) listing deadline near

*Business Insurance* will publish its eighth annual directory of 401(k) plan administrators in the May 20 issue.

Companies that provide enrollment services, daily maintenance of participants' accounts, account manipulation and other record keeping activities are eligible to be listed.

However, to be listed, companies must offer 401(k) administration services directly to employers offering the 401(k) plans. In addition,

clients must be able to purchase administration/record keeping services on an unbundled basis—that is, without investment management services—if they so choose.

There is no charge to be listed, but 401(k) plan administrators must complete a *BI* questionnaire. To receive one, please contact Assistant Directory Editor Rich Trout at 312-649-5483. The deadline for returning questionnaires is April 12. **BI**

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- A wellness initiative is coming to TV. **PAGE 9**
- U.S. and Bermuda-based investors are buying into Lloyd's managing agencies. **PAGE 16**
- Partnership is a key to risk management, AIRMIC attendees hear. **PAGE 17**

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# Difference in ages is key to court's finding of bias

## High court ruling may increase employer exposure to ADEA suits

By SALLY ROBERTS

WASHINGTON—Employers may be more exposed to age discrimination suits after last week's U.S. Supreme Court decision allowing workers protected by the Age Discrimination in Employment Act to sue after being replaced by younger, ADEA-protected workers.

Employment law specialists say the ruling eliminates what is a defense for employers in some age discrimination suits: that the terminated employee was replaced by another worker who was over 40 years old and thus protected by the ADEA.

"Any case that broadens the statute

waters down the defense and results in more claims being brought," said Gerald L. Maatman Jr., a labor attorney at Baker & McKenzie in Chicago.

Other lawyers who represent employers, though, found a positive note in the court's ruling that the age difference between the fired employee and the replacement employee still must be significant to justify a finding of age discrimination.

The case, *O'Connor vs. Consolidated Coin Caterers Corp.*, involves James O'Connor, 56, who was replaced as manager of a vending machine company by a 40-year-old Mr. O'Connor, a 12-year veteran of the company, contends his firing violated the

ADEA, the 1967 law that generally protects those age 40 and older from employment discrimination in favor of younger workers.

In 1995, the 4th U.S. Circuit Court of Appeals upheld a trial court ruling in favor of the employer, Consolidated Coin Caterers, a Charlotte, N.C., division of Canteen Corp. The 4th Circuit said that in order to prove

age discrimination, Mr. O'Connor, among other things, had to have been replaced by someone of comparable qualifications outside the protected class (*BI*, Nov. 20, 1995).

In overruling that decision, the Supreme Court unanimously held that as long as a member of the protected class was replaced by someone "significantly" younger, it does not matter if that person is also in the class of workers protected by the ADEA.

"Because the ADEA prohibits discrimination on the basis of age and not class membership, the fact that a replacement is substantially younger than the plaintiff is a far more reliable indicator of age discrimination than is the fact that the plaintiff was replaced by someone outside the protected class," wrote Justice Antonin Scalia in the four-page ruling. The case now goes back to the 4th Circuit to decide if it should be retried in district court.

Even lawyers who represent management say the decision is sound.

"I'm sorry to see a possible defense eliminated," said Karen Ludington, a partner at Mirick, O'Connell, DeMallie & Lougee in Worcester, Mass.

However, she added, "the Supreme Court was absolutely correct that it doesn't make sense to preclude (suits

See ADEA on page 9



*'The ADEA prohibits discrimination on the basis of age and not class membership.'*

Justice Antonin Scalia

# California tort battle resumes

By ROBERTO CENICEROS

LOS ANGELES—California's tort reform battle is continuing as attorneys seek to qualify a November initiative that could expand corporate directors' and officers' exposure to shareholder suits.

The proposed initiative would allow a state court hearing of certain shareholder suits that were prohibited in federal court by the Securities Litigation Reform Act (*BI*, Jan. 8).

Another attorney-sponsored initiative already has qualified for the November ballot. The initiative would prohibit legal contingency fee caps while increasing the state bar association's power to discipline attorneys for frivolous suits.

Despite outspending their opponents and still losing on three tort reform measures on the March 26 primary ballot, a business group has plenty of

## Attorneys pursue new initiatives on November ballot

fight left in it.

The Alliance to Revitalize California, composed mostly of corporations concentrated in Silicon Valley, hopes to qualify a November initiative that would limit contingency fees on shareholder class-action lawsuits to 25% of the first \$1 million awarded, 15% on the next \$9 million, 10% on the next \$40 million and 5% on anything awarded above \$50 million.

The initiative also would cap contingency fees in tort suits so they are similar to existing limitations in California on fees for professional liability cases.

Currently, contingency fees in malpractice cases are limited to 40% of

the first \$50,000 awarded, 33% on the next \$50,000, 25% on the next \$500,000 and 15% on awards above \$600,000.

The push for the new proposals follows the defeat of the three measures on March 26 (*BI*, April 1, March 25).

Leading up to the primary, the Alliance to Revitalize California spent about \$12 million, of which about one-quarter went to qualify the three initiatives for the ballot.

The Consumer Attorneys of California, a trial attorney group that backs the new measure, put about \$10 million into its efforts to defeat the initiatives.

The group did raise the money earlier, which allowed it to buy up prime television spots, said a spokesman for the business group. "They had a much stronger presence on television, which is where these campaigns are won or lost." **BI**

# Court upholds impairment guide

By MICHAEL BRADFORD

TALLAHASSEE, Fla.—Florida can continue to use impairment guidelines in workers compensation cases after a state appeals court late last month rejected a constitutional challenge to a 1993 workers compensation law.

A three-judge panel in Florida's 1st District Court of Appeals ruled unanimously that the Florida Legislature acted within its authority in adopting the American Medical Assn.'s impairment guidelines as part of the 1993 law. The AMA guidelines, which are widely used nationwide, also have withstood challenges in other states.

Lawyers for the worker who brought the suit, Kelvin Bradley, a dishwasher at a St. Petersburg, Fla., restaurant, said they will seek state supreme court review of the case.

"Our reaction is not one of shock or surprise," said Frederick J. Daniels of the Orlando firm of Parrish & Smejkal, which represented Mr. Bradley.

"Workers comp has been around in Florida for about 60 years. No court has ever held that it's unconstitutional. Anyone who challenges the act is fighting an uphill battle."

On the other side, Eric Oxfeld, assistant general counsel with the American Insurance Assn. in Washington, said the decision "shows that attacks on the use of the AMA guidelines as unconstitutional are completely without merit."

The AIA provided technical assistance to the attorneys representing the restaurant.

In 1994, Mr. Bradley slipped at the restaurant, injuring his knee. After surgery, he was assigned an 8% impairment rating and received \$200 in benefits every two weeks.

The Hurricane Restaurant's workers comp coverage was written by Associated Industries of Florida Property & Casualty Trust, which also was named in the suit.

Although benefits were scheduled to

be reduced to \$50 per week when it was determined that Mr. Bradley had reached maximum medical improvement, he filed a petition with the state's judge of compensation claims seeking continuation of payments at \$100 per week.

Lowering the payments not only would cause financial hardship but doing so, as the impairment guidelines directed, "was an inadequate remedy in exchange for renunciation of tort rights," his complaint charged.

A workers compensation judge ordered payments to continue at \$100 per week but indicated she lacked the jurisdiction to rule on the question of whether the law provided adequate remedy.

In his appeal to the district court, Mr. Bradley claimed the statute was unconstitutional because it limited his access to the courts. He further argued, among other things, that using the impairment ratings to determine

See Florida on page 19

# New Texas rules ensure patients share savings from discounts

## Managed care regulations to protect PPO customers

By MICHAEL BRADFORD

AUSTIN, Texas—Preferred provider organizations in Texas must make sure patients also benefit from fee discounts that PPOs negotiate with health care providers under new rules adopted by the Texas Insurance Department.

The rules, which are effective June 1, are the second set of managed care regulations to come out of hearings held last year on patient protection rules at the request of Gov. George W. Bush. An initial set took effect Jan. 1.

"The latest patient protection rules make the state's managed care system better for everyone involved," said Texas Insurance Commissioner Elton Bomer. "In drafting these additional protections, we've followed the governor's original principle of maintaining quality health care while ensuring fair treatment of managed care patients and providers."

The rules are designed to prevent managed care companies from negotiating a discounted rate with providers but requiring policyholders to pay based on an undiscounted rate. That practice concerns state insurance regulators and is the subject of state and federal lawsuits across the country. Some insurers have paid millions of dollars to settle the suits.



*'The latest patient protection rules make the state's managed care system better for everyone involved.'*

Elton Bomer

Last year, a federal judge ruled for the first time that it is illegal for a health insurer, in this case Blue Cross & Blue Shield of Ohio, to negotiate proprietary discounts with providers without disclosing them to policyholders (*BI*, Sept. 11, 1995).

The Texas rules also:

- Require health maintenance organizations to allow out-of-network referrals when medically necessary services are not available inside it. Any denial, on the grounds either that the services were unnecessary or available within the network, will be reviewed by a specialist in the field.

- Prohibit providers from seeking payments from HMO enrollees beyond what is authorized in the plan description.

- Prohibit HMOs from writing contracts that would make health care providers liable for damages the HMOs cause. Previously, only PPOs were prevented from doing this.

- Permit an individual or group with an HMO plan to cancel a policy with a 30-day written notice if the HMO makes contract changes that affect benefits or services provided.

- Require HMOs to file with the department any advertising that offers coverage to Medicare beneficiaries no later than 45 days prior to its use.

The new rules are "not a big concern" to HMOs in Texas because they generally have followed those guidelines anyway, said Geoff Wurzel, executive director of the Texas Health Maintenance Organization Assn. in Austin.

He pointed out that Medicare advertising already is reviewed by the Health Care Financing Administration and HMOs are hopeful that the insurance department will be as flexible as the federal agency regarding the 45-day rule.

HCFA is able to expedite its review if an HMO requests the process be taken care of quickly to respond to market conditions, Mr. Wurzel said. "I'm not sure what the Insurance Department will do. If they stick to the 45 days, it could be problematic."

# Crash

Continued from page 1

damages," said Desmond T. Barry Jr., a managing partner with the New York law firm Condon & Forsyth and an expert on aviation law. Mr. Barry noted that while the Federal Tort Claims Act allows the U.S. government to waive sovereign immunity under certain circumstances, the act does not apply to a claim arising in a foreign country. He added that courts have interpreted this exception strictly.

He also noted that other statutes point to a congressional intent that claims for personal injury or wrongful death arising out of the activities of the U.S. military abroad be dealt with through diplomatic means or by special legislation, rather than litigation under the Federal Tort Claims Act.

The potential for similar tragedies

has grown as U.S. companies seek opportunities farther and farther from traditional markets. This places an added burden on risk management departments, say consultants.

"We make a number of recommendations to the VIPs for the need for a crisis management plan, i.e. what do you do? Who's in charge?" said Mick Donahue, president of Security Management International Inc. in Alexandria, Va., which acts as a security adviser to broker Johnson & Higgins.

Before a U.S. executive touches down in a foreign nation where there have been security risks, risk managers should make sure that adequate security measures have been taken. This could mean sending "an advance team of specialists who understand the culture and nature of circumstances in a particular country," said Mr. Donahue.

He stressed that risk management concerns go beyond traditional security questions.

"In any kind of high-risk operations, you need to have some sort of a medical plan," he said. The U.S. planner must know what medical personnel and equipment can be relied upon. This includes working with firms that specialize in airborne medical evacuation, he said.

Some problems can be headed off through traditional crisis management and planning, he said. If a disaster occurs, "people back home need to know what to say to the press and what to say to the stockholders," pointed out Mr. Donahue. There must be effective communications linking corporate headquarters and traveling executives.

As soon as word gets out that a senior executive has been killed, panic can arise both internally and externally, said Peter Benwell-Lejeune, president of Tensai Consulting Inc. of Westport, Conn.

To defuse the panic, companies must have a crisis management team

in place long before any crisis emerges, he said. The team should meet every six months or so to discuss potential crises and how to respond to them, he said.

"The first thing that you try to do as a company is think about this ahead of time," said Brant Longnecker, a partner with Deloitte & Touche L.L.P. in Houston. For example, companies should adopt a standard policy that limits the number of senior executives traveling on the same flight.

Stephen Scammell, a senior consultant with Tillinghast/Towers Perrin in Parsippany, N.J., noted that the travel arrangements must be viewed vertically as well as horizontally. Companies "should never have successive layers of management on the same plane," he said. Otherwise, an entire department's expertise could be lost in a single tragedy.

But "the hardest question has to do with the actual succession plan-

ning," said Mr. Scammell, who noted that one of the executives killed in last week's crash was from a client firm he declined to identify.

"When something like this happens, there has to be an immediate plan in place to replace the person," said Cecelia Burokas, human resources consultant with Hewitt Associates L.L.P. in Lincolnshire, Ill.

Specific people should be in place to serve as either interim or permanent replacements. She added that boards of directors are becoming increasingly active in replacement planning.

By Friday morning, several of the companies that lost top executives in the Dubrovnik crash had announced interim or permanent successors.

In traditional, hierarchical companies, the process of designating a successor can be somewhat easier than in smaller, more leader-oriented companies, said Mr. Scammell. Companies have difficulty replacing a strong leader, particularly one who has turned around a company, he said.

