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Updates

Capital, alternative markets faster in retrocessional deal

HAMILTON, Bermuda—A $200 million retrocessional reinsurance deal can be completed faster with capital markets investors and alternative market reinsurers than with traditional reinsurers, says Robert R. Lusardi, executive vp and chief financial officer of EXEL Ltd.

X.L. Mid Ocean Reinsurance Co., EXEL's new reinsurance unit, put out a three-way bid on the coverage and agreed to place a proportion of it with any of the markets that offered coverage within specific price bands.

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HMO industry continues battle for profitability

By JUDY GREENWALD

The announcement last week that United HealthCare and Humana would not merge in the aftermath of United's $900 million second quarter charge, followed the next day by news of Oxford Health Plans' $507.6 million pretax quarterly loss, dramatically illustrates the managed care industry's sometimes difficult struggle for profitability.

HMO Results

But some analysts nevertheless see promising signs in second-quarter results that rate hikes introduced earlier this year are starting to help, though employers still may face additional rate increases.

For example, United HealthCare Corp. Vp-Investor Relations Bernie McDonagh said the company expects to seek rate increases of about 8% to offset the higher medical costs the company anticipates.

Louisville, Ky.-based Humana Inc. and Minnetonka, Minn.-based United HealthCare Corp. announced last Monday that their boards of directors had mutually agreed to terminate their planned merger, originally valued at $5.5 billion (*BI*, Aug. 10).

A Humana spokesman said in light of United's second-quarter earnings report, "We made the decision that it would be in the interest of our shareholders to continue as an independent company."

But both still are walking away from the deal strong companies. United HealthCare is expected to recover from the financial setback and remain a market leader, while Humana is not expected to feel under any particular pressure to find another merger partner.

"I don't think it's cataclysmic. It's just a disappointing event," said Rob Mains, an analyst with Advest Inc. in Albany, N.Y.

"Both companies have been relatively successful over the years," said Doug Sherlock, a health care analyst with Sherlock & Co. in Gwynedd, Pa. "I think things will continue along pretty much as it had been before."

The spokesman said Humana feels no pressure to find another merger partner. "This was always a merger of two strong companies," and Humana remains a strong, diversified firm, he said. "We are not compelled to merge with any other company," said the spokesman, noting the company has just

See **HMOs** *on page 48*

Plan run by operators of failed ventures seized

By DOUGLAS McLEOD

SAN FRANCISCO—Federal regulators have taken control of a troubled group health insurance plan whose operators and service providers include several men who have something in common: long histories of helping to run failed insurance ventures.

The U.S. Department of Labor earlier this month won a court order to shut down Interstate Services Inc. of Novato, Calif., and a predecessor company, Thorndyke International Inc. Both companies administered a self-funded health plan dubbed The ERISA Advantage that was sold mainly to clients of staff leasing companies in half a dozen states.

While ISI took in nearly $2 million in employer contributions between August 1997 and last April, only a fraction of the money went to fund claims. ISI's operators meanwhile diverted an "obscenely excessive" 45% of the contributions to themselves and others in the guise of commissions, fees and other costs, a Labor Department lawsuit charges.

The plan already has failed to pay $400,000 in claims for five covered employees, according to the Labor Department, which has not estimated the plan's total unfunded losses.

The ISI program is only the latest in a series of failed health insurance plans operated by John B. Hyde, who has moved participants from one failed plan to another in recent years, leaving a trail of unpaid claims, the Labor Department charges. Most recently, Mr. Hyde last year agreed to an injunction barring him and Thorndyke from managing a purported union welfare fund that was found to be insolvent by $1.2 million.

In interviews, Mr. Hyde and his San Francisco lawyer, Michael Hardiman, blamed the ISI plan's troubles on the failure of its stop-

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Reform advocates think small measure will help

By MARK A. HOFMANN

WASHINGTON—A new law that limits the product liability of biomaterials manufacturers could spur broader reform.

If the Biomaterials Access Assurance Act accomplishes what the 1994 General Aviation Reform Act did, it will prove for a second time "that proponents of tort reform are telling the truth" when they say that product liability reform won't hurt consumers and will promote economic growth, said Victor E. Schwartz, counsel to the Product Liability Coordinating Committee. The Arlington, Va.-based, business-supported PLCC advocates broad-based product liability reform.

GARA, the first federal product liability reform law, limited the liability of manufacturers of light aircraft. The measure, which President Clinton signed in 1994, helped resurrect the general aviation industry without compromising safety, say advocates of additional product liability reform. They predict the biomaterials law, which the president signed last week, could perform a similar function by making raw materials needed for a variety of life-saving devices more readily available.

"I think it will be very beneficial, as has been the case with GARA. We believe that the enactment of the biomaterials bill will have a very positive impact on the economy and show once again that tort reform is a positive for all of society and doesn't carry any of the negatives that the trial lawyers and (Ralph) Nader have suggested over these many years," said James A. Anderson, vp-government relations for the National Assn. of Wholesaler-Distributors in Washington.

Lawrence Finerans, assistant vp-resources, environment and regulation for the National Assn. of Manufacturers in Washington, said that with the enactment of GARA, "Consumer activists said the sky would literally be falling, and it didn't."

See **Liability** *on page 37*

Insurers win coverage ruling

Court rejects duty to defend emotional distress suits over fiscal loss

By GAVIN SOUTER

NEW YORK—Insurers do not have a duty to defend emotional distress claims under commercial general liability policies when those claims result from economic loss, a federal appeals court says.

The ruling, issued earlier this month, prevents a policyholder from seeking more than $6 million in damages and defense costs from its insurer.

New York's highest court previously has ruled that emotional distress constitutes bodily injury and is covered by CGL policies when the distress is caused by an accident, but there is no coverage when the distress does not result from an accident.

The ruling curbs the creeping extension of CGL coverage in New York, said Marshall T. Potashner, an associate at Wilson, Elser, Moskowitz, Edelman & Dicker L.L.P. in New York who represented Boston-based Liberty Mutual Insurance Co., the insurer in the case.

"It sets out some boundaries," he said.

The 2nd U.S. Circuit Court of Appeals in New York ruled that Liberty Mutual did not have a duty to defend claims made against First Investors Corp. in New York.

First Investors had received multiple claims of emotional distress arising out of investors' economic losses.

The claimants charged in court papers that First Investors fraudulently targeted mostly retired, unsophisticated investors and sold them highly volatile junk bond mutual funds while assuring them the investments were safe and suitable for people living on a fixed income.

Liberty Mutual agreed to provide coverage for two of a dozen suits against First Investors, as it was concerned that its claims examiners had misled First In-

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NEWSPAPER

Updates

Non-traditional markets faster

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The reinsurer was formed this month after EXEL merged the former Mid Ocean with its existing reinsurance operations and it wanted to secure the retrocessional coverage as soon as possible due to the looming hurricane season.

Both the capital markets and alternative market reinsurers offered coverage within a few days and took significant portions of the coverage, but the traditional reinsurance market did not respond with the same speed, Mr. Lusardi said.

The coverage is for hurricane and earthquake risks and covers the upper levels of X.L. Mid Ocean's exposures for events that would likely occur in the range of once in 75 to 100 years.

The coverage will be triggered by the actual losses of X.L. Mid Ocean rather than index or industry losses, which have been a feature in several other capital markets deals.

Also, the deal was made as a swap rather than a bond. Bond deals are more liquid, but they must meet time-consuming regulatory requirements, whereas swaps are less liquid because they must be conducted offshore but can be put together quicker, said Clive Tobin, senior vp in the Financial Services Products division of X.L. Insurance Co. Ltd.

RIMS now OSHA stakeholder

NEW YORK—The Risk & Insurance Management Society Inc. and the federal Occupational Safety and Health Administration now are officially partners.

The risk management professional society and OSHA signed a partnership agreement earlier this month recognizing RIMS as an OSHA "stakeholder." As a stakeholder, RIMS automatically will be notified of proposed workplace safety standards and will get a chance to respond, said Lance Ewing, RIMS external affairs team leader and loss control administrator for the Philadelphia School District.

"We've been trying for a number of years to work with OSHA to remain in the forefront as a stakeholder. We believe that partnering with OSHA will bring RIMS' concerns and objectives to the forefront of OSHA," said Mr. Ewing.

"In addition, OSHA gets an opportunity to pick the brains of RIMS' members relative to how standards would affect the industries," said Mr. Ewing.

Veto threatened on patient bills

WASHINGTON—President Clinton said last week he would veto Republican-backed patient protection bills unless GOP leaders overhaul the measures to make the measures a "bill of rights" and not a "bill of goods."

The Republican measures fall short in protecting patient rights because, among other things, they do not give patients new legal rights to sue health care plans, do not give patients direct access to all specialists and, in the case of the Senate Republican bill, extend only certain protections to employees in self-funded plans, President Clinton said.

Republican leaders responded by saying their bills would expand access to coverage and that congressional Democrats are holding up action on the legislation.

President Clinton's veto threat decreases the likelihood that legislators and the executive branch can come to an agreement on a patient protection bill. "Your veto threat only makes our job harder," Senate Majority Leader Trent Lott, R-Miss., said in a letter to President Clinton.

The House earlier passed patient protection legislation, while measures in the Senate are stalled because Republicans and Democrats have been unable to reach an agreement on rules to debate and vote on the proposals.

Zurich moves on Holocaust

ZURICH, Switzerland—Zurich Insurance Group last week became the first insurer to sign a memorandum of understanding with U.S. state insurance regulators to pursue resolving insurance-related claims of Holocaust victims through an International Commission.

Zurich was one of several insurers that had previously signed a more general memorandum of intent to work with the commission, which is committed to resolving its work within two years.

"Despite our limited involvement in the European life insurance market during the World War II era, we agreed to serve as a catalyst in order to help fashion a speedy and just resolution process," Rolf Hueppi, chairman and chief executive officer of the Zurich, Switzerland-based insurer, said in a statement. The company wrote only 0.02% of all life-related policies in Germany during that era, a Zurich spokeswoman said.

Zurich's action came just a day after a $1.25 billion settlement of Jewish groups' bank-related Holocaust claims with the Swiss government and its major banks. However, Zurich faces no bank-related claims from that era, the spokeswoman said.

However, pressure is mounting on insurers with unresolved claims.

For example, Florida and New York have passed legislation imposing sanctions on insurers that do not volunteer to participate with the commission's efforts. California has a similar measure pending.

In addition, individual states, such as California and Florida, have subpoenaed documents from Assicurazioni Generali S.p.A. in Italy. Also, Florida insurance regulators will soon join other states in issuing similar subpoenas to Allianz A.G. of Germany, a Florida Insurance Department spokeswoman said.

Lockheed insured in explosion

CAPE CANAVERAL, Fla.—Lockheed Martin Corp. will not suffer any losses from the explosion of a U.S. Air Force rocket it manufactured that was carrying a spy satellite.

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Brokers' revenues up, but three post losses

By SALLY ROBERTS and SARAH GODDARD

BROKER RATINGS 1st Half

Various exceptional items took a toll on three of the world's largest publicly held brokers' bottom lines in the first half of 1998, while two others enjoyed profit gains derived from their recent megamergers.

All five of the world's largest publicly held brokers surveyed by *Business Insurance* reported higher first-half brokerage and consulting revenues, but profits took a tumble for three.

Most significantly, Willis Corroon Group P.L.C. reported a $13.2 million loss for the half, while Sedgwick Group P.L.C. reported a $15.5 million loss and Arthur J. Gallagher & Co. reported a 7.7% dip to $20.3 million.

Both Sedgwick and Willis Corroon took charges to their six-month results for provisions related to a U.K. crackdown on misleading pension sales. Willis took a £25 million write-off in the first half for reparations made on 8,000 pension cases under review.

Sedgwick, which previously estimated the liabilities for its 25,000 pension review cases at £35 million using government guidelines, made an £80 million provision in its six-month figures. That provision includes a premium to fund an alternative risk transfer mechanism placed with Bermuda and U.K.

See **Brokers** *on page 47*

Lawsuit over employer's AIDS, HIV list upheld

By ROBERTO CENICEROS

SAN FRANCISCO—A ruling permitting a worker to sue his employer for keeping a list of AIDS and HIV cases should prompt employers to consider more carefully how they accommodate disabled workers and employees' privacy rights, a defense lawyer said.

A California appeals court ruled this month that Delta Air Lines can be sued for libel and slander for compiling what it called a "secret" list of HIV-infected workers. The court rejected Delta's argument that the airline was merely accommodating ill employees.

California's 1st District Court of Appeal in San Francisco overturned a lower court, ruling that preparation of a list of workers in a San Francisco office who are HIV-infected or who have AIDS might not have been calculated to further a legitimate interest.

Similar litigation problems could arise in other areas such as psychiatric issues, said Susan R. Denious, a partner specializing in employment litigation for the Sacramento, Calif., firm of Kronick Moskovitz Tiedemann & Girard.

See **Delta** *on page 40*

Chemical makers to appeal $785 million jury award

By ROBERTO CENICEROS

LOS ANGELES—Five chemical manufacturers will appeal the $785 million in damages awarded to workers who claim they became ill from chemicals used in building secret aircraft such as the Stealth bomber.

A Los Angeles Superior Court jury awarded 38 current and former Lockheed employees $760 million in punitive damages and $25 million in economic damages. The punitive award was assessed Aug. 6 against the following: Dublin, Ohio-based Ashland Chemical Co.; Houston-based Exxon Chemical Co.; El Segundo, Calif.-based Unocal Corp.; Houston-based Shell Oil Co.; and Wilmington, Del.-based E.I. du Pont de Nemours & Co.

The five companies supplied solvents and other chemicals used at a Lockheed aircraft facility formerly in Burbank, Calif. In 1992, Lockheed settled the suit with the 38 plaintiffs plus others for $33 million, said a spokeswoman for Lockheed Martin Corp., the company formed by Lockheed's 1995

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Centre Re co-founder dead at 47

Michael D. Palm brought financial innovations to reinsurance

By MICHAEL PRINCE

Michael D. Palm, a co-founder of Centre Reinsurance Holdings Ltd. in Bermuda, and a leading figure in the creation of financial reinsurance who later gave away much of his fortune, has died.

Mr. Palm died earlier this month in Telluride, Colo., from complications of AIDS, a disease he spent large amounts of money and time trying to combat. He was 47 years old.



Mr. Palm

Centre Re, formed in 1988, introduced more complex financial transactions to the world of reinsurance. This different approach was largely the result of Mr. Palm. "Michael was one of the most intellectual, thoughtful and insightful people I'd ever known," said Steven Gluckstern, who founded Centre Re with Mr. Palm.

Mr. Palm took a circuitous route to the reinsurance world. After graduating from Yale University and after receiving a master's degree from Harvard University, Mr. Palm taught at an English-

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Inside

- Congress should make it easier for trade associations to provide health care coverage to members, this week's editorial says. **PAGE 8**
- A study shows that risk management practices share some features but also differ widely in Europe. **PAGE 41**
- With virtually no organic growth and ongoing pricing pressures, insurers face a difficult environment, Myron Picoult writes. **PAGE 51**

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Property Loss Control

Weather phenomenon's effects remain unknown

Prepare for any likely La Nina impact, experts advise

By MARK A. HOFMANN

If you found El Nino unpleasant, wait 'til you meet his nasty kid sister La Nina.

Just how nasty La Nina might be isn't known yet. The weather phenomenon could spawn an unusually violent Atlantic hurricane season, or it could result in a year of average activity. It might mean unusually high rainfall in the already rainy Pacific Northwest, or it might not. It could plunge the North into a deep freeze this winter, or normal temperatures could reign.

Property loss control experts accordingly agree that such uncertainty makes it all the more imperative that risk managers be prepared for any reasonably likely impact. That means applying the same foresight about property exposures that they would when confronting any known peril.

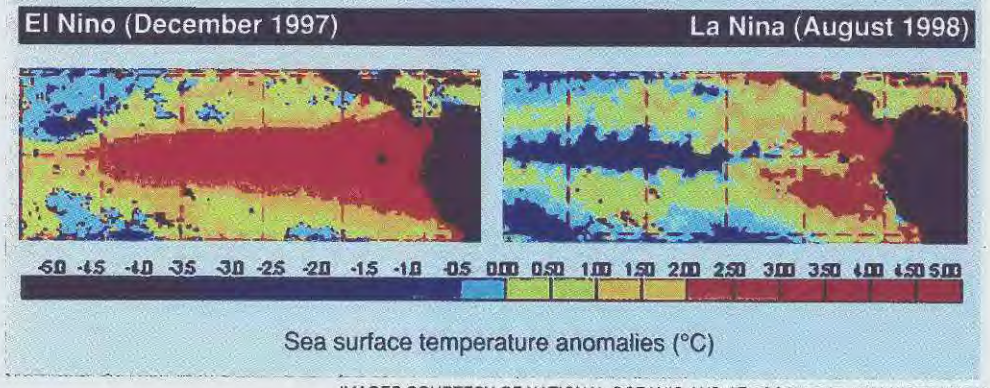
"You just need to be prepared for those storms" regardless of whether it's called El Nino, La Nina or something else, said Peter J.G. Willse, a research consultant with HSB Industrial Risk Insurers in Hartford, Conn.

Like El Nino, La Nina doesn't in and of itself present an exposure. Instead, it magnifies or distorts existing perils.

"La Nina is the opposite of El Nino," pointed out Lixin Zeng, principal researcher-underwriting research and development unit at Arkwright Mutual Insurance Co. in Waltham, Mass. In El Nino, abnormally warm waters in the eastern Pacific cause weather disturbances. La Nina happens in the wake of El Nino as colder waters rise to the surface, he said.

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El Nino's warming vs. La Nina's cooling



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Lightning can hurt businesses in a flash

By RODD ZOLKOS

With business relying on electronic communications, control and safety systems as never before, the exposure to losses from lightning strikes and related electrical surges also is greater than ever.

Given that business' reliance on potentially vulnerable electronic systems has developed only in recent decades, history may not be a guide in determining the extent to which a company should take steps to protect itself from lightning-related losses.

Losses from lightning strikes typically are covered under existing property or business interruption insurance programs. But the potentially disastrous circumstances a business could face from a crippled facility or damage to key systems or data make loss control efforts a critical component of addressing lightning exposure.

"Past experiences don't help very much," noted Dimitrios Karydas, senior engineering specialist at Factory Mutual in Norwood, Mass. "The probability may be the same, but the exposed systems may be very different."

And, to best address the exposure, lightning risk needs to be assessed on a site-specific basis, Mr. Karydas and a risk manager say. Also, loss control solutions are most easily implemented during the construction of a new facility, rather than trying to retrofit them later.

According to Mr. Karydas, the potential problems lightning can cause can be divided into its direct effects and the indirect effects.

The direct effects tend to be far more visible and can involve such things as a direct lightning strike

See **Lightning** *on page 10*

PSM helps fight against losses from human error

By AMANDA MILLIGAN

To err is human—and expensive.

But a holistic management approach aimed at keeping mistakes from creeping into loss control systems is growing in popularity among risk managers, enabling them to prevent both property loss and employee harm.

According to figures from Waltham, Mass.-based Arkwright Mutual Insurance Co., 70% of customer losses result from human errors or lapses in judgment, and the Factory Mutual system reports that contractors' mistakes directly or indirectly caused $600 million in damage since 1990.

Companies can help protect themselves against costly errors by adopting the process safety management approach, which involves systematically and continually evaluating the interaction between manpower and machinery.

From checking the mechanical integrity of the equipment to ensuring that workers are trained appropriately, PSM arms corporations with a holistic way to examine their loss control programs.

The thoroughness of PSM lets companies "hold the whole (loss control) plan up to the light and look for weak spots," said Dennis Anderson, vp and director of engineering for Protection Mutual Insurance Co. of Park Ridge, Ill.

PSM also aims to remove employee fears about the machinery or other hazards he or she works near daily. Intimidated or poorly trained workers are not likely to recognize a malfunction when it occurs or will act improperly—a reaction that could have disastrous consequences, insurers and consultants say.

"People need to understand what

See **PSM** *on next page*

Computer modeling helps in arson investigation

By MICHAEL BRADFORD

Technology is catching up with arsonists.

Sophisticated modeling programs are helping arson investigators better understand how and where fires start in buildings. Knowing how fires spread gives investigators clues as to whether blazes are intentionally set.

"The art of arson investigation was slow to develop until the last seven to 10 years," said Barry W. Slotter, an Atlanta-based fire investigator for the law firm of Robins, Kaplan, Miller & Ciresi L.L.P. As computerized tools have been developed to help determine the cause of fires, well-informed investigators are making it harder for firestarters to get away, he added.

Mr. Slotter explained that the latest computer modeling programs can detail the properties of burning materials and show how fires progress through specific structures. The data gives investigators a wealth of information that can help determine whether a fire was purposely started.

The models "are getting more into the dynamics of fire, how it propagates throughout a structure, so that we have a better understanding of its properties," Mr. Slotter said.

Knowing how long a fire takes to progress from one stage to the next can give investigators a good idea of when a fire started. If that information doesn't jibe with a property owner's explanation of how the fire started or details on his or her whereabouts, red flags go up.

If a witness saw the property owner at the premises around the time investigators believe the fire started, for example, closer scrutiny could reveal that the fire was set.

Evolving computer technology has made it easier for fire investigators and insurers to do their jobs from their desktops.

"The computer code for the models is now in a form that makes it easy to do in the PC rather than on a mainframe," explained

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Spotlight Editor: Mark A. Hofmann

PSM

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could go wrong and how to deal with those situations. We recommend automatic equipment, but one has to keep in mind the human element," said Michael Morganti, customer education specialist at Arkwright. Mr. Morganti noted that many line workers may feel a false sense of security that the sophisticated machinery doesn't need human interaction. "I think that may be a dangerous assumption," he said.

Donald Lorenzo, senior technical director with JBF Associates Inc., a Knoxville, Tenn.-based risk assessment consulting firm, compares certain workplace operations to someone riding a unicycle: While it can be done safely under the right conditions, it puts the person in a precarious position.

"What is often blamed on human error is often a booby trap waiting for a human to fall into," Mr. Lorenzo said. "It's the same in our plant system. What is blamed on human error isn't always carelessness," he said, noting that it is easy to lay the blame on the worker rather than on management's lack of foresight in assessing the risk in a situation.

Although PSM is mandated by the Occupational Safety and Health Administration for the chemical industry, other industries increasingly are adopting the approach.

While the 1992 OSHA standard—called "Process Safety Management of Highly Hazardous Chemicals: Explosives and Blasting Agents"—was developed to protect workers, it also serves as a checklist to safeguard property against loss.

"Chemicals clearly pose threats of many sorts," said Charles Morgan, an independent risk management consultant based in Summit, N.J. But many facets of PSM are designed to reduce human error, he said, because "human error is probably more likely" than a mechanical problem. Mr. Morgan has done presentations on process safety management in conjunction with OSHA for the Malvern, Pa.-based CPCU Society.

'Our employees are always looking at new technology to help them do their jobs better,' says Lou Drapeau of The Budd Co. 'We can't afford not to know how to fix this stuff.'

The Budd Co. is among those that practice the PSM approach. To ensure workers are able to recognize early signs of malfunction, Lou Drapeau, manager of risk management for the Troy, Mich.-based automobile parts supplier has employees work closely with engineers to devise ways to make the equipment safer.

In one instance where safety standards differed between an exporting European country and the United States, The Budd Co. used employee suggestions to modify a new device called a recooperator, which is used for melting metal in a foundry. "Our employees are always looking at new technology to help them do their jobs better," Mr. Drapeau said. "We can't afford not to know how to fix this stuff. By the time we're up and running (with the new equipment), it's almost second nature (to the employees)," he said, noting that the process to modify the recooperators has already taken 18 months and is ongoing.

A series of malfunctions over the past several decades that released toxins and flammable substances into the environment sparked interest in PSM globally. Some of these accidents were fatal, and many of them caused large property losses.

Two of the most notable disasters: In Flixborough, England, in the 1970s, a toxic chemical vapor cloud was released from a chemical distribution plant; and in Bhopal, India, in 1984, some 2,000 people died from the chemical release of methyl isocyanate, which is used in the production of pesticides.

During the late 1980s and early '90s, when industrial plants in the United States began to have similar chemical release incidents, OSHA imposed its mandate.

The mandates include instructions on training the workforce, managing contract workers, evaluating the mechanical integrity of machinery and an explanation of a concept called "management of change," which encompasses both how to bring new people into the system and how to adapt to mechanical changes.

"It's an example of industry and government working together to get a good result overall," said Arkwright's Carmen D'Angelo, vp-chemical and pharmaceutical group. "If people follow the PSM method, all of these (safety and loss concerns) are addressed."

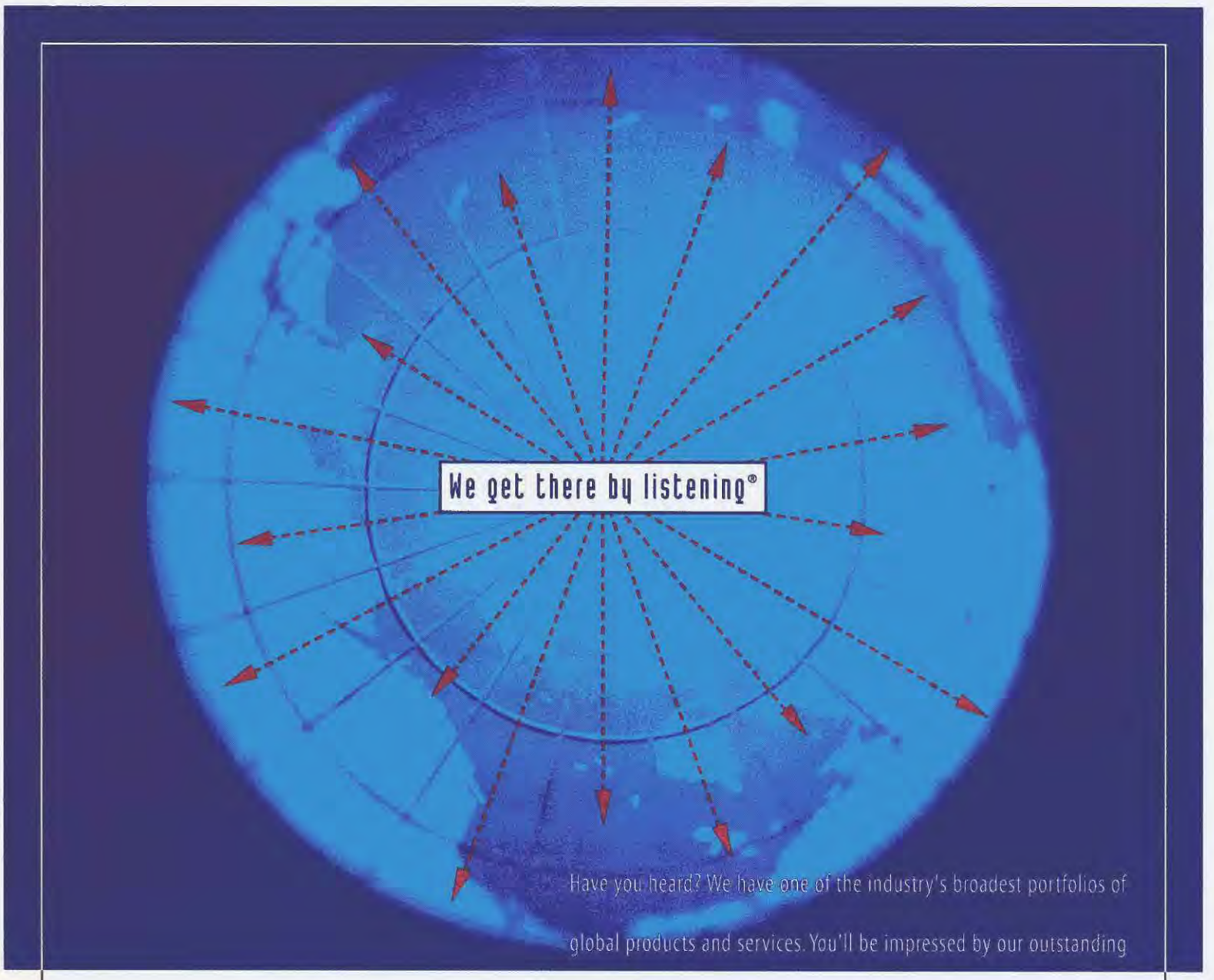
John Sharland, special chemical risk program coordinator with Factory Mutual in Norwood, Mass., said: "You can make a direct correlation with the Flixborough loss. If the management of change element of a PSM program had been in place, then the management of change could have directly prevented the loss."

In Flixborough, the plant used a cascading reactor system, Mr. Sharland said, which involved one reactor flowing downward into the next one in series. One of the reactors developed a crack in its steel wall and was removed. To keep the plant operational, the plant staff devised a new style of reactor that included metal bellows that expanded and contracted. Because of the introduction of movement into a system that wasn't designed to flex, the pipe dislodged and allowed the chemical mixture to spill.

Today's OSHA mandate requires that unless a part is being replaced by an identical component, management must evaluate the entire system to ensure that introducing a change of machinery won't disrupt the security of the existing system, Mr. Sharland said.

Mechanical integrity and main-

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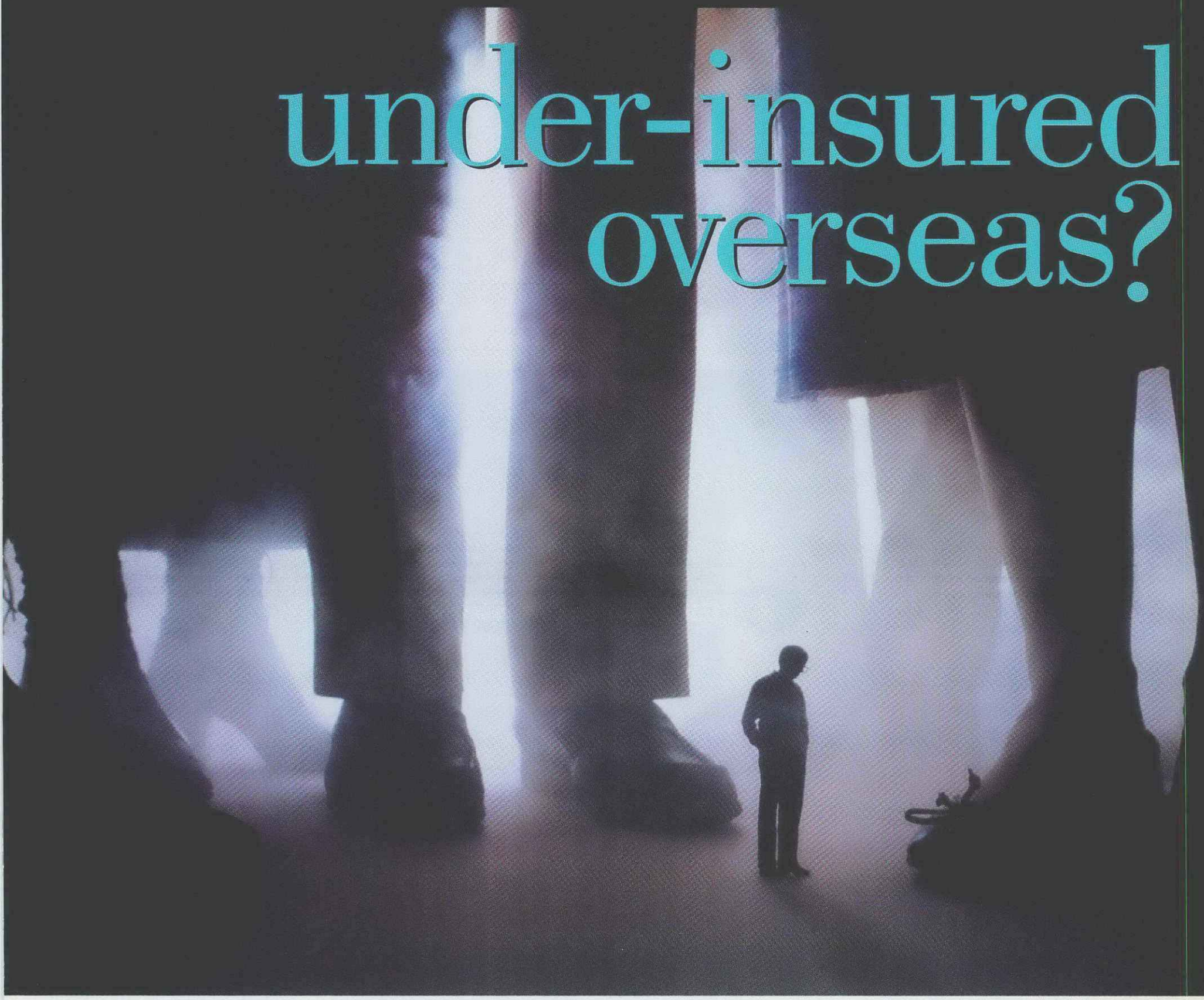


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PSM

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taining an orderly workplace also factor into the overall safety regimen outlined through process safety management.

"If you mix bad housekeeping with poor hot work procedures around critical equipment with the (fire) sprinklers turned off, it's a formula for disaster," Mr. Anderson said.

Many companies outsource "hot work," such as welding, and other activities, such as plumbing, that could require the sprinkler systems to be temporarily disabled.

To manage contractors, Mr. Anderson recommends interviewing them extensively to establish expertise and an interest in safe practices and then logistically examining how the job will be done. Finally, he urges companies not to allow contractors to "operate untethered," but rather have a full-time employee constantly check the contractor's caliber of work.

Thomas M. Suehr, a specialist in highly protected risks at Wausau, Wis.-based Wausau Insurance Co., agrees. "I think that it's a safeguard for risk managers to have (a set of rules) by which outside contractors are expected to conform."

Arkwright's Mr. Morganti said that because contractors are paid per job, many do not have the same loyalty and drive to do quality work that full-time employees are likely to have.

"You don't have loyalty. When you outsource, you lose experience (about workplace hazards)," he said. "If (contractors) burn your building down, they still have a job and you don't."

Mr. Morganti emphasizes that the real task is to instill in every employee, temporary or full-time, that "property loss control is in their job description."

"In the insurance industry, we are constantly identifying causes of losses post-mortem," said Scott Settje, vp and engineering manager of Waltham, Mass.-based ALM Services, a joint venture between Arkwright and Boston-based Liberty Mutual Insurance Group that provides underwriting and loss prevention advice in the property sector. "In PSM, you want to be proactive."

Factory Mutual's Mr. Sharland said part of being proactive means examining accidents and near-misses and incorporating education on preventing the mistakes into the PSM training. He even urges advertising the problem in-house as a way to alert workers to lurking dangers.

At Pittsburgh-based Bayer Corp., Risk Manager Charles Galba said workers were able to learn from past mistakes. Although Bayer is best known for pharmaceutical products, it also manufactures chemicals, such as inorganic colored dyes used in paper and clothing.

In October 1997, at the dye-making factory in Bushy Park, S.C., near Charleston, an operator was severely injured when a vessel exploded. Mr. Galba said the sprinkler system activated and held the fire at bay, but one production line was lost.

While Bayer is still not certain about the cause of the incident, the vessel was rebuilt using a more safety-oriented design, Mr. Galba said. "Our loss history has really been excellent," he added.

Companies under OSHA's process safety management mandate discover that the best defense against a citation is a good offense. And while a company's PSM evaluations are proactive measures, OSHA's inspections are generally reactive, based on accident investigations or employee complaints, said Mike Marshall, Washington-based program coordinator for OSHA's process safety services.

"It's the employer's obligation that he complies," he said, noting that PSM inspections are resource-intensive and time-consuming. "It's a real commitment for us to do scheduled inspections."

When OSHA inspects for PSM-related issues only, about 95% of the inspections result in citations, Mr. Marshall said. OSHA frequently visits refineries, petrochemical companies and food processing facilities. During a recent year, the largest number of citations were issued in SIC Code 28, which covers the chemical industry.

A complete PSM program not only can keep corporations from incurring losses and committing safety violations, but it also provides the companies with quality and productivity measures, JBF's Mr. Lorenzo said.

"The good of these programs is we involve accidents and losses," Mr. Lorenzo said. "Businesses find it makes bottom-line economic sense."

Arkwright's Mr. Morganti agrees. "Having a loss and not being able to address a customer's needs is one of the worst things that can happen in this global market."

Having a PSM program in place also can make a corporation's risk more attractive to insurers, said Warren Meigs, assistant vp of chemicals and refining for Hartford Steam Boiler Inspection & Insurance Co.'s energy division. "It makes a big difference in selecting a risk," he said.

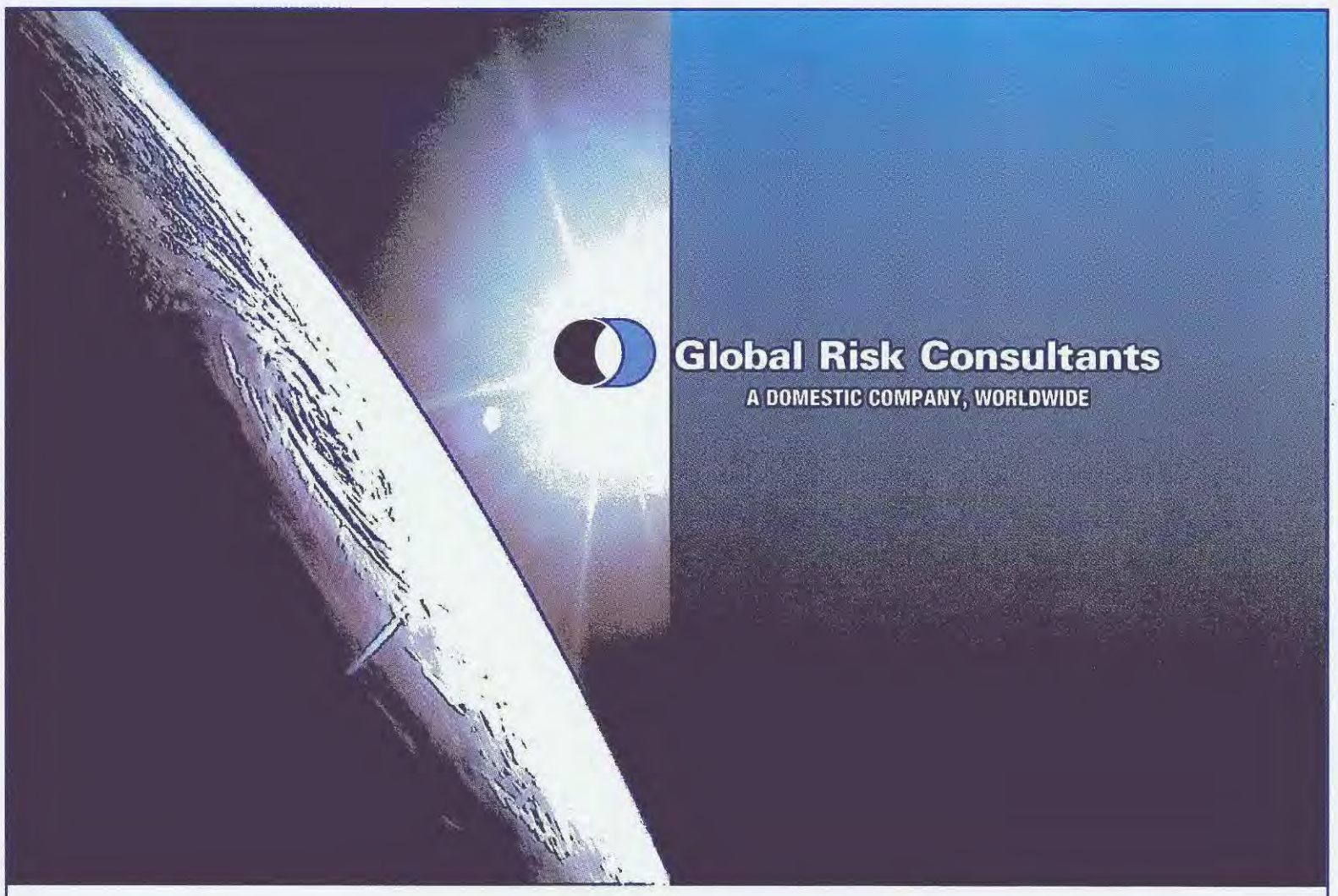
Mr. Meigs, based in Hartford, Conn., is especially impressed by companies that implement PSM programs even though they are not required by OSHA to do so. "It can have an effect on our underwriting procedures," he said.

Pharmaceutical company Eli Lilly & Co. promotes its process safety management commitment on the corporation's World Wide Web site.

Brad Arthur, manager of corporate occupational health and safety for Indianapolis-based Lilly, said when the company calculates the cost of recovering from a major disaster—including replacing equipment, loss of productivity and human suffering—PSM makes sense.

"It's very easy to justify putting resources, both dollars and people, into PSM," he said. "It's greatly to our advantage that we protect our workers, our environment and our neighbors. All of the elements of PSM work toward that goal."

Companies that do not currently have a process safety management system in place can begin by contacting a safety consultant or by obtaining materials on PSM from the Center for Chemical Process Safety, a directorate of the American Institute of Chemical Engineers, by calling 212-591-7319, or on the Internet at www.aiche.org/docs/ccps. BI



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Opinions

Trade group plans worth a look

CONGRESS SHOULD MAKE IT EASIER for trade associations to offer self-funded and insured health care plans to their members.

That is an issue legislators are expected to debate when they return to Washington next month after the summer recess.

As we reported recently, the House of Representatives has passed patient protection legislation that includes a provision that would set new federal solvency and other standards for trade association health plans. In turn, so-called association health plans, or AHPs, would be exempt from essentially all state regulations, including mandated benefit laws.

Patient protection legislation the Senate is likely to consider now lacks comparable AHP provisions. As a result, the fate of AHPs will be decided—assuming the Senate passes a patient protection measure—by a congressional conference committee.

State regulators and some insurers are worried that creating a new type of regulatory system for association health plans might mean a return to the late 1970s, when the collapse of multiple employer trusts, a kind of predecessor to AHPs, mushroomed into a national scandal.

In brief, self-funded METs often were organized by shady insurance agents. The METs were essentially open to all. Low premiums were set to attract unsophisticated small employers or individuals, while high commissions and fees were paid to the agents.

States viewed METs as unauthorized insurance companies. But when states tried to shut down METs, the organizers claimed METs were employee benefit plans exempt from state regulation by the Employee Retirement Income Security Act.

By the time courts intervened, the METs had often collapsed, leaving policyholders with millions of dollars in unpaid claims. The scandal largely ended when Congress passed legislation in 1983 making clear that states had the authority to regulate and shut down METs.

In view of that tarnished past, the concern of state regulators about association plans is understandable.

But it would be unfair to compare the regulatory system and safeguards set by the House bill with the pre-1983 days.



Most significantly, AHPs could be established only by legitimate and established trade associations and controlled by them. That would, we think, prevent a resumption of the problem of outsiders setting up what really amounted to bogus trade groups.

Second, state regulators—if they so chose—would have complete authority to regulate and shut down AHPs that don't meet federal solvency and other standards.

In addition, AHPs would have to abide by a fairly rigorous set of federal solvency standards.

It may be necessary for legislators to add even more safeguards to ensure the solvency of AHPs.

But we think the approach the House has taken is a good one. Giving buyers another health care purchase option—in this case through bona fide trade associations—can only expand the number of people with coverage. That certainly is in the national interest.

Letters

Referral control an evolving process

To the editor: Michael Bradford's Aug. 3 article, "Is the Gatekeeper Necessary?" is both a timely and important subject for readers to explore. I would point out, however, that the gatekeeper model need not be an all-or-nothing proposition, which this headline seems to suggest. In fact, most plans today allow degrees of self-referral to specialties and diagnostic services.

A better headline would have been, "What Degree of Referral Control is Best Practice?" It is unfortunate that this function is labeled with the term "gatekeeper," with its obvious restrictive connotations. The beauty of our competitive health system today is that many experimental models for managing specialty and diagnostic services are in play.

Ultimately, referrals need to be managed by some mechanism, whether it is via the provider assigned to manage referrals or financial provider capitation strategies. Such strategies may include placing incentives on lower utilization in a subtle way or partial fee-withhold systems that distribute dollars at year-end to the providers that most effectively manage patient utilization of services.

Any health plan claiming it has no mechanism in place to manage or control certain specialty procedures and diagnostic services is not giving it to you straight, or it is not by definition a managed care organization. With the exception of certain PPOs that fall less into the category of managed care organizations than they do simple discount networks, programs offering claims of open access to specialty providers still maintain a fee withhold or capitation arrangement behind the marketing facade. Today's buyer must accept the fact that all managed care requires some form of referral control, with only look and feel varying from plan to plan and location to location.

Another point not expressed in the article was the concept of combining tight referral control programs with open access as a wraparound point-of-service option. This combination product is used by most of our clients, major purchasers of health care such as General Electric Co., Kellogg Co., Eastman Kodak Co. and PepsiCo. They often elect this product because it uses the gatekeeper model as the base plan with the option to roam, referral-free, as the point-of-service option. Of course, there are deductible and coinsurance requirements when out of network, but the flexibility allows for the needs of all patients to be met.

The patient who is comfortable with a primary caregiver and not troubled by the prior-approval requirement for certain specialty and diagnostic needs, often chooses to stay within the network at all times. Indeed, we have frequently found that once a patient establishes a relationship with a primary caregiver, out-of-network usage becomes the exception.

As the managed care industry continues to evolve, so does the gatekeeper function. More sophisticated, blended referral control models have risen from earlier rudimentary efforts. We must recognize and support these innovations. Organizations operating without referral controls of any kind mark a simple return to the fee-for-service reimbursement systems of the past. As such, they no longer operate under the heading of managed care.

Mark Tierney
Chief Executive Officer
Network Management Services
Minneapolis

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Lightning

Continued from page 3
that damages roof-mounted equipment, such as air conditioners. "In many other cases we also have the structure itself, which may burn," the engineering specialist said.

The direct strike also could dislodge structural components of a building, such as bricks and chimneys.

"In other cases we have units that handle flammable liquids or vapors," Mr. Karydas said. "These have been very vulnerable to lightning," with the potential for fire or explosion resulting from a direct strike.

Telecommunications antennas also can be very vulnerable to a direct lightning strike.

By contrast, "the indirect effects are very tricky," Mr. Karydas said. Those indirect effects can stem from two sources: the earth voltage that occurs near the area where the lightning actually touches the ground and the electromagnetic fields associated with the lightning flash.

Both pose a hazard for electronic equipment.

"These effects can be felt in many different ways," Mr. Karydas said. "The magnetic fields and earth voltages can directly penetrate a building or other enclosure, depending on the type of structure we have."

Al Niederfringer, a manager of fire protection engineering at Travelers Property Casualty Corp. in Hartford, Conn., noted that the situation is complicated further by the fact that while the building itself might be protected, lightning-related overvoltages can travel into the building on the lines serving it, even through buried cables.

Among the types of systems or equipment at risk are computers; building security systems; communications systems; computer-based cash registers or inventory control systems; local area networks; and computers controlling manufacturing processes.

"More and more equipment is having microprocessors and electronic logic installed in it," Mr. Niederfringer noted, and the risks expand in kind.

"Many systems in an industrial plant at this time are electrically controlled or electronic," Mr. Karydas said. "These are extremely vulnerable." Damage to those systems can be extremely costly, he added.

For example, the loss of communications or damage to an electronic control or safety system can lead to further unsafe conditions in the manufacturing process itself.

But the risks can be reduced.

"There are things you can do to protect your facilities," said Carol A. Fox, risk manager at telecommunications company Cincinnati Bell Inc. in Cincinnati.

While she noted that her company has had "a couple of lightning strike losses that have been covered" under its insurance policies, controlling lightning-related losses is important for Cincinnati Bell, "particularly for our billing subsidiary."

"It's a real important issue for us when we look at new facilities and can begin with the construction design phase," she said.

According to Mr. Karydas, that's the best time to implement the loss control measures. "It's best to be done beforehand, before the installation, because retrofitting systems is very difficult and sometimes impossible," he said.

In terms of how that protection is crafted, there are various approaches that depend on the site of the facility, the types of equipment to be protected and the vulnerability to a lightning-related loss.

"The questions to be addressed are 'How likely?' and 'What are the consequences?' " Mr. Karydas said. "And based on those two criteria, you proceed with the appropriate protection."

"There are different levels of protection," said Mr. Niederfringer. "You can spend a fair amount of money protecting items with very sophisticated surge protection."

In some cases, a business could even install a small motor generator that would provide a clean electrical supply for critical equipment. Such a measure would be expensive, but if the equipment in question is particularly critical to the business, it might be worthwhile.

"There are many ways of skinning this cat, and it depends on what you have at risk, both in terms of the dollar risk or computer equipment and also in its criticality to your operation," said Mr. Niederfringer.

"It's a business-case cost justification, and it's a matter of weighing the risk vs. the benefits," he said. "In my opinion, it takes a site-specific risk assessment to reach a determination."

Other issues must be considered as well, Mr. Karydas noted. It's important to consider the vulnerability of the property to be protected and the frequency of lightning strikes in the area.

Other factors include whether the facility is in an open space and therefore particularly vulnerable, or whether it's surrounded by taller buildings more likely to be struck.

"So, at an early stage, you have to understand the vulnerability of the building," he said.

"It's definitely site-specific," agreed Cincinnati Bell's Ms. Fox.

Various sorts of surge arrestors placed somewhere on the power circuit along the way to the electronic component are the most common way of protecting against lightning damage, according to Mr. Karydas.

General lightning protection can range from "the Ben Franklin-type protection all the way to the most modern type of protection that includes sources that direct the lightning to areas where it would have the least effect," he noted.

That latter type of system uses ionization sources to actually direct the lightning away from the most vulnerable areas of a building or manufacturing site to a place where it's less likely to cause damage.

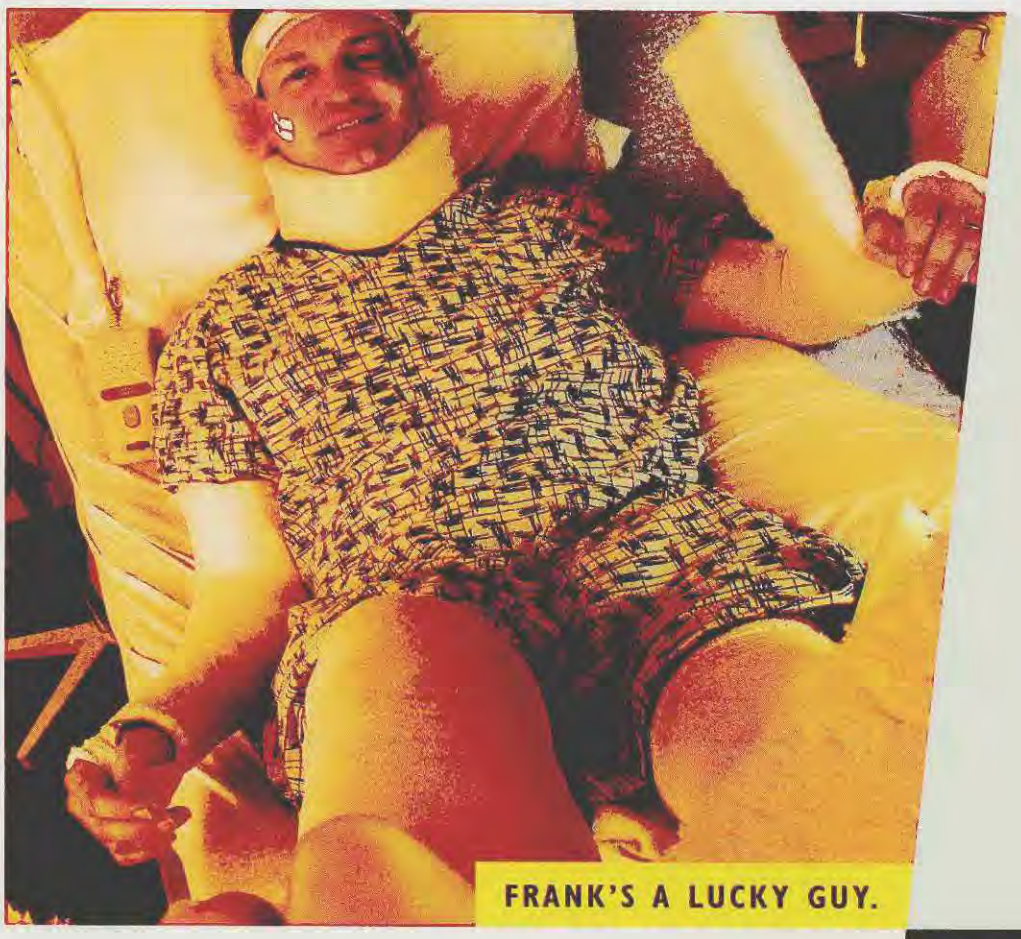
"Recognize that all the electronic equipment is very vulnerable," Mr. Karydas said. Power supplies should be protected with surge arrestors, and electronic components themselves should be isolated and "hardened" to withstand surges, if possible.

Despite the possible damage that lightning can cause and a growing awareness of the need to try to control this exposure, Mr. Karydas said many businesses still consider taking appropriate loss control steps only after a loss occurs.

"Unfortunately, most of the time when I'm personally involved, it's after the fact," he said.

He conceded that it's true that the chances of having a lightning-related loss are, basically, those of getting hit by lightning. But the potential losses might be too great to merit playing the odds.

"There's no guarantee that it's going to happen today, this year or in the next 10 years," Mr. Karydas said. "But when it happens, it happens." BI



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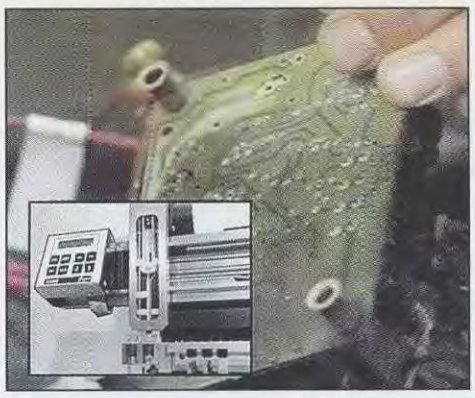
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Arson

Continued from page 3

Philip Crombie Jr. senior engineering specialist with Travelers Property Casualty Corp. in Hartford, Conn.

Much of Travelers' work in detecting arson and other causes of fire is done at its Loss Prevention & Engineering Laboratory in Windsor, Conn. The lab uses state-of-the art technology and works closely with the insurer's claims personnel and investigators to determine how fires started.



IMAGES COURTESY OF TRAVELERS PROPERTY CASUALTY CORP.

Travelers' Loss Prevention & Engineering laboratory works with claims personnel and investigators to learn how fires were started.

"The work today involves a lot of technology and science," he said. "We spend a lot of time looking at the item that first ignited, whether it was a toaster or a couch or a particular piece of equipment."

Data such as heat release rates can help investigators determine whether there was "enough energy in that item to cause the fire to spread."

Modeling provides information as to how a fire should spread through a building based on room configuration, furnishings, size and other factors, Mr. Crombie noted.

One of the most ambitious projects aimed at catching arsonists is being developed by American Re-Insurance Co. Teaming with federal and private fire prevention agencies, the reinsurer is developing a virtual reality program on CD-ROM that will be used to train fire investigators.

It's not the glove-and-helmet style of virtual reality program, but a "quick time" program that seamlessly meshes hundreds of photos and allows the users to immerse themselves in a fire scene, explained Joseph Toscano, vp and fire investigation specialist with American Re in Hartford, Conn.

When the program is ready for release, probably early next year, users will be challenged by the computer to use "best practices" in investigating a computerized fire, Mr. Toscano explained. "The computer tracks their progress and tells them where their deficiencies are."

When mistakes are made, a tutorial section has the correct procedures and walks the user through the proper process. Users then go back to the computerized fire and finish the investigation.

Another section of the program contains reference information for fire investigators. Mr. Toscano pointed out that users can call up information on a range of topics—the effects of heat on concrete, for example—that will help them determine the cause and characteristics of a fire.

The program will be provided free to police and fire agencies, insurers and others involved in fire investigation.

American Re already has available a 112-minute videotape used to train arson investigators. The video is a re-enactment of an actual case that covers the investigation of a suspicious fire and ends with a courtroom hearing in the case.

Accompanying the video are 230 pages of information investigators can use, including a checklist that can be used on the scene or at a desk to help with their investigations.

Even as they are armed with sophisticated software programs, fire investigators still rely on the quaint old art of reading manuals to stay updated on their techniques. Mr. Slotter pointed out that fire investigators also use the National Fire Protection Assn. guide titled Standard 921. Published in 1995, it is used by most investigators, he said.

"It contains all types of information," Mr. Slotter pointed out, emphasizing that "it is a guide, not a standard, for fire investigators to improve their skills."

The guide is in its third edition, the most recent one published several weeks ago.

See **Arson** *on page 16*

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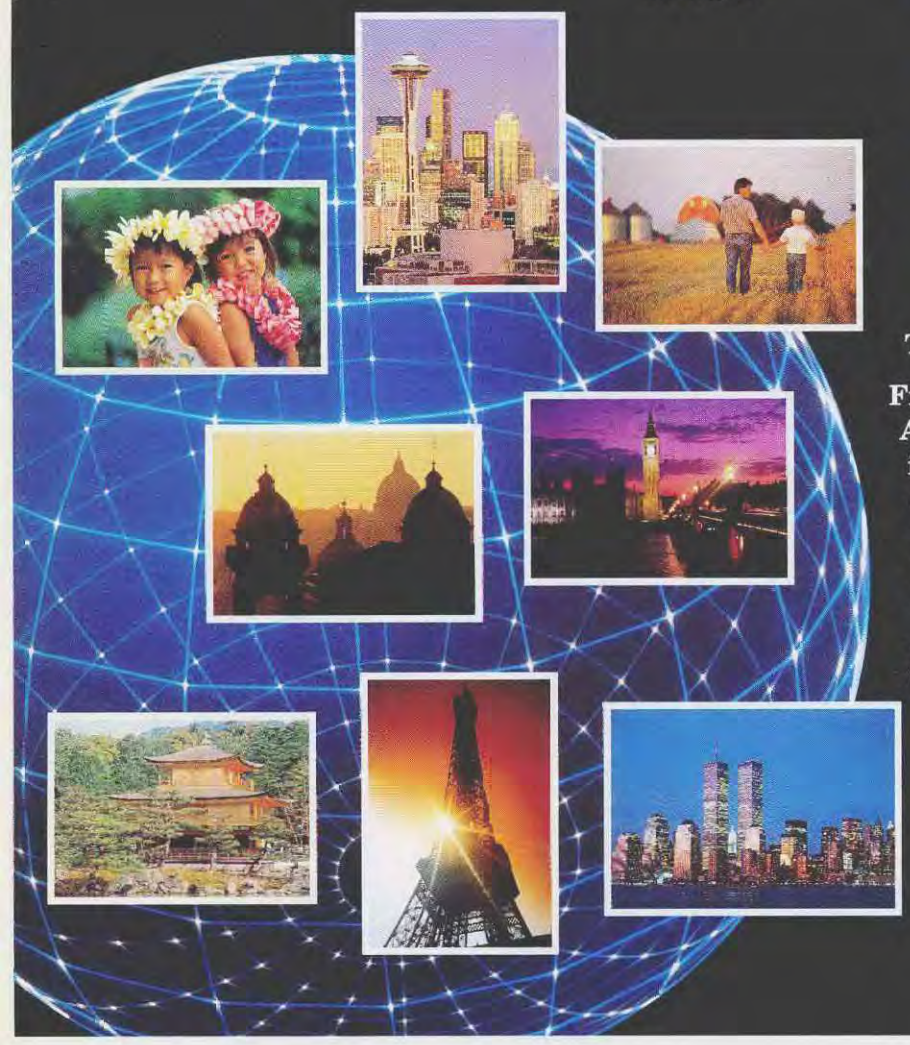
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Arson

Continued from page 12

Kirk Hansen, director of claims at the Alliance of American Insurers in Downers Grove, Ill., pointed out that regardless of who is responsible, arson remains an expensive problem.