This is a case where European companies often have an edge over their U.S. counterparts, said Hugh Rosenbaum, a principal with Tillinghast/Towers Perrin in London.

"Organizations that have CEOs in Europe have a more military-type structure. As a result, the succession planning and people risk is better prepared than their American counterparts," he said.

Mr. Rosenbaum said that some European risk managers he spoke with said that before a trip like the Brown trade mission, a European company's top executives would have met formally or informally to discuss the risk of catastrophe. "What is even more interesting is that the chain of command might have taken the initiative and tried to discourage (the CEO) from going in the first place," he said.

But, generally in the United States, "most companies don't want to think about it," said Mr. Scammell. He said this is particularly true of companies led by strong entrepreneurs. "These are not personality types who are anxious to reach out and name their successors," he said.

"I don't think one goes around planning for a disaster, per se, though many, many companies have what they call succession planning," said Paul Buddenhagen, vp with Mercer Management Consultants in Boston. By identifying key executives and developing them as potential leaders, a company not only identifies replacements but also people likely to function as heads of new divisions or to lead acquisitions, he said.

Deloitte & Touche's Mr. Longnecker agreed, saying companies often have two or three candidates in waiting. In cases where the CEO is the founder or crucial in changing a company's direction, it also helps to have "key man" life insurance in place, he said.

"If the company is very dependent on the CEO or executives in question—in essence, they are the company—you would want to set up key-man insurance," he said. Such coverage, underwritten by life insurers, can provide the money for a signing bonus for a new CEO, he said.

"Five million dollars could serve as a real tool to motivate someone to come over to the company in question," he said.

Both Mr. Longnecker and Tillinghast's Mr. Scammell pointed out that policies generally carry limits of \$10 million or less, which Mr. Scammell said reduces the coverage's attractiveness for large companies.

"Where key-man insurance is really valuable as a risk management tool is for smaller companies" because it provides a ready source of cash at a crucial time, he said. **B**

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## Opinions

## PBGC's pleasant surprise

VIRTUALLY LOST AMID the breaking news of recent weeks is a development that would have seemed inconceivable just a few years ago: the federal Pension Benefit Guaranty Corp. is well on the way to financial recovery.

The PBGC's deficit, which had been as high as \$2.9 billion as recently as 1993, fell to \$315 million last year. If recent trends continue, the agency's single-employer insurance program, which pays benefits to participants in terminated underfunded plans that the agency has taken over, could well be in the black within a few years.

That's good news for the defined benefit plan sponsors whose premiums support the program. Instead of premiums escalating, as they have ever since the PBGC was established in 1974, they could actually be lowered, a possibility unimaginable in the early 1990s when the deficit was soaring by hundreds of millions of dollars each year.

To be sure, luck has played a role in the turnaround. A booming stock market, for instance, has boosted the value of the agency's investment portfolio.

But more than luck is involved. There is no question that the tough funding reforms Congress enacted in 1994 also made a difference. Under those reforms, employers with underfunded plans must accelerate contributions to those plans. That not only means better funded plans—and less exposure to the PBGC—it also means that employers will be more careful about increasing benefits knowing that they will have to pay for them.

Also, several agency initiatives have made big future losses unlikely. Compiling its annual list of the 50 worst-funded plans generates such bad press that some companies have improved funding just to get off it.

And a program set up to monitor employers with underfunded plans has yielded 36 major settlements,



many including increased funding. Just last week, for example, the PBGC hammered out an agreement under which Ravenswood Aluminum Co. will contribute an extra \$40 million to its underfunded plans in exchange for a Swiss company being allowed to sell off a majority interest in Ravenswood's parent company.

Those extra contributions will significantly improve the funding level of Ravenswood plans—currently the most poorly funded plans of any major private employer—and better protect the PBGC if the plans ever were terminated.

Combined, the legislative changes and agency's initiatives have helped put the agency back in the role Congress initially envisioned for it: last-resort guarantor of basic pension benefits—not dumping ground for unwanted pension liabilities.

## Letters

## Don't strike insurance for smaller manufacturers

To the editor: In the March 18 issue of *Business Insurance*, the article "No Insurance Sold for GM Strike Losses" quite rightly states that strike insurance for large manufacturing corporations is not a realistic option. But the same is not so for all corporations in the manufacturing sector.

For smaller manufacturing corporations in a unionized industry or business, strike insurance continues to be a viable way to offset the financial impact caused by strikes or the threat of strikes. Strike insurance, where it exists on a direct market basis, is, as the article notes, basically tailored by specific businesses or industry niche.

For example, United Insurance Co. Ltd. and Territorial Insurance Co. Ltd., both of Hamilton, Bermuda, have been providing strike insurance to printing and newspaper companies in the United States and Canada since the early 1960s.

Neither UIC nor TIC is a captive insurance company, yet both limit busi-

ness to printing and newspaper companies. Although there has been a drop in participation over the last 10 years, there is still significant demand for the insurance.

Over the past 35 years, UIC and TIC have paid millions of dollars in claims to printing and newspaper companies that have been struck.

Under the UIC program, there is a \$1 million per year per workplace limit of liability. Coverage is extended whether a plant is totally or partially shut down by a strike. Benefits payable are for normal net profits during the strike period.

The senior vp with Johnson & Higgins who stated that a company with strike insurance "might not give a damn whether workers walk or not" is tremendously unfair to responsible man-

agement of companies in the manufacturing sector and particularly printing and newspaper companies.

Companies don't want strikes. It is not good for employees or business. When a strike hits in the printing industry, the customer will take the product to another printer; in the newspaper business, advertisers will spend their money in another paper.

It has been the experience in the printing industry, at least, that strike insurance puts employers on an economic par with unions at the bargaining table. This has resulted in fewer strikes than otherwise might have occurred.

**J. Dennis Molloy**  
U.S. General Counsel  
United Insurance Co. Ltd.  
Washington

## Keep rate regulation checks, balances

To the editor: After reading Robert F. Rosenkoetter's position of federal regulation vs. state regulation in the March 11 article, "Federal Insurance Regs Have Advantages," I want to point out one major flaw in his position.

He advocates intrastate activity such as ratemaking. This might work for insurers that are solely licensed in one state, but regardless, rate regulation must go hand in hand with solvency regulation. If a state is relieved of solvency regulation but not rate regulation, checks and balances on using rate regu-

lation for political gain are removed.

I can already hear the campaign rhetoric of a candidate for insurance commissioner or governor that if elected, he or she will single-handedly keep rates low. But this same public official could later deny any blame for an insolvency since that was the responsibility of the federal government.

**Joseph W. Warren**  
Corporate Secretary/  
Compliance Officer  
Florists' Mutual Insurance Co.  
Edwardsville, Ill.

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# Ohio employer taking wellness to heart

By ROBERT KAZEL

COLUMBUS, Ohio—A large Ohio employer is discovering that workers raised in the video age will pay more attention to wellness information when it's delivered by television.

Columbus Public Schools is sending out programming on heart attack risk reduction to its 8,000 employees over an educational channel on cable television. The program is a live broadcast of a workshop discussing such cardiac care subjects as heart attacks and strokes, exercise, nutrition, smoking, blood pressure and stress.

"The logistics of running a corporate wellness system are so difficult just by the sheer numbers," said Sally Joslyn, a nurse with the school system and chairwoman of its corporate wellness committee. Television makes the material more accessible. Weekly broadcasts are after school and employees are encouraged to tune in for what is known as "armchair in-service."

For those who miss the shows on the air, tapes of the programs are widely distributed among the school system's 141 buildings so that staff can watch them on video cassette recorders.

The schools received materials for the cardiac wellness presentations free of charge through a program called "Heart At Work," developed by United HealthCare of Ohio in Columbus and the American Heart Assn. To date, about 20 companies in the Columbus area, one with only 60 employees, are using teaching modules developed by the program, said Susie Wood, health promotion coordinator for United HealthCare.

The HMO trains volunteers from participating companies to teach heart awareness issues. They need not have any background in health or human resources, Ms. Wood said.

These volunteers have used the materials supplied by "Heart At Work" to help introduce exercise programs, health screenings, risk assessments, and wellness newsletters, in addition to in-person workshops with groups of employees.

## ADEA

Continued from page 3  
by) someone 60 years old being replaced by someone 40 years old."

In those areas where the defense was available, more age discrimination cases will be filed, Ms. Ludington predicted.

**Although the court ruled that whether the replacement worker was in the protected class is irrelevant, the replacement worker's age still matters a great deal.**

"If people were really concerned about the 4th Circuit's standard, the standard is now out of the way" and more lawsuits will result, agreed Robin Conrad, vp of the U.S. Chamber of Commerce's litigation center in Washington. The chamber's litigation center wrote an amicus curiae brief on behalf of Consolidated Coin Caterers Corp.

"This is a good decision," she said. The 4th Circuit's decision had cre-

## Benefit Beat

### Quality guidelines

LANSING, Mich.—It wasn't an easy assignment for 12 health care purchasers and 12 providers placed together in a room for three recent meetings. Their unenviable task: come up with guidelines to encourage Lansing, Mich.-area employers to purchase health care based on quality—without alienating hospitals, doctors, consumer groups and unions in the process.

The 10-page document that resulted last month fully satisfied no one, said Frank Webster, executive director of the Capital Area Health Alliance. However, it represented a huge step forward in health care cost management for an area whose largest employers are General Motors Corp., Michigan State University and the state of Michigan. The group has 66 members, including purchasers and providers.

The guidelines, which are designed to spur employers to form insurance buying coalitions to increase their power in the regional market, took nearly a year and a half to produce, Mr. Webster said. He credits himself, a hospital administrator for 23 years, with pushing the negotiating process forward despite a high "anxiety level" among buyers and providers. In addition, the appointment of Cecil Mackey, an economist and respected former president of Michigan State, as group facilitator lent seriousness to the group's deliberations, Mr. Webster said.

"It was a very delicate balancing act," he said, "It was very hard to get it done, (but) you have to begin somewhere."

The guidelines include the following:

- Health plans, working together with employers and providers, should reduce hospital days per 1,000 individuals to below 250 days in 1996 and below 225 days in 1997. The present rate in the capital area is 309 days.

- For 1996 and beyond, providers should strive to reduce the

ated an anomaly, Ms. Conrad pointed out: a suit by a 41-year-old being replaced by a 40-year-old would be thrown out, while a suit by a 40-year-old being replaced by a 39-year-old could go to trial.

Even though the high court ruled that whether the replacement worker was in the protected class is irrelevant, the age of the replace-

ment worker still matters. Justice Scalia said that an inference of age discrimination "cannot be drawn from the replacement of one worker with another worker insignificantly younger." Justice Scalia, however, did not provide a definition of the term "significant."

*James O'Connor vs. Consolidated Coin Caterers Corp., U.S. Supreme Court; No. 95-354.*

rate of Caesarean-section deliveries to 20%.

- Hospitals and physicians should use the same reporting and monitoring system to track quality and cost data, whether this be MediQual's Atlas system or Med-Stat systems or a different method. Health plans should help support such a system through increased reimbursements.

- Hospitals and health plans should reduce hospital bed utilization by 20% over the next three years—5% in each of the next two years and 10% in the third.

A guideline spelling out how much health insurance premiums should be reduced in the future was deleted, Mr. Webster said, because "that just became too contentious."

Still, the guidelines will undoubtedly help employers in the Lansing area become more educated about the options they have in health care, he said. "What we're really trying to do is tell employers, 'Don't just sit and take your annual premium notice and pay it without asking any questions,'" he said. "What we're talking about is public accountability, for the first time."

### Health incentives

More employers are rewarding their workers for healthy behavior, and penalizing them for unhealthy habits, according to a new study by Hewitt Associates L.L.C.

An analysis of data from 923 companies found that 37% of responding companies provide incentives to, or impose disincentives on, workers in an attempt to change their lifestyles. Desired changes range from lowered blood pressure to exercise, while behavioral targets included obesity and riding a bicycle without a helmet.

The report on wellness strategies by Hewitt is the latest in a series of annual surveys that track corporate health promotion.

The proportion of companies using incentives and disincentives rose to 37% from 35% in 1994, though the upward trend appears to have leveled somewhat, compared with a jump from only 18% in 1993.

More companies are moving to this practice because employers see it as an effective way of focusing wellness tactics on partic-

ular employees—for example, those who don't use seat belts—rather than spending resources on broad-based measures such as employee education, said Camille Haltom, a Hewitt health care consultant in Lincolnshire, Ill.

"Employers are doing less in the way of delivering information in classes and workshops," she said.

Surcharges added to health premiums of workers who are smokers are by far the most common disincentive, Ms. Haltom said. Others now impose extra high "personal responsibility" deduct-

ibles on employees who demonstrate risk, such as being injured in auto accidents while not wearing a seat belt.

"These are things the employees know make sense," she said. "The employer doesn't want to be the health cop, but he wants to say to the employee, 'We'll give you the things you need for your health, but you need to share in the responsibility.'"