"Arson costs the country $2 billion a year in property damage," he said. "Over 100,000 buildings per year are torched intentionally."

But instead of profits, the motive in many arson fires is a cheap thrill.

"A lot of people have the image of an arsonist pouring gas on a tenement apartment building," said Mr. Hansen. While such for-profit crimes sometimes occur, it is more likely that an arsonist is a kid, he said.

Research culled by the Insurance Information Institute from a number of sources shows that 52% of arsonists who are arrested are under 18. Their motives usually are to vandalize property and enjoy the sight of a burning building, the research notes.

Insurers and investigators are finding that policyholders rarely commit arson.

"Arson for profit is very small," said Jay S. Williams, vp-corporate claims investigation division at CNA Financial Corp. in Chicago. With the economy on an upswing in recent years, fewer business owners have had incentive to torch their businesses, he added.

"When I got into this business, America was burning," Mr. Williams said. "It's on the decline," he said of arson-for-profit fires. "It's not as great a problem, at least in our experience."

Other insurers agree.

"We've been very fortunate not to have many fires attributable to arson over the years," said Joanne Crowley, subrogation recovery supervisor at HSB Industrial Risk Insurers in Hartford, Conn.

Mr. Crombie of Travelers pointed out that even with all the technology to help determine the cause of fires, if arson is discovered, "the most difficult piece is finding who might be responsible."

Models will reveal how a fire started but can't alone say whether it was done on purpose, he explained.

"The investigator is really the most important tool. They cause all the rest of the tools to come into play." BI



Sprinklers key tool in fighting arsonists

Sprinklers are at the top of the list of precautions risk managers can take to keep arsonists from succeeding.

Sprinkler control valves should be kept locked in the open position, said Jeff Mattern, chief engineer at Factory Mutual's Middle Atlantic Operations in Bala Cynwyd, Pa. That way, arsonists can't turn off what is a "key to thwarting them," he added.

"Control access to all non-public areas of the plant," he advised. If someone is not authorized to be in an area, "supervisors should raise the question, 'Why are you here?' "

Mr. Mattern said risk managers can put up other roadblocks to arsonists by:

- Screening potential employees to reveal personalities that show a propensity for starting fires.
- Controlling storage of trash and other combustibles. Any storage that could burn should be kept at least 50 feet from the building, Mr. Mattern suggested.
- Making sure there is adequate outside lighting that gives arsonists nowhere to hide.
- Working with local fire authorities to determine ways to prevent deliberate fires and how to respond to fires that do occur.

—By Michael Bradford

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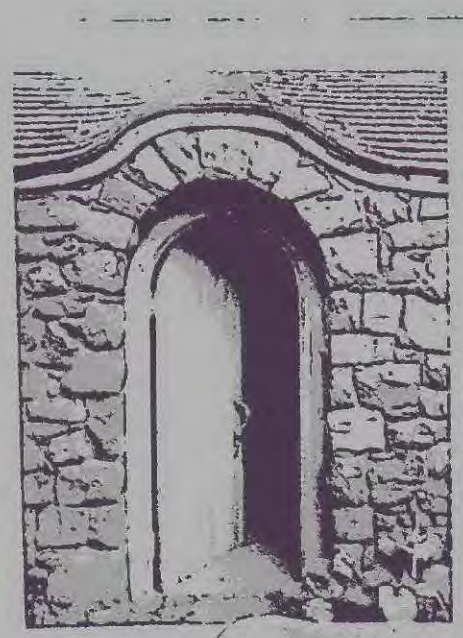
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La Nina

Continued from page 3

"I think we're in a situation now where we can look at more climatological eras. It's pretty clear when there's a strong El Nino event, the hurricane activity in the North Atlantic basin is a lot less than normal. Generally, when we look at La Nina events, which is a cooling in the Pacific, there are generally more hurricanes in the Atlantic basin," said Anthony Knap, director of the insurance industry-backed Risk Prediction Initiative at the Bermuda Biological Research Station.

Arkwright's Mr. Zeng said increased Atlantic hurricane activity presents commercial underwriters their greatest La Nina concerns. He pointed out that a moderate La Nina in 1995 and 1996 spurred high hurricane activity in the Atlantic.

Mr. Knap said that because this year's La Nina cooling is "happening later than what normally happens in some of the previous La Ninas that have been studied," its impact is unclear.

"When a La Nina happens after a very strong El Nino, we don't have a lot of data to say what happens then. Because it was such a strong El Nino, it's happening later in the year than it normally would. It will be difficult to tell whether this will significantly affect the hurricane season in the North Atlantic other than roughly calling for an average year," he said.

But La Nina-related concerns don't stop with the possibility of Atlantic hurricane activity, Mr. Zeng said. Higher than normal rainfall and a greater than normal frequency of rainfall in the Pacific Northwest also could occur. The Southwest—and to an extent Florida—could experience drier and warmer conditions than normal courtesy of La Nina, thus increasing the threat of fire, including wildfires, he said.

"La Nina cannot be ignored," said Mr. Zeng.

The threat of La Nina underscores the lessons risk managers learned from El Nino, said Jim Pinzari, vp-crisis management and planning services in J&H Marsh & McLennan Inc.'s Boston office.

"I think probably the biggest thing we learned from El Nino is that weather conditions are changing so dramatically on a global basis that none of our companies can really feel a sense of security no matter where they're located in the country."

"I think we're going to start seeing some very severe weather patterns in parts of the country that didn't experience such conditions before," he said, pointing to the unusual flooding around Boston earlier this year.

"Be prepared for anything," he said.

That's how risk managers are approaching the La Nina, though they emphasize that being prepared for anything is simply good risk management regardless of whether an El Nino or La Nina looms.

"I don't know what kind of company would have done something differently because of El Nino," said Steve Wilder, vp-risk management for The Walt Disney Co. in Burbank, Calif. Climatic disturbances such as El Nino and La Nina present the same exposure as risk managers deal with routinely, just more of it, he said.

John A. Davenport, assistant vp and director-research for HSB Industrial Risk Insurers, agrees: "They're more frequent and they're probably more severe but they're still the same windstorms and flooding that we've had," he said.

"From a risk management basis, I don't think it should much change whether it's El Nino and La Nina or any other term," said Steve Sachs, senior vp at Hobbs Group L.L.C. He acts as risk manager for Columbia, Md.-based Rouse Co. a national commercial real estate developer.

"If you're located in coastal areas that are subject to significant windstorm exposures, you need to be prepared. That preparation—much like risk financing—should have a longer perspective than the story du jour," he said.

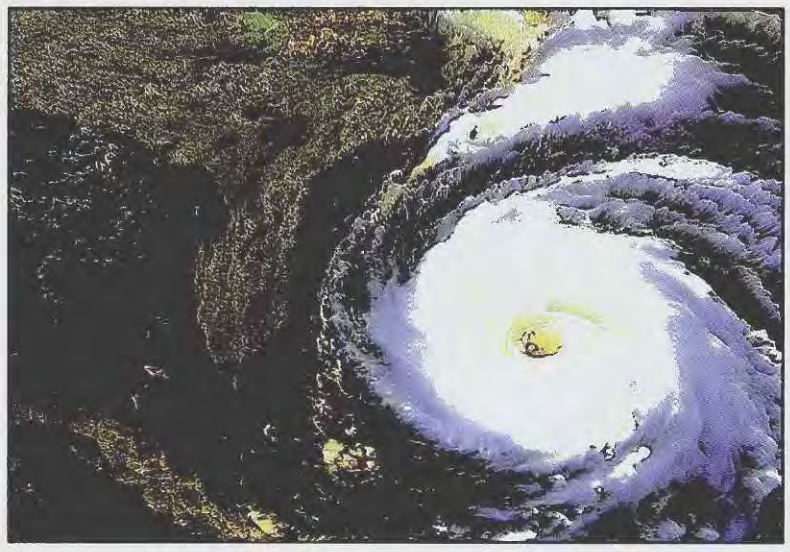
Fortunately, risk managers probably are better able now than ever to prepare adequately for the impact of La Nina.

"Certain weather conditions don't have to be a surprise any longer. In general broad terms, we know that El Nino leads to certain conditions," said Klaus Gebhardt, senior vp and chief underwriting officer for Arkwright.

Patrick Musick, assistant vp at the Alliance of American Insurers in Downers Grove, Ill., said, "The kind of publicity around El Nino and the high profile meteorologists had in the media should impress on risk managers and the public in general that there are these trends in weather events and that the next time an El Nino event occurs, people should expect certain things to happen."

With La Nina, "I think they

Continued on next page



Professor Bill Gray of Colorado State University predicts there is a 66% chance of an "intense" hurricane hitting the U.S. mainland this year.



Continued from previous page

realize that the trends are going to change, that there will probably be more hurricanes in the Atlantic" and because of differences in the warming or cooling of particular areas of ocean, the hurricanes will have different intensities, he said.

Colorado State University Professor Bill Gray recently issued his final Atlantic hurricane season prediction for the year. Mr. Gray said that while La Nina's effects probably won't be felt until after the peak of the hurricane season in August and September, there is a 66% chance of an "intense" hurricane—one packing winds of more than 111 mph—hitting the U.S. mainland this year. Mr. Gray predicts 10 tropical storms will form this year. Six of the storms will become hurricanes, he said. In contrast last year's El Nino helped quell the Atlantic storm season, which was marked by only three hurricanes.

When conditions start to turn bad, risk managers need to pay particular attention to local weather reports, said David Czartoryski, senior vp-risk engineering services, Zurich Services Corp. in Schaumburg, Ill. Their contingency plans should be in place, and contracts giving the company priority access to contractors should have long since been signed with local contractors. Having guaranteed access to key contractors is crucial in disaster recovery, he said.

Preparing for power outages is critical, said Stuart Ulsh, special projects engineer with Factory Mutual in Norwood, Mass. He cited the experience of a U.S. food processor, which he declined to identify, to illustrate how such preparation pays off. The company tracked a hurricane and lowered its freezer temperatures as low as possible before the storm struck. Despite the subsequent loss of power, the processor weathered the storm well, he said.

"Expect the unexpected" as well, said Mr. Ulsh. El Nino caused a desert mountain area in South America that normally receives less than 3 inches of rain a year to receive 2 to 3 inches in one day, he said. That led to flooding, power failures and damaged railways.

Regarding La Nina, risk managers should "take all information that's starting to come out" regarding which areas will be colder, wetter, drier or otherwise suffer abnormal conditions and "give it a third look," he said.

Risk managers "at any plant in the world" should consider possible perils and—after ruling out the totally impossible—be prepared for whatever La Nina or any other disturbance could bring, he said.

J&H Marsh & McLennan's Mr. Pinzari said he's advising clients "when you look at what they're predicting for La Nina, such as extreme cold in the northern part of the country," clients should begin preparing for the impact by, for example, making certain they have access to rock salt.

Risk managers in the Pacific Northwest shouldn't store merchandise on the floor because of the increased chance of flooding, said Arkwright's Mr. Gebhardt. Even in areas that don't normally flood, rising ground water could cause problems, he said.

In addition, there should be "no yard storage; make sure the outside equipment is properly tied down, and have a full-fledged contingency plan ready long before the event," he said.

Factory Mutual's Mr. Ulsh urged risk managers to practice their disaster plans, which should be developed with input from many people rather than one manager.

He pointed out that some people have made a serious mistake by deciding which equipment to move out of harm's way based solely on property value without stopping to think. Other equipment might cost less but also be harder to replace or repair, he said. If that equipment isn't protected, business interruption will last longer and cost more, he said.

"The message should be, 'Do it now.' Now you have the time; then, you won't," said Arkwright's Mr. Gebhardt. BI

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1997 revenues

Total gross revenues	$742,000
Unbundled property loss control/engineering	45%
Unbundled property loss control/ engineering revenues	$333,900

Staff

Total	12
Professionals	10

Includes: 1 ARM, 1 ASSE, 1 CSP, 1 PE, 1 SFPE

Clients

Total property loss control/engineering	33

Loss control services began: 1985.

Services: Onsite plant loss prevention inspections, fire prevention inspections, plant security inspections, hazard identification, publications, research, client training, flow test reviews, disaster contingency planning, sprinkler coverage determination.

Region served: Nationwide.

Branch offices: Los Angeles; Atlanta; Chicago; Kansas City, Kan.

Contact: Harry P. Mirijanian, president.

Arkwright Technical Services Inc.

225 Wyman St.,
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781-890-9300; fax: 781-906-3475

1997 revenues

Total gross revenues	$7,000,000
Unbundled property loss control/engineering	85%
Unbundled property loss control/ engineering revenues	$6,000,000

Staff

Total	85
Professionals	75

Loss control services began: 1996.

Parent: Arkwright Mutual Insurance Co.

Services: Onsite plant loss prevention inspections, fire prevention inspections, hazard identification, building plan reviews, client training, building code consulting, natural catastrophe evaluations, engineering services, failure analyses, jurisdictional inspections.

Region served: Nationwide.

Officers: C.M. D'Esopo, president; D.F. Agneta, vp; P. Hoefler, manager-inspection services.

Contact: T. McIntyre, ext. 3045, or T. Rhodes, ext. 3095.

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1997 revenues

Total gross revenues	$127,000
Unbundled property loss control/engineering	90%
Property loss control/ engineering revenues	$114,000

Staff

Total	8
Professionals	3

Includes: 1 ARM, 1 ASSE, 1 CSP, 1 SFPE

Clients

Total property loss control/engineering	17

Parent: Tokio Marine & Fire Group.

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1997 revenues

Total gross revenues	$164,000
Unbundled property loss control/engineering	100%
Unbundled property loss control/ engineering revenues	$164,000

Staff

Total	3
Professionals	2

Includes: 1 ARM, 1 ALCM, 1 CSP, 1 PE

Clients

Total property loss control/engineering	30

Loss control services began: 1989.

Services: Onsite plant loss prevention inspections, fire prevention inspections, plant security inspections, hazard identification, publications, research, client training, building code consulting.

Region served: Nationwide, principally California.

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Contact: Jack Kastorff.

Ken Buhler Associates Inc.

11 Erita Lane,
Smithtown, N.Y. 11787;
516-360-3770

1997 revenues

Total gross revenues	$250,000
Unbundled property loss control/engineering	100%
Unbundled property loss control/ engineering revenues	$250,000

Staff

Total	5
Professionals	4

Includes: 1 ASSE, 2 PEs, 2 SFPEs

Clients

Total property loss control/engineering	25

Loss control services began: 1976.

Services: Onsite plant loss prevention inspections, fire prevention inspections, plant security inspections, hazard identification, building plan reviews, publications, client training, building code consulting, sprinkler system design and review; fire sprinkler criteria development.

Specialties: Electronics warehouses, rubber tire warehouses.

Region served: Nationwide.

Officers: Ken Buhler, president; Randy Buhler, S. Relkin, vps.

Continued on page 24

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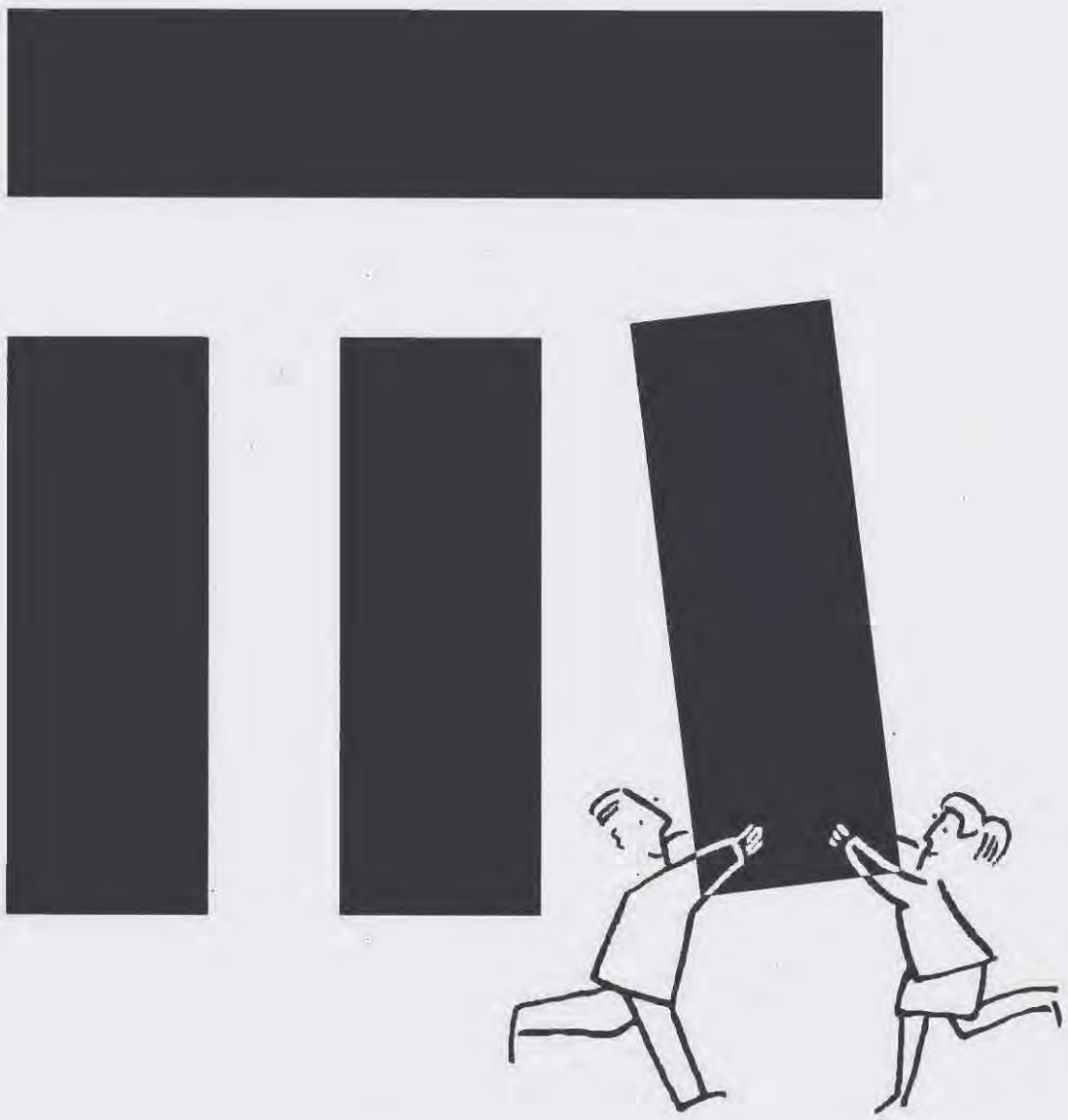
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Continued from page 22

Cannon Cochran Management Services Inc.

2 E. Main St., Danville, Ill. 61832;
217-446-1089; fax: 217-443-0927
www.ccmsi.com

1997 revenues

Total gross revenues $22,700,000
Unbundled property loss control/engineering 2%
Unbundled property loss control/engineering revenues $450,000

Staff

Total 292
Professionals 15
Includes: 2 ARMs, 1 ALCM, 3 CSPs

Clients

Total property loss control/engineering 71

Loss control services began: 1978.

Services: Onsite plant loss prevention inspections, fire prevention inspections, hazard identification, building plan reviews, publications, research, client training.

Region served: Nationwide.

Branch offices: Little Rock, Ark.; Margate, Fla.; Atlanta; Des Moines, Iowa; Oak Brook, Ill.; Metairie, La.; Brighton, Mich.; Kansas City and St. Louis, Mo.; Las Vegas; Camp Hill, Pa.

Officers: G. Bryan Thomas, president/CEO; Steve Luebbert, executive vp/chief marketing officer; Robert L. Cowgill, chairman/CEO; Gary J. Schirmer, vice chairman; Rod Golden, vp/COO.

Contact: Annie Mariage, 800-252-5059 ext. 200.

Directory terminology

The 12th annual *Business Insurance* directory of property loss control consultants and engineers lists companies that provide loss control services on an direct, unbundled basis; consultants that only provide these services in conjunction with other services are not listed.

Listings begin with the name, address, telephone, fax number and World Wide Web site address of each company. **1997 revenues** section details total gross revenues, the percentage generated through from unbundled property loss control consulting and engineering services, and the 1997 revenue from unbundled property loss control consulting and engineering.

Information on **staff** members at year-end 1997 is provided, including the number of professionals assigned to property loss control consulting and engineering services and the number of staff members holding certain professional designations. The full names of professional designations abbreviated in the staff section are provided below.

Next, the total number of property loss control consulting and engineering **clients** appears, followed by the **year loss control services began** and **parent company**.

The loss control **services** that each company provides are listed next.

If a company specializes in consulting for a particular type of business or industry, that **specialty** is noted. Listed next are the geographical **region served** and the locations of **branch offices** providing property loss control services. Names and titles of **principal officers** and a **contact** name complete each listing.

Business Insurance publishes the directory as an editorial service; there is no charge to be included.

Listings are based on each company's response to a *BI* questionnaire. Although every effort is made to publish complete and accurate information, *BI* is unable to verify all information received.

Here are the full professional designations and organizations for those abbreviated under the staff heading:

ALCM is Associate in Loss Control Management; **ARM** is Associate in Risk Management; **ASCE** is member, American Society of Civil Engineers; **ASSE** is member, American Society of Safety Engineers; **CSP** is Certified Safety Professional; **PE** is Professional Engineer; **SFPE** is member, Society of Fire Protection Engineers.

ChoicePoint Commercial Specialists

11880 College Blvd., Suite 400,
Overland Park, Kan. 66210;
913-451-3222; fax: 913-451-3285

1997 revenues

Total gross revenues $41,000,000
Unbundled property loss control/engineering 40%
Unbundled property loss control/engineering revenues $16,400,000

Staff

Total 350
Includes: 7 ARMs, 5 ALCMs, 16 ASSEs, 3 CSPs, 2 PEs, 2 SFPEs

Loss control services began: 1951.

Parent: ChoicePoint Inc.

Services: Onsite plant loss prevention inspections, fire prevention inspections, plant security inspections, hazard identification, client training, replacement cost valuations for commercial/high value residential property.

Region served: Nationwide.

Branch offices: Birmingham, Ala.; Phoenix; Burbank and San Bruno, Calif.; Denver; Westford, Conn.; Orlando and Lauderdale Lakes, Fla.; Atlanta; Arlington Heights, Ill.; Overland Park, Kan.; Louisville, Ky.; Hunt Valley, Md.; Westford, Mass.; East Lansing, Mich.; Brooklyn Center, Minn.; Great Falls, Mont.; Yonkers, N.Y.; Charlotte, N.C.; Dublin, Ohio; Jenkintown, Pa.; Memphis, Tenn.; Richardson, Texas; Kirkland, Wash.

Officers: Rupert Willis, vp-commercial services; Joe Cash, vp-commercial sales; David Greene, vp/controller; Tom Reagen, Mike Madden, assistant vps-operations.

Contact: Pat Steece, national survey manager, 913-663-8528.

Chubb Services Corp.

25 Independence Blvd.,
Warren, N.J. 07059;
908-903-7181; fax: 908-903-7187
www.chubb.com

1997 revenues

Total gross revenues $1,670,000
Unbundled property loss control/engineering 46%
Unbundled property loss control/engineering revenues $768,200

Staff

Total 8
Professionals 8
Includes: 3 ARMs, 7 ASSEs, 7 CSPs, 1 PE, 1 SFPE

Clients

Total property loss control/engineering 30

Loss control services began: 1991.

Parent: Chubb Services Corp.

Services: Onsite plant loss prevention inspections, fire prevention inspections, plant security inspections, hazard identification, building plan reviews, publications, client training, property conservation programs, appraisals.

Specialties: Electronics, biotech, metal workers.

Region served: Nationwide; Asia, Canada, Europe, Latin America.

Branch offices: Los Angeles; Atlanta; Louisville, Ky.; Westborough, Mass.; Warren, N.J.; Harrisburg, Pa.

Officers: Patrick A. Pisano, president; Sam K. Lee, Robert F. Santoro, vps.

Contact: Sam K. Lee, 908-903-7172.

CIGNA International Risk Management Engineering Services

195 Broadway, 10th Floor,
New York, N.Y. 10007;
212-618-5622; fax: 212-618-5624
www.cigna.com

1997 revenues

Total gross revenues $10,400,000
Unbundled property loss control/engineering 40%
Unbundled property loss control/engineering revenues $4,200,000

Staff

Total 155
Professionals 130
Includes: 5 ARMs, 8 ASSEs, 4 CSPs, 10 PEs, 15 SFPEs

Clients

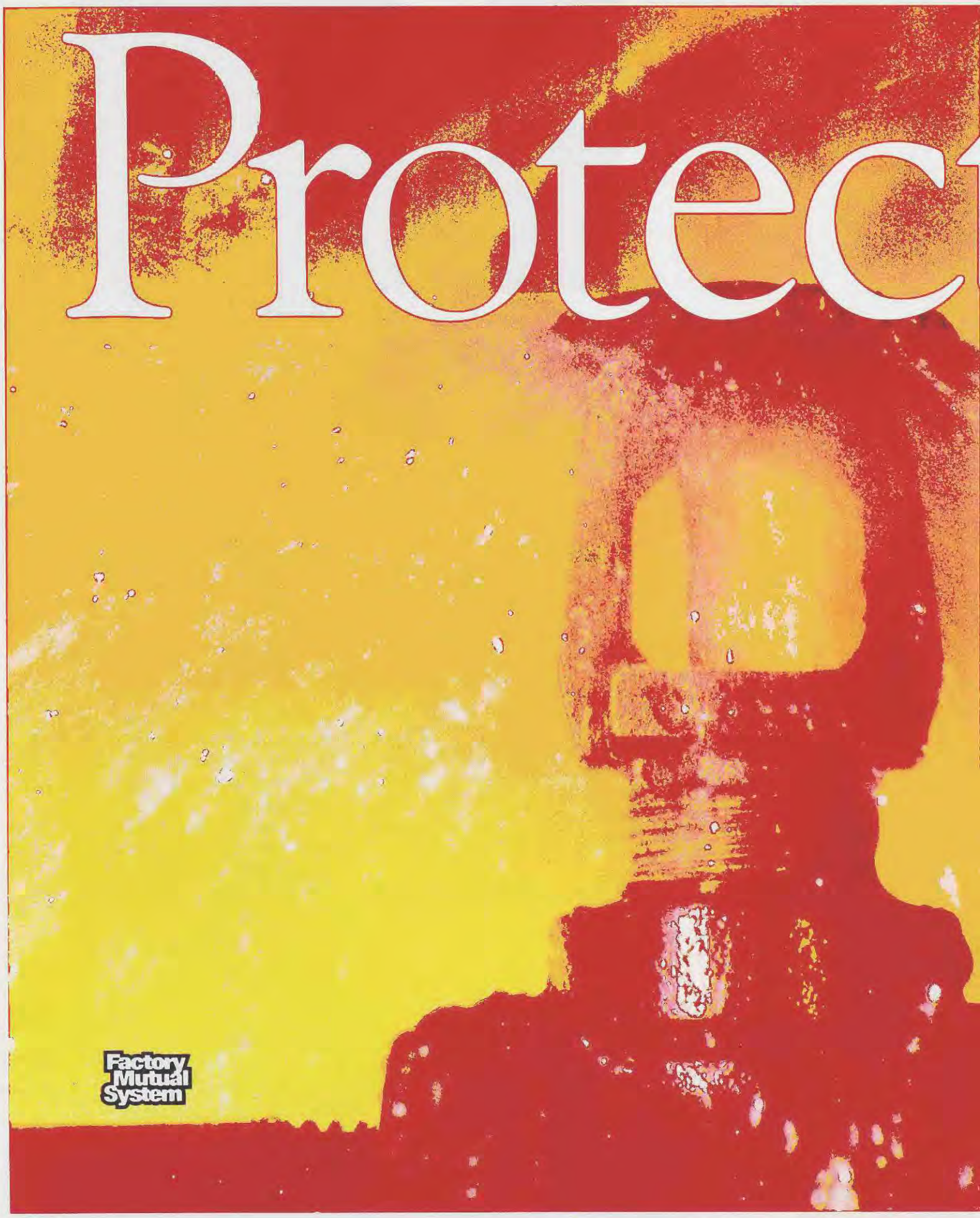
Total property loss control/engineering 600

Loss control services began: 1910.