Copies of the Hewitt survey, "Health Promotion Initiatives/Managed Health Provided by Major U.S. Employers in 1995," are available for \$50 from Camille Haltom, Hewitt Associates, 100 Half Day Road, Lincolnshire, Ill. 60069; 847-295-5000. **B**

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# NCCI

Continued from page 2

NCCI President William D. Hager agrees with the proposed change. "I believe we need to move carefully and prudently to a for-profit format," he said in an interview.

"The NCCI is facing stiff competition everywhere in terms of its core business," he said. That includes publishing numerous statistical reports, achieving and maintaining adequate loss costs in dozens of states, successfully managing residual markets, as well as lobbying.

Under its current corporate structure, the NCCI is wholly owned by its members and offers no flexibility to participate in large, joint partnerships that would result in better products and services, he said.

Currently, the NCCI offers a wide variety of products and services, such as software for benchmarking lost-time claims from 41 states.

As a partner, the NCCI could bring to the table annual revenues of about \$130 million in 1996, up from \$125 million in 1995, Mr. Hager said.

In addition, "I think the NCCI's credibility would be helped by going for-profit," which contemplates broader ownership and a lessening of insurer influence, he said. NCCI research has been criticized as overly reflecting the views of its insurer owners.

Discussions among NCCI directors are in "a very preliminary stage" and no decision is expected

for one or two years, he said. Yet, NCCI managers have reported on aspects of the proposal at the last two quarterly board meetings.

If the board eventually agreed, it would be expected to follow an existing bylaw provision that requires the NCCI's assets to be distributed to insurer members on a pro rata basis that reflects their share of premium writings, Mr. Hager said.

Several insurance executives and regulators at the NCCI meeting had mixed reactions to the

**'I think the NCCI's credibility would be helped by going for-profit,' says William D. Hager.**

proposed change.

John W. Smithson, chairman, president and CEO of The PMA Group in Blue Bell, Pa., said, "That's fine." Competition forces all independent businesses to follow a profit incentive to determine its path, Mr. Smithson said.

Brian K. Atchinson, president of the National Assn. of Insurance Commissioners, said he would reserve judgment.

He likened the NCCI's proposal to conversions that some Blue Cross & Blue Shield plans are undergoing.

"I would simply want to be more comfortable that it (the conversion) is serving the needs of all parties and not just, if you will,

potential stockholders," who are primarily concerned with earning revenues, said Mr. Atchinson, who is superintendent of the Maine Bureau of Insurance.

William R. Berkley, chairman and CEO of W.R. Berkley Corp. in Greenwich, Conn., said the issue is not whether a non-profit or for-profit status is most appropriate. "In general, the issue is: When does an enterprise like the NCCI have so much data and so much information it is critical that it be in the public domain?"

Gary Gregg, executive vp of business markets for Boston-based Liberty Mutual Insurance Co., pointed out that quite a few competitors are emerging because the NCCI does not have an exclusive franchise on the data.

"Where it (the proposal) is going is very uncertain," added Mr. Gregg, who is a member of the NCCI board.

It remains to be seen whether other advisory organizations may follow in the NCCI's footsteps.

Converting to for-profit status is an option for the New York-based Insurance Services Office Inc. For now, though, ISO continues to operate as a non-profit organization under Section 501(c)(6) of the Internal Revenue Code.

ISO's insurer owners have made even broader changes to its governing structure than the NCCI did: ISO's board not only includes non-insurers, it is dominated by them.

As a matter of policy, an ISO spokesman would not comment on whether conversion to for-profit status or any other issue is being discussed. **BI**

## Work comp stays healthy

Last year was another healthy year for workers compensation insurance, with preliminary estimates indicating a 103% combined ratio.

"After nearly a decade of poor results, the industry began to see a turnaround in 1993, when the combined ratio fell 12 points to 109.1%. The trend continued in 1994, when the combined ratio fell even further to 101.4%. Although 1995 came in slightly higher, it is still an excellent result," reports the National Council on Compensation Insurance of Boca Raton, Fla.

Many of the system improvements took time, though better information about cost drivers in recent years has helped some 30 states to adopt laws that removed \$3 billion in annual workers comp costs since 1990.

Other measures behind the improved results included increased rates, enhanced safety measures, managed care initiatives and antifraud programs, the NCCI said.

"All of these efforts at controlling costs have even resulted in rate decreases in many states as cost trends leveled off," the NCCI said. For example, approved advisory rates and loss costs in 1995 were 3.5% lower on average than 1994 levels.

In addition, the NCCI found total workers comp premiums written by private insurers were decidedly down last year.

Preliminary 1995 estimates show an 8% drop in premiums to \$26.6 billion, down from \$28.9 billion the year before.

"This is the sharpest drop since premiums began to fall in 1992," the NCCI said. Overall, premiums are down 15% from 1991 volume.

Two programs have contributed to this drop in premium. Large-deductible policies are a major reason for the decrease, said Ron Retterath, NCCI's senior vp for actuarial services, underwriting and services.

Large deductible policies—those with deductibles of \$100,000 or more—have grown dramatically since 1989, when they began to come into use. Last year, an estimated \$8 billion in policyholder retentions under large deductible policies was recorded, the NCCI reports.

Employers and insurers both benefit from large-deductible policies. Employers save up front through reduced premiums and by managing their portions of the claim costs through loss-control measures. Insurers save on taxes and assessments as well as through policyholders' increased incentive to control losses, the NCCI said.


Self-insurance also contributed to a drop in premium volume for insurers, regardless of whether an employer self-insured individually or as a member of a group.

However, "the growth in group self-insurance may already have slowed," the NCCI said. Improvements in the traditional marketplace are attracting employers to return, especially if they face assessments to help pay a fellow-member's higher-than-expected claim costs.

Also contributing to the decline in premium volume were new state funds, mutuals and a joint underwriting association. Since 1991, eight states have established such entities, removing about \$1.3 billion in premium from the private marketplace.

Other dampening influences cited by the NCCI include the continuing movement to a service-based economy from a riskier, manufacturing-dominated one and the emergence of other workers comp alternatives, such as combined health and disability policies.

—By Meg Fletcher




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## Expansion

Continued from page 2

sions on a local basis," he said. "Right now we're focused on Ohio."

Mr. Moen called the proposed deal "a good opportunity to form an integrated delivery system with only a payer and a provider." He said that providers inevitably will join together in network alliances with insurance payers as consolidation leads to fewer hospitals and efficiency takes precedence.

"Most of our big non-profit companies already are doing it," he said.

Still, this is the first time that a Blues plan would be virtually absorbed by a for-profit provider—a gamble for both entities.

"Columbia has done this incredible job of horizontal integration, possibly better than anyone has done it," said Jay Williams, practice manager for integrated health systems at New York-based consulting firm Towers Perrin. "The next step is vertical integration. It's an aggressive organization with capital laying around, using it to control the marketplace. But when they get into (buying) payers, they will suddenly be competing with people they have contracted with."

Other consultants said that although the line between providers and payers is starting to blur, the deal may signal that new economies of scale in the health care industry ultimately could lower costs.

"All this really needs to be reviewed in terms of a changing health

care environment," said Todd Swim, health actuary and capitation practice leader at Buck Consultants Inc. in Chicago. "We all have to review the historic functions between hospitals and providers and managed care organizations—all of these have to be re-evaluated."


Columbia's deal with the Ohio Blues, far from weakening it in relation to its managed care customers, in the long run will make Columbia a stronger hospital network, said Don Gasparo, managing director of Princeton, N.J.-based Apex Management Group, a health care consulting firm.

"You've got the insurance carriers, you've got the doctors and the hospitals and each of them in the past had its own niche in the market of what it's done," he said. "Now the big winners are those who can work in partnership relative to the delivery of a strategic product."

An earlier experiment in competing in both insurance and hospitals failed when Humana Inc. exited the hospital field three years ago.

Mr. Moen, who was a Humana regional vp during its attempts at vertical expansion, distinguishes the two cases, arguing that Humana's effort was "the right strategy at the wrong time." In those days, many doctors rebelled forcefully against managed care and feared Humana's initiatives. Managed care is now so pervasive, he said, that Columbia will face fewer obstacles.

"I don't believe we'll have an exodus of our physician partners," he said. **BI**



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## For the Record

### Defense cost ruling is insurer victory

TRENTON, N.J.—Costs from government-ordered remedial investigations and feasibility studies are not defense costs and apply against the limits in a commercial general liability policy, the New Jersey Supreme Court ruled late last month.

In a victory for insurers, the court held on March 26 that such costs are presumed to be of indemnity unless the policyholder can show that the insurer would be unjustly enriched by making such an allocation.

It was the first time a state high court has considered the issue, according to the insurer-backed Insurance Environmental Litigation Assn.

In the underlying dispute, N.B. Fairclough & Son Inc., a contractor, and General Accident Insurance Co. agreed the insurer would pay defense costs and \$100,000 to cover damages from a fuel spill. The defense costs were outside policy limits. General Accident then paid \$100,000 for the studies and investigations and sought a court order that it had no further obligations.

The New Jersey Department of Environmental Protection, which pursued the case on behalf of the small contractor, argued that the costs for the studies and investigations were defense-related costs and thus the \$100,000 should not apply against policy limits.

In its 23-page ruling, the state high court rejected that characterization.

One outside insurer attorney said the court was rejecting a request for a "free ride" by policyholders.

"Insurance contracts provide defined coverage, which cannot be expanded by manipulating the characterization of expenses. Remedial investigation costs are properly viewed as indemnity costs incurred to remedy environmental harm, not as costs of defense," said Laura Foggan of Wiley, Rein & Fielding in Washington, who filed an amicus brief in the case.

*General Accident Insurance Co. of America vs. New Jersey Department of Environmental Protection, No. A-44, March 26, New Jersey Supreme Court.*

### \$15 million settlement in life insurer failure

TALLAHASSEE, Fla.—Key figures in the collapse of Guarantee Security Life Insurance Co. will pay \$15 million in cash, securities and property to settle fraud and civil theft claims filed by the Florida Department of Insurance.

The settlement, approved late last month by a Florida circuit court, calls for Mark C. Sanford, his wife Margena and brother Robert to contribute about \$8.5 million in cash, \$3 million in securities, a Fort Lauderdale condominium, an island in the Bahamas, a powerboat, seven luxury cars and a 1959 Rolls Royce.

Mr. Sanford was president and CEO of Transmark USA Inc., the now-defunct Kentucky-based holding company for Guarantee Security. He was a defendant in the lawsuit that names other former officers of the insurer and seeks a total of \$90 million.

Robert Sanford was CFO of Guarantee Security and while Margena Sanford did not work for the insurer or its parent, the suit charged that she participated in activities that led to the failure. Most of the \$15 million will come from assets owned by Mark Sanford, according

to the Insurance Department.

The Jacksonville-based insurer was found insolvent by more than \$300 million in August 1991. Earlier last month, a Florida circuit court approved a \$100 million settlement of a suit filed by the Insurance Department against Coopers & Lybrand L.L.P., Merrill Lynch & Co. Inc. and the New York law firm Shereff, Friedman, Hoffman & Goodman (BI, April 1).

### Quake rate increases get preliminary nod

MENLO PARK, Calif.—If California regulators' preliminary decisions are upheld, State Farm Group will soon be able to raise rates for earthquake coverage based on seismic hazard-model projections.

An administrative law judge recently gave preliminary approval to State Farm's requests, which were based on loss-cost analyses done with software from Risk Management Solutions Inc. of Menlo Park, Calif.

Final approval is pending resolution of two small points unrelated to the software, said a spokesman for the company.

An administrative law judge had spent 13 months reviewing oral and written testimony submitted by RMS. That scrutiny follows concerns and inquiries about the model's validity by consumer advocates and regulators in other states (BI, April 10, 1995).

### Information in brief

Salem neurosurgeon Mark A. Melgard has been appointed medical director for the **Oregon Workers' Compensation Division**. He will serve as state liaison with managed care organizations and consult the agency's staff on appropriate medical care for injured workers. . . All **California Division of Workers Compensation** rule-making will be subject to administrative law procedures designed to ensure public and insurance industry comment on proposed rules, under legislation signed into law by Gov. Pete Wilson. . . Bermuda-based **Mutual Risk Management Ltd.** has filed a registration statement with the Securities and Exchange Commission for the sale of up to 600,000 shares by a subsidiary, Mutual Indemnity Ltd., and by senior officers and directors of the company. **BI**

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## APRIL

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

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

**APRIL 17-18. Mastering New Markets: Business Opportunities in Environmental Insurance** conference in Exton, Pa., sponsored by The Center for Environmental Risk Management; \$295. The Center for Environmental Risk Management, Jacques Kakareka, 520 Eagleview Blvd., P.O. Box 6336, Exton, Pa. 19341-0636; 800-327-1414.

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

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

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

**APRIL 18. Reviewing Boiler and Machinery Coverages** program in Worcester, Mass., sponsored by the CPCU Society; \$80 for CPCU members, \$90 for non-members. The CPCU Society, 720 Providence Road, P.O. Box 3009, Malvern, Pa. 19355-0709; 800-932-CPCU.

**APRIL 18. The Second Annual Breakfast Seminar** in Chicago, sponsored by the Insurance School of Chicago and the Chicago Assn. of Insurance Women; \$35. The Insurance School of Chicago, 175 W. Jackson Blvd., Suite 2200, Chicago, Ill. 60604; 312-427-8528.

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

**APRIL 18-19. San Francisco 11th Biennial Marine Seminar, A Maritime Adventure: Avoiding Disaster** in San Francisco, sponsored by Board of Marine Underwriters of San Francisco Inc.; \$185. Board of Marine Underwriters of San Francisco Inc., 233 Sansome St., Suite 706, San Francisco, Calif. 94104; 415-782-1963.

**APRIL 18-20. Mealey's Insurance Insolvency & Reinsurance Roundtable** in Scottsdale, Ariz.; sponsored by Mealey Publications Inc.; \$925. Mealey Publications Inc., P.O. Box 446, Wayne, Pa. 19087-0446; 610-688-6566 or 800-632-5397.

**APRIL 21-26. The 34th Annual Risk & Insurance Management Society Inc. conference** in Toronto; full-week until Feb. 16. \$795 for RIMS members; \$895 for non-members; Risk & Insurance Management Society Conference Department, 655 Third Ave., New York, N.Y. 10017-5637; 212-286-9292.

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

**APRIL 23. Evaluating and Controlling Lead-Based Paint Hazards** program in Elmhurst, Ill., sponsored by the CPCU Society; \$80 for CPCU members, \$90 for non-members. The CPCU Society, 720

## Datebook

Providence Road, P.O. Box 3009, Malvern, Pa. 19355-0709; 800-932-CPCU.

**APRIL 23. 401(k) Plans From A to Z** workshop in Fort Lauderdale, Fla., sponsored by Corbel. \$235. Also April 25 in Orlando, May 21 in Philadelphia, May 23 in Syracuse, N.Y. Education Services, Corbel, P.O. Box 47720, Jacksonville, Fla. 800-326-7235.

**APRIL 23-24. The Flexible Benefits Course** in Brookfield, Wis., sponsored by the International Foundation of Employee Benefit Plans; \$510 for members, \$570 for non-members; Registrations De-

partment, IFEBP, P.O. Box 69, Brookfield, Wis. 53008-0069; 414-786-6710, ext. 257.

**APRIL 23-25. The Fundamentals of Purchasing Reinsurance Seminar** in Dallas, sponsored by the Reinsurance Management Institute at the University of Dallas; \$595. Reinsurance Management Institute, University of Dallas Station, 1345 E. Northgate Drive, Irving, Texas 75062-4799; 214-721-5360.

**APRIL 23-26. Implementing Job Modification in a Comprehensive Work Injury Management Program** in Kansas City,

Mo., sponsored by Advantage Health Systems Inc.; \$500. Advantage Health Systems, 920 Main St., Suite 700, Kansas City, Mo. 64105; 800-279-0491.

**APRIL 24. Securities Litigation Loss Prevention seminar** in Chicago, sponsored by PRMS Inc.; no charge. PRMS Inc. 3401 Enterprise Parkway, Suite 430, Beachwood, Ohio 44122; 216-766-5416.

**APRIL 24. 1996 One-Day 401(k) Program** in Indianapolis, sponsored by Pension Publications of Denver Inc.; \$225. Pension Publications of Denver Inc., P.O. Box 24127, Denver, Colo. 80244; 303-759-1004.

**APRIL 24-25. Administering an Employer's Workers' Compensation Program** seminar in East Lansing, Mich., spon-

sored by Ed Welch on Workers' Compensation; \$545. Also April 25-26 in Portland, Ore.; May 2-3 in San Francisco; May 7-8 in Minneapolis. Michigan State University's Human Resources Education and Training Center, 4990 Northwind Drive, Suite 230, East Lansing, Mich. 48823; 517-355-9591.

*The Datebook is compiled from notices sent to Business Insurance. Notices should be sent at least eight weeks in advance to Datebook, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611-2590. Please include the cost, if any, to attend the meeting and information on registration for interested readers. Business Insurance reserves the right to select meetings of most interest to its readers and cannot guarantee that notices will be printed.*

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## Exploring benefits of partnership

By SARAH GODDARD

NOTTINGHAM, England—The meaning of "partnership" depends on which partner one asks, especially when the principals are professionals in the insurance industry.

### AIRMIC

Speakers at last month's annual conference of the Assn. of Insurance & Risk Managers confidently told delegates what a partnership is not, but defining the concept proved more elusive.

### Industry players view ideal alliances for improving risk management results

Within a true partnership, the parties complement each other's strengths and weaknesses, according to Robert Heller, a management guru who delivered a keynote address. "Two or more heads truly are better than one," he said.

Mr. Heller cited as an example the current management trend of "teamworking." If members of a team are not partners, then the team will not function, he said.

Take successful teamworking a

step higher and it becomes strategic alliances between businesses, Mr. Heller added. This is where the real growth is, with the aim of building "a greater, better business," he said.

He warned, however, of pitfalls from confusing "partnerships" with "mergers and acquisitions," in which the aim often is to cut expenses by achieving economies of scale.

Mr. Heller identified two types

of partnerships, which insurance industry representatives said were illustrative of potential or existing alliances between risk managers and the industry. The two are:

- The supplier/customer partnership, where suppliers are as involved with an aspect of the customer's business as the customer's own staff. An example of this could be the "umbilical relationship" between suppliers of small auto parts and vehicle manufacturers, Mr. Heller said.

- Arrangements in which one side provides essential facilities for the other, such as using a part-

ner to broaden the geographical distribution of a brand or product. Such partners could even be rivals in other markets or products, but "competitors, even the fiercest, make excellent bedfellows where they have common interests," Mr. Heller said.

It is the partnership between policyholder and insurer that is the key to risk management, according to Dennis White, Zurich Insurance Co.'s London-based chief executive for the United Kingdom and Ireland. But, Mr. White added that "the responsibility for managing risk must reside inside the organization that owns or guards the assets or liabilities and should not be dele-

See **Partner** on next page

## Forming a battle plan for risk

By SARAH GODDARD

NOTTINGHAM, England—There are clear parallels between risk management in industry and the military, says a former top U.K. general who currently is a non-executive director of merchant bank Robert Fleming Holdings.

General Sir Peter de la Billiere, former commander of the Special Air Service Group and commander of the British forces in the Middle East during the Gulf War, has learned numerous management lessons during his distinguished military career which he shared with attendees of the Assn. of

### AIRMIC

Insurance & Risk Managers in Industry & Commerce conference last month in Nottingham, England.

Partnership is at the root of successful management, which lends control to help minimize risk, according to Sir Peter.

In 1980, terrorists from Iran took over the Iranian Embassy in central London, taking 35 hostages. At that time Sir Peter was in command of the SAS, a group of highly trained troops, which was enlisted to help free the hostages.

As in any disaster management scenario, all the people who were likely to be needed to make decisions—whether about the risk to human life, the risk to government or the risk to the coun-

### Partners, leaders are key elements, ex-general advises

try—met in an emergency headquarters, in this case the Cabinet Office Briefing Room.

Margaret Thatcher, then prime minister, delegated the task of managing the situation to then-Deputy Prime Minister William Whitelaw, but with three very clear guidelines: no terrorists were to leave the country; British law was to prevail; and negotiations were to continue as long as necessary. Furthermore, the military could only enter the embassy if two or more people had been killed.

When it became clear the terrorists were systematically killing the hostages, the SAS was given permission to storm the embassy and free it.

Sir Peter identified three risk management lessons from the siege:

- Decisions only can be made when risks are known and responsibility for them is taken.

- There must be a clear chain of command.

- Risk management measures are successful because of training, partnership and understanding—in this case accumulated over a number of years.

The Gulf War presented very different risk management problems, both political and military. Under the ban-

ner of the allied forces, 32 nations had to be brought together in partnership, uniting ethnic, religious and cultural differences.

There was the problem of deploying 650,000 non-Muslims in the heart of Islam. Communication was the key in explaining to the troops why they could not celebrate Christmas while stationed in Saudi Arabia, for example. "People down the system must know and understand the aim," said Sir Peter, as well as the logistics, politics, technology and leadership.

And there is no substitute for face-to-face communication. Whatever the latest form of electronic mail, "it does not eliminate the need to meet people over the table," he said.

Also of great importance was compatibility at the highest level—in this case between Sir Peter and General H. Norman Schwarzkopf, the commander of U.S. forces. "It only works if you can get the chemistry right," commented Sir Peter.

During his more than 40 years in the armed services, Sir Peter has identified four fundamental principles of risk management.

First, trust creates partnership. Second, a clear chain of responsibility is vital. Third, operations that seem too risky must be avoided—or "it won't be long before it all goes wrong." And finally, "if you haven't the right quality people, it doesn't matter how good your technology is, it ain't gonna work." **BI**

## Lloyd's attracts investors

By EDWIN UNSWORTH

LONDON—Foreign investors continue to line up at Lloyd's of London as two more investors buy stakes in leading Lloyd's of London's managing agencies.

Bermuda-based excess liability insurer ACE Ltd. has acquired for an undisclosed sum a 51% stake in Methuen Group Ltd., with an option to buy the remaining 49%. Methuen Group is the holding company for Methuen (Lloyd's Underwriting Agents) Ltd., a leading Lloyd's managing agency. As part of the deal, ACE has agreed to provide an additional £50 million (\$76.2 million) to help support underwriting by Methuen syndicates in 1997 and subsequent years.

Brian Duperreault, chairman of ACE, has been appointed chairman of Methuen Group.

"The Methuen acquisition provides ACE with increased access to the worldwide insurance market through Lloyd's of London," Mr. Duperreault said. He added that the two companies look forward to expanding and developing Methuen's operations.

A Methuen spokeswoman said that

### U.S. and Bermudian money buys stakes in managing agents

expansion plans include making "significant" acquisitions in the Lloyd's market in the next twelve months.

Separately, U.S. venture banking fund Warburg Pincus Ventures is acquiring a 26.7% stake in Cox Insurance Holdings P.L.C., one of Lloyd's biggest managing agencies.

Warburg Pincus' £21 million (\$32 million) investment is the largest to date by a venture capital fund in the Lloyd's market. Although it is conditional upon the formal approval of a majority of Cox shareholders, that looks like a formality since holders of 78.62% of Cox's equity already have accepted the deal.

Cox Chief Executive Michael Dawson said the increase in capital would help the managing agency to develop specialist areas of insurance in areas where it already operates, such as nuclear and other energy risks, general aviation, marine and industrial property, and take advantage of various investment oppor-

tunities at Lloyd's.

The infusion also will strengthen Cox's balance sheet and provide an increased level of dedicated underwriting capital, which will help provide stability in the future, he said.

The investment will enhance Cox's net assets per share because the 18.29 million shares are being bought by Warburg Pincus Ventures at 115 pence each (\$1.75), an increase of 9.5% over the 105 pence (\$1.63) at which Cox's shares were issued in November 1995.

Warburg Pincus Ventures is a \$2 billion Delaware-based limited partnership managed by E.M. Warburg, Pincus & Co., a general partnership of investment professionals. It has more than \$700 million invested throughout the United Kingdom and continental Europe.

Cox last week also reported operating results for the first time since its 1994 inception. For the six months ending Sept. 30, 1995, Cox made a pretax profit of £373 million (\$579.3 million), up 25% from £298 million (\$475.3 million) in its first four months ended March 31, 1995. The periods are not strictly comparable since Cox had only been operating 10 months as of Sept. 30, 1995. **BI**



AP/WIDE WORLD

German companies with better risk management standards for fire and business interruption losses soon may be rewarded with lower property insurance rates.

## German insurers offering rate cuts Incentive for loss control

By DON LEWIS KIRK

Germany's two largest commercial property insurers plan to reward buyers for good risk management with lower rates, though risk managers are taking a "wait and see" approach toward the proposed cuts.

Both Gerling Group A.G. and Allianz A.G. Holding recently said they will reduce property insurance rates for buyers with good risk management, and other German insurers are expected to follow suit.

Dietmar Nowak, a member of Gerling's executive board and newly designated head of worldwide industrial and commercial business, says his company will introduce a new rating system by July 1.

With new evaluation criteria, he said he expects average premium reductions of 10% to 15% for Gerling policyholders. Allianz plans similar rate cuts with its own system, based on evaluations of individual risks, which it hopes to launch this month.

By better distinguishing risks and applying more specific evaluation criteria, such as loss exposure in production processes and balance sheets, Mr. Nowak said Gerling will be more flexible in setting rates.

Detailing Gerling's three-tiered rating system, he said client risks will be evaluated and placed in one of six risk categories, varying by types of products manufactured. Rates will be calculated based on a sched-

See **Rating** on next page

## INTERNATIONAL

## Partner

Continued from previous page gated in full to a third party."

Nevertheless, the "owner" or "guardian" of the risk and the insurer "must work in harmony," he said. Mr. White said his concept of harmony includes data exchange, loss prevention development and minimizing balance sheet risks.

Brokers are not necessarily excluded from the relationship, said Mr. White, though he did not specifically identify brokers as in

## Business deals, yes. But insurers and policyholders in partnerships? No, says George Nixon.

"partnership" with either policyholders or insurers. Instead, he said that "other parties," like brokers, "should enter the partnership if the customer is convinced they bring value and meet the criteria listed."

However, a brokerage executive rebutted the idea that a policyholder can truly have a "partnership" with an insurer.