Parent: CIGNA Corp.

Services: Onsite plant loss prevention in-

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spections, fire prevention inspections, plant security inspections, hazard identification, building plan reviews, publications, research, client training, building code consulting, computer-based building valuations, business continuity planning, benchmarking programs, client-focused performance reviews, customized recommendation management programs.

Specialties: Service and manufacturing industries.

Region served: Worldwide.

Branch offices: 45 locations.

Officers: Richard Wnek, vp-risk management engineering services; Mike Castellano, Mike Nolan, Bob Anderson, Mike Stones, Norm Meier, directors-risk management engineering services.

Contact: Richard Wnek or Tina Sodhi.

Construction Technology Laboratories Inc. (CTL)

5420 Old Orchard Road,
Skokie, Ill. 60077-1030;
847-965-7500; fax: 847-965-6541
www.c-t-l.com

1997 revenues	
Total gross revenues	$14,730,202
Unbundled property loss control/engineering	32%
Unbundled property loss control/ engineering revenues	$4,713,665
Staff	
Total	127
Professionals	32
Includes: 20 ASCEs, 32 PEs	
Clients	
Total property loss control/engineering	24

Loss control services began: 1987.

Parent: Portland Cement Assn.

Services: Onsite plant loss prevention inspections, hazard identification, building plan reviews, client training, building code consulting, structural review, determination of loss.

Region served: Nationwide; Argentina, Australia, Canada, Colombia, Guatemala, Hong Kong, India, Japan, Korea, Mexico, Peru, Saudi Arabia, Spain, Sweden, West Indies, Venezuela.

Branch offices: Denver and Littleton, Colo.

Officers: John Fraczek, president; W. Gene Corley, vp; Marion J. Szczech, secretary/treasurer/vp-finance & administration.

Contact: W. Gene Corley.

Mac Curless Co.

7623 E. 26th St.,
Wichita, Kan. 67226;
316-687-5533; fax: 316-687-3516

1997 revenues	
Total gross revenues	$105,000
Unbundled property loss control/engineering	100%
Unbundled property loss control/ engineering revenues	$105,000
Staff	
Total	1
Professionals	1
Includes: 1 PE, 1 SFPE	
Clients	
Total property loss control/engineering	7

Loss control services began: 1995.

Services: Onsite plant loss prevention inspections, fire prevention inspections, hazard identification, building plan reviews, building code consulting, fire loss investigations, expert testimony.

Specialties: Petrochemical, food processors.

Region served: Nationwide; Australia, Canada, Europe, Mexico, Philippines.

Contact: Mac Curless.

ECS Risk Control Inc.

600 Eagleview Blvd.,
Exton, Pa. 19341;
800-858-0853; fax: 610-458-7285
www.ecsriskcontrol.com

1997 revenues	
Total gross revenues	$10,500,000
Unbundled property loss control/engineering	5%
Unbundled property loss control/ engineering revenues	$525,000
Staff	
Total	76
Includes: 4 ARMs, 5 CSPs, 1 PE	
Clients	
Total property loss control/engineering	30

Loss control services began: 1985.

Parent: ECS Inc.

Services: Onsite plant loss prevention inspections, hazard identification, publications, client training.

Region served: Nationwide.

Branch offices: Los Angeles; San Francisco; Hartford, Conn.; Orlando, Fla.; Atlanta; Chicago; Boston; Detroit; Toledo, Ohio; Dallas; Houston.

Officers: William Kronenberg, president/CEO; Frank Piliero, executive vp/CFO; James F. Splain, senior vp.

Contact: James F. Splain.

ESIS Inc.

1601 Chestnut St., TL32G,
Philadelphia, Pa. 19192-2325;
215-761-6779; fax: 215-761-5476

1997 revenues	
Total gross revenues	$160,000,000
Unbundled property loss control/engineering	3%
Unbundled property loss control/ engineering revenues	$4,800,000
Staff	
Total	196
Professionals	68
Includes: 32 ARMs, 7 ALCMs, 24 ASCEs, 55 ASSEs, 32 CSPs, 27 PEs, 42 SFPEs	
Clients	
Total property loss control/engineering	206

Loss control services began: 1971.

Parent: INA Financial Services.

Services: Onsite plant loss prevention inspections, fire prevention inspections, plant security inspections, hazard identification, building plan reviews, publications, research, client training, building code consulting, pre-emergency planning, hydraulic analysis, sprinkler plan review, boiler/machinery risk and jurisdictional inspection.

Specialties: Petrochemical, public utilities, heavy construction.

Region served: Worldwide.

Branch offices: Los Angeles; San Francisco; Atlanta; Chicago; Boston; New York; Philadelphia; Dallas; Houston.

Officers: Raymond Hafner, president; Brian O'Hara, vp/CFO; Sharon Simpson, James Young, vps; William Bruce Hemphill, director-legal services.

Employers Risk Services

1240 Fairway St., P.O. Box 628,
Bowling Green, Ky. 42102;
800-378-2540; fax: 502-782-7654

1997 revenues	
Total gross revenues	$5,000,000
Unbundled property loss control/engineering	5%
Unbundled property loss control/ engineering revenues	$250,000
Staff	
Total	5
Professionals	5
Includes: 1 CSP	
Clients	
Total property loss control/engineering	100

Loss control services began: 1994.

Services: Onsite plant loss prevention inspections, hazard identification, research, client training, supervisor training.

Specialties: Lumber industry.

Region served: Southeastern states; Oklahoma.

Branch offices: Bowling Green and Lexington, Ky.; Oklahoma City; Knoxville and Nashville, Tenn.

Officers: Tim Renfro, president; Don Turner, vp; John Morgan, CEO.

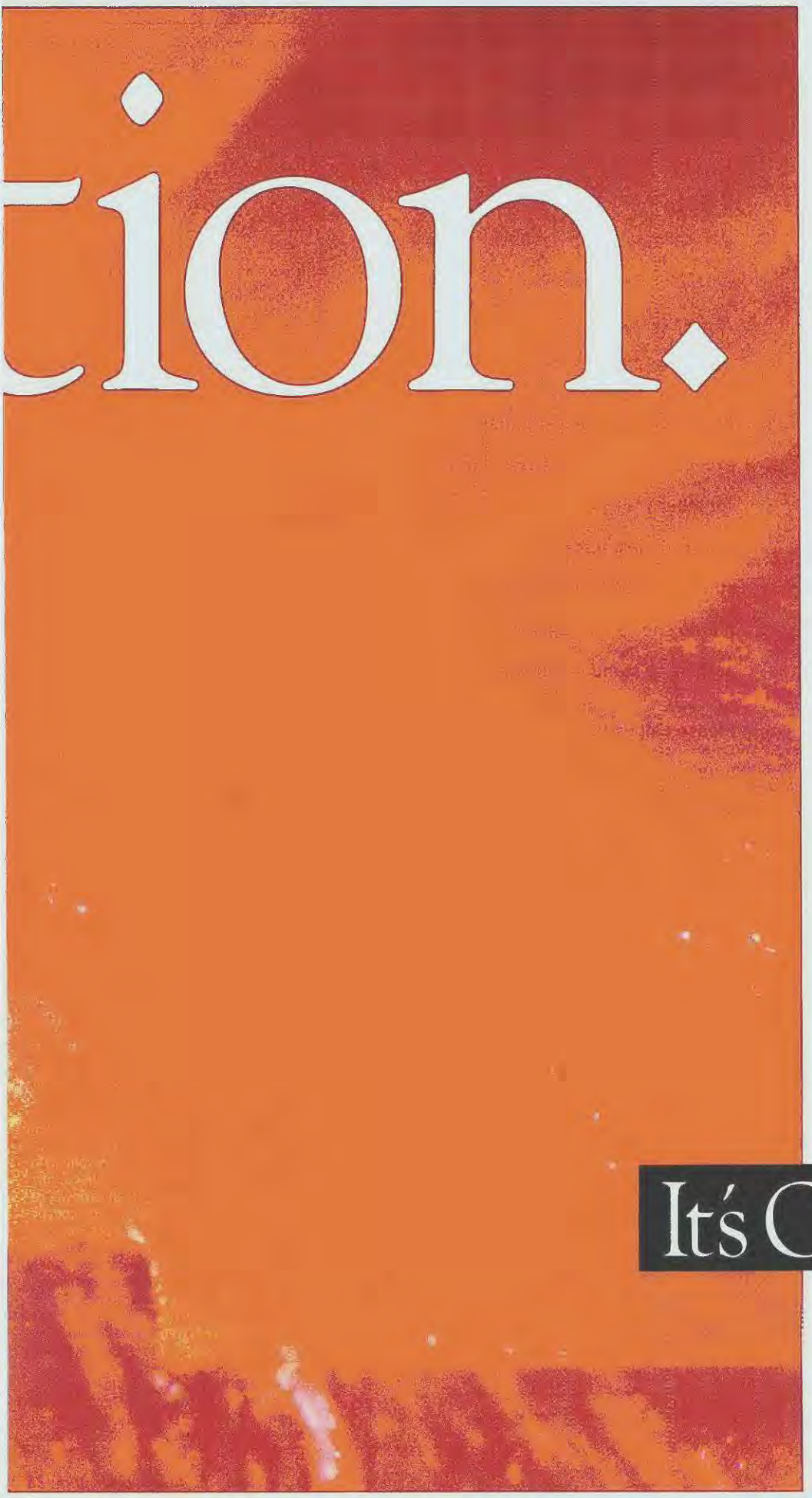
Contact: Kelly G. Park.

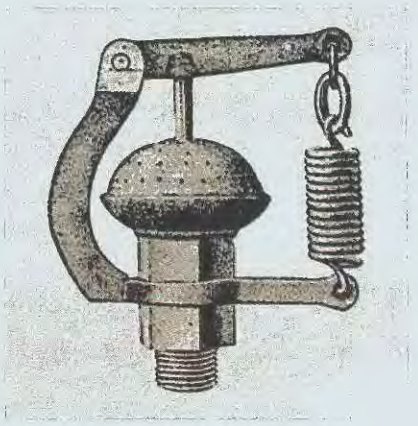
Environmental Risk Ltd.

120 Mountain Ave.,
Bloomfield, Conn. 06002;
860-242-9933; fax: 860-234-9055
www.erl.com

1997 revenues	
Total gross revenues	$5,000,000
Unbundled property loss control/engineering	30%
Unbundled property loss control/ engineering revenues	$1,500,000
Staff	
Total	42

Continued on next page





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Continued from previous page

Professionals....32
Includes: 4 PEs

Clients

Total property loss control/engineering....100

Loss control services began: 1985.
Services: Onsite plant loss prevention inspections, hazard identification, building plan reviews, publications, research, client training, pollution liability insurance surveys, environmental compliance audits.
Specialties: Pollution liability insurance companies, financial institutions, real estate developers.
Region served: Nationwide; Canada, Central America, Europe, Japan, South America.
Branch offices: Roswell, Ga.; Clifton, N.J.
Officers: Richard S. Atkins, David I. Brandwein, Gordon T. Brookman, Mitchell M. Wurmbrand, principals.
Contact: David I. Brandwein.

The directory begins on page 22.

F

FIRECON
P.O. Box 231,
East Earl, Pa. 17519;
717-354-2411; fax: 717-354-7233
www.firecon.com

1997 revenues

Total gross revenues....$100,000
Unbundled property loss control/engineering....100%
Unbundled property loss control/engineering revenues....$100,000

Staff

Total....2
Professionals....1

Clients

Total property loss control/engineering....100

Loss control services began: 1980.
Services: Onsite plant loss prevention inspections, fire prevention inspections, hazard identification, client training, emergency preparedness services.
Region served: Nationwide; Australia.
Officers: R. Craig Schroll, president.

FIREPRO Inc.
100 Burtt Road,
Andover, Mass. 01810-5920;
781-270-5200; fax: 781-229-2922

1997 revenues

Total gross revenues....$1,000,000
Unbundled property loss control/engineering....50%
Unbundled property loss control/engineering revenues....$500,000

Staff

Total....11
Professionals....7
Includes: 5 PEs, 5 SFPEs

Loss control services began: 1970.
Services: Onsite plant loss prevention inspections, fire prevention inspections, hazard identification, building plan reviews, research, client training, building code consulting, fire litigation support, fire scene examination.
Specialties: General business/industrial, health care, property management.
Region served: Nationwide; United Kingdom.
Contact: Lee C. DeVito, president.

G

Gage-Babcock & Associates
3975 Fair Ridge Drive, Suite 310,
Fairfax, Va. 22033-2924;
703-934-6440; fax: 703-385-6749

1997 revenues

Total gross revenues....$6,000,000
Unbundled property loss control/engineering....10%
Unbundled property loss control/engineering revenues....$600,000

Staff

Total....65
Professionals....40
Includes: 3 ARMs, 3 ASSEs, 4 CSPs, 24 PEs, 30 SFPEs

Clients

Total property loss control/engineering....25

Loss control services began: 1952.
Services: Onsite plant loss prevention inspections, fire prevention inspections, plant security inspections, hazard identification, building plan reviews, publications, research, client training, building code consulting, fire modeling, performance-based code consulting/design, gas disperseal modeling.
Region served: United States; Far East, Middle East, South America.
Branch offices: Los Angeles; San Francisco; Atlanta; Oak Brook, Ill.; Armonk, N.Y.; Fairfax, Va.; Vancouver, British Columbia; South Korea.
Officers: Thomas W. Jaeger, president; Alfred J. Longhitano, vp-treasurer; Mario A. Antonetti, secretary; Frederick C. Bradley, director; Charles E. Hahl, principal.
Contact: Douglas J. Rollman, director-business development.

Gallagher Bassett Services Inc.
2 Pierce Place,
Itasca, Ill. 60143-3141;
630-773-3800; fax: 630-285-4000
www.gallagherbassett.com

1997 revenues

Total gross revenues....$126,000,000
Unbundled property loss control/engineering....11%
Unbundled property loss control/engineering revenues....$13,860,000

Staff

Total....65
Professionals....50
Includes: 7 ARMs, 1 ALCM, 24 ASSEs, 13 CSPs, 2 PEs, 3 SFPEs

Clients

Total property loss control/engineering....390

Loss control services began: 1962.
Parent: Arthur J. Gallagher & Co.
Services: Onsite plant loss prevention inspections, fire prevention inspections, plant security inspections, hazard identification, building plan reviews, publications, research, client training, building code consulting, property insurance underwriting surveys, ergonomics and industrial hygiene surveys, claims loss and statistical studies, security audits and analysis.
Specialties: Institutional, municipalities, religious.
Region served: Nationwide; Australia, Canada, Fiji, Indonesia, Mexico, Puerto Rico, Singapore, United Arab Emirates, United Kingdom.
Branch offices: Los Angeles; Colorado Springs, Colo.; Atlanta; Miami; St. Louis; Melbourne and Sydney, Australia.
Officers: John G. Campbell, chairman; Peter J. Durkalski, president; Joe Slifka, Emil Bravo, Rich McKenna, vps.
Contact: Emil Bravo.

Global Risk Consultants Corp.
99 Wood Ave. S.,
Iselin, N.J. 08830-4114;
732-635-4400; fax: 732-635-4499

1997 revenues

Total gross revenues....$20,600,000
Unbundled property loss control/engineering....90%
Unbundled property loss control/engineering revenues....$18,540,000

Staff

Total....170
Professionals....101
Includes: 4 ARMs, 20 ASSEs, 15 CSPs, 20 PEs, 50 SFPEs

Clients

Total property loss control/engineering....700

Loss control services began: 1958.
Parent: International Risk Management Group.
Services: Onsite plant loss prevention inspections, fire prevention inspections, hazard identification, building plan reviews, research, client training, building code consulting, boiler and machinery loss control, jurisdictional mechanical inspection, infrared thermographic analysis, process safety management consulting, claims consulting.
Specialties: Energy and chemical, pulp and paper, food and grain.
Region served: Nationwide; Africa, Asia, Australia, Europe, North America, South America.
Branch offices: Los Angeles and Oakland, Calif.; Wilmington, Del.; Atlanta; Kansas City, Kan.; Louisville, Ky.; Detroit; Minneapolis; St. Louis; Iselin, N.J.; Winston-

Continued on page 32

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Insurer Topics

A special editorial section
sent exclusively
to insurers and reinsurers



Government relations

Lobbyists eagerly diagnose patient protection effort

Inside:

Opinions mixed on success of drive for federal cat program Page 26C

Technology helping regulators ease licensing, filing Page 26F

Simple, concise messages best, AIA official says Page 26H

Insurer Topics

Patient protection bills draw lobbyists

By RODD ZOLKOS

Keenly aware of the potential impacts of various patient protection bills being debated in Congress, health care insurers, employer groups and trade organizations are mounting major lobbying campaigns to voice their perspectives on the issue.

"This has been a very active year for us," said Bill Pierce, director of public affairs for the Blue Cross & Blue Shield Assn. in Washington.

"Obviously, we are fully engaged in the debate in Washington," Mr. Pierce said. BC/BS has mounted a vigorous lobbying campaign on Capitol Hill, meeting with members of Congress in both houses and on both sides of the aisle.

"As the debate has gone from being very focused to very broad, that changes who the audience is somewhat," Mr. Pierce said.

Early on, the effort focused on congressional task forces and key committee members looking at modifying managed care. As votes began to occur on specific bills, "we then kind of broadened it to include more members than that," Mr. Pierce said.

The Blues also have been running "inside the Beltway" advocacy advertising aimed directly at the staff and members of Congress to reinforce the message sent through direct lobbying. "Hearing it and seeing it is what we want to create," Mr. Pierce said.

BC/BS also has done a "fair amount" of public opinion research, which the organization uses both in its own dealings with policyholders and to bolster the points in its advocacy advertising.

Another piece of the equation is a media strategy involving talking to reporters. "We must have done a half-dozen briefings this year on various issues that were before Congress," Mr. Pierce said.

While he wasn't sure how much his organization has spent so far on lobbying in connection with the patient protection legislation, Mr. Pierce said, "Obviously, this is a very big issue for the Blue Cross & Blue Shield system, and we commit what we consider the necessary and available resources to it."

As have other insurance and employer organizations, Blue Cross & Blue Shield has been actively involved in the Health Benefits Coalition, a group that has been carrying much of the weight of representing employer and insurer interests in the debate over patient protection legislation.

> *'We must have done a half-dozen briefings this year on various issues that were before Congress.'*
> — Bill Pierce

The coalition includes 31 insurance and employer organizations. In addition to BC/BS, participants include Aetna U.S. Healthcare, the American Assn. of Health Plans, the American Insurance Assn., CIGNA Corp., the Health Insurance Assn. of America, Humana Inc. and Prudential HealthCare.

Also participating in the coalition are the Business Roundtable, the National Assn. of Manufacturers, the ERISA Industry Committee and the National Federation of Independent Business.

Industry efforts have involved "kind of coordinating the lobbying and communication so the left hand knows what the right hand is doing," said Alan Mertz, vp-government relations at the Washington-based Health Care Leadership Council.

"You've got to do something on your own for your membership and to address your own individual concerns," said Julie Goon, vp-government affairs for the American Assn. of Health Plans. But, she said, joining with other groups in the coalition's activities has "a multiplier effect."

"We're definitely all interrelated," Ms. Goon said.

Through June, the coalition had spent about $2 million on its campaign to influence the patient protection legislation debate, with considerably more expected to be spent during the August congressional recess. The recess is seen as a key period for bringing pressure to bear in congressional members' home districts.

As do many groups participating in the Health Benefits Coalition, the Washington-based HIAA continues with its own efforts to make sure congressional representatives and staff "understand how the insurance industry works," as well as the potential impact of legislation on employers and the public, according to Richard Coorsh, a spokesman for the association.

But, he noted, "We've been working through the coalition to get across our concerns."

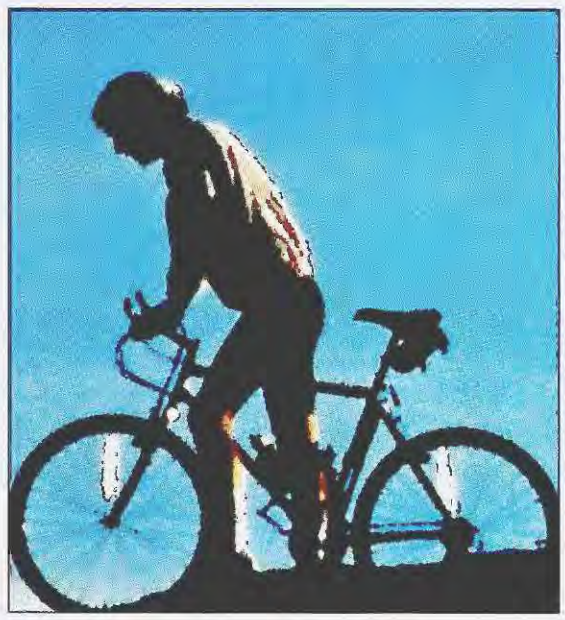
The Health Care Leadership Council has taken a similar approach. "Educating members of Congress is part of what we do," Mr. Mertz said.

"We do some grass-roots (efforts), too, where we will communicate with members back in their districts," Mr. Mertz said. "We have companies that are based all over the country, so we communicate with the members of Congress back there."

The coalition began its efforts to sway congressional and public opinion on the patient protection issue in January with a strategy that combined lobbying, media relations, advertising and grass-roots efforts.

Continued on next page

GET THE BROADER VIEW.



Continued from previous page

The initial advertising was intended to "slow the train down," particularly in connection with efforts to amend the Employee Retirement Income Security Act to allow malpractice suits against employer-sponsored health plans.

Part of the basis for that effort was the notion that many in Congress who had signed onto a measure introduced by Rep. Charles Norwood, R-Ga., to amend ERISA did not fully understand the implications of such a move.

One of the advertisements the coalition ran at that time featured an image of Frankenstein's monster warning Congress to "be careful when you play doctor, because you might create a monster."

As this year's congressional session continued, during each recess the coalition took its message outside the Beltway, targeting its campaign through June at key legislators in the patient protection bill process. The effort then was fine-tuned further to focus on legislators who might be pivotal in the patient protection debate.

While the coalition sees shortcomings in all the various measures now before Congress, the top priority at this point is to defeat the Patients' Bill of Rights legislation promoted by Sen. Edward Kennedy, D-Mass., and Rep. John Dingell, D-Mich.

A particular focus of the coalition's lobbying effort is fighting the "right to sue" issue in that bill; the group also has tried to drive that message home to the public through its advertising campaign.

During House debate on that chamber's version of the Kennedy-Dingell bill, the coalition's campaign was particularly intense in about 15 media markets across the country, targeting the efforts to critical legislators. A toll-free phone number soliciting telegrams to callers' congressional representatives generated about 12,000 such telegrams during a 10-day period.

A similar campaign was to be mounted during the August recess, probably in 10 to 12 states of key senators or where labor unions are pushing patient protection legislation.

According to Mr. Mertz, the defeat of Rep. Dingell's proposal in the House last month shows the value of the sort of lobbying effort insurers, employers and others have put forth to make their views heard during the patient protection debate.

"I think it was important to shape the debate and, ultimately, the debate that the bill fostered to expand the liability," he said. "I think we won that issue." BI

Differences of opinion surround federal cat reinsurance program

By ROBERTO CENICEROS

Lobbyists backing a federal natural catastrophe reinsurance program say their decade-long effort is finally paying off and that they are closer than ever to success.

Others disagree. They note that insurance associations are split, with some favoring measures such as a tax law change that would help their members build up catastrophe reserves rather than create a broader government program.

Those favoring a federal reinsurance program in July scored a victory when the House Banking Committee approved H.R. 219, the Homeowners Insurance Availability Act, sponsored by Rep. Rick Lazio, R-N.Y. The bill would provide government reinsurance protection to state-run catastrophe programs and private insurers providing homeowners coverage in catastrophe-prone regions.

The committee's passage of the disaster bill is a "fairly notable event," said Frank Nutter, president of the Reinsurance Assn. of America in Washington. "It's a major committee of the Congress, and it's the furthest any legislative proposal dealing with catastrophes has moved."

For years, lobbying efforts for catastrophe legislation have come and gone under a variety of names and organizations, making limited headway. Now, H.R. 219 backers can point out that the Homeowners Insurance Availability Act had bipartisan support when it garnered a 33-12 vote for approval by the Banking Committee. Additionally, the U.S. Treasury Department appears to support the idea, which calls for the Treasury to administer the program and sell reinsurance contracts to private and state insurers.

Insurance industry supporters of the bill do not expect more significant action on the issue this session. Time is running out on the current congressional session, and the Senate has shown no interest in catastrophe legislation. But the Banking Committee's approval has created the momentum necessary for the issue to be heard in the next session of Congress, the bill's proponents say.

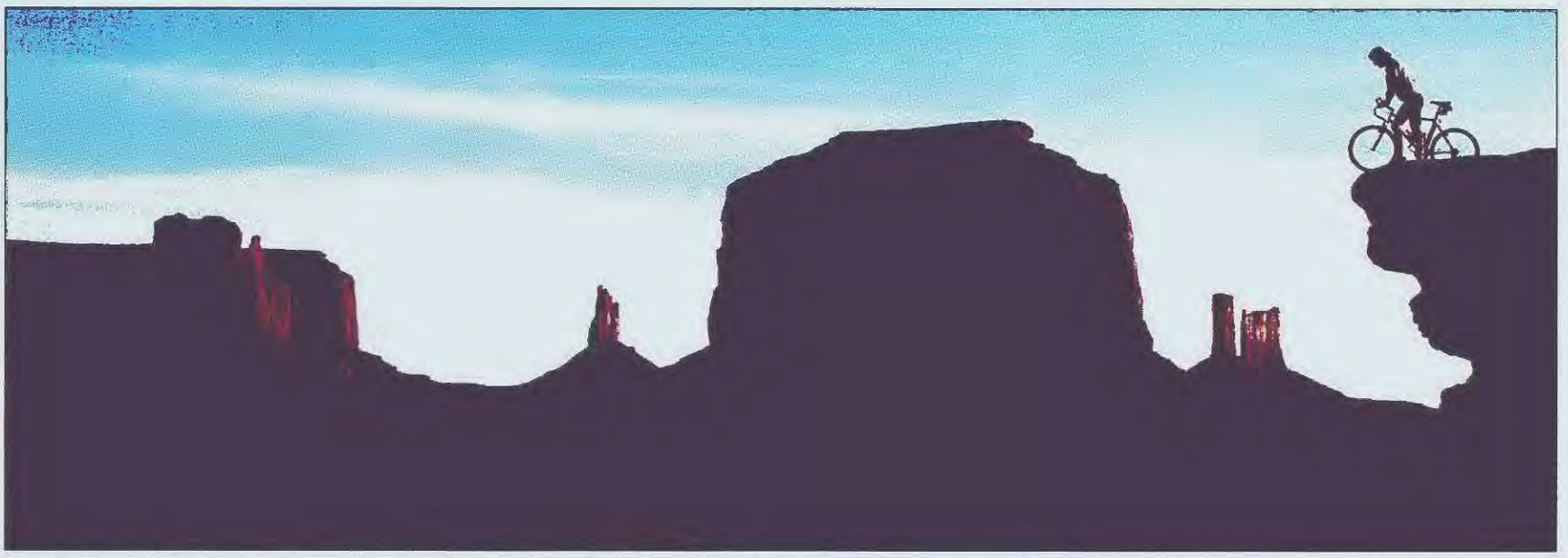
And with weather extremes a current concern, Congress is ready to act on a bill, they argue.

But other lobbyists opposing the bill don't see enough industry consensus for final passage.

Lobbyists favoring H.R. 219 have merely moved the football a little farther down the field, said Peter A. Lefkin, senior vp-government and industry affairs in Washington for Novato, Calif.-based Fireman's Fund Insurance Co. After 20 years of lobbying in Washington, Mr. Lefkin said he is accustomed to claims of progress where there is none. "I've heard the same thing on product liability legislation before, where Washington people measure success from the 10- to the 20-yard line," he said.

See **Program** on next page

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Program

Continued from previous page

"The only thing that is going to move any natural disaster legislation, God forbid, is going to be a natural disaster," Mr. Lefkin said. "The lobbyists are always delighted to measure success and tell their clients they have accomplished something. But this thing is dead."

H.R. 219's proposed reinsurance program would have a trigger point set at the greater of $2 billion or an amount that covers a state's losses for a one-in-100-years event.

But it also states that the trigger has to be above the capacity available in the private insurance and reinsurance market, Mr. Nutter explained. The trigger would drop down to the $2 billion or one-in-100-years loss only if coverage were not available in the private sector. Therefore, the reinsurance program would not compete with private reinsurance or capital markets.

Similar proposals introduced in past years did not contain that language, so the RAA did not support them, Mr. Nutter said.

The association does support H.R. 219, though members don't like the bill's potential impact of increasing state insurance funds, Mr. Nutter said. "Our view is that there is a role for the government because there are potential catastrophe losses that exceed the capacity of the private insurance and reinsurance markets," he said.