"To my mind, if a client is paying a premium to an insurer and getting the benefit of a policy wording, then there is a business relationship—possibly a strong one—but partnership is not possible," said George Nixon, director of the Willis Corroon Group P.L.C. in London and chairman of its European and

international operations. "The parties are on two sides of a contract with different, and possibly conflicting, objectives. There can be no true partnership in relation to the insurance contract or to any associated risk management service provided by the insurer."

However, he added, there are exceptions to this rule. For example, he cited a situation in which the insurer is using the client's distribution network, such as cross-selling relationships like those between Zurich and Swiss Bank Corp., and the French mutual insurer Les Mutuelles du Mans Assurances IARD and retailer Carrefour Group.

This relationship between insurer and client can take on partnership status because the client is not paying a premium for the policy, and the people receiving the benefit of the policy are outside the partnership, Mr. Nixon said.

Another example of insurers establishing successful partnerships with clients would include extended warranty cover sold through a client's stores or property insurance paid not by the property owner but by its tenants.

The common factor in all these exceptions, he said, is that the client is outside any insurance contract.

Mr. Nixon was more positive about the prospects for partnerships between brokers and risk managers.

However, he suggested partnerships can only happen if the broker is remunerated on a fee rather than commission basis—a trend that has been growing recently in the U.K. market.

"There is potential or perceived

conflict of interest if the broker is remunerated on commission," he said. "Advice from a broker on risk management and risk financing that reduced premiums and at the same time reduces the broker's earnings does not seem logical."

It would seem unlikely that brokers could form a successful partnership within their own industry.

But they have done just that, with the World Insurance Network (BI, Nov. 6, 1995), Mr. Nixon said. He identified four factors that are crucial to WIN's success:

- The six brokers involved have a common objective.
- They believe they can work together on the project.

- There is no conflict of interest since they all want the network to succeed.

- All the organizations involved are able to contribute to the project.

But, Messrs. Nixon and White disagreed about the possibility of partnerships between insurers and brokers.

Zurich's Mr. White referred to his company's "long-term strategic goal of building lasting partnerships with all of our customers and distributors."

But Mr. Nixon said his model of partnerships would only encompass situations in which insurers and brokers worked together on a specific program or coverage facility, such as arranging an insurance program for a trade association.

However, those partnerships can fail if any of the parties are less than committed, in which case the insurer/broker relationship falls firmly into the category of "close business relationship," he said.

According to Mr. White, the crite-

ria for any successful business partnership includes trust, dedication, good communications and an expected share of the rewards.

On the communications issue, "a dedicated partner will be prepared to tell the other party things that he/she might not be pleased to hear," said Mr. White. He admitted that the insurance industry had a poor record of communication with risk managers, creating "a serious bar to enduring partnerships." Insurers typically react in one of three ways to a problem, he said. They either increase the premium, reduce the coverage or abandon the market.

## AIRMIC's annual conference attracts 430 to Nottingham

NOTTINGHAM, England—More than 430 people attended the Assn. of Insurance & Risk Managers' 1996 annual conference, held at the University of Nottingham March 26-28.

The conference theme was "Partnerships—Mirage or Reality?" and the risk management delegates represented a broad cross-section of industry and commerce.

The risk managers were joined at the conference by brokers, lawyers, captive managers, insurance company executives and loss assessors.

AMRAE—the French risk manager association—also attended, along with the U.K. Institute of Risk Managers and British and French risk management and insurance students.

Although the people attending the conference were mainly from the United Kingdom, a number of other countries were represented, including the United States, Bermuda, South Africa, Sweden, Switzerland, France, Belgium, Ireland, Malta and Germany.

Next year's conference will be also be at the University of Nottingham, March 24-27.

For more information about the 1997 AIRMIC conference, contact AIRMIC, 6 Lloyd's Ave., London EC3N 3AX; 171-480-7610; fax: 171-702-3752.

# Climate change a threat to insurers

## Industry must address global warming, scientist says

By SARAH GODDARD

NOTTINGHAM, England—Financial services companies—including insurers—must get involved in efforts to offset global warming if they are to have any future, a scientist warns.

The insurance industry has awoken to the threat of major losses from climate change, said Jeremy Leggett, scientific director of environmental lobbyist Greenpeace International, at last month's Assn. of Insurance & Risk Managers' conference.

In the worst-case scenario, he said, global warming could lead to the insurance industry's collapse.

German reinsurer Munich Reinsurance Co. started the debate within the industry in 1990, when it published a technical study into the relationship between global warming and increased incidence of windstorms.

Since then, what Mr. Leggett described as a "growing crop of billion-dollar losses from suspiciously extreme windstorms, wildfires and floods" have helped raise insurers' concern to the level that they have become active in researching and discussing global warming.

This interest culminated at the AIRMIC conference with the U.K. publication of "Climate Change and the Financial Sector," edited by Mr. Leggett, published by Gerling Akademie, a unit of Gerling Konzern, and featuring contributions by senior executives from a number of financial institutions.

Among the insurance representatives to contribute to the book are Andrew Dlugolecki, chief manager of U.K. insurer General Accident P.L.C.; Frank Nutter, president of the Reinsurance Assn. of America; Carlos Joly, senior vp for environmental policy and investments at Norwegian insurer UNI Storebrand A/S; and Rolf Gerling, president of the Gerling Institute for Risk Research.

Along with bankers and financial analysts who also contributed to the book, the insurer executives expressed unanimous concern about human-enhanced greenhouse effects on the climate, Mr. Leggett said.

General Accident's Mr. Dlugolecki—who has been an industry leader on global warming issues—was stark in his prediction. "There is no doubt to me that weather patterns are changing. . . I am sure that climate change will speed up. I am also sure there will be major consequences for insurers. . . And I am absolutely certain

there will be long term international effects," he wrote.

Stephen Riley, managing director of Swiss Reinsurance Co. U.K. Ltd., pointed out to AIRMIC delegates that there still is no definitive answer as to whether or not the climate is changing. But, he said, "we have a duty as individuals, as businesses, to weigh up the probabilities. It is exactly the same as eating British beef!"

The natural disaster scenario that could lead to the collapse of the international insurance industry may only be a breath away.

Only two major events are needed to "cripple the industry," said Eugene Lecomte, president of the Insurance Institute for Property Loss Reduction in Boston.

Mr. Leggett described that potential situation as "a global insurance crash," which he said an increasing number of insurers accept could occur if no action is taken. If the insurance industry collapsed, he warned, there would be "substantive knock-on problems in economies as businesses and homeowners are left uninsured, unemployment rippling outward. . . and severe strains on federal budgets as the expectation arises that government must step in."

Both the scale and frequency of natural catastrophes are increasing dramatically, said Swiss Re's Mr. Riley. However, insurers still need a greater understanding of the natural hazards they face, with efforts devoted to measuring, quantifying and managing those risks. Over the last five years, the information available has improved considerably, he said.

Mr. Riley added it is not just insurers but all participants in the risk transfer chain who need this data—particularly since the risk is ever increasing.

Mr. Riley outlined a number of measures that insurers can take, from active recycling to lobbying governments in an effort to reduce greenhouse emissions.

And this is already happening. The number of signatories to the United Nations Environment Program's Environmental Commitment by the Insurance Industry has more than doubled from the 23 companies that originally put their names to it last November, said Greenpeace's Mr. Leggett. The commitment—signed by insurers from all areas of the world—puts climate change as a major concern of the organizations.

In addition to lobbying and divesting from industries that add to the greenhouse emissions problem, the financial services sector can also help build "clean energy" technologies like solar power, he said. BI

# Rating

Continued from previous page  
ule the insurer is preparing.

Lastly, Gerling staff will conduct onsite inspections to evaluate client work processes, including production procedures, to pinpoint possible loss exposures.

"By identifying potential production bottlenecks, we have an exact picture of the possible effects of a claim on business interruption," Mr. Nowak said.

Gerling hopes to distinguish itself from competitors by strongly focusing on improving safety and risk management systems. "If our policyholders do a lot for their risk management, we'll do a lot for better rates," Mr. Nowak said. Companies with risk management departments and specially trained staff may get rate cuts of up to 25%, he said.

Manfred Illner, a member of Allianz's management board, said he expects German property insurance rates to drop 15% overall in 1996. Last year, Munich-based Allianz abandoned the general German industrial fire insurance tariff, which added fuel to a continuing price war (BI, July 7, 1995).

Allianz plans to launch its own rating system in April with more emphasis on less tangible risk factors like a policyholder's knowledge of safety management, he said. Allianz will expand its staff of engineers to evaluate risks on a more individual basis. The insurer would not elaborate on its new rating system.

Germany's competitive market for industrial property insurance has led to rate reductions of up to 40% in some cases, which makes no sense, said Gerling's Mr. Nowak. "Fire insurers continue to take losses. The reaction of some market players is crazy."

Gerling's rating system may

The recent disagreement between U.K. insurers and risk managers over employers liability coverage is a good example of this process in action—the line of coverage has been losing money for insurers for some time, but the situation continues to deteriorate as awards increase.

However, the coverage remains a legal requirement for employers. "It would suggest that both sides have a problem and that the answer is to sit down together to discuss and come up with a solution rather than either side taking an adversarial (position) which creates no solution at all," Mr. White said. BI

mean lower premium volume in the future but fewer losses, Mr. Nowak said. "The risks we will keep will be better risks. We will be saying no to poor risks. That's the only way to remain profitable."

German risk managers, however, are viewing the insurers' rating plans with skepticism.

Announcements alone are no proof that the changes really will benefit clients, said Wolfram Rohde-Liebenau, risk manager of Siemens A.G. "I cannot see anything yet that really benefits buyers," he said. "Insurers will have to go their own way, especially in business interruption, if they want to improve the system. An absolutely new response to good risk management has yet to come."

"Too little is known about their practical application," Karl-Heinz Jaeger, director of BASF A.G.'s insurance division, said of the lower property rating scheme.

To really effect change, new rating systems must be more than words, he said. "If insurers really want to change something, they should offer genuine discounts for companies like ours willing to retain more risk themselves."

Its strategy of more selective underwriting helped Gerling to improve underwriting profits by more than 10 million DM (\$7 million) in 1995, despite a 3.6% drop in premium volume to 483 million DM (\$336.2 million) from 501 million DM (\$323.3 million) in 1994.

With an 11% market share, Gerling is the second-largest German commercial insurer after Allianz.

"We have been accused of lacking flexibility in the past," Mr. Nowak said. "A rigid rating system led to indiscriminate pricing and conditions, but with an appropriate deductible and efficient safety management, we are saying clients can expect good insurance protection of an international standard with equitable conditions." BI

# The Professional Marketplace

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**REQUEST FOR PROPOSALS**

**REQUEST FOR PROPOSALS # 96-140**

**PROVIDE MANAGED CARE COVERAGE FOR INDIGENT RESIDENTS OF THE COUNTY**

The Board of County Commissioners of Polk County a Political Subdivision of the State of Florida herein referred to as the BoCC shall consider proposals for providing managed care coverage for indigent residents of the County. The RFP process is a unique exercise, since few counties in the United States enroll its indigent populations in an established health plan. The BoCC seeks to find the partner who can best support indigent care and improve the health status of County residents. Proposal may be obtained by contacting the Polk County Purchasing Division at (941) 534-0300. Each Proposal shall include one original set marked original and nine copies with each set marked copy. Proposal submission shall be complete and provide a written response with the restatement of each question. Proposals will not be considered unless all requirements in RFP are complied with as completely as possible or practicable. Proposals are due no later than 5:00 pm, May 14, 1996 and shall be submitted to the Polk County Purchasing Division, 2470 Clower Lane, Bartow, FL 33830. Proposal not submitted at the time and date specified will not be opened and will be returned to sender. All questions and clarifications shall be submitted to Leanna Ampola, Associates, A. Foster Higgins & Co., Inc., 191 Peachtree Street, N.E., Suite 3210, Atlanta, GA 30303-1765. (404) 586-1743. There is a scheduled pre-proposal conference scheduled April 11, at 1:00 pm. The conference is located in Room 413, 4th floor of the County Administration Building, 330 West Church Street, Bartow, FL. All proposers are encouraged to attend.

**HELP WANTED**

**Director of Marketing**

Trigon Administrators, Inc., a regional TPA, currently has an excellent opportunity for a Director of Marketing to work at our office headquarters in Richmond.

You will be primarily responsible for coordinating the sales and marketing efforts, as well as, renewals and pricing. In addition, you will be involved with account management, budgeting and project management. To qualify, you should have a bachelor's degree in Business or equivalent work experience, MBA desirable. Requires 2 years of risk management experience and 3-5 years of account executive and sales management experience. Excellent interpersonal, written and verbal communication, and negotiating skills are required.

We offer a competitive compensation and benefits package. For immediate consideration, please send your resume in confidence to Dept. LWR-96-0000201, Trigon Administrators, Inc. 2221 Edward Holland Drive, Richmond, VA 23230. All resumes must be received by Friday, April 19, 1996. An Equal Opportunity Employer M/F/D/V. Trigon promotes a drug free workplace.

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

Charles Warne,  
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Greenville, SC 29608.

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**REQUEST FOR PROPOSALS**

**NEW YORK CITY HOUSING AUTHORITY**

**PUBLIC NOTICE**

**—INVITATION FOR BID—**

**Primary/Excess Property and Boiler & Machinery Insurance**

The NEW YORK CITY HOUSING AUTHORITY ("NYCHA") requests Proposals from qualified **INSURANCE CARRIERS** for Primary/Excess Property and Boiler & Machinery Insurance coverages.

Carriers must be licensed in N.Y. State with an "A.M. Best" rating of at least "A-" and a financial size category of at least class "X".

Coverages are to become effective June 30, 1996.

Proposals shall be made in the format included in the Invitation For Bid packet containing instructions, specification and detailed submission requirements. Packets may only be obtained from NYCHA's **Property Insurance Consultant: Alexander & Alexander, 1185 Avenue of the Americas, 34th Floor, New York, NY 10036.** In order to be eligible, completed proposals must be received by **4:30PM on May 15, 1996.**

All inquiries for information regarding the Invitation For Bid are to be directed, in writing, to Andrew D. Loughrane, Senior Vice President, Director Real Estate Practice, Alexander & Alexander, at the aforementioned address.

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Rubén Franco, Chairman, NYCHA

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**HELP WANTED**

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**HELP WANTED**

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See You At RIMS in Toronto April 21-24!

**LEGAL NOTICE**

**LEGAL NOTICE**

**IN THE MATTER OF THE ACQUISITION OF ELECTRIC INSURANCE COMPANY NOTICE OF HEARING**

Pursuant to Massachusetts General Laws, Chapter 175, Section 206B, an application has been made to the Massachusetts Commissioner of Insurance by the General Electric Company, a New York corporation ("General Electric"), and General Electric Capital Assurance Company, a Delaware corporation ("GECA"), for approval of a proposal to acquire control of Electric Insurance Company, a Massachusetts stock property/casualty insurance company ("EIC"). Approximately two-thirds of EIC's business consists of commercial lines insurance written for General Electric and its affiliates. General Electric proposes to purchase all of the common stock of EIC from the Wilmington Trust Company, as Trustee of a trust the beneficiary of which is Electric Mutual Liability Insurance Company, Ltd., a Bermuda mutual insurance company in provisional liquidation pursuant to an order of the Supreme Court of Bermuda. Upon the closing of this proposed acquisition, General Electric will make a capital contribution of the stock to its wholly-owned indirect subsidiary GECA. Information about the proposed acquisition of control is available for public inspection at the Division of Insurance, 6th Floor, 470 Atlantic Avenue, Boston, Massachusetts 02210 under Docket No. F96-2.

The Commissioner will conduct a public hearing pursuant to Massachusetts General Laws Chapter 175, Section 206B, to determine whether to approve the proposed acquisition of control. The hearing will commence on May 7, 1996 at 10:00 a.m. at the Division of Insurance, Hearing Room A, 470 Atlantic Avenue, Boston, Massachusetts 02210.

The purpose of this hearing is to afford all persons whose interests may be affected by the acquisition of control to present evidence, examine and cross-examine witnesses and offer oral and written arguments and in connection therewith to conduct discovery proceedings in the same manner as in the superior court department of the trial court. All discovery proceedings shall be concluded no later than 3 days prior to the commencement of the public hearing.

Any person who wishes to testify or to participate in the hearing in any manner may do so by submitting a Notice of Intent to Participate, specifying whether he or she intends to make an oral statement, present evidence or to cross-examine, to the Division on or before April 30, 1996. All other persons will be heard subsequent to those who submit such notice. Written argument may be submitted at any time prior to the conclusion of the hearing. All submissions must be sent to the Docket Clerk, Ms. Jennie Coax, at the Division of Insurance, 470 Atlantic Avenue, Boston, MA 02210 and must refer to Docket No. F96-2.

# Subway

Continued from page 1  
Rumors, later denied by Sedgwick James officials, were circulating recently that Lloyd's of London syndicates might have threatened to withdraw from writing excess liability insurance and reinsurance on the project if the brokerage had been dropped.

MTA Chief Executive Officer Joe Drew did say that there were related "legal concerns" about switching brokerages in the midst of the \$1 billion class-action law-

**The MTA saves \$566,000 in fees under the contract, which pays the broker \$5,024,416 over three years.**

suit that was filed by Hollywood business and property owners last year.

As for Sedgwick, a spokesmar said, "As the broker for the majority of public rapid transit projects built in the U.S. since World War II, Sedgwick is pleased to be working with the MTA."

Neither Willis Corroon nor J&H would comment on their lost portions of the MTA business. Other area brokers planning to bid on the contract, though, criticized the MTA decision.

"I urge you to finish the (RFP)

process," said Ken Caldwell, vp of the construction services unit of Rollins Hudig Hall of Southern California Inc., at the March 27 MTA board meeting.

"The insurance community has spent \$1 million responding to the RFP," he said. "You owe us an explanation of why you're doing this."

Any brokerage would have its work cut out for it on the subway project.

The project's primary CGL insurer, Argonaut Insurance Co., will not renew on June 30. The loss of the insurance company comes as liability claims pile up in response to property damage caused by tunneling through the Hollywood Hills (BI, Nov. 21, 1994).

Meanwhile, the subway project is still without a risk manager, since Abdoul Sesay resigned last summer after an investigation into MTA corruption found he had accepted bribes from a New York-based insurance consultant (BI, July 31, 1995). Mr. Sesay, who had held the post since 1990, is scheduled to be sentenced later this month.

The consultant, John McAllister, president of McAllister & Associates in New York, was indicted Feb. 28 for making the payments to Mr. Sesay.

The investigation into the MTA project is continuing, according to the U.S. Attorney's Office.

While Sedgwick currently is looking to replace the Argonaut coverage, it also is reviewing all



Claims stemming from problems during the construction phase of the Los Angeles Metropolitan Transportation Authority's subway line are partly responsible for changes in the MTA's insurance program.

aspects of the insurance program and may make an alternative recommendation, said V. Wallace Ryland, president of Sedgwick's Dallas-based construction services division.

Transit agency officials attribute Argonaut's withdrawal as the project's primary liability insurer to rising legal fees and a deteriorating relationship between the two sides (BI, Feb. 12, 1996). Argonaut officials were unavailable for comment.

The insurer and the MTA, which faces an abundance of lawsuits over property damage (BI, Nov. 11, 1994; April 3, 1995), disagreed over whether to treat the subway tunneling damage along Hollywood Boulevard as a single "occurrence."

Argonaut had asked the MTA to raise its self-insured retention to \$1 million from \$500,000 per occurrence.

The MTA has \$2.5 million in primary CGL limits from Argonaut and about \$98 million in excess coverage from Lloyd's of London and London market underwriters. MTA officials say they are confident they can maintain a working relationship with Lloyd's.

Six owner-controlled insurance programs, similar to "wrap-ups," collectively provide \$100 million in general liability coverage, \$60 million in design professionals errors and omissions coverage and \$20 million in pollution liability coverage to the hundreds of contractors connected with the 30-

year, \$200 billion public works project.

Premiums for the coverages, which attach above a \$500,000 self-insured retention, total about \$50 million.

Just as Ernst & Young predicted, the MTA will save \$566,000 in fees under the new contract, which pays Sedgwick James \$5,024,416 over the first three years.

The brokerage contract will run through subway project completion, which will not be until sometime after the year 2000.

Meanwhile, the construction insurance portion of the RFP has been withdrawn, though brokers can still bid on placing insurance coverage for the MTA bus and rail operating activities. **BI**

## Markets

### TPA firm buyout

SAN DIEGO—Swiss Re America Holding Corp. and Thomas Howell Group have sold their Gay & Taylor Inc. and Ward-THG Division claims management and adjusting entities to a new company, Ward-THG Inc.

The primary shareholders of the new company are Jeffrey Ward and two investment funds managed by Hartford, Conn.-based Conning & Co., Conning Insurance Capital L.P. III and Conning Insurance Capital International Partnership III L.P.

Ward-THG provides third-party adjusting, property and casualty field adjusting and catastrophe support to insurers, captives and self-insurers. Headquartered in San Diego, the new company plans to aggressively expand its 125-office network through acquisition of local and regional adjusting firms.

Mr. Ward, who headed the management buyout, is president and chief executive officer of the combined operation. He said the purchase price exceeded \$10 million.

Conning & Co. manages private

equity funds for investment in middle-market insurance companies and insurance services businesses.

### Gallagher acquisition

ITASCA, Ill.—Arthur J. Gallagher & Co. has acquired Los Angeles-based insurance agency The Levitt/Kristan Co.

Levitt/Kristan's 24-employee staff will operate as a division of Arthur J. Gallagher Insurance Brokers of California Inc., under Dennis Kristan and Dominic Ornato.

Headquartered in Itasca, Ill., Gallagher has 149 offices in five countries. Terms of the recent transaction were not disclosed.

### Liberty unit in Belfast

BELFAST, Northern Ireland—A new Liberty Mutual Insurance Co. division provides occupational health and safety consulting and training services to companies and government departments, as well as to multinationals operating in Northern Ireland.

Tony Loudon is the manager of

Liberty Risk Services-Northern Ireland in Belfast.

Its office is located at 58 Howard Street, Belfast, BT1 6PJ. The telephone/fax number is 01-23-231-5866.

### McLarens Toplis

CHICAGO—Effective May 1, Toplis & Harding Inc. and London-based McLarens Loss Adjusters will trade worldwide as McLarens Toplis.

Chicago-based adjuster Toplis & Harding will change its name to McLarens Toplis North America Inc. The two companies had formed an international adjusting joint venture known as McLarens Toplis Inc. in 1994.

### New Pru trade name

ROSELAND, N.J.—The Prudential Insurance Co. of America has renamed its health and employee benefits business Prudential HealthCare.

The new name will serve as the brand name for all of Prudential's health and employee benefits products, including its health maintenance organization, point-of-service and preferred provider plans, as well as dental care, group life and disability management services. **BI**

## Florida

Continued from page 3  
benefits was unreasonable because it "has no relation to the claimant's actual disability or wage loss."

The court rejected those arguments, saying the law does not limit access to the court and "remains a reasonable alternative to tort litigation. It provides injured workers with full medical care and benefits for disability and permanent impairment regardless of fault, without the delay and uncertainty of tort litigation."

In response to the argument that impairment benefits based on the AMA guidelines bear no rela-

tion to actual disability or wage loss, the court stated: "Physical impairment is one accepted criterion for measuring benefits, and it was within the Legislature's discretion to utilize this standard."

Workers comp authorities in most states endorse the use of the AMA's "Guides to the Evaluation of Permanent Impairment" as a key component in calculating a worker's permanent partial disability benefits.

Experts view using such disability evaluation guidelines as a way to reduce litigation, because the guide-related component of an injured worker's disability rating is supposed to be objective.

In New Mexico, the state Supreme Court late last year agreed

to hear a challenge to the constitutionality of the AMA guidelines, which the state adopted as part of 1990 reforms (BI, Dec. 4, 1995). The case is still pending.

The impairment ratings also were challenged as part of Texas' workers comp reforms.

Although the ratings were among features of the law found unconstitutional by a state appellate court (BI, Aug. 23, 1993), the law was upheld last year by that state's highest court (BI, Feb. 13, 1995).

*Kelvin Bradley vs. The Hurricane Restaurant and Associated Industries of Florida Property & Casualty Trust, 1st District Court of Appeal; No. 94-3795.*