> *'The only thing that is going to move any natural disaster legislation, God forbid, is going to be a natural disaster.'*
>
> — Peter A. Lefkin

The Independent Insurance Agents of America Inc. is a major proponent of H.R. 219, said Thomas C. McCrocklin, the organization's senior Washington representative.

Some agents in several disaster-prone areas continue to complain of unhappy customers because insurers still are reluctant to write in areas subject to catastrophes, Mr. McCrocklin said.

Insurers are "bailing, basically because they are afraid of that megadisaster," he said. "The thought is, if we can bring certainty to these failing markets, then the companies come back and it gives our agents business to write."

Some of the insurance associations that say the trigger level on H.R. 219 is too low are doing so only to kill the bill, Mr. McCrocklin said.

The reinsuring of state insurers and the trigger point are two issues stirring debate among several insurer lobbyists and their associations.

Fireman's Fund opposes an increase in state-mandated pools. There is plenty of capacity in the private market to handle a catastrophe that fits within the $2 billion range, Mr. Lefkin said.

Fireman's Fund would support a catastrophe reinsurance mechanism similar to H.R. 219 but with a much higher trigger, Mr. Lefkin said, of perhaps $25 billion. What really is needed are more mediation efforts and greater underwriting flexibility for private insurers, so they have more freedom in setting conditions such as higher deductibles for catastrophe-prone areas, he said.

While Fireman's Fund opposes H.R. 219, the insurer is not exerting a lot of effort on the issue because it has little chance of passing, Mr. Lefkin said. Fireman's Fund also has good relations with the members of Congress sponsoring and supporting the bill.

"We don't necessarily want to antagonize them," he said.

Some organizations, such as the Alliance of American Insurers, oppose H.R. 219 because it could encourage the creation of more state insurers, said David M. Farmer, senior vp-federal affairs in Washington for the Downers Grove, Ill.-based Alliance.

That essentially amounts to taxpayers subsidizing the problem rather than tackling the problem at its roots, he said. A better tack is to address underlying issues, such as excessive development in coastal areas, land use planning and building codes.

"You don't build houses in the path of hurricanes and then expect other people through the insurance mechanism to subsidize people who choose to purchase homes that are at risk," Mr. Farmer said.

The Alliance represents equal numbers of insurers that write commercial business and those that write personal lines. Commercial insurers have not concerned themselves much with the issue, Mr. Farmer said, while personal lines companies are more focused on it.

The membership of some insurance organizations is divided, several Washington observers said. They point out that American Insurance Assn., of which Fireman's Fund is a member, is not enthusiastic about H.R. 219. Still other key members, including Warren, N.J.-based Chubb Corp., support the bill.

Rick Lawson, vp-federal affairs for the AIA, said association members will convene later this year to discuss the bill because it has gone through several changes. There is no urgency on the matter because the bill will not become law this

See **Program** *on page 26F*

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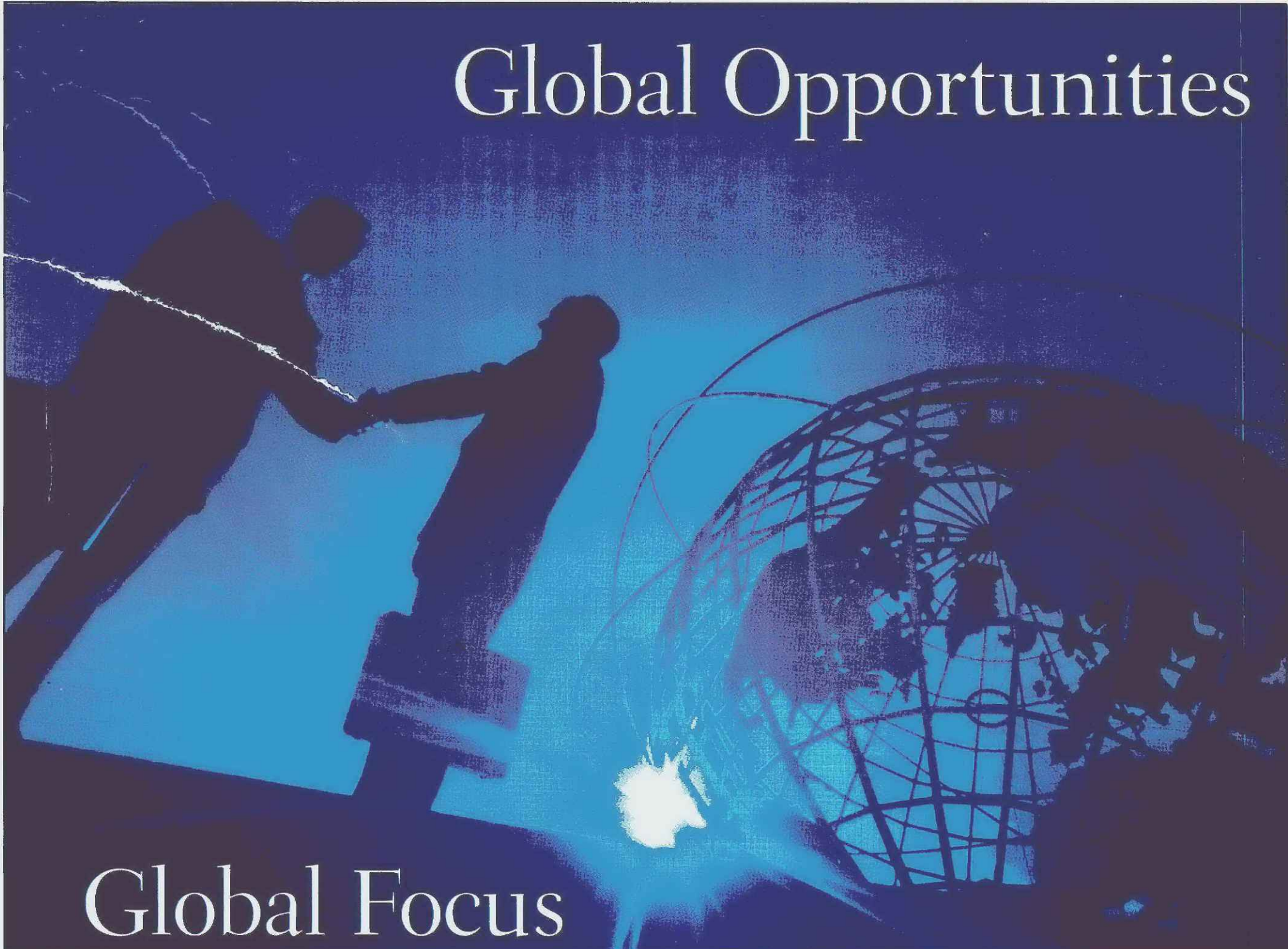
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Program

Continued from page 26D

year, Mr. Lawson said.

"We are just trying to find a federal program that comes in where there are no private market resources to fill the gap," he said.

Some members of the Des Plaines, Ill.-based National Assn. of Independent Insurers would rather see a tax law favorable for building catastrophe reserves, said Chuck Fritzel, the association's assistant vp-government relations in Washington. But currently that concept has no congressional support.

"In the meantime, we think the federal reinsurance idea is a good one," Mr. Fritzel said.

"We do believe it is necessary to have some kind of a backup for mega-natural catastrophe events. The private insurance industry just does not have the capacity to handle these one-in-100-type events," he said.

Although the NAII has some commercial lines members, the organization generally represents personal lines insurers, including several smaller companies. Under the legislation, small single-state insurers could share in the purchase of reinsurance contracts, Mr. Fritzel said. BI

Regulators moving to ease licensing, filing

By MEG FLETCHER

State insurance regulators are making progress on several form-filing and licensing initiatives that use computer-based technology to improve the regulation of insurers.

Regulators "are literally reinventing the way the insurers and the producer community can interface with the many state insurance regulators around the country," said Glenn Pomeroy, the North Dakota insurance commissioner and president of the National Assn. of Insurance Commissioners. "We can make that work a lot better through these initiatives," which are included in a program known as "State Regulation 2000," he said (*BI*, Feb. 9).

One of the most important NAIC initiatives for insurers is the System for Electronic Rate and Form Filing, which permits insurers to exchange rate and form-filing information electronically with state insurance departments and eases communication, management, analysis and electronic storage of those filings.

"Seven states and 16 companies have moved this program out of pilot testing and into actual production," including his North Dakota Insurance Department, Mr. Pomeroy said recently.

Life insurers in particular welcome this program. "The life industry finds that policy form filing process really needs improvement," said Patty Parachini, legislative director for the American Council of Life Insurance in Washington.

However, some insurers participating in SERFF are a little concerned because some state insurance departments still are requiring them to follow their electronic submissions with traditional paper filings, said Lenore S. Marema, vp-legal and regulatory affairs for the Alliance of American Insurers in Downers Grove, Ill. That duplicates the work for insurers rather than streamlining it.

While the American Insurance Assn. shares that concern, "we believe this (duplicate paper filing) is a temporary thing," said Michael Lovendusky, assistant general counsel with the AIA in Washington.

Insurers also are interested in the Accelerated Licensure Evaluation and Review Techniques initiative, which is designed to eliminate insurer licensing and approval barriers in multiple states and increase uniformity and consistency across state boundaries.

As part of the ALERT program, the NAIC has developed a Uniform Certificate of Authority Application that insurers can simultaneously file with multiple states, attaching only a few state-specific items to each state's copy of the filing. Prior to the uniform application, each state had a different application format, set of required documents and review process.

"Seven states in March signed on to this uniform application process, and I am happy to report that number is now 10, and I am told that an additional 20 states are very actively considering what they must do in order to sign on to the ALERT program," Mr. Pomeroy said.

While acknowledging the ALERT initiative's progress so far Ms. Marema is "skeptical" about individual states' willingness to move toward greater uniformity by relinquishing their state-specific requests for information.

Other initiatives include the Producer Database, which will allow states and insurers to share information—including biographical and enforcement data—about agents and brokers, so they can make better decisions about who should be able to sell insurance in the United States.

Currently, insurance departments in 14 states—representing 70% of U.S. producers—regularly send information to the database. Five additional states—Arizona, California, Connecticut, Illinois and New Jersey—are expected to join them soon.

New York's recent decision to participate received an enthusiastic response from Mr. Pomeroy. That was a "huge step because of the size of the state and the producer population," he said.

The NAIC also is making progress in establishing its Producer Information Network, which will allow regulators and insurers to exchange producer-related information about appointments, terminations and license applications. A pilot project to test the PIN network, involving Iowa and Missouri and five insurers, will be completed by August, after which all states and insurers will be invited to participate.

Other NAIC initiatives focus more directly on agents and brokers, including the Uniform Treatment Project, which seeks to reduce discriminatory practices and barriers in the appointment of non-resident agents and brokers and encourages state regulators to accept a uniform licensing application form. Examples of discriminatory practices some states impose on non-resident agents and brokers include banning the sale of insurance by non-residents without an office in the state.

A driving force behind this streamlining effort is the possibility of federal pre-emption of regulatory authority over the licensing of agents and brokers (*BI*, Feb. 9). A pending federal financial modernization bill would create a National Assn. of Registered Agents & Brokers, a national clearinghouse for insurance broker licensing that could eventually pre-empt states' authority to impose disparate requirements (*BI*, July 7, 1997).

For state insurance regulators, the main barrier to streamlining producer regulation is getting the issue up high enough on commissioners' radar screens so that they commit to it and begin working to implement it, Mr. Pomeroy said. That may include asking their respective state legislatures for statutory changes, he added.

"It's important to get as many states on board as possible," the ACLI's Ms. Parachini said.

From insurers' perspective, they are waiting for a critical mass of states to adopt the new initiatives, the AIA's Mr. Lovendusky said. For the Producer Database, he roughly defined that benchmark as involving 80% of agents and brokers and the 10 largest states. In addition, the information would have to be updated at least weekly, he said.

A major fund-raising drive is under way primarily to help the NAIC develop the producer-related initiatives. The current campaign seeks about $3 million to $4 million from primarily property/casualty insurers, said Larry Kibbee, vp-director of public affairs with the Alliance. The life insurance industry previously provided about $3.5 million for these initiatives. BI



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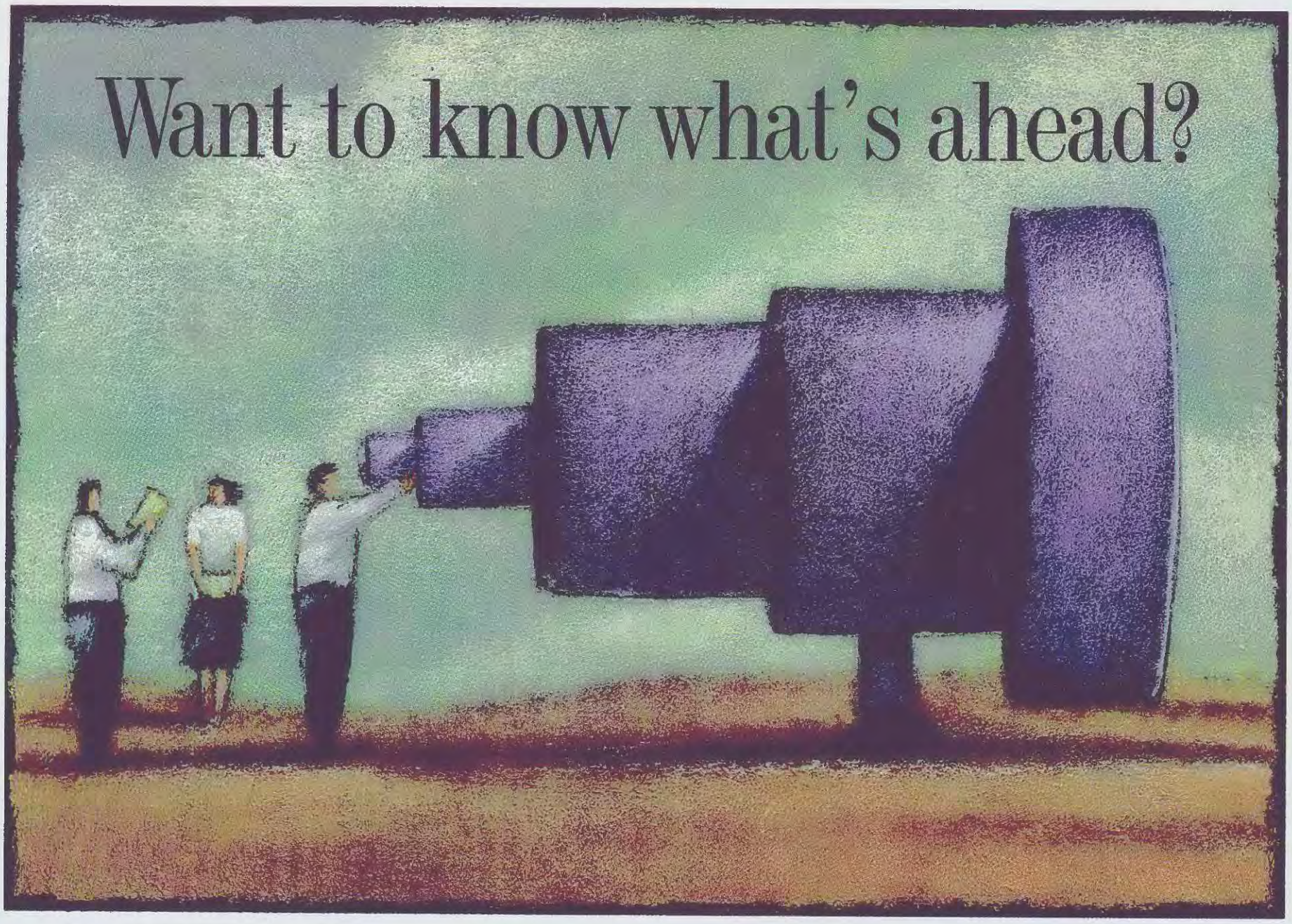
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Simple, supportable messages work best

By Joseph A. DiGiovanni

IT Perspective

Getting your message heard in legislative and regulatory arenas can be a difficult task. The American Insurance Assn. has actively pursued reforms and other measures in both of those areas, in all 50 states and on Capitol Hill.

Through the years, the association has effectively persuaded legislators and regulators to listen to our message and act on our recommendations. What we've learned is that our most effective legislative strategies pursue reasonable goals. The best messages are simple, concise, supportable by facts and delivered by someone with credibility.

In our dealings with legislators and regulators, AIA's message is always the same: Competition is better. The method of delivery may change, as may local tactics, but the underlying theme—the core philosophy—remains. Regulations and laws should be crafted to stimulate competition and encourage the development of mature insurance marketplaces. If there's anything history has shown, it's that competition makes people work harder, think smarter and be more productive. It also results in fairer prices for consumers.

Most insurance executives would agree that the insurance industry is the most heavily regulated private business in existence. Too little of that regulation inspires competition. In the name of protecting consumers, it places a heavy burden on insurance providers and ends up making the products less innovative and more expensive. Over the years, the AIA has been a staunch advocate of state-by-state regulatory reform and has worked to pass numerous pieces of legislation. During that time, some lobbying principles have emerged.

First, define clear objectives. It's obvious but sometimes overlooked: You have to know what to ask for to get what you want. Over the past three years, the AIA has led efforts in more than 20 states to identify and reform antiquated insurance laws and regulations. Many of these rules were implemented at a time when most insurance purchases were local. Now, numerous insurers have interstate and international customers. The AIA's efforts are aimed at keeping the regulatory environment in step with the marketplace. A primary target has been price controls on commercial lines of insurance. This year, the AIA focused on eight states (Massachusetts, New Hampshire, New York, Pennsylvania, Arkansas, Alaska, California and Oklahoma) to change their systems from regulator-dependent to market-dependent. In each of these states, regulators must approve rates insurers charge their customers. This relegates insurance pricing to the government. Imagine the government setting prices on automobiles. Or personal computers. Or ground beef.

One of the most important aspects of a legislative or regulatory effort is that the message be clear, concise and consistent. With insurance, it's sometimes difficult to take the reams of technical information and boil it down to plain English. But it has to be done. Legislators deal with countless issues and myriad proposals. They don't have time to study the nuances and intricate details of every item that comes across their desks. It's the advocate's job to present the information in a form the legislator or regulator can understand, digest and act on.

It's also essential that the message be supportable by the facts. The AIA uses its legal department and a professional research team to ensure that our positions are supported by real-world activity. That's actually a part of our goal-setting process. Equally important, information should be absorbed by the association representatives who deal with legislators and their staffs, and the news media. When the inevitable request for a detailed explanation occurs, the spokesperson must be ready.

Making use of local resources also is important to getting your message heard. Part of this is identifying elected officials philosophically aligned with your position and establishing a continuing relationship. Through the years, the AIA has found that the most effective messengers are people already in the community. They're also the best at identifying legislative and regulatory allies. In addition to seven regional offices and an office in Washington, AIA has lobbyists and counsel in all 50 states. This presence has helped us establish unique relationships with legislators and regulators, as well as find other sources to increase support locally.

Another resource, often underused, is the insurance company representative. These representatives don't always have to be chief executive officers or company presidents. Many times, the most effective representative is a branch manager who can discuss how the proposed legislation or regulatory reform will affect his or her day-to-day operations. Insurance agents also have proved to be willing and persuasive advocates. Other times, in carefully selected situations, a face-to-face conversation between CEOs and legislative leaders and governors has tremendous impact.

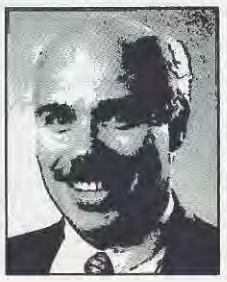
It's also critical to develop alliances within the non-insurance business community. A variety of businesses are interested in controlling their workers compensation expenses, for example, and have led reform efforts in many states. Doing your homework, which is important in setting goals and message development, also can help recruit other businesses by demonstrating the effect a proposed regulatory change would have on that company's insurance premiums. For many companies, insurance is a major expense. They're always willing to help in the lobbying effort if it means their insurance dollars are spent more wisely and not wasted on inefficient regulation.

Success in the legislative arena also requires setting realistic goals. At the AIA, we try not to chase unrealistic objectives, which can waste valuable time and resources. Instead we focus on an aggressive agenda designed to improve our members' balance sheets. Our goal is to give our member companies a return on the dues they pay us. With the vast array of special interest groups involved in the political process, universal support for a proposal is unlikely. Staking out logical positions, supported by data, lends credibility and helps get proposals passed. It also might help defuse the worst elements of a measure harmful to industry interests.

Perhaps most importantly, those within the insurance industry must be willing to get in the trenches and fight for the type of legislative and regulatory environment needed. The reason trial lawyers and consumer groups are successful is that they're organized, aggressive and committed. While some insurance companies also have developed mechanisms that encourage employee participation in the political process, the industry as a whole will enhance its ability to pursue its agenda if more companies become involved.

Like many industries, there is much diversity in the insurance world, which can sometimes lead to division. The AIA realizes the importance of a unified industry and works with non-members and other industry organizations to ensure a united front. The industry enjoys its greatest success when it works together on issues.

Over the years, the methods of communicating messages to policy-makers may have changed, but the goals haven't. The AIA's stated mission is to lead the property/casualty industry in the public policy arena and to create a political and regulatory climate that enhances the industry's financial security and global competitiveness. With the commitment of ample resources and a unified industry message that is communicated effectively to regulators and legislators, these goals will be accomplished. BI



Joseph A. DiGiovanni is senior vp-government affairs for the American Insurance Assn. in Washington.

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Planning key to weathering disaster

By Robert Levin and Allen Gross

THE INSURANCE INDUSTRY is still reeling from our most recent natural disasters, exemplified by the Iowa storms, the Mississippi Valley floods and the Florida wildfires. It is increasingly clear, however, that catastrophic risk involves much more than such great natural disasters, the dramatic news of which flashes across the airwaves into our nation's living rooms.

Less publicized events can be just as disastrous to individual businesses and business owners. This includes everything from fires in a distribution center to an angry employee scorching a company's computer records; from an out-of-control truck that rams a nearby power transformer to a major embezzlement.

In this era of extraordinary claims exposure, the insurance industry is re-examining its underwriting policies and seeking alternative methods to protect itself against loss. At the same time, individual businesses are adopting formal catastrophe planning in greater numbers.

For example, many companies—sensitized to a loss in the case of their computer data systems—are now taking the next step to have a complete catastrophe plan. Until now, it was mostly large companies that recognized the need for planning ahead, even though they were perhaps better able to weather business losses than a midsize or undercapitalized company. However, all midsize companies now are quickly becoming aware of their inept, pre-loss preparation and realize they should move to a better position themselves.

A catastrophe plan identifies and quantifies the physical and financial resources necessary to maintain operations after a catastrophe. The plan will set forth the specific steps required to appropriately avoid, reduce or transfer loss exposures. As part of the process, insurance recovery will be carefully analyzed under various loss scenarios. This catastrophe planning bridges insurance industry concerns and practices with the specifics of a given business. Long-term risk planning makes businesses better consumers of insurance.

Should catastrophe strike, the insurance policy—a business owner's most important but least-read document—does become the executive's most critical document. It is too late, however, to assure that coverages are adequate. Without prior planning, business recovery is always difficult and sometimes impossible.

Catastrophe planning secures the type of insurance coverage required to meet the range of reconstruction and business interruption scenarios that often occur after a loss. Speed and enforcement are essential. In a competitive world with few loyalties, customers lost temporarily soon are lost permanently.

It is to your company's benefit and peace of mind to hire your own consultant. This professional will assist in developing a catastrophe plan, which will allow you to immediately restore operations in the event of a catastrophe while having the type of insurance coverage that will reimburse all of your post-loss recovery expenses.

Having a public adjuster represent your interest is now even more necessary as the insurance industry changes and becomes more regionalized. When disaster strikes, the insurance company will send out its own team of adjusters, appraisers, forensic accountants and consultants. They will comb through the site and company records. Your claim will not be handled by your agent or broker, but by the impersonal professionals dispatched directly from the insurance company.

A public adjuster has the expertise to recover damage losses in an expeditious manner. Companies can perform admirably under trying circumstances. With the proper coverage and representation, some companies end up expanding business after a catastrophe, having so impressed both customers and competitors.

Catastrophe planning should be an ongoing process. Typically, it would be as simple as an informal checklist to determine if any significant changes are to take place. Often, paperwork is easily forgotten once a business is set into motion and begins to grow. This planning is no different from a family's periodic reviews of its financial plan.

Catastrophe planning is also a team effort that can include risk managers, business owners, insurance brokers and agents, public adjusters and claims consultants, accountants and attorneys. It begins with contemplation of the unknown, and ends by addressing practical, everyday legal, financial, personnel and competitive issues.

Business planning is a process that sets out a specific course of action for various marketplace scenarios. A catastrophe plan is no different.

The first step in catastrophe planning is a thorough evaluation of the existing business and future business forecasts.

Insurance companies are rigidly enforcing their policies, even with longtime clients. Tough claims practices seen during the recent run of major disasters only highlight a well-established trend, where insurance companies attempt to offset competitive premiums with more restrictive interpretations of coverage.

In many instances, public adjusters or attorneys are engaged to help find ways to fit a company's loss "into" the pre-existing insurance policy coverages. With proper catastrophe planning, the insurance policy is tailored to your potential exposures. Surprisingly, this does not necessarily mean higher insurance premiums, just a better distribution of coverages to meet your actual needs.

This process may include: purchase of additional types of insurance, such as errors and omissions liability policies; changes in rating plans or premium payment plans; elimination of unnecessary coverages; consolidation or amendment of policy limits and conditions; reconsideration of methods of valuation; and changes in practices regarding insurance and hold-harmless requirements from lessors, suppliers or other contractors.

The catastrophe plan considers both interim and long-range strategies. Factors might include whether to relocate temporarily or outsource to fill existing orders; whether multiple locations should be consolidated; whether equipment and facilities could be modernized or expanded; even whether the business should move to a new location. This is also the time to confront competitive issues that have been mounting up, such as the need to revamp products and services or make adjustments in the workforce.

Without the proper type of coverage, businesses will be exposed to unrecoverable losses, as demonstrated by the standard business insurance forms. And, without an adequate recovery plan, it is impossible to know what you are insuring against.

Consider a manufacturer with a plant that burns down. In some cases, this manufacturer may be able to arrange production and shipment from another location; or it may have sufficient inventory on hand so no potential sales are lost. An insurer might claim no income loss had occurred, as sales never stopped.

Although sales at the time of the disaster may not be lost, the plant later realizes a decrease in forecasted income or inventory. In addition, the plant incurs a reduction of efficiency to maintain operations after the disaster. This type of spending by companies to stay running after a catastrophe is not always recognized by insurance companies as a collectible loss, or by an owner as recoverable under a business interruption claim.

Companies are encouraged to establish partnership agreements that secure assistance in the event of a business interruption. It doesn't make sense to go to a competitor when faced with contract penalties or the loss of a major client. On the other hand, when negotiated in advance from a position of mutual strength, such arrangements are increasingly successful and even welcomed within industry groups.

Business owners must understand that insurance policies do not provide complete protection, unless they are modified to meet the specific needs of the company. Unless refined, policy exclusions or limitations will prevent complete indemnification.

Consider another example: Disaster strikes; the risk manager pulls out his catastrophe plan, then calls his insurer. Coverages have been carefully tailored to a catastrophe plan, but now the risk manager must work with the insurance company's professional adjuster from its regional headquarters. Now that a loss has actually occurred, the adjuster does not agree on the "intent" of the existing coverages. Unfamiliar with the policy, the home office is bureaucratic.

Thus, an important step in catastrophe planning is to establish, in writing, that the policies can actually be enforced as intended. This supplement, kept on file by both the policyholder and the insurer, helps bridge the gap between the specific needs of a business and the structured language of most standardized insurance policies.

Now the risk manager knows that satisfactory coverage and an action plan for recovery are in place. This helps deflect the initial emotional trauma of a loss, lessening stress during the recovery process. Although the business owner knows how to respond to the disaster, there are two major obstacles to overcome: restoring the business and the preparation of a claim in accordance with the insurance contract. The risk manager must work with the insurance company's team of professionals to assure proper damage assessment and claim evaluation. Rarely do companies employ individuals with the expertise to match that of the insurance company's claim specialists. Public adjusters are commonly retained by a policyholder to prepare recoverable damage claims, consult on available options or alternatives and to recover losses after the disaster.

Here are a series of questions to answer before disaster strikes:

- Where would you relocate? Can you relocate? Could you consolidate locations? How long would it take to set up a temporary facility?
- Would you need extra help or have to lay off employees? Would you work more overtime, incurring extra expenses?
- How would you replace your inventory? How quickly could you replace it? Would there be extra costs? Or is it seasonal and likely to be irreplaceable?
- How long would you be out of business? Consider that costs to operate would likely increase as overall efficiency decreases.
- How would you deal with your customers? Do you have any of their property on your site? Are you contractually obligated for delivery dates? Are there penalties for non-compliance?
- What type of advertising or promotion would be needed to maintain business?
- Could you use outside contractors to outsource production?
- Would you have any union problems at a temporary facility?
- Are your sales or services seasonal? If you missed your season, what would you do?
- Do your book values differ from your actual values on hand? BI



Mr. Levin



Mr. Gross

Robert Levin and Allen Gross are principals of Southfield, Mich.-based Globe Midwest/Adjusters International, one of the nation's oldest and largest public adjusting companies. Messrs. Levin and Gross are past presidents of the National Assn. of Public Adjusters.