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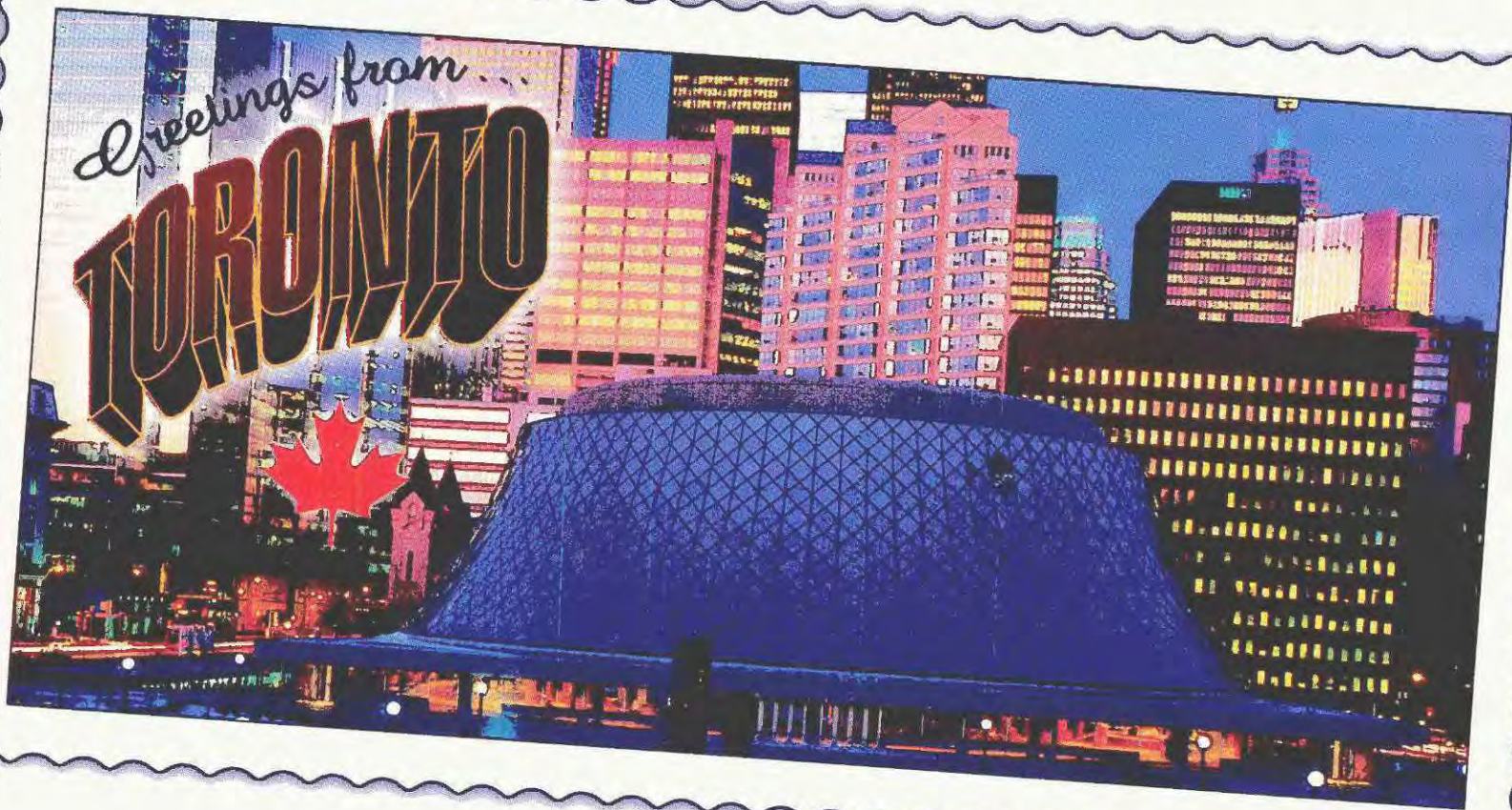
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# Buyout

Continued from page 1

0.2246 shares of Aetna Inc. common stock and 0.0749 shares of Aetna Inc. mandatorily convertible preferred stock for each U.S. Healthcare share.

At the closing prices immediately before the deal was announced—\$45.88 for U.S. Healthcare and \$75.50 for Aetna—U.S. Healthcare shareholders would get a value of about \$57 for each share, or a 24% premium. Each share of Aetna Life & Casualty stock would become a share of Aetna Inc. stock.

Aetna Life & Casualty shareholders would own 78% of the combined company and U.S. Healthcare shareholders 22%. Leonard Abramson, the chief executive and founder of U.S. Healthcare, would become Aetna Inc.'s biggest shareholder.

Aetna Life & Casualty and U.S. Healthcare would retain their names and operate as units of Aetna Inc. Aetna Chairman and CEO Ronald E. Compton would keep those posts at the holding company.

But it is U.S. Healthcare executives who would be the primary leaders in the managed care business. Michael J. Cardillo and Joseph T. Sebastianelli, now co-presidents of U.S. Healthcare, would hold the same positions at Aetna Inc.

James W. McLane, chief executive officer of Aetna Health Plans, plans to leave the company soon, which may indicate how committed Aetna is to having U.S. Healthcare officials run the show.

While Aetna offers a wide array of products, U.S. Healthcare concentrates on HMOs. Both companies are considered strong in the Northeast, although Aetna, which focuses on national account business, operates in more than 100 markets nationwide. U.S. Healthcare customers tend to be smaller businesses and are concentrated in Pennsylvania, New Jersey and New York.

Combined, Aetna said, the companies will rank as one of the top three providers of managed care plans—HMOs, PPOs and point-of-service plans—in 13 states: Connecticut, Delaware, Georgia, Louisiana, New Jersey, New York, North Carolina, Ohio, Pennsylvania, South Carolina, Tennessee, Texas and Virginia.

Mr. Compton said that key features of the new company would include: a national presence; two strong brand names; adeptness at serving multi-site commercial customers; high-caliber medical management; outstanding retail marketing capabilities; top quality measurement and analysis; an outstanding clinical information system; geographical diversity and strong Medicare growth opportunities, along with a "dream team" of U.S. Healthcare executives to run the business.

He called the deal a "once in a lifetime" chance to create a model for exceptional care for customers and superior value for shareholders.

Market observers generally called the deal good for both companies, though some were surprised at the high price.

The whole will be greater than the sum of its parts, said John Hickey, a principal with Kwasha Lipton L.L.C. in Fort Lee, N.J.

U.S. Healthcare is very aggressive in controlling costs and "pretty aggressive" in monitoring provider performance and quality, he said. Aetna is strong in member service and in keeping participants informed and educated and has "user friendly" customer reps.

After some initial bumps in the merger road, Mr. Hickey said he expects the company to become "a very powerful, efficient player in delivering health care on behalf of plan sponsors."

U.S. Healthcare will benefit from

a wider distribution system and better access to large employers as well as Aetna's marketing and administrative expertise, said Joe Martingale, a principal with Towers Perrin in New York.

Aetna will get the expertise it needs from what is widely regarded as one of the nation's premier managed care firms, he said. Aetna and other insurers that operate in many markets find it hard to win as more employers seek out the best operation in each individual market.

This deal, though, would give Aetna "instant credibility" in all the markets in which U.S. Healthcare operates, he said, as well as its expertise in areas like contracting, control over providers, wellness and prevention programs, outreach programs and quality assessment.

"I think Aetna really brings more of an employer focus," said Steve Richter, health care practice leader for Watson Wyatt Worldwide in Los Angeles. "I think they've been more sensitive to some of the larger employers' administrative needs."

Buying U.S. Healthcare is expected to strengthen Aetna in the HMO market.

"Aetna's not considered a strong player in the managed care area, so by aligning with U.S. Healthcare, they're in a whole different game," said Allison Kalban-Gernett, a principal with Princeton, N.J.-based Apex Management Group, a health care actuarial firm.

Aetna, she said, has dabbled without significant success in PPOs, HMOs and owning its own physician practices. By contrast, U.S. Healthcare has stuck with what has worked—its gatekeeper HMO.

U.S. Healthcare's systems for tracking information and its ability to keep prices low "creates a whole new marketplace, I think, for Aetna," she said.

"I expect that Aetna will be adapting its product and its network more to the better defined, more successful model that U.S. Healthcare has been using for the last six years or so," said Ms. Kalban-Gernett.

Aetna's managed care program is "very weak" in the HMO market, said Jack Doerr, group benefits practice leader for Sedgwick Noble Lowndes in Chicago. "They'll try and shift as much of (its HMO business) as possible into existing U.S. Healthcare locations," and where there are not already locations, such as on the West Coast and in most of the Midwest, it will develop an expertise based on former U.S. Healthcare management, which is something Aetna has had a "very difficult time doing at this point."

By acquiring the sort of "leading edge application expertise" that it has lacked, Aetna could move to the forefront of managed care, said Randall K. Abbott, managing director at Alexander & Alexander Consultants in Lyndhurst, N.J.

U.S. Healthcare, for its part, has been stymied by its limited geographic scope, he said. "As more and more organizations look to national managed care solutions, they have been hard-pressed to offer solutions."

Employers could see lower prices if the deal goes through, at least in the long run (see related story).

The deal might also accelerate health care industry consolidation.

"It's bound to spark more activity," said John Ward, CEO of Cincinnati-based Ward Financial Group.

"There are other life insurance companies that are looking to make investments in the managed care business," he said. "They may or may not choose to make a big investment to follow suit, but at a minimum it will cause them to revisit their strategy just by the sheer size of the transaction."

It may also spark merger activity

among HMOs. Competitors "now have kind of an implied mandate that they're going to have to develop this regional strength as well, and the only way they could do that is acquisition," said Ken Laudan, an analyst with Hambrecht & Quist in San Francisco.

"I think if I was a competitor... I'd be a little bit intimidated by this new gorilla on the block," commented Kwasha Lipton's Mr. Hickey. He added, though, that additional mergers probably would happen anyway.

With this deal, Aetna may put it-

self in a financial position to be one of the 10 national giants that are expected to survive in health care, said Mr. Jamilkowski, an analyst at Conning & Co. in Hartford, Conn.

For all the potential benefits from the deal, U.S. Healthcare may not have been Aetna's first choice.

Many industry watchers were focusing on PacifiCare Health Systems as the expected takeover target. Buying PacifiCare would have given Aetna a significant presence in California and in the Medicare arena. Buying U.S. Healthcare does neither.

"Aetna had to move quickly to

make an acquisition, so they may have had to sacrifice some of their objectives," said Watson Wyatt's Mr. Richter.

"I believe that they may have initially entered into discussions with smaller operations, perhaps that are more geographically complementary than U.S. Healthcare," said Mr. Ward. "For a variety of reasons, those delays may not have come together and this may have been the right transaction at the right time."

Aetna does face several potential roadblocks in the deal.

See Buyout on next page

## What will deal mean to me?

Employers hope for mix of attributes, no increase in cost

By MICHAEL SCHACHNER

HARTFORD, Conn.—Aetna Life & Casualty Co.'s acquisition of U.S. Healthcare Inc. would significantly strengthen Aetna's managed care operations, but whether it will reduce the cost of the company's products remains to be seen, according to employee benefit managers who currently contract with either or both of the companies.

The deal would give Aetna greater geographic presence and cross-selling capabilities. But benefit managers are concerned that the high price tag, \$8.9 billion, will ensure that the new Aetna is not a cheaper Aetna.

"Aetna historically has been a high-priced supplier and even U.S. Healthcare recently has been surpassed by others as a low-cost supplier. A lot of money was spent here and I'm very concerned that two already expensive companies could work against the consumer to recoup their outlay," said Helen Darling, manager of health plan strategy at Xerox Corp. in Stamford, Conn.

But, Carolyn Page, director of employee benefits with Educational Testing Service in Princeton, N.J., hoped that a larger Aetna will have more clout with providers and will pass savings on to employers.

"In fact, I'm counting on it," she said, adding that a 10% reduction in self-insured point-of-service and HMO costs by 1997 would be preferable.

Since venturing into managed care in the 1980s, Aetna has regularly attempted to become a stronger player but never succeeded in breaking free from its roots as an indemnity plan insurer. But now, it may finally have done so, corporate benefits specialists said.

They predicted that with a new upper management team already in place that includes U.S. Healthcare's two co-presidents, it is likely that employers that have Aetna HMOs or preferred provider organizations or use the company's managed care network for insured or self-insured POS programs will see improvements in administrative efficiency.

"U.S. Healthcare has always been a small, lean and quick company that focuses on what customers want in a laser-like way," said Xerox's Ms. Darling. "You could see an injection of quickness into Aetna from U.S. Healthcare's management."

Conversely, employers that have been with U.S. Healthcare may find that it now acts more deliberately and responds better to customer complaints.

Employers that contract with U.S. Healthcare also are hoping the merger will result in them receiving more information about how U.S. Healthcare prices its plans. If this occurs, it likely will be spurred by current Aetna executives.

While Aetna has always openly communicated to employers where their health care dollars have gone and how much profit Aetna has made on them, with U.S. Healthcare, the story has been different. Benefit managers said they have been left in the dark about how much profit U.S. Healthcare has earned from group business and they hope that now by being part of Aetna, U.S. Healthcare will release more information.

"Don't get me wrong when I say this, because I know I've saved money with U.S. Healthcare, but their proprietary contracting and unwillingness to divulge what they do with our money has always left me not feeling ripped off but wondering just how much profit they're making on us," said Noreen Cleary, manager of health care with James River Paper Co. The Richmond, Va., company offers U.S. Healthcare's HMO and a self-insured POS plan that uses Aetna's provider network to employees in regions where those plans are available.

"I do feel like we should be let in on what they're making. Aetna has always informed me of this, but then

again, Aetna has been much bigger for us than U.S. Healthcare. The one thing that concerns me about this is that the secrecy of U.S. Healthcare will rub off on Aetna," said Ms. Cleary.

The feeling among benefit managers is that by taking on U.S. Healthcare, which is widely known to be a tightly run, well-administered, profitable managed care company, Aetna will be able to get off the managed care learning curve it's currently on and become an immediate managed care giant.

"This really shows a commitment to change. Aetna has not been real good in managed care over the past couple of years. Now they have acquired a true managed care company with products, administration and support that all work. We hope to see that flow into Aetna and we are also hoping for one combined provider network," ETS' Ms. Page said.

ETS offers employees a self-insured POS plan that uses Aetna's network and is administered by Aetna, as well as U.S. Healthcare's HMO. She said employees have

been enrolling in the HMO in greater numbers recently because of lower costs, but also because of poor administration by Aetna. "Cost is a reason, but it's not the only reason. Employees have indicated that they have grown tired of Aetna's not always efficient administration."

But, a New Hampshire-based benefit manager whose employees only sparingly use U.S. Healthcare, said a company that's very big—like Aetna Inc. would be—may actually kill competition in a given region and be able to dictate pricing to employers.

"As insurers increase in size, the competitive bidding process changes," said Diana LaChapelle, director of employee benefits with Nashua Corp. in Nashua, N.H. "Normally we bring in several companies and they bid against each other. But if one company controls an area, pricing will change, and probably negatively for employers."