Disaster planning guide a good investment

"Disaster Planning and Recovery: A Guide for Facility Professionals"
By Alan M. Levitt
Published by John Wiley & Sons Inc., 605 Third Ave., New York, N.Y. 10158-0012
800-225-5945
$60.50

By Kevin M. Quinley

Books & Ideas

EL NINO, EARTHQUAKES, FLOODS, fires, tornadoes. There isn't much that risk managers can do to stop them.

Risk managers can, however, take steps to prevent natural and man-made disasters from becoming business debacles. To help risk managers respond to such contingencies comes a new book, "Disaster Planning and Recovery: A Guide for Facility Professionals." This book aims to help minimize the damage done to businesses by cataclysmic external events.

Author Alan Levitt is principal and managing director of Levitt, Conford & Associates, a consulting firm specializing in business continuity. This practical guide shows facility professionals how to prepare for, cope with and rebound from a disaster. Mr. Levitt clearly demonstrates that the first major step toward minimizing risk and optimizing recovery is to formulate a comprehensive disaster plan.

Drawing on his experience as a business continuity expert and using instructive case studies and vignettes—many of which previously were unpublished—to illustrate his points, Mr. Levitt shows how to develop the most cost-effective plan possible. Those bracing for the new millennium—and its accompanying "bug"—will be interested in reading Mr. Levitt's insight on the Year 2000 problem.

Throughout this book, Mr. Levitt emphasizes human factors. He describes techniques for efficiently mobilizing staff in an emergency, working effectively with key departments—such as information technology—and most importantly, alleviating the stress that disasters often impose on staff members.

While the book's target audience is facility professionals, risk managers will find much that resonates here. After all, one responsibility many risk managers shoulder increasingly is that of protecting physical facilities from damage or loss. In that context, risk managers are "facility professionals."

Mr. Levitt sidesteps one pitfall of many books of this type, i.e., offering a cookie-cutter, one-size-fits-all template. Many resources offer checklists and procedures that do give the impression that one size fits all. Instead, Mr. Levitt supplies an analytical framework and strategies for formulating a plan customized to your business needs.

He shows how to set reasonable goals that will let risk managers react more quickly, keeping in mind the big-picture goals of any organization or business. Further, Mr. Levitt provides the means for researching and conducting the five key phases of a comprehensive disaster recovery plan:

- Identifying potential disasters.
- Quantifying the risk of the occurrence.
- Establishing parameters for risk reduction.
- Forecasting the potential impact a disaster can have on personnel, plant and business processes.
- Establishing systems to neutralize those impacts.

Packing much into 415 pages, Mr. Levitt will not disappoint checklist lovers. The appendix includes a "Before," "During" and "After" checklist.

Some may consider the book overpriced. As trade publications go, however, the cost is not excessive. Further, if the book helps risk managers avert a single disaster—or mitigate the effects of one—the volume has more than paid for itself.

One final tip: Keep your copy of this book offsite. It's like keeping backed-up copies of your computer files away from the computer itself. In the event of a natural or manmade facility disaster, Mr. Levitt's checklists and suggestions won't do much good if the book is damaged or destroyed in the loss. BI



Kevin M. Quinley is senior vp of risk services for MEDMARC Insurance Co. Inc. and subsidiary Hamilton Resources Corp., both of Fairfax, Va. He holds both the Chartered Property & Casualty Underwriter and Associate in Risk Management designations.

Harassment suit defense covered under CGL

A sexual harassment suit brought by a former employee raised the potential for coverage under a commercial general liability insurance policy, according to the Supreme Judicial Court of Maine.

Amber Martin, a former employee of the Maine State Academy of Hair Design Inc., sued the company for sexual harassment. During the course of her employment, Ms. Martin alleged that officers of the company had made comments and carried out acts of a sexual nature toward her, creating an offensive work environment. Ms. Martin was terminated two days after she told a supervisor that she was considering bringing charges of sexual harassment.

The employer was covered under a CGL policy issued by Commercial Union Insurance Co. that covered damages stemming from bodily injury caused by an "occurrence." The insurance company declined to defend the employer in Ms. Martin's lawsuit. The employer then sued the insurer for breach of contract, seeking a declaration that the insurer had a duty to defend. The trial court ruled for the insurer.

The Academy of Hair Design appealed the decision, and the insurer argued that sexual harassment conduct does not constitute an accident, and therefore, does not constitute an "occurrence" under the policy.

However, the appellate court said that the accidental nature of an event for purposes of a liability insurance contract does not derive from the volitional nature of the act, but rather from the unintentional nature of the consequences flowing from the act.

The appeals court concluded that the insurance company did have a duty to defend the employer, even though the underlying claim alleged intentional conduct.

Maine State Academy of Hair Design vs. Commercial Union Insurance Co., Supreme Judicial Court of Maine, Aug. 12, 1997. (BI/03/A.—$10)

Legal Briefs

Oral request for plan information

An Employee Retirement Income Security Act claimant's oral request was sufficient to trigger the civil enforcement penalties for administrators who failed to provide a requested summary plan description, according to the 9th U.S. Circuit Court of Appeals.

John T. Crotty was employed as an attorney at a law firm from Aug. 1, 1989, to Sept. 4, 1992. He participated in ERISA plans offered by the firm. J. Gordon Cook was the plan administrator and trustee.

Mr. Crotty alleged that in January 1992, he orally requested information about the plans from Mr. Cook's assistant. Mr. Crotty never received any summary plan description or any written plan information from the time he became eligible for participation on Aug. 1, 1991, until he left the firm in September 1992.

The month after his departure from the firm, he received a statement of his account balances, which were significantly lower than those listed in his December 1991 statement.

Mr. Crotty sued the plan administrator to recover benefits and penalties under ERISA. The trial court dismissed Mr. Crotty's suit, ruling that Mr. Cook was not subject to statutory penalties under ERISA because Mr. Crotty had not made a written request.

The appellate court said that the administrator of the plans was obligated to furnish Mr. Crotty with the summary plan description at specified times without the need for any request by Mr. Crotty. According to the court, Mr. Crotty's request did not have to be in writing for the civil enforcement penalty of ERISA to apply. The trial court decision was reversed, and the case was returned for further proceedings.

John T. Crotty vs. J. Gordon Cook, 9th U.S. Circuit Court of Appeals, Aug. 15, 1997. (BI/04/A.—$10)

Horseplay injury not compensable

In a decision only recently reported, an Ohio appellate court ruled that an employee injured in the act of rocking a soda machine in an effort to dislodge a can of soda was not entitled to workers compensation benefits.

John Carrick was employed as a stocker at a grocery store. He arrived at work about 10:30 p.m. He decided to take a break from his duties at 3 a.m. the next day. He deposited 50 cents into one of three soda machines in the employees' lunchroom. He rocked the machine back and forth in an effort to dislodge the soda when the soda can did not emerge from the machine. The machine tipped over onto Mr. Carrick, fracturing his femur. He subsequently filed for but was denied workers comp benefits.

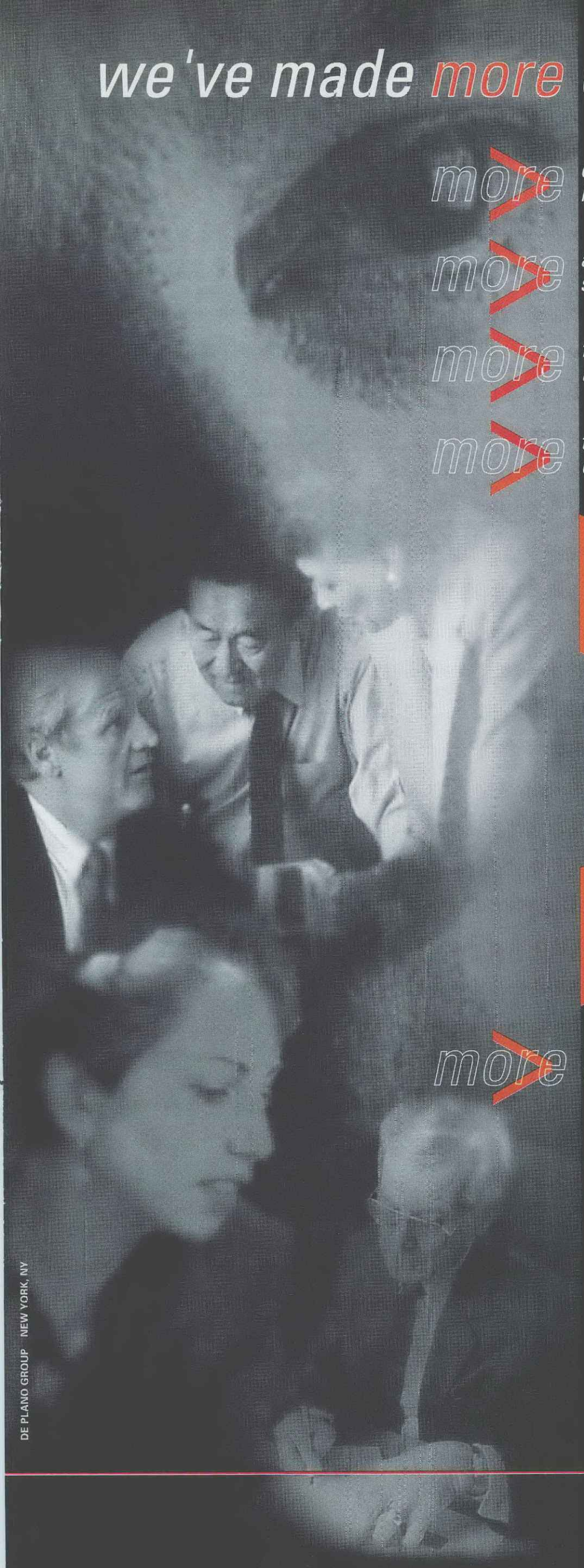
The appellate court said an employer is not an absolute insurer of its employees' safety and injuries that result from an employee's misconduct or deviant behavior are not compensable, as the conduct falls outside the scope of employment.

According to the court, Mr. Carrick's act of rocking the soda machine could be characterized as horseplay. The hazard created by his tipping of the soda machine was not a hazard incident to the performance of his duties as a stocker, the court said. Thus, the court concluded that his injury did not occur during the course of his employment. The decision to deny benefits was affirmed.

John Carrick vs. Riser Foods Inc., Court of Appeals of Ohio, Oct. 21, 1996. (BI/04/My.—$10) BI

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

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HSB Industrial Risk Insurers

DE PLANO GROUP NEW YORK, NY

Continued from page 26

Salem, N.C.; Cleveland; Philadelphia; Knoxville and Nashville, Tenn.; Dallas; Houston; Seattle; Melbourne, Australia; Sao Paulo, Brazil; Toronto; London; Paris; Frankfurt, Germany; Bangkok, Thailand; Caracas, Venezuela.

Officers: William F. Ramonas, chairman/CEO; Glenn H. Giles, president; Phil Holland, Doug Wilkinson, David Lowell, Tom Cochran, general managers; Byron L. Briese, managing consultant.

Contact: Glenn H. Giles.

Gow Management Services

344 Delaware Ave.,
Buffalo, N.Y. 14202-1876;
716-856-6148; fax: 716-856-2313

1997 revenues

Total gross revenues	$1,330,000
Unbundled property loss control/engineering	40%
Unbundled property loss control/ engineering revenues	$532,000

Staff

Total	14
Professionals	3

Includes: 1 ARM, 2 ASSEs

Clients

Total property loss control/engineering	23

Loss control services began: 1982.

Parent: Hilb, Rogal & Hamilton Co.

Services: Onsite plant loss prevention inspections, fire prevention inspections, hazard identification, publications, research, client training.

Specialties: Construction, municipalities, school systems.

Region served: Nationwide.

Branch offices: Rochester and Syracuse, N.Y.

Officers: Richard K. Mason, president; Robert J. McKeever, executive vp; Michael H. Ernst, Diane C. Ambrose, vps.

Contact: Michael H. Ernst.

H

HSB Professional Loss Control

P.O. Box 585,
Kingston, Tenn. 37663;
423-376-1131; fax: 423-376-5013
www.hbsplc.com

1997 revenues

Total gross revenues	$6,000,000
Unbundled property loss control/engineering	50%
Unbundled property loss control/ engineering revenues	$3,000,000

Staff

Total	60

Includes: 1 ASSE, 1 CSP, 15 PEs, 22 SFPEs

Loss control services began: 1976.

Parent: HSB Group Inc.

Services: Onsite plant loss prevention inspections; fire prevention inspections; hazard identification; building plan reviews; client training; building code consulting; quantitative risk assessment services; cost-benefit analyses; risk-informed, performance-based solutions.

Specialties: Heavy and light industry, commercial properties.

Region served: Nationwide; Korea, South America, Southeast Asia.

Branch offices: Hartford, Conn.; Atlanta; Chicago; Basking Ridge, N.J.; Houston.

Officers: Mike Mowrer, executive vp-operations; Wayne D. Holmes, vp-business development; Jay Jablonski, vp-chemical, oil and gas industry services; Dan Drewry, vp-power generation industry services; Harvey Goranson, vp-consulting services.

Contact: Wayne D. Holmes, 1 State St., Hartford, Conn. 06102-5024; 860-722-5621.

Helmsman Management Services Inc.

9 Riverside Road,
Weston, Mass. 02493;
617-243-7985; fax: 781-736-0256

1997 revenues

Total gross revenues	$95,800,000
Unbundled property loss control/engineering	8%
Unbundled property loss control/ engineering revenues	$7,600,000

Staff

Total	676
Professionals	43

Includes: 5 ARMs, 3 PEs, 5 SFPEs

Clients

Total property loss control/engineering	222

Loss control services began: 1983.

Parent: Liberty Mutual Group.

Services: Onsite plant loss prevention inspections, fire prevention inspections, plant security inspections, hazard identification, building plan reviews, publications, research, client training, building code consulting, sprinkler protection analysis, emergency preparedness training/planning.

Specialties: Manufacturing, transportation, services.

Region served: Nationwide; Canada, Mexico, United Kingdom.

Branch offices: 125 offices nationwide.

Officers: Gary L. Countryman, chairman; Edmund F. Kelly, president; Amy J. Leddy, vp/manager; Barry S. Gilvar, vp/secretary; Elliot J. Williams, vp/treasurer.

Contact: Amy J. Leddy.

I

Insurance & Risk Management

3811 Illinois Road, P.O. Box 1705,
Fort Wayne, Ind. 46801;
219-436-1616; fax: 219-432-4083
www.insuranceriskmgmt.com

1997 revenues

Total gross revenues	$12,800,000
Unbundled property loss control/engineering	2%
Unbundled property loss control/ engineering revenues	$250,000

Staff

Total	4
Professionals	4

Includes: 2 ASSEs, 1 CSP

Clients

Total property loss control/engineering	120

Loss control services began: 1989.

Services: Onsite plant loss prevention inspections, fire prevention inspections, hazard identification, client training.

Specialties: Manufacturing, construction sites.

Region served: Nationwide.

Branch offices: Indianapolis and Warsaw, Ind.; Defiance and Sylvania, Ohio.

Officers: James Van Dyck, Harold Everett, Ron Harruff, James E. Krouse, John Hettwer, Carol Fuelling.

Contact: James E. Krouse.

J

J&H Marsh & McLennan Inc.

125 Broad St.,
New York, N.Y. 10004-2424;
212-574-7101; fax: 212-574-7373

1997 revenues

Total gross revenues	$1,000,000,000
Unbundled property loss control/engineering	5%
Unbundled property loss control/ engineering revenues	$50,000,000

Staff

Total	500
Professionals	425

Includes: 15 ARMs, 100 ASSEs, 150 CSPs, 75 PEs, 150 SFPEs

Clients

Total property loss control/engineering	2,000

Loss control services began: 1845.

Parent: Marsh & McLennan Cos. Inc.

Services: Onsite plant loss prevention inspections, fire prevention inspections, plant security inspections, hazard identification, building plan reviews, publications, research, client training, building code consulting, business continuity planning, corporate behavior culture analysis, natural hazards risk analysis.

Specialties: Petrochemical, utilities, manufacturing.

Region served: Worldwide.

Branch offices: 45 U.S. and 40 non-U.S. locations.

Officers: Harry Taback, managing director; Danny Kett, senior vp; Charles Pacella, vp.

Contact: Harry Taback.

An explanation of terms used in this directory appears on page 24.

William L. Jacobs Enterprises Inc.

1231 Tall Pines Drive,
Osteen, Fla. 32764;
407-324-9245; fax: 407-324-1412

1997 revenues*

Total gross revenues	$100,000
Unbundled property loss control/engineering	100%
Unbundled property loss control/ engineering revenues	$100,000

Staff

Total	2
Professionals	2

Includes: 1 ASSE, 1 CSP

Loss control services began: 1987.

Services: Hazard identification, research, building code consulting, litigation support.

Specialties: Attorneys.

Region served: Nationwide.

Branch offices: Fort Lauderdale, Fla.

Officers: William L. Jacobs, president.

** Estimate*

Rolf Jensen & Associates Inc.

549 W. Randolph St., Fifth Floor,
Chicago, Ill. 60661;
312-831-8200; fax: 312-831-8862
www.rjagroup.com

1997 revenues

Total gross revenues	$16,016,116
Unbundled property loss control/engineering	100%
Unbundled property loss control/ engineering revenues	$16,016,116

Staff

Total	147
Professionals	96

Includes: 2 CSPs, 61 PEs, 96 SFPEs

Loss control services began: 1969.

Parent: The RJA Group Inc.

Services: Onsite plant loss prevention inspections, fire prevention inspections, plant security inspections, hazard identification, building plan reviews, building code consulting, training, construction management, ADA consulting, fire protection system design.

Specialties: Commercial, industrial, institutional.

Region served: Nationwide; Europe, Latin America, Middle East, Pacific Rim.

Branch offices: Los Angeles; San Francisco; Orlando, Fla.; Atlanta; Chicago; Boston; Las Vegas; New York; Houston; Fairfax, Va.

Officers: Martin H. Reiss, president/CEO; Raymond A. Grill, James Quiter, Ralph E. Transue, George E. Toth, Randolph W. Tucker, senior vps.

Contact: Patrick Johnson, marketing manager, or George E. Toth.

L

Loss Control Associates Inc.

172 Middletown Blvd., Suite B-204,
Langhorne, Pa. 19047;
215-750-6841; fax: 215-750-6845
www.erols.com/lcainc

1997 revenues

Total gross revenues	$800,000
Unbundled property loss control/engineering	100%
Unbundled property loss control/ engineering revenues	$800,000

Staff

Total	11
Professionals	9

Includes: 2 CSPs, 7 PEs, 6 SFPEs

Clients

Total property loss control/engineering	28

Loss control services began: 1987.

Services: Onsite plant loss prevention inspections, fire prevention inspections, hazard identification, building plan reviews, publications, research, client training, building code consulting, fire investigation/root cause analysis, expert witness, process safety management.

Specialties: Chemical, petrochemical, refining.

Region served: Nationwide; Africa, Korea, Saudi Arabia, South America.

Officers: Orville M. Slye Jr., president; Anthony M. Ordile, consulting engineer.

Contact: Anthony M. Ordile.

Loss Prevention Consultants Inc.

P.O. Box 54012,
Jackson, Miss. 39288-4012;
601-878-2138; fax: 601-878-2394

1997 revenues*

Total gross revenues	$110,000
Unbundled property loss control/engineering	100%
Unbundled property loss control/ engineering revenues	$110,000

Staff

Total	4
Professionals	3

Includes: 1 ASSE

Clients

Total property loss control/engineering	100

Loss control services began: 1982.

Services: Onsite plant loss prevention inspections, fire prevention inspections, plant security inspections, hazard identification, building plan reviews, publications, research, client training, accident reconstruction, expert witness.

Specialties: Heavy trucking.

Region served: Nationwide.

Officers: John R. Eubanks, president; J.P. Eubanks, vp.

Contact: John R. Eubanks.

** Estimate.*

M

Madsen, Kneppers & Associates Inc.

4949 S. Syracuse St., Suite 400,
Denver, Colo. 80237;
303-793-0220; fax: 303-793-0551

1997 revenues

Total gross revenues	$6,000,000
Unbundled property loss control/engineering	100%
Unbundled property loss control/ engineering revenues	$6,000,000

Staff

Total	55
Professionals	40

Includes: 5 PEs

Clients

Total property loss control/engineering	90

Loss control services began: 1983.

Services: Building plan reviews, building code consulting, cost estimating, roof consulting, construction management, property loss claims administration, defects/liability analysis, forensic engineering.

Region served: Nationwide.

Branch offices: Newport Beach, Sacramento, San Diego and San Francisco, Calif.; Denver; Fort Lauderdale, Fla.; Chicago; Dallas and Fort Worth, Texas.

Officers: Jozef H. Kneppers, president; Richard D. Bacon, vp; David T. Heryet, secretary.

Contact: Greg A. Samsky, 250 S. Stemmons Freeway, Lewisville, Texas 75067; 972-434-9004.

Matrix Risk Consultants Inc.

3491 Newmark Drive,
Miamisburg, Ohio 45342;
937-438-7200; fax: 937-438-7220
www.matrixrc.com

1997 revenues

Total gross revenues	$1,800,000
Unbundled property loss control/engineering	100%
Unbundled property loss control/ engineering revenues	$1,800,000

Staff

Total	15
Professionals	11

Includes: 1 ARM, 1 PE

Clients

Total property loss control/engineering	17

Loss control services began: 1972.

Services: Onsite plant loss prevention inspections, fire prevention inspections, building plan reviews, client training, premium allocation.

Specialties: Pulp and paper, manufacturing, telecommunications.

Region served: United States; Asia, Australia, Canada, Europe, Mexico, South America.

Officers: Walter P. Luker, president; Larry D. Jones, vp-engineering; Alan J. Rodeck, vp-marketing; Keith A. Willoughby, assistant vp-engineering; Sheryl K. Hickman, secretary/treasurer.

Meadowbrook Inc.

26600 Telegraph Road,
Southfield, Mich. 48034;
800-482-2726; fax: 248-358-1614
www.meadowbrookinsgrp.com

1997 revenues

Total gross revenues	$1,168,480
Unbundled property loss control/engineering	75%
Property loss control/ engineering revenues	$876,360

Staff

Total	40
Professionals	40

Includes: 6 ARMs, 2 ALCMs, 5 ASSEs, 4 CSPs

Clients

Total property loss control/engineering	2,500

Parent: Meadowbrook Insurance Group.

Services: Onsite plant loss prevention inspections, fire prevention inspections, plant security inspections, hazard identification, building plan reviews, publications, research, client training, building code consulting.

Specialties: Alternative risk specialists.

Region served: Nationwide; Canada.

Branch offices: Montgomery, Ala.; Cerritos and Oakland, Calif.; Miami; Overland Park, Kan.; Bloomington, Minn.; Grand Rapids, Saginaw, Southfield and Traverse City, Mich.; New York; Summit, N.J.; Bridgetown, Barbados; Hamilton, Bermuda.

Officers: Mert Segal, chairman; Jim Parry, Joe Henry, Bob Cubbin, executive vps.

Contact: Joe Hunold.

N

NATLSCO

Route 22, K-4,
Long Grove, Ill. 60049;
847-320-3380; fax: 847-320-4271
www.natlsco.com

1997 revenues

Total gross revenues	$13,000,000
Unbundled property loss control/engineering	12%
Unbundled property loss control/ engineering revenues	$1,560,000

Staff

Total	100
Professionals	80

Clients

Total property loss control/engineering	8

Loss control services began: 1964.

Parent: Kemper Insurance Cos.

Services: Onsite plant loss prevention inspections, fire prevention inspections, plant security inspections, hazard identification, building plan reviews, publications, client training, property evaluation and appraisal, disaster planning and recovery.

Region served: Nationwide; Asia, Australia, Europe.

Branch offices: Denver; Atlanta; Chicago; Boston; Cleveland; Philadelphia; Dallas; Seattle; Toronto.

Officers: E.M. Lindner, executive vp; R.L. Smialek, senior vp; R.M. Hiltz, P.A. Davis, vps.

Contact: William (Bill) Thomas, 847-320-3380.

NetCare Services Inc.

60 Gore St.,
Cambridge, Mass. 02141;
800-222-5963; fax: 617-494-1608

1997 revenues

Total gross revenues	$7,500,000
Unbundled property loss control/engineering	14%
Unbundled property loss control/ engineering revenues	$1,050,000

Staff

Total	81
Professionals	11

Includes: 2 ARMs, 1 ALCM, 3 ASSEs, 5 CSPs

Clients

Total property loss control/engineering	6

Loss control services began: 1987.

Parent: Hastings-Tapley Insurance Agency.

Services: Onsite plant loss prevention inspections, fire prevention inspections, plant security inspections, hazard identification, building plan reviews, publications, research, client training, building code consulting,

Continued on page 34



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Continued from page 32

building replacement cost evaluations.

Specialties: Governmental entities.

Region Served: Connecticut, Maine, Massachusetts, New Hampshire, New York, Rhode Island, Vermont, Virginia.

Branch offices: Cambridge, Mass.; Albany, N.Y.; Richmond, Va.

Officers: David J. Lane, chairman; E. Donald Lewis, president; Marsha K. Burridge, Jennifer L. Decker, executive vps; Ralph J. Gemelli, senior vp.

Contact: Ralph J. Gemelli.

O

Occupational Safety & Health Consultants

183 Grand Ave.,
Lafayette, La. 70503-4636;
318-988-3490; fax: 318-988-3490

1997 revenues

Total gross revenues	$187,000
Unbundled property loss control/engineering	90%
Unbundled property loss control/ engineering revenues	$168,300

Staff

Total	4
Professionals	3
Includes: 3 ASSEs, 2 CSPs, 1 PE	

Clients

Total property loss control/engineering	4

Loss control services began: 1984.

Services: Onsite plant loss prevention inspections, fire prevention inspections, hazard identification, client training.

Specialties: Marine, oil fields, heavy construction.

Region served: Alabama, Arkansas, Florida, Louisiana, Mississippi, Texas.

Branch offices: Lafayette and New Orleans, La.; Freeport, Texas.

Officers: Donald Broussard, president; Renee Darsey Broussard, treasurer/ comptroller; Joe McKillip, vp; Mike Hampy, vp-operations.

Richard Oliver International

1717 Park St., Suite 200,
Naperville, Ill. 60563;
800-571-7676; fax: 630-637-5003

1997 revenues

Total gross revenues	$5,500,000
Unbundled property loss control/engineering	30%
Unbundled property loss control/ engineering revenues	$1,650,000

Staff

Total	40
Professionals	7
Includes: 2 ARMs, 2 ASCEs, 2 ASSEs, 1 PE, 2 SFPEs	

Clients

Total property loss control/engineering	25

Loss control services began: 1972.

Parent: Willis Corroon Group P.L.C.

Services: Onsite plant loss prevention inspections, fire prevention inspections, hazard identification, building plan reviews, publications, client training, building code consulting, business interruption audits, boiler/ pressure vessel management, review of insurer's property loss control services/industrial hygiene.

Specialties: Consumer/industrial products manufacturing, petrochemical, utilities.

Region served: Nationwide; Africa, Australia, Canada, Central America, Europe, South America.

Branch offices: Naperville, Ill.; Melbourne and Sydney, Australia; Sao Paulo, Brazil; Hong Kong; Woking, England; Auckland and Wellington, New Zealand; Singapore.

Officers: Robert Reilly, president; Pat Knight, Kathy Brody, senior vps; Jennifer Epstein, vp.

Contact: Peter LaMonica, sales/marketing manager.

P

Professional Safety Consultant Service Inc.

424 S.E. 30th Ave.,
Ocala, Fla. 34471;
800-329-7233 or 352-694-4601;
fax: 352-694-3853

1997 revenues

Total gross revenues	$130,000
Unbundled property loss control/engineering	100%
Unbundled property loss control/ engineering revenues	$130,000

Staff

Total	2
Professionals	1
Includes: 1 ASSE, 1 CSP, 1 PE	

Clients

Total property loss control/engineering	100

Loss control services began: 1975.

Services: Onsite plant loss prevention inspections, fire prevention inspections, plant security inspections, hazard identification, building plan reviews, client training, building code consulting, litigation support.

Region served: Nationwide; Puerto Rico.

Officers: Herbert T. Bogert, president/ treasurer; Nancy A. Bogert, vp/secretary.

Contact: Herbert T. Bogert.

R

RPF Associates

20 LeRoy St.,
Dix Hills, N.Y. 11746-6644;
516-586-0778; fax: 516-586-5164
www.quikpage.com/r/rpf

1997 revenues

Total gross revenues	$240,000
Unbundled property loss control/engineering	50%
Unbundled property loss control/ engineering revenues	$120,000

Staff

Total	4
Professionals	3
Includes: 1 ARM, 2 ASSEs, 2 CSPs, 1 PE, 1 SFPE	

Clients

Total property loss control/engineering	45

Loss control services began: 1984.

Services: Onsite plant loss prevention inspections, fire prevention inspections, hazard identification, building plan reviews, publications, research, client training, property conservation written programs, property self-inspection training programs, emergency evacuation programs.

Specialties: Printing, paper converting, cardboard paper box manufacturing.

Region served: Worldwide.

Contact: Robert P. Firmbach.

RECON L.L.C.

9 Mott Ave., Suite 309,
Norwalk, Conn. 06850;
203-854-9962; fax: 203-866-3892
www.recon-llc.com

1997 revenues

Total gross revenues	$750,000
Unbundled property loss control/engineering	15%
Unbundled property loss control/ engineering revenues	$113,000

Staff

Total	5
Professionals	1
Includes: 1 PE	

Clients

Total property loss control/engineering	20

Loss control services began: 1980.

Services: Hazard identification, building plan reviews, building code consulting, emergency response plans.

Specialties: Manufacturing, industrial.

Region served: Nationwide; Asia, Europe and South America.

Contact: Kenneth Kosinski, president.

Regional Reporting Inc./RRI

111 John St.,
New York, N.Y. 10038;
212-964-5973; fax: 212-608-5074
www.regionalreporting.com

1997 revenues

Total gross revenues	$13,645,000
Unbundled property loss control/engineering	100%
Unbundled property loss control/ engineering revenues	$13,645,000

Staff

Total	147
Professionals	101
Includes: 4 ARMs, 41 ASSEs, 17 CSPs, 3 PEs	

Clients

Total property loss control/engineering	306

Loss control services began: 1965.

Services: Onsite plant loss prevention inspections, fire prevention inspections, plant security inspections, hazard identification, research, client training.

Region served: Nationwide; Canada, United Kingdom.

Branch offices: Concord and Irvine, Calif.; East Windsor, Conn.; Marietta, Ga.; Naperville, Ill.; Mount Laurel, N.J.; New York; Twinsburg, Ohio; Richardson, Texas; Mechanicsville, Va.

Officers: Martin Myers, president/CEO; Louis Siegel, executive vp; Jack Leonard, COO; Josephine John, Hal Culler, vps.

Contact: Martin Myers, 212-964-5973 or Louis Siegel, 860-289-6999.

Risk Analysts Inc.

24 Greenway Plaza, Suite 1100,
Houston, Texas 77046;
713-507-4792; fax: 713-507-9433
www.wisenberg.com

1997 revenues

Total gross revenues	$500,000
Unbundled property loss control/engineering	40%
Unbundled property loss control/ engineering revenues	$200,000

Staff

Total	57
Professionals	3
Includes: 2 ARMs, 2 ASSEs, 2 CSPs	

Clients

Total property loss control/engineering	100

Loss control services began: 1986.

Parent: Wisenberg Insurance & Risk Management.

Services: Onsite plant loss prevention inspections, fire prevention inspections, hazard identification, research, client training, building code consulting, disaster/contingency plan design.

Specialties: Warehousing, distribution centers, retail.

Region served: Southwestern states.

Officers: Irving Pozmantier, chairman; Joe Williams, CEO/president; Jeff Pozmantier, Jay Williams, executive vps; Nicholas P. Dalby, vp/director-risk control.

Contact: Nicholas P. Dalby.

Risk Consultants Inc.

P.O. Box 490850,
Atlanta, Ga. 30349;
770-964-1226; fax: 770-969-7301
www.riskcon.com

1997 revenues

Total gross revenues	$5,000,000
Unbundled property loss control/engineering	40%
Unbundled property loss control/ engineering revenues	$2,000,000

Staff

Total	105
Professionals	95

Clients

Total property loss control/engineering	518

Loss control services began: 1979.

Services: Onsite plant loss prevention inspections, fire prevention inspections, hazard identification, building plan reviews, publications, research, client training, due diligence, emergency planning, Department of Transportation compliance/audits.

Region served: Nationwide; British West Indies, Canada, South America.

Branch offices: Kissimmee and Orlando, Fla.; Chicago; Kansas City, Kan.; Jackson, Miss.; Memphis, Tenn.; Dallas.

Officers: R. Michael Malone, president/ CEO; Hugh P. Bagwell, vp; Ronald Manford, director-technical services.

Contact: R. Michael Malone.

Risk Management Solutions Inc.

149 Commonwealth Drive,
Menlo Park, Calif. 94025;
650-617-6500; fax: 650-617-6565
www.riskinc.com

1997 revenues

Total gross revenues	$30,000,000
Unbundled property loss control/engineering	10%
Unbundled property loss control/ engineering revenues	$3,000,000

Staff

Total	475
Professionals	15
Includes: 10 ASCEs, 3 PEs, 1 SFPE	

Clients

Total property loss control/engineering	12

Loss control services began: 1990.

Parent: Daily Mail & General Trust P.L.C.

Services: Onsite plant loss prevention inspections, hazard identification, portfolio risk assessments, business recovery planning, regional loss modeling, decision support software applications.

Specialties: Government agencies, insurers, real estate investment/management firms.

Region served: Nationwide; Australia, Japan, New Zealand, Taiwan, United Kingdom.

Branch offices: Menlo Park, Calif.; Cambridge, England.

Officers: G. Thompson Hutton, president/CEO; Richard Boyle, senior vp-product development; Robert Hull, CFO; Hement Shah, senior vp-global marketing/strategy; Andrew Coburn, managing director-RMS Europe.

Contact: Peter Ulrich, associate vp.

Rode & Associates L.L.C.

66 Cedar St., Suite 104,
Newington, Conn. 06111;
860-594-7183; fax: 860-594-7184
www.rode-llc.com

1997 revenues

Total gross revenues	$182,000
Unbundled property loss control/engineering	100%
Unbundled property loss control/ engineering revenues	$182,000

Staff

Total	3
Professionals	3
Includes: 2 PEs	

Clients

Total property loss control/engineering	14

Loss control services began: 1994.

Services: Onsite plant loss prevention inspections, fire prevention inspections, hazard identification, building plan reviews, client training, risk quantification, operation/maintenance cost optimization.

Specialties: Power generation, industrial use of hydrogen, original equipment manufacturers.

Region served: Nationwide; Germany, Norway, Sweden, United Kingdom.

Contact: Douglas M. Rode, managing director.

S

Safety Consulting Inc.

1403 S.W. Topeka Blvd., P.O. Box 2789, Topeka, Kan. 66601-2789;
785-232-3887; fax: 785-233-1746

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WHO SHOULD ATTEND:

Risk managers, loss prevention and safety managers, workers compensation and benefit managers, plus insurers, brokers, consultants and representatives from HMOs, PPOs and state and local governments.

CONFERENCE PROGRAM:

Monday, October 26, 1998

- GOLF TOURNAMENT: MALIBU COUNTRY CLUB
  Hosted by Deloitte & Touche and SAC³
- EARLY REGISTRATION AND WELCOME RECEPTION
  Hosted by Integra Group
- EMPLOYER'S PRIVATE ROUNDTABLE

Tuesday, October 27, 1998

- REGISTRATION AND CONTINENTAL BREAKFAST:
  Hosted by Bayne Consulting Group, Ltd.
- CHALLENGING TRADITIONAL WORKERS COMPENSATION PARADIGMS
- THE NEW WORLD OF WORKERS COMPENSATION
- REFRESHMENTS IN EXHIBIT HALL:
  Hosted by Paradigm Health Corporation
- THE DECISION WHETHER TO IMPLEMENT AN INTEGRATED DISABILITY MANAGEMENT PROGRAM
- MEETING THE CHALLENGES CREATED BY THE AMERICANS WITH DISABILITIES ACT AND FAMILY MEDICAL LEAVE ACT
- LUNCHEON
  Hosted by Intracorp
- ALTERNATIVE DISPUTE RESOLUTION
- ARE YOU USING THE RIGHT REPORT CARD?
- REFRESHMENTS IN EXHIBIT HALL
  Hosted by Wausau Insurance Companies
- FUNDING MECHANISMS
- EVALUATING ERGONOMICS PROGRAMS
- COCKTAIL RECEPTION
  Hosted by GENEX Services, Inc.

Wednesday, October 28, 1998

- CONTINENTAL BREAKFAST:
  Hosted by TravelersPropertyCasualty/Constitution State Services
- KEYS TO RESPONSIVE RETURN-TO-WORK PROGRAMS
- REFRESHMENTS IN EXHIBIT HALL:
  Hosted by Specialty Risk Services/The Hartford
- DOING WHAT'S BEST FOR THE WORKER: CAUGHT BETWEEN THE EMPLOYER, THE TPA, INSURANCE COMPANY AND THE OCCUPATIONAL HEALTH PROVIDER
- WORKERS COMPENSATION INSURANCE FRAUD: SPECIFIC STEPS AND SOLUTIONS TO COMBATING FRAUD
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WCBIFP

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1997 revenues

Total gross revenues $300,000
Unbundled property loss control/engineering 100%
Unbundled property loss control/engineering revenues $300,000

Staff

Total 2
Professionals 2
Includes: 1 ARM

Clients

Total property loss control/engineering 50

Loss control services began: 1971.

Services: Onsite plant loss prevention inspections, fire prevention inspections, hazard identification, publications, research, client training, building code consulting.

Region served: Nationwide.

Officers: Craig S. Stromgren, president; John Parkin, vp.

Directory begins on page 22

Schirmer Engineering Corp.

707 Lake Cook Road,
Deerfield, Ill. 60015;
847-272-8340; fax: 847-272-2639
www.schirmerengineering.com

1997 revenues

Total gross revenues $3,000,000
Unbundled property loss control/engineering 100%
Unbundled property loss control/engineering revenues $3,000,000

Staff

Total 30
Professionals 25
Includes: 3 ARMs, 1 ALCM, 1 ASCE, 5 ASSEs, 6 CSPs, 11 PEs, 24 SFPEs

Clients

Total property loss control/engineering 30

Loss control services began: 1939.

Services: Onsite plant loss prevention inspections, fire prevention inspections, plant security inspections, hazard identification, building plan reviews, publications, research, client training, building code consulting.

Specialties: High tech, hospitality, retail.

Region served: Nationwide.

Branch offices: Deerfield, Ill.

Officers: Carl F. Baldassarra, president; David P. Nugent, vp-loss control; Craig Zaleski, CFO.

Contact: Daniel J. Gormley, director-marketing.

Sedgwick Inc.—Property Risk Control Consulting

1000 Ridgeway Loop Road,
Memphis, Tenn. 38120;
901-684-3617; fax: 901-821-6982
www.sedgwick.com

1997 revenues

Total gross revenues $15,000,000
Unbundled property loss control/engineering 40%
Unbundled property loss control/engineering revenues $6,000,000

Staff

Total 110
Professionals 95
Includes: 24 ARMs, 4 ALCMs, 50 ASSEs, 37 CSPs, 7 PEs, 25 SFPEs

Clients

Total property loss control/engineering 300

Loss control services began: 1858.

Parent: Sedgwick Group P.L.C.

Services: Onsite plant loss prevention inspections, fire prevention inspections, plant security inspections, hazard identification, building plan reviews, publications, research, client training, disaster/business recovery planning.

Specialties: Health care, public entities, retail warehouse/distribution.

Region served: Nationwide; Asia-Pacific, Australia, Europe.

Branch offices: Phoenix; Irvine and San Francisco, Calif.; Stamford, Conn.; Atlanta; Chicago; Washington; Fort Lauderdale, Naples and Orlando, Fla.; Boise, Idaho; Portland, Maine; Boston; Detroit; Minneapolis; Kansas City and St. Louis, Mo.; Roseland, N.J.; New York and Rochester, N.Y.; Charlotte, N.C.; Portland, Ore.; Harrisburg, Philadelphia and Pittsburgh, Pa.; Columbia, S.C.; Memphis, Tenn.; Dallas; Seattle.

Contact: Joe Labetti, managing director.

Sigma Associates Ltd.

105 Timber Ridge Blvd.,
Pass Christian, Miss. 39571;
228-452-4866; fax: 228-452-7202
www.sigmaassocltd.com

1997 revenues

Total gross revenues $625,000
Unbundled property loss control/engineering 80%
Unbundled property loss control/engineering revenues $500,000

Staff

Total 5
Includes: 1 CSP, 1 PE

Clients

Total property loss control/engineering 28

Loss control services began: 1978.

Services: Onsite plant loss prevention inspections, fire prevention inspections, plant security inspections, hazard identification, building plan reviews, publications, research, client training, building code consulting, total risk management, human resource management.

Specialties: Marine, governmental entities, casino gaming.

Region served: Nationwide; Egypt, Saudi Arabia.

Officers: A.J. Scardino Jr., Al Lagerda, senior consultants; Bob Lanham, consultant.

Contact: A.J. Scardino Jr.

Stogniew & Associates

12225 28th St. N.,
St. Petersburg, Fla. 33716;
813-572-7400; fax: 813-572-8997

1997 revenues

Total gross revenues $1,000,000
Unbundled property loss control/engineering 25%
Unbundled property loss control/engineering revenues $250,000

Staff

Total 1
Professionals 1

Clients

Total property loss control/engineering 2

Loss control services began: 1980.

Services: Onsite plant loss prevention inspections, fire prevention inspections, plant security inspections, hazard identification, building plan reviews, publications, client training, disaster-recovery planning, claims reporting, property insurance coverage evaluations.

Specialties: Banking, financial services, hospitals.

Region served: Nationwide.

Branch offices: St. Petersburg, Fla.

Officers: Gerald F. Stogniew, CEO; Kristen Stogniew, general counsel; Mac Fleming, senior consultant.

Contact: Gerry Stogniew.

TVA

2820 Camino Del Rio S., Suite 200,
San Diego, Calif. 92108;
619-296-5666; fax: 619-296-5656
www.tvafiresafety.com

1997 revenues

Total gross revenues $1,200,000
Unbundled property loss control/engineering 45%
Unbundled property loss control/engineering revenues $540,000

Staff

Total 5
Professionals 1
Includes: 1 PEs, 2 SFPEs

Clients

Total property loss control/engineering 160

Loss control services began: 1985.

Services: Onsite plant loss prevention inspections; fire prevention inspections; plant security inspections; hazard identification; building plan reviews; publications; research; client training; building code consulting; fire alarm system engineering and design; code development, interpretation and intervention; fire/building department mitigation.

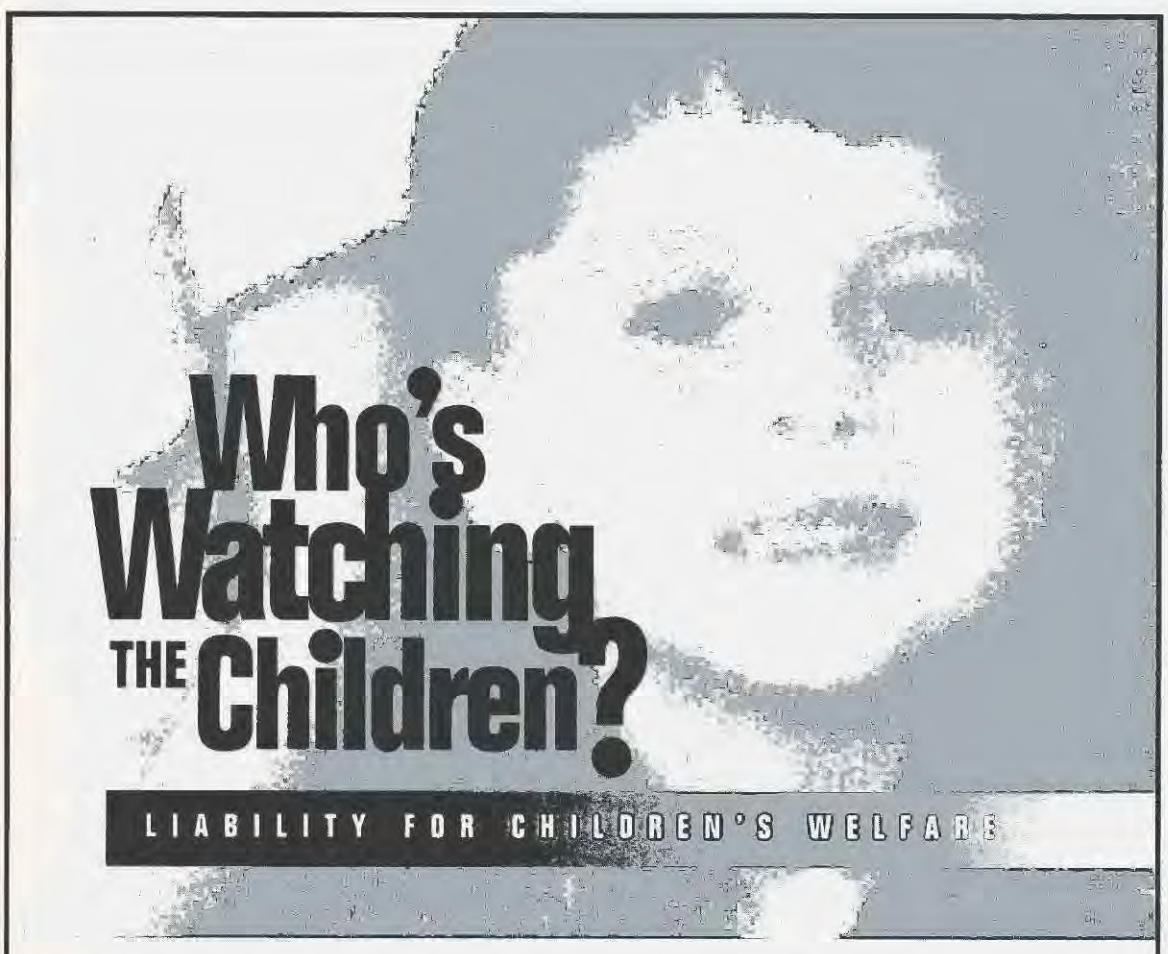
Specialties: Large box retail, highly protected risk inspections, warehousing.

Region served: Nationwide; Canada, Korea, Mexico.

Branch offices: Atlanta; Detroit; Mount Olive, N.J.; Tijuana, Mexico.

Officers: William Tomes, chairman; Russ Leavitt, CEO; James Tomes, COO/president; William Holden, executive vp-international operations; Bruce Elmer, vp.

Contact: Al Thomason, manager-marketing/sales; Gaby Jimenez, marketing coordinator. BI



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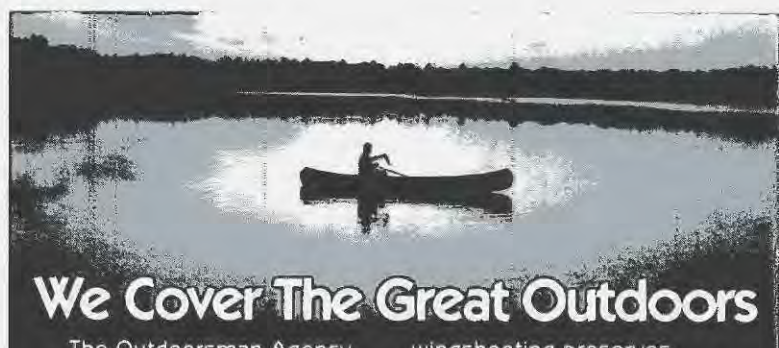
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Liability

Continued from page 1

"Hopefully, in the long run, people will see that legal reform does not lead to a more unsafe world. In fact, it could actually make the world safer," he added.

The biomaterials bill originally was part of a broader product liability bill that died in the Senate earlier this summer (*BI*, July 13). The biomaterials measure, which awaits the president's signature after final House passage late last month, would give suppliers of raw materials used to make certain medical devices protection against product liability suits. A supplier still would be liable in cases where the manufacturer of a medical device such as a pacemaker or a brain shunt had gone out of business. In addition, the measure does not cover breast implants.

Mr. Nader wasted little time writing to urge President Clinton to veto the bill. The bill would give "liability protection to some negligent and even intentionally tortious suppliers," Mr. Nader wrote. He charged that the measure would create a "legal maze" for those with legitimate claims against suppliers.

He dismissed suppliers' claims that current product liability law could lead to a shortage of biomaterials. "Supply creates demand, and if some companies are posturing a production strike in order to extort this bill from the federal government, why should you encourage such tactics by signing this legislation? This was an industry bluff that would have been called by competing companies here and abroad which would have made such materials available. Capitulating to this industry's misinformation and threats will only encourage others to act in an equally underhanded manner," wrote Mr. Nader.

But Mr. Schwartz pointed out that one of the similarities between GARA and the biomaterials bill is that the people who used the products—not the businesses that would be protected by the measures—pushed for enactment. Pilots and aircraft owners—"the people who would sue" if aircraft proved to be defective—supported GARA because they wanted to be able to buy planes, he said. People who need medical devices advocated passage of the biomaterials bill, he said. "People who would be potential plaintiffs were clear and apparent in their support," said Mr. Schwartz.

Industry-by-industry reform may be the shape of product liability in the future, said Anne Allen, director-government relations for the Risk & Insurance Management Society Inc. in New York.

"Following GARA and the biomaterials bill, it will be easier to get industry-specific reforms than a broad bill," she said. That could eventually mean more comprehensive reform "because you will have a few big industries that have been selected out, and there will be everyone else saying, 'Me too, me too,' " said Ms. Allen.

That won't happen in the current Congress, but success of the biomaterials bill could encourage reforms next year.

"It's hard to imagine a scenario where it would come up before the Senate in the 20 or so legislative days that remain. We've got one eye focused on any possible vehicles, but I think we are thinking through what the next Congress will offer us," according to Mr. Anderson. BI

Health care worker can sue patient: Court

FLORA, Ind.—An Indiana court ruling allowing an injured nursing home worker to sue a patient who kicked her is not expected to create new liabilities for employers in the state.

The Court of Appeals ruling clears the way for the worker to sue an Alzheimer's patient for damages in addition to the workers compensation benefits she received from her employer.

"I don't see it doing anything to existing workers compensation laws," said Lawrence Cistrelli, director of risk management at Ball State University and society director of the Indiana chapter of the Risk & Insurance Management Society Inc. "It is not something for us to worry about," he said.

In 1995, Carol Creasy, a certified nursing assistant at Brethren Healthcare Center in Flora, Ind., was hurt when she tried to put Alzheimer's patient Lloyd Rusk to bed. Mr. Rusk kicked her, permanently injuring her left knee and back, as well as causing her mental anguish and impairment of earning capacity, according to the complaint that Ms. Creasy filed.

Ms. Creasy collected $335.02 every two weeks from June 1995 through February 1996 in workers comp payments.

However, her attorney, Ronald Todd of Bayliff, Harrigan, Cord & Maugans in Kokomo, Ind., said that these amounts "did not pay very well for the injuries and medical treatment she had."

Ms. Creasy then sued Mr. Rusk, arguing he was liable for her injuries. Such damages would be covered by his homeowners insurance, Mr. Todd noted.

But the Carroll Circuit Court dismissed the lawsuit, arguing that Mr. Rusk was "unable to appreciate the consequences of his acts" and that Ms. Creasy "incurred the risk of her injuries and damages."

On June 29, however, the state Court of Appeals reversed the decision. The court ruled that the degree of Mr. Rusk's impairment and Ms. Creasy's awareness of the risks were subject to debate and, therefore, the existence of a legal duty would have to be decided in court.

The appellate ruling is expected to be appealed to the Indiana Supreme Court.

Mr. Cistrelli of Ball State said he was not concerned about the court's decision, since it did not challenge the status of workers comp as the exclusive remedy for an injured employee to be compensated by an employer.

Only "if they developed a new view that allowed employees to sue employers outside of workers comp, all risk managers would be a bit concerned," he said.

If a jury awards damages to Ms. Creasy, the nursing home cannot be held liable by Mr. Rusk, experts say. There is no legal basis, such as breach of contract, for that, said both Mr. Cistrelli and Stephen Wheeler of Jennings, Taylor, Wheeler & Bouwkamp in Carmel, Ind., who represented Mr. Rusk.

—By Georg Szalai

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Liquidator of bogus insurer sues bank

By DOUGLAS McLEOD

ALBUQUERQUE, N.M.—A New Mexico bank aided the operators of a bogus offshore insurer by allowing them to set up a trust account for policyholders using worthless or overvalued assets, the insurer's liquidator charges.

The Missouri liquidator of Meadowlark Insurance Co., a defunct Turks & Caicos Islands insurer, last month sued Sunwest Bank of Albuquerque, N.M., and its successor, NationsBank N.A., charging breach of trust, negligence and fraud. The suit was brought by John C. Craft, special deputy liquidator and a lawyer with Craft, Fridkin & Rhyne in Kansas City, Mo.

From 1990 to 1994, the suit charges, Sunwest produced statements purportedly showing that Meadowlark's policyholder trust was funded with more than $2.5 million in assets.

In fact, the assets were never worth more than $300,000, the suit says. In addition, Sunwest breached the trust agreement in several ways, including by trying to amend it after the fact to allow types of assets not normally permitted by the National Assn. of Insurance Commissioners, the complaint charges.

"They tried to unbreach the breach by getting in bed with the crooks," the liquidator's lawyer, Robert L. Brace of Hollister & Brace in Santa Barbara, Calif., said in an interview. "How many IQ points does it take to know you can't do that?"

The suit seeks more than $2.2 million in compensatory damages and unspecified punitive damages.

NationsBank last week removed the suit from New Mexico state court to federal court in Albuquerque. The bank also filed an answer generally denying the allegations. Its lawyers declined to comment further.

'The majority of assets held in the trust fund were illiquid, earned no income, were unqualified and were bogus,' the suit charges.

Meadowlark was one of several companies operated from Kansas City, Mo., by Ferrell Travis Riley Sr. and his wife, Cheryll S. Coon.

Mr. Riley and Ms. Coon were convicted on federal racketeering, conspiracy, obstruction of justice and other charges in February 1996. Prosecutors charged that they bilked policyholders of more than $28 million through a network of phony companies, including Meadowlark, and that they bribed a former Wyoming insurance commissioner and a Maryland state official (*BI*, Feb. 26, 1996).

Mr. Riley is now serving a nine-year prison term, and Ms. Coon is serving a term of seven years and three months.

In April 1996, a Missouri judge ordered Meadowlark and several other Riley-controlled companies into liquidation. Included in the liquidation are M&M Management Co. of Kansas City; Magnolia Acceptance Co., a Kansas City-based premium finance unit; Commercial Indemnity Assurance Co. of the Dominican Republic; and La Fenix Boliviana, a Bolivian insurer, according to Mr. Craft, the special deputy liquidator.

Mr. Craft declined to estimate outstanding claims against the Riley companies, which wrote property/casualty and health insurance, but said they are "very substantial." Few assets remain other than some "very doggy" real estate, he said.

Mr. Riley and others disposed of most of the companies' assets before Missouri regulators took control, Mr. Craft explained, adding that "the assets that were left were either illiquid or of questionable value."

Among Meadowlark's purported assets was its trust account for U.S. policyholders, set up at Sunwest Bank in Albuquerque in 1990.

Such trusts, following a standard form developed by the NAIC, are required by many states before a non-admitted insurer is deemed eligible to write surplus lines business, Mr. Craft's lawsuit against Sunwest notes.

Meadowlark's trust appeared to follow the NAIC form, which required a minimum of $1.5 million in cash, readily marketable securities or letters of credit from U.S. banks.

The "assets" Meadowlark actually contributed, though, never met these requirements, the suit charges. For example, the insurer deposited a leasehold interest in a Fort Worth, Texas, property that Sunwest valued at $1.1 million. The valuation, which the suit labels "absolutely false," assumed an unlikely large-scale renovation of the building into condominiums, Mr. Craft alleges.

Meadowlark's trust also included title to a Dallas-area property that was tied up in litigation and that Meadowlark did not even own at the time, the complaint charges.

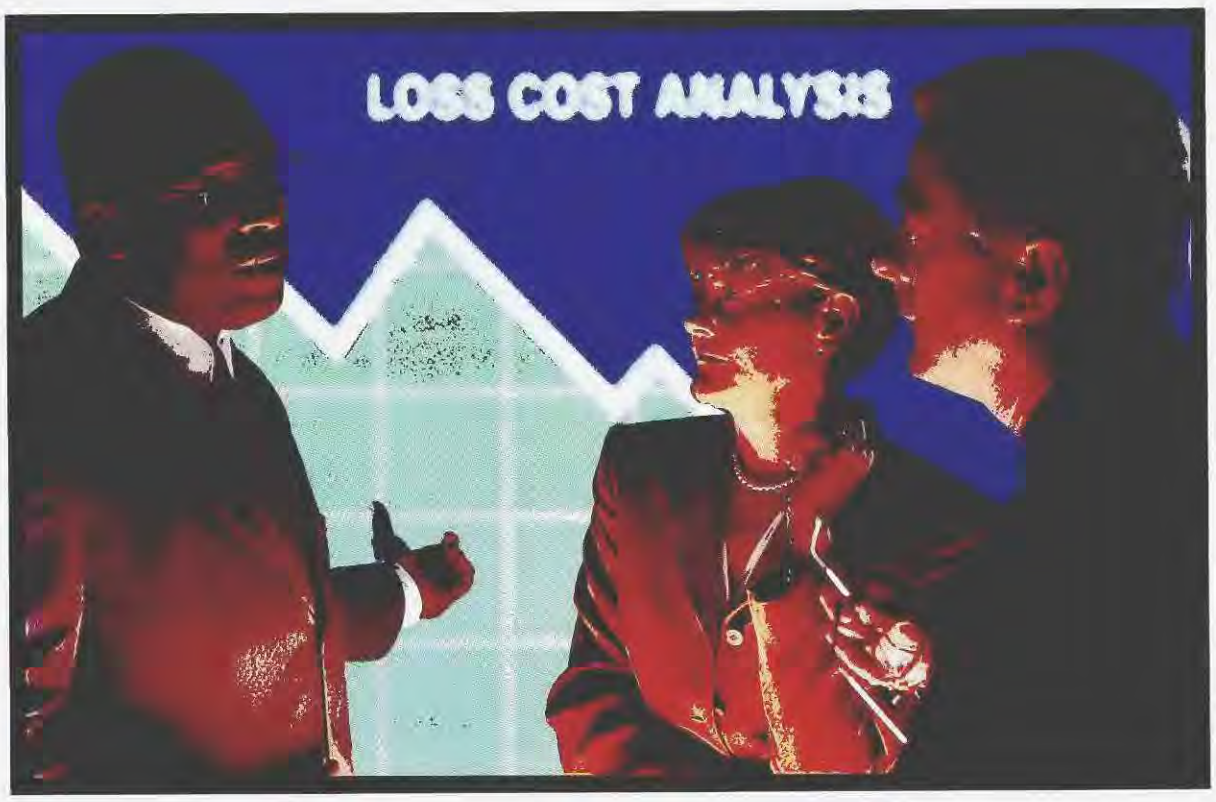
The trust agreement required Sunwest to certify the existence and value of the trust in quarterly reports to the NAIC. While the bank provided Meadowlark with statements confirming more than $2.5 million in trust assets—statements Meadowlark passed on to brokers to generate business—Sunwest never made the required reports to the NAIC, the suit charges.