Xerox's Ms. Darling agreed that Aetna's newfound size could work against employers. "We've made progress in managing costs and getting the industry accountable for quality, but it has been the employer's push that has caused that. The health care company's job is really to make money for shareholders, so we're sort of at odds here and I worry that a larger Aetna could work against the consumer."

For James River Paper, Ms. Cleary said the company will probably not be affected by the merger as much as other companies. Because about 50% of James River Paper's 25,000-person workforce is located in rural areas not serviced by Aetna or U.S. Healthcare, or any managed care company for that matter, service improvements resulting from the merger will be limited.

"Basically, we're the type of company that in many instances has to bite the bullet, go indemnity, and ask Aetna to do utilization review. What can you do in a one-hospital town?" she asked.

"I don't see U.S. Healthcare having any more tools in these areas than Aetna has now," she said.

But overall, Ms. Cleary said Aetna is gaining a partner experienced in running HMOs, while U.S. Healthcare is getting a partner with "marketing strength and big bucks. It definitely helps Aetna push down the spectrum toward HMOs and I'm sure they view it as a real jump start on top of shedding real estate and property/casualty."

Lastly, there is concern among benefit managers about the melding of two radically different corporate cultures. "They're so different that I find it hard to imagine a meeting between Aetna and U.S. Healthcare executives. One company (Aetna) has been an expensive, huge insurance company committed to quality management, while the other has been virtually the opposite," Ms. Darling said.

*'You could see an injection of quickness... from U.S. Healthcare's management.'*

Helen Darling

*'As insurers increase in size, the competitive bidding process changes.'*

Diana LaChapelle

# Buyout

Continued from previous page

For one, it will have to combine two different types of companies, one primarily an indemnity company and the other an HMO.

Despite moving into managed care, Aetna "has been focused on indemnity, managing price cycles, paying claims," said Larry Mayewski, senior vp at A.M. Best Co. in Oldwick, N.J.

HMO experts tend to place a greater premium on managing the health care dollar and marketing the product as a discrete health services product rather than a financial services product.

Historically, it has been difficult to reconcile the two approaches, said Michael LeConey, an analyst with Coleman & Co. in New York.

Unlike most other indemnity insurers, though, Aetna already has managed care people, rather than indemnity experts, running its managed care business in some fairly large markets, said Doug Sherlock, president of Gwynedd, Pa.-based stock analyst Sherlock Co.

Other, less tangible differences might also have to be resolved.

"From an employer's perspective, U.S. Healthcare's marketing reps are, in a word, obnoxious," said Apex's Ms. Kalban-Gemett. "They're aggressive, they're very, very pushy in terms of getting new business." Aetna does not have that reputation.

And, while it has a fine network of providers, U.S. Healthcare is not as flexible or open-ended as Aetna in terms of what it will provide coverage for. "They are less likely to bend," she said. "My expectation is there'll be a lot of people who are waiting for some of the U.S. Healthcare rough edges to be smoothed down by Aetna."

A&A's Mr. Abbott observed, "The U.S. Healthcare environment is a very entrepreneurial, very aggressive, very outwardly focused marketing organization. Some of my clients have termed U.S. Healthcare people as being too 'in-your-face,' obnoxious." Aetna "is still a Hartford-based, Ivy League-style insurance company," he explained. "And even though Aetna Health has become a more aggressive organization, there are still an awful lot of folks that I

think are going to have a culture shock when they run into their counterparts at U.S. Healthcare."

Stephen E. Caulfield, managing director at William E. Mercer Inc.'s health care provider consulting practice in Boston, called the situation a "real head-on conflict." He characterized the corporate culture of U.S. Healthcare as one of market share dominance, aggressive negotiations with providers and extraordinary interventionist management. "Aetna, by contrast, is diffuse in its market concentration, operating in more than 100 markets, certainly not aggressive in its management style, and has sought to enter the managed care market by acquisition of physician management practices."

Weighting the management heavily toward U.S. Healthcare gives the company a better chance to succeed, Sedgwick's Mr. Doerr said.

The key will be "letting U.S. Healthcare do what it does best and letting Aetna do what it does best and at the same time looking for synergies and minimize disruption—and that's critical, because clients don't want disruption," said A.M. Best's Mr. Mayewski. **BI**

## The men behind Aetna Inc.

By MICHAEL SCHACHNER

Aetna Inc., the managed care giant that would be created by Aetna Life & Casualty Co.'s planned \$8.9 billion purchase of U.S. Healthcare Inc., would be headed by current Aetna Chairman and CEO Ronald E. Compton.

Mr. Compton's two right-hand men will be U.S. Healthcare Co-Presidents Michael J. Cardillo and Joseph T. Sebastianelli. They will hold the same titles at Aetna Inc. and will be part of a four-person team that will plan for the integration of the two companies' systems and workforces.

Absent from Aetna's senior management team, however, is U.S. Healthcare's founder and chairman, Leonard Abramson, who engineered this deal and has a colorful past in the health care industry.

Mr. Abramson, 63, who founded one of the country's first managed care companies in the 1970s, which later became U.S. Healthcare, will assume a seat on Aetna's board of directors but will carry only the working title of consultant to Mr. Compton.

Mr. Abramson is widely considered to be the man who made U.S. Healthcare a leader in the East Coast HMO market.

His hands-on management style defined the company and his commitment to capitulated contracting with providers and gatekeeping has become a model for success at other HMOs.

But, as a consultant, exactly what Mr. Abramson's role will be at the new company is a bit of a mystery.

While Mr. Abramson could not be reached for comment on how actively he will provide management expertise and advise officials at the new company, according to a U.S. Healthcare spokesman, Mr. Abramson will be "involved" in the new company's future.

Once U.S. Healthcare shareholders receive Aetna stock for their holdings, Mr. Abramson will take almost \$500 million in cash from the deal and will be Aetna Inc.'s largest individual stockholder.

Health care industry analysts speculated that Mr. Abramson could be involved only in molding

the company's short-term future and then may retreat into retirement.

Or, he could play a very active part in Aetna's future.

"I think he will stay on and play a role in Aetna's immediate future. He's done too much to turn the reins over to someone else and not have any input," said Larry Mayewski, senior vp-life and health at A.M. Best Co. in Oldwick, N.J.

"I'm sure he's comfortable with the management team because he appointed the two U.S. Healthcare guys, but for at least a couple years he'll be around to shape it. He's probably not ready to walk away just yet," Mr. Mayewski said.

But, Edward Keaney, an analyst with Volpe, Welty & Co. in San Francisco, said Mr. Abramson's role at the new Aetna will be determined by how smoothly the integration of the two companies goes and how well the company performs over the next 18 months.

"I think he'll stay mostly out of the picture if the combined company succeeds. But if Aetna stumbles badly or he feels the qualities of U.S. Healthcare are not being utilized, he could become quite vocal," Mr. Keaney said.

In announcing the deal, Mr. Compton said Aetna Inc.'s objective is to "become the leading

health care company in terms of service and quality." He emphasized Aetna will have a "rational presence, two strong names, the best medical management in the industry, top-quality service and strong Medicare growth potential."

The company's array of managed care plans will cover 10.3 million people.

Overall, 23 million people will receive some form of health care coverage from the new combined company.

But will the company assume more of the characteristics of Aetna or U.S. Healthcare? Will it push tightly managed HMO products or will it continue to have a sizable percentage of members in unmanaged or lightly managed indemnity plans?

Mr. Keaney said the answers can be found in the numbers.

In 1995, Aetna Life & Casualty overall recorded \$474 million in net income from \$13 billion in revenues. Meanwhile U.S. Healthcare posted \$381 million in earnings from only \$3.6 billion in revenues.

Based on these earnings-to-revenues ratios, "If the new Aetna doesn't become more like U.S. Healthcare than the old Aetna, then there was no reason spending nearly \$9 billion to acquire it," he said. **BI**

### New Aetna regime



#### Ronald E. Compton

Aetna Life & Casualty chairman and CEO would be head of managed care giant Aetna Inc.



#### Leonard Abramson

Credited with making U.S. Healthcare a leading managed care company and engineering the \$8.9 billion deal, is to act as consultant to Aetna Inc.



#### Joseph T. Sebastianelli

Co-president with Michael J. Cardillo, is to assist Mr. Compton in integrating the two companies.

GRAPHIC BY JOHN HALL

## Updates

### Blast furnace cost unknown

PITTSBURGH—U.S. Steel Group officials are still seeking the cause of an April 2 blast furnace "breakout" that crippled the facility responsible for half the iron production at the company's Gary Works plant in northwest Indiana.

A USX Corp. spokesman could not estimate whether damages from the mishap would be insured or how long the furnace will be out of service. Whether any property or business interruption coverages are triggered "may depend on the extent of damage and the outage," a spokesman said.

Three people were injured when molten iron poured through a wall of one of the plant's four blast furnaces and caused a secondary explosion when it hit water on a floor below. The furnaces produce the molten iron that is a key component of steelmaking.

Separately, U.S. Steel reached a \$106 million settlement last Wednesday with the Indiana Department of Environmental Management over air pollution problems at the Gary Works. The U.S. Steel spokesman said the settlement includes a \$6 million fine and an agreement to make \$100 million in capital improvements that will bring plant facilities into compliance with clean air requirements. The company already has spent \$90 million over the past two years on air quality improvements at the plant.

### Asbestos exposure suit OK'd

NEW YORK—A Metro North Commuter Railroad worker can sue the railroad for asbestos exposure even though he has not suffered any ill health yet, a federal appeals court has ruled.

The decision last week breaks new ground in asbestos cases, though it is consistent with rulings in other personal-injury cases where emotional distress can be deemed a bodily injury, attorneys say.

The 2nd U.S. Circuit Court of Appeals overturned a federal district court ruling that the suit only could be brought when medical harm had been suffered by the worker, Michael Buckley.

Mr. Buckley and 140 other workers now will be able to sue Metro North for the cost of annual medical check-ups and compensation for emotional distress. The workers had been in daily contact with asbestos while working in tunnels under Grand Central Station in the mid-1980s and had worked without any protective equipment, said the workers' attorney, Charles C. Goetsch, an attorney with Cahill Goetsch & DiPersia in New Haven, Conn.

"It is a groundbreaking decision because it allows a railroad worker who has had massive exposure to asbestos, which results in an increased risk of developing a disease, to receive damages for medical monitoring and emotional distress," he said.

The ruling is consistent with other rulings in New York where emotional distress constitutes bodily injury, said Matthew Jacobs, a partner at Kirkpatrick & Lockhart in Washington.

Railroad workers, who are governed by a federal compensation program, generally can sue their employer more easily than workers subject to state workers comp statutes.

### Cat frequency at record high

RAHWAY, N.J.—The first quarter of 1996 is in the record books for the highest frequency of catastrophes, according to the Property Claim Services division of the American Insurance Services Group.

The PCS recorded 11 catastrophes during the first three months of 1996, surpassing the previous record of 10 in the same period in 1994.

The first three months of this year did not, however, set a record in terms of catastrophe-related insured property damage, PCS says. Weather-related catastrophes caused an estimated \$2.5 billion in insured property damage, which makes this year's first quarter the third-costliest first quarter on record. The first quarter of 1994 remains the costliest on record, with \$14.5 billion in insured property damage, stemming largely from the earthquake that devastated the Northridge section of Los Angeles.

According to PCS, catastrophes struck 40 states during the first three months of the year. Pennsylvania sustained the most catastrophe-related damage, with \$350 million in insured property damage.

### Briefly noted

Standard & Poor's Corp. has lowered its rating of **Sphere Drake Insurance P.L.C.** and Sphere Drake Insurance (Bermuda) Ltd. to BBB from BBB+ following reserve strengthening that led to an \$18 million net loss (*BI*, Jan. 22). Meanwhile, A.M. Best Co., which had placed the companies under review, affirmed its B++ ratings for both. **Aon Corp.** completed the sale of its two units, The Life Insurance Co. of Virginia and the Union Fidelity Life Insurance Co., to GE Capital Corp. The sale of those units is expected to generate \$1.2 billion (*BI*, Jan. 1; Oct. 2, 1995). **New Mexico** abolished its solvent **second injury fund** late last month to avoid deficits that have plagued other states. The fund compensated disabled workers who injure themselves again while at work. **Lloyd's of London** has reached a one-month standstill agreement with the North American Securities Administrators Assn. Both sides plan to discuss Lloyd's attempts to draw down on U.S. members' letters of credit and eight states' securities lawsuits against Lloyd's (*BI*, April 1). **Ralph Sharpe**, managing director of Archer Group Holdings P.L.C., resigned as director of all Archer companies last week. His positions included that of managing director of Archer Managing Agents Ltd., which manages more than £400 million (\$621.2 million) of capacity for 1996. In a statement, Mr. Sharpe said he resigned to pursue opportunities that may arise during Lloyd's renewal and reconstruction period. **Michael G. Woll** was named executive vp and chief operating officer of Aon Re Inc. in Chicago. A series of explosions and a fire on April 1 rocked a **Shell Oil Co. refinery** in Martinez, Calif. There were no injuries. Shell would give no insurance information and said the extent of damage has not been determined.



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