Instead, in May 1990—a few months after signing the original trust agreement—Sunwest and Meadowlark executed an amendment purportedly allowing the insurer to deposit types of assets not approved by the NAIC and relieving Sunwest of its obligation to certify the trust's value to regulators.

Neither the bank nor Meadowlark ever submitted this amendment to the NAIC, which would have to approve it for the trust to be in compliance, the suit says.

The amendment shows that Sunwest knew from the beginning that the trust was deficient, that its assets didn't comply with the trust agreement and that the NAIC would reject any certification the bank attempted to make, the suit charges.

"The majority of assets held in the trust fund were illiquid, earned no income, were unqualified and were bogus," the complaint asserts. "Ironically, the trust agreement was utilized by the Meadowlark insiders to commit fraud, which the trust agreement was specifically created to combat." BI



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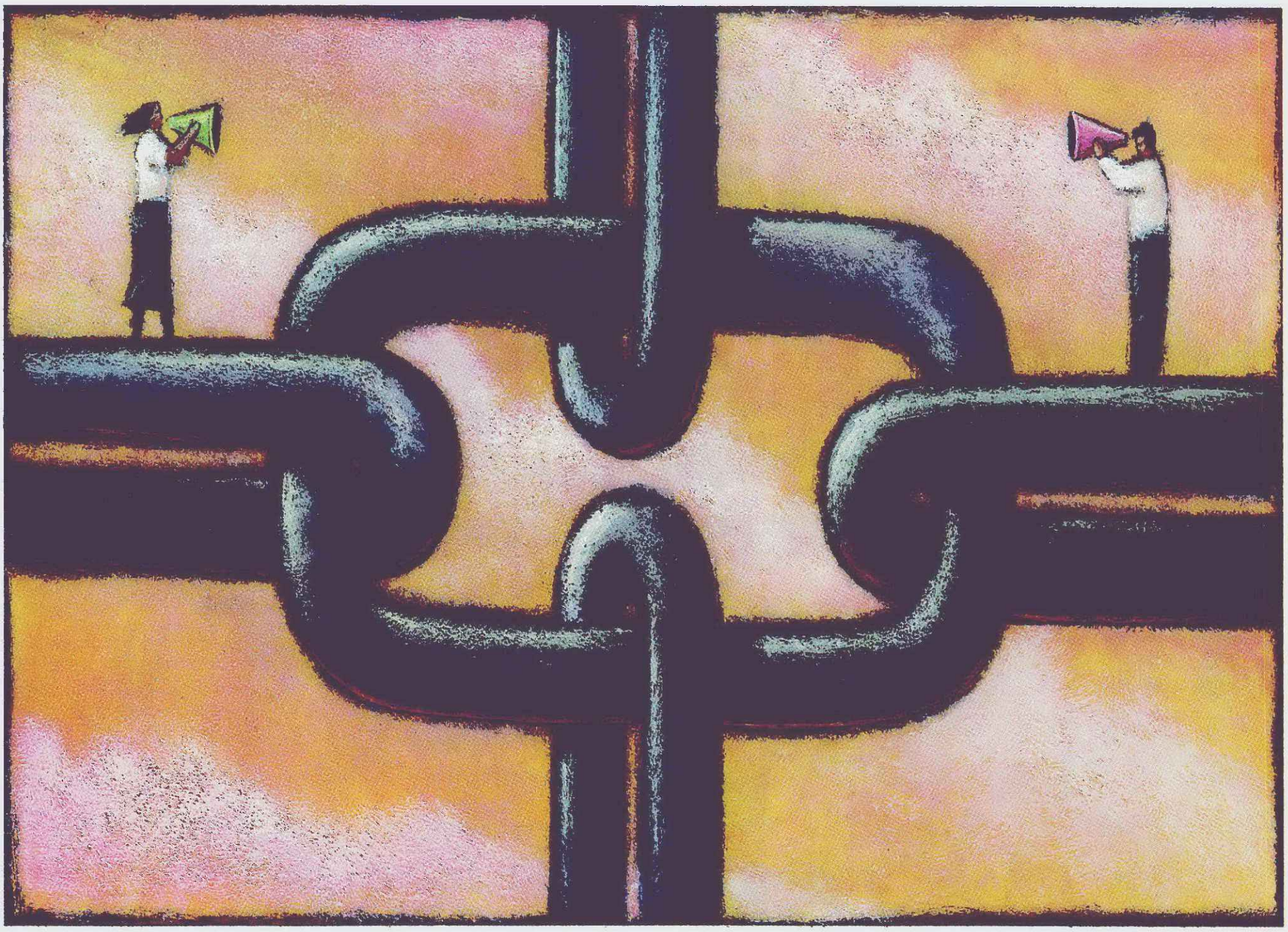
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Delta

Continued from page 2

"There is a built-in tension there; if you go too far to one side, you are going to violate the other side," she said. "This might be the tip of the iceberg in terms of potential problems for the future."

The Court of Appeal so far has not published its Aug. 7 decision in *Andre Baldanza vs. Delta Air Lines*. Without publication, the decision does not have precedent-setting value, attorneys said.

However, Lawrence S. Viola, a partner in the San Mateo, Calif., firm of Knapp & Viola, said he will ask the court to publish the decision. Mr. Viola represented Mr. Baldanza, a Delta reservations sales agent who does not have HIV or AIDS. His name was added to the list of about a dozen employees, though, after he missed several weeks of work.

Delta did not return phone calls, but the airline has not decided whether to appeal, said Delta lawyer Gilmore F. Diekmann Jr., a partner in the San Francisco office of Bronson, Bronson & McKinnon. The state Supreme Court rarely hears cases where the decision is not published, though.

The appeals court ignored evidence that the list was used to establish that a relatively high number of employees with the human immunodeficiency virus or acquired immune deficiency syndrome work in the facility, Mr. Diekmann said. That information then led to training supervisors so they could better counsel the employees on topics such as their employer-provided benefits, he said.

Essentially, the court ruled against Delta for trying to comply with mandates that it accommodate ill and disabled workers, Mr. Diekmann said.

Justice Michael J. Phelan wrote that the appeals court found it "curious that Delta decided to single out one class of disability for such treatment."

"It does not appear to have been normal policy or procedure to categorize and compile lists of ill or disabled employees as part of a strategy for accommodating those employees, or for any other reason," the justice wrote for the court.

The Court of Appeal disagreed with Delta's argument that it kept the information in order to accommodate workers.

Mr. Diekmann said the court is incorrect, as Delta has taken similar action to help employees with other disabilities or illnesses. He characterized Delta's information on employees with HIV or AIDS as a report, not a regularly updated list. Delta keeps similar reports for workers compensation claims and pregnant employees, he said.

Because employers must comply with the Americans with Disabilities Act, risk managers may need to change their traditional orientation of developing pre-emptive programs for the entire workplace, Ms. Denious said. Instead, they may want to only assist individual employees who request help and have documentation asserting they need special accommodation.

"Don't look heavily at a diagnosis," such as AIDS, Ms. Denious advises. "Sometimes you don't want to know, because if you have that, then people are going to claim you discriminated against them because you knew they had whatever the problem is."

Mr. Diekmann said Delta did not act maliciously. Also, the court in its opinion "went out of its way to use overstatement or implied accusation or allegation, which is atypical of a Court of Appeal decision," he said.

The ruling contains statements based on speculation and not supported by evidence, he added.

Justice Phelan also wrote that, for some purposes, an employer may have a legitimate interest in compiling employees' private medical information, but only if disclosure of the information is authorized by statute or the employees have knowingly and voluntarily consented in writing to disclosure of specific information for specific purposes.

But Delta kept its list secret from employees, according to the court.

"It is, in any event, difficult to imagine how Delta hoped to accomplish its stated purpose—meeting its obligations with respect to accommodation of ill or disabled employees—by preparing a secret list of such employees," Justice Phelan wrote. "If Delta had a bona fide interest in providing effective, reasonable accommodation to the employees on the list, it would have had to communicate with those employees about the matter."

The report was compiled after a new manager in San Francisco reported offhandedly to supervisors in Atlanta that there was a high incidence of employees with HIV or AIDS at the San Francisco reservation sales office, Mr. Diekmann said. In 1991, the manager also met with supervisors to discuss the number of people who might suffer from the ailments, according to court documents.

Mr. Baldanza had received a tattoo a year earlier and afterward suffered from exhaustion and flu-type symptoms. Mr. Baldanza had expressed concern at work that he might have AIDS, a supervisor reported, according to court records.

His name was added to the list of employees that identified him as possibly HIV-positive. After having the tattoo removed, Mr. Baldanza returned to work.

But according to court records, he was ostracized and filed suit in 1992 against Delta. He claimed libel, slander, false light invasion of privacy, and intentional and negligent infliction of emotional distress.

A San Mateo County Superior Court granted Delta summary judgment, finding that the list is privileged. California civil code states that a communication may be privileged when a communicator and recipient share a common interest and their communication furthers that interest.

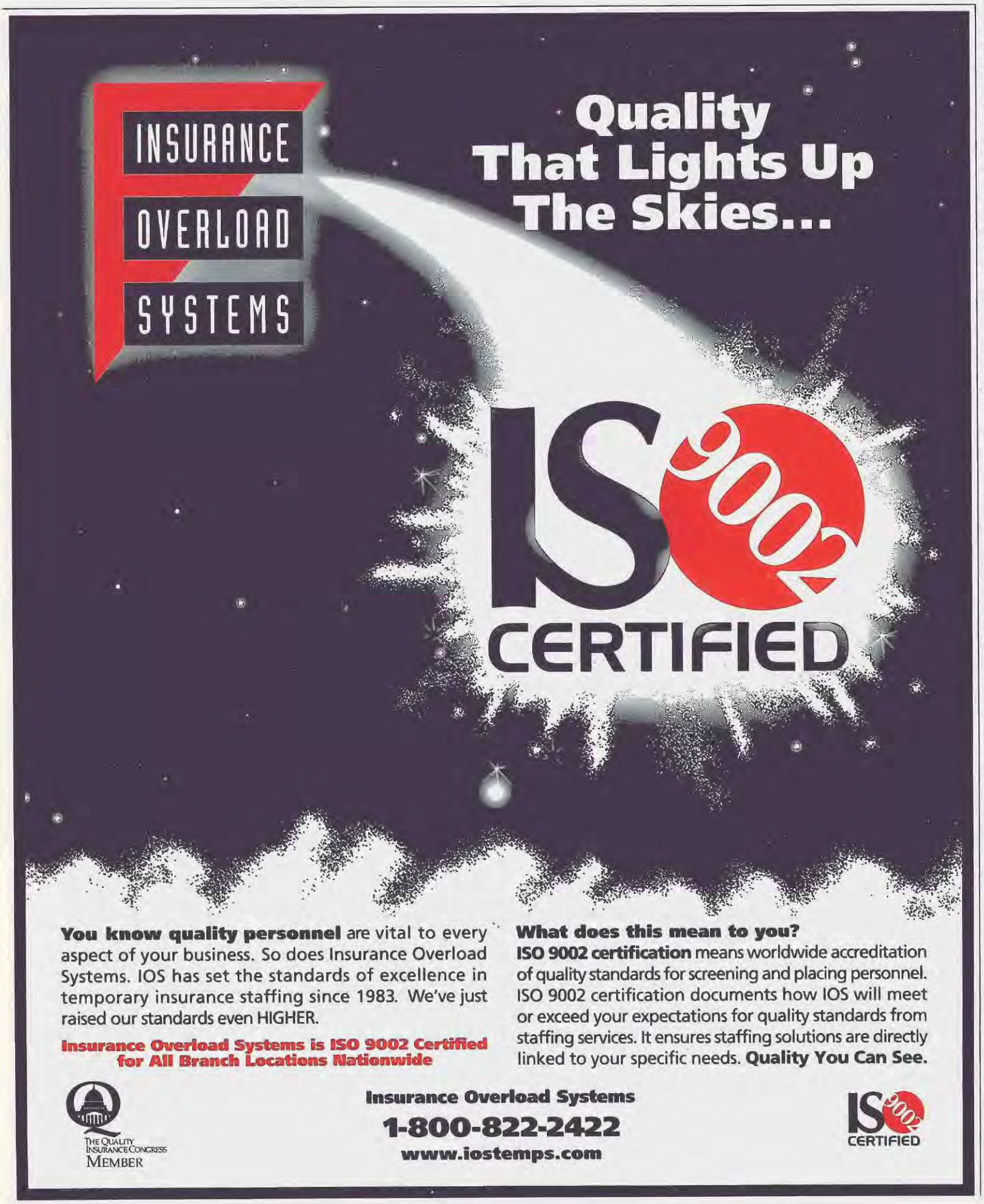
The lower court also found that the San Francisco manager's testimony from a previous trial was privileged.

But the appeal court disagreed. An employer has a legitimate interest in communicating honestly and freely with employees. But employers do not have license to discuss and disseminate intimate details of an employee's life and health without the employee's knowledge and consent or some compelling reason for the communication, the court found.

The appeal court agreed that Mr. Baldanza cannot sue for false light invasion of privacy because the list was not disseminated to a large number of people. But the other claims can be tried, the Court of Appeal ruled.

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Andre Baldanza vs. Delta Air Lines, 1st District Court of Appeal; No. A075614.



INTERNATIONAL

Global Briefs

The Assn. of Kenya Insurers has said it is unlikely insurers will face losses from the **terrorist bombing** of the U.S. embassy in Nairobi earlier this month. Policy exclusions likely mean businesses unable to fund their losses will have to turn to the Eastern and Southern Africa Trade Development Bank, the National Disaster Fund and other non-insurance sources to cover the estimated $500 million in damage. . . .Beginning Sept. 1, **premiums and claims at Lloyd's of London** will be settled centrally on a daily basis, rather than on a weekly basis. Daily settlement will mean the net settlement of claims and premiums between syndicates and brokers will happen each working day rather than each Friday. From Sept. 1, the maximum of 10 days' processing time for clearing funds will be cut to three days for business flowing through the Lloyd's Claims Office and the Lloyd's Policy Signing Office. . . .**HSBC Insurance Management**, part of HSBC Insurance Holdings Ltd., has formed an agreement under which Norwich Union Fire Insurance Society (Gibraltar) Ltd. will provide HSBC clients captive and other alternative insurance facilities in Gibraltar. . . .**American International Group Inc.** is buying half of Brazilian private pension company Prever S.A. Seguros e Previdencia from parent company Uniao de Bancos Brasileiros S.A., to add pension fund business to its insurance joint venture with Unibanco, set up in 1997. Terms were not disclosed. . . .Robert Hiscox, chairman of Hiscox P.L.C., has been named as the new chairman of the **Lloyd's Corporate Capital Assn.**, an organization representing the interests of limited liability capacity providers at Lloyd's. . . .Joe Knoblauch has been appointed director of finance for the **London Processing Centre**. Mr. Knob-lauch was director of client services at the LPC and takes over from Steve Michael. . . .**Hartford International** will reorganize its international property/casualty and life operations beginning Dec. 1, following the retirement of John F. Donahue after 44 years with the company. Lon A. Smith, vice chairman of parent The Hartford Financial Services Group Inc., will succeed Mr. Donahue and become president of Hartford International. All international P/C and life units will report to Mr. Smith from that date, and reinsurance operations will report to David R. Robb. . . .A.M. Best Co. has assigned an "A," or excellent, rating to **HSBC Insurance Ltd.** Based in the Hong Kong Special Administrative Region, HSBC benefits from a strong parent company network in Hong Kong as well as strong capitalization and financial flexibility; mainly short-tail liability exposures; and excellent underwriting results and financial performance, Best said. . . .Lloyd's corporate capital investor **LIMIT P.L.C.** has increased its offers to other Lloyd's members for Bankside Syndicates Ltd. non-marine syndicate 456 and marine syndicate 1036. LIMIT hopes to take over as much of those syndicates' capacity as possible for the 1999 year of account. . . .At the same time, **Cox Insurance Holdings P.L.C.** has extended its offer for buying out members on syndicate 1485. Originally, the offer closed on Aug. 7, at which point Cox had bought up £45.4 million ($74.4 million) of the syndicate's capacity, meaning it now owns 91.7% of 1485's total capacity. Cox now can apply to Lloyd's to compulsorily purchase the remaining capacity in the syndicate, but first it is extending its offer until Aug. 25. . . .Losses resulting from the **tailing dam failure** at the Los Frailes zinc mine in Spain have led mine owner Boliden Ltd. to take a $34 million charge on its second-quarter results. The Toronto-based mining operator said earlier this year it believed its liability insurance would cover all losses should Boliden be found responsible for the accident, which spewed thousands of gallons of toxic waste over local farmland and into water courses in southern Spain (*BI*, May 11).

Diverse risk management

Practices in Europe have common features but differ widely: Study

By SARAH GODDARD

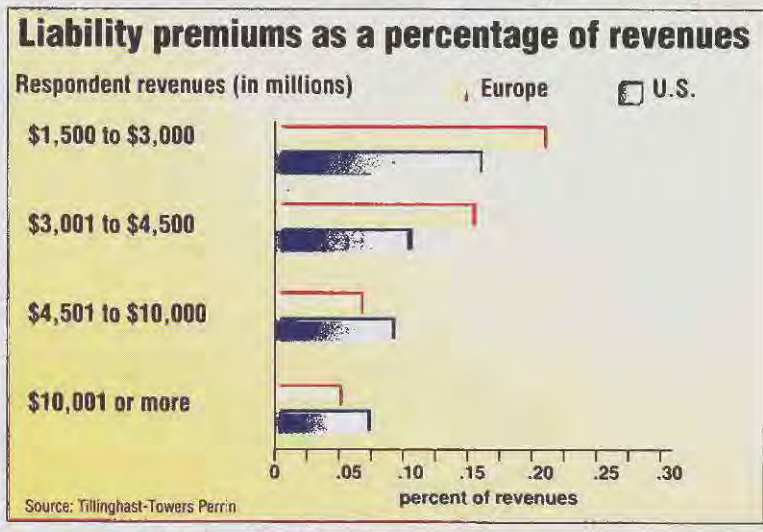
LONDON—Facets of life in Europe gradually are standardizing across its countries: Weight is now measured using metric units, and many of the member states will be introducing a single currency, the Euro, at the beginning of next year.

But risk management is another issue.

In a report issued earlier this month, consultant Tillinghast-Towers Perrin showed that risk management practices vary widely across Europe, though there are common features. At the same time, there is more uniformity between European risk managers as a group than between European and North American risk managers.

Tillinghast aims to make the "European Cost of Risk Survey" an annual event, providing a benchmarking tool for European risk managers. Since 1979, Tillinghast has joined forces with the Risk & Insurance Management Society Inc. to produce a North American version, though next year RIMS will be working with Ernst & Young L.L.P. Tillinghast has said it will continue to

See **Costs** *on next page*



Report faults Kiwi utility in outage

By YVETTE HIGGINS

AUCKLAND, New Zealand—Better management and systematic risk assessment could have prevented the power failure earlier this year that shut down central Auckland for at least two months, a government report says.

A New Zealand government inquiry released late last month blamed the management of power provider Mercury Energy Ltd. for the power failure in Auckland's central business district. The report criticized Mercury Energy's risk management and contingency planning, operations and maintenance practices.

Mercury Energy's acting chief executive, Patrick Strange, said some of the report was "absolutely fair," but Mercury is still investigating the cause of the power failure.

The government launched the inquiry March 12 to determine what happened, why and what lessons could be learned. However, the report did not explore Mercury's liability for the outage or the customer compensation the utility had offered.

The report said operations and power line maintenance by Mercury Energy and its predecessor, the Auckland Electric Power Board, were below industry standards and contributed to the outage.

According to the report, the Auckland outage provided a lesson: Other utilities should systematically evaluate risks facing physical assets, such as power lines.

Furthermore, customer contracts should define

See **Mercury** *on page 43*

Top U.K. insurers taking hard line

Two shunning unprofitable business

By EDWIN UNSWORTH

LONDON—Britain's two biggest insurance companies, CGU P.L.C and Royal & Sun Alliance Insurance Group P.L.C., are turning away business rather than accept it at rates they think contribute to the soft market.

Both of the London-based companies made the announcements as they unveiled sharply lower first-half results.

Royal & Sun Alliance, which reported a 39% fall in first-half 1998 pretax operating profit (which excludes investment income) to £305 million ($508.6 million), said it is turning down unprofitable business and reviewing its operations with the goal of improving efficiency.

CGU, reporting its first figures since it was formed earlier this year through the merger of Commercial Union P.L.C. and General Accident P.L.C., disclosed that its pretax operating profit for the same period was £280 million ($467 million), 44% down from a pro forma £503 million ($837.2 million) in the first half of 1997.

Both insurers blamed fierce competition and sharply increased weather-related claims for the downturns. Royal & Sun Alliance said its weather claims increased by £114 million ($190.1 million) in the half year as a result mainly of ice storms in North America and flooding in the United Kingdom. CGU cited the same factors for a £129 million ($215.1 million) rise in its weather claims.

Royal & Sun Alliance Group Chief Executive Bob Mendelsohn said,

Despite wanting to expand, Royal & Sun Alliance won't pay unnecessarily high prices for acquisitions, Bob Mendelsohn says.

"We maintained our underwriting standards in very competitive market conditions," with the company turning away business in all lines where it has been unprofitable, he said. Despite its desire for expansion, the company has also refused to pay unnecessarily high prices for acquisitions, he added.

Similarly, CGU Group Chief Executive Bob Scott said the company continues to focus on profitable market segments and is increasing premium rates wherever possible. The toughest action has been taken in the U.K. personal and commer-

See **Insurers** *on page 43*

Asia still presenting opportunities

But insurers should consider 'overall picture' before entering: Speaker

By KATE TILLEY

SYDNEY, Australia—Asia's current financial crisis is a short-term problem, and the region still represents major growth opportunities for insurers.

That was a message from speakers at the July 12-15 International Insurance Society Inc. 34th annual seminar in Sydney, Australia.

Janet E. Belkin, executive director-center for international insurance studies at The College of Insurance in New York, said there are opportunities in Asia despite the financial crisis. But she warned insurers planning to enter the markets to consider "the overall picture" before making a decision to enter, remain or leave.

"The countries are potential markets for the long haul," she noted. Entry requires due diligence to make sure an insurer is entering a market that fits its corporate goals and strategies, according to Ms. Belkin.



Masahiro Yamada, managing director and board member of the Nippon Life Insurance Co., the world's largest life insurer, predicted the region's economic "difficulties" would be overcome in two or three years.

David C. Coyukiat, president and chief executive officer of Pioneer Insurance & Surety Corp., in Manila, Philippines, said he expects the Philippines to be one of the economies better positioned for "the turnaround" in two to three years, when Mr. Coyukiat thinks Southeast Asian economies will grow at "a more sustainable rate."

The Philippines is "neither the least nor the worst affected by the Southeast Asian financial turmoil," he noted.

Ms. Belkin said demographics, the existing insurance industry, and culture, economics and politics all must be taken into account before insurers, reinsurers or brokers enter new markets.

Market size alone is not a sufficient reason to enter a new market; the age of the population and the education level have to

See **Asia** *on page 44*

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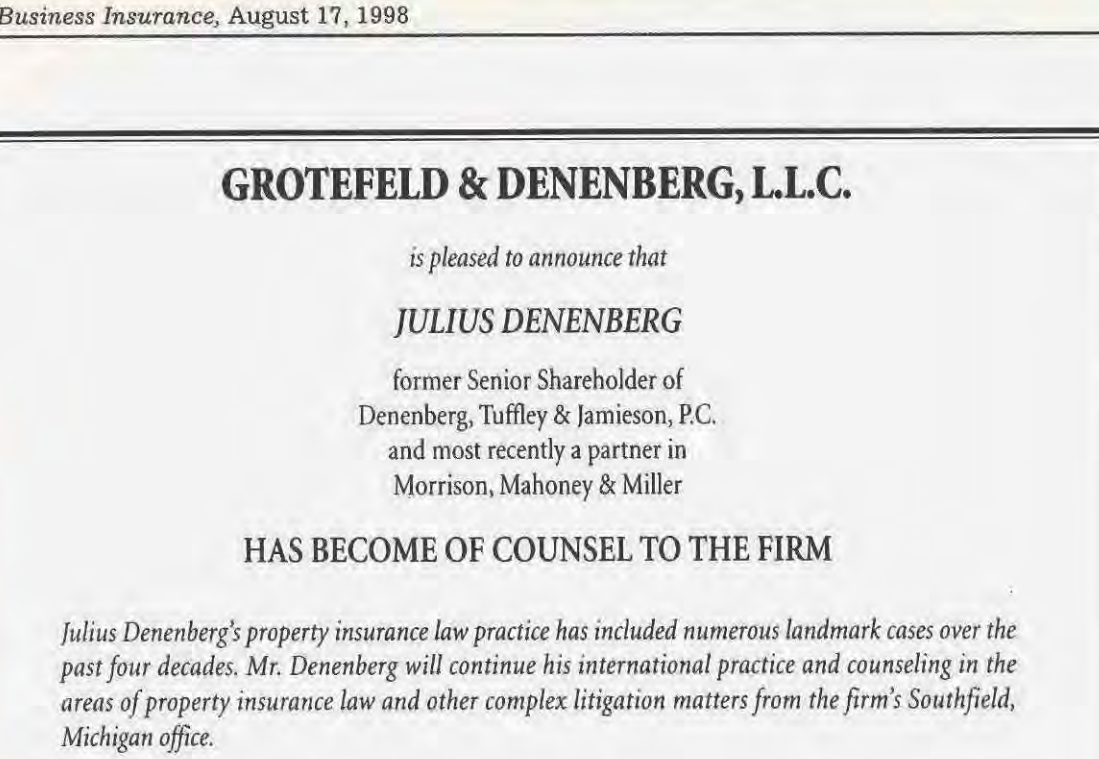
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Costs

Continued from previous page
produce its own annual cost of risk survey in North America.

Although Tillinghast defines cost of risk as the sum of net insurance premiums, retained losses, risk control and loss prevention expenses as well as administrative costs, the report reaches no conclusive amount for the average cost of risk in Europe.

This is partly because the approximately 50 respondents supplied little or no information on the amount of losses their organizations sustained before deductibles were met and policies kicked in.

"Europe is probably five to 10 years behind the U.S. in terms of risk data collection," said Julian Phillips, one of the two Tillinghast risk management consultants who carried out the study. But much of this is because European risk managers focus more on property/casualty exposures than liability and workers compensation exposures, which typically take up much more of the North American risk manager's time.

Nevertheless, even though European risk managers generally identify and deal with similar types of risks, "we find that cultural and historic national differences are more clearly evident in the survey results than shared practices" across Europe, says the survey.

These differences include:

- Swedish and U.K. companies tend to use direct-writing captive insurance companies, whereas organizations based elsewhere in Europe are more likely to use captives for reinsurance business.
- German companies have notably higher costs for property and liability risks.
- Dutch and U.K. companies are more likely to use just one or two key insurance companies, unlike French, German and Belgian companies, which have relationships with many insurers.

Compared with North American companies, European organizations are more likely to have decentralized management systems. This means risk managers in Europe often need to persuade operating units to allocate money for risk control, explaining why few European multinationals have global insurance programs for risks other than property or liability. "Additionally, they do not appear to track costs incurred locally on insurance arrangements," according to the report.

And even though captives are widely used by European organizations, here again, "efforts to collect data on losses within deductibles are limited," the report says, and the deductibles themselves generally are lower than those carried by U.S. companies.

Of the whole sample for the European survey, slightly more than 40% of all respondents said they monitored costs within deductibles, ranging from less than 20% of Belgian respondents to almost 70% of Danish and Swedish respondents.

In addition to the problem of having a decentralized management structure, European risk managers are finding it increasingly difficult to keep track of global premium spending, because multinationals are increasingly switching to multiyear coverages. Consequently, risk managers find it hard to work out how much premium is attributable to a certain year.

Average property premiums across Europe work out as 0.01% of a company's assets, ranging from less than 0.005% in the Netherlands to more than 0.13% in Germany. The larger the company, the lower the property premium costs, according to the report. In general, European companies pay less for property coverage than their North American counterparts, which pay 0.046% of their assets in property premiums, the report pointed out.

Liability premiums similarly vary across Europe, ranging from just slightly more than 0.01% of revenue in Denmark and Sweden to almost 0.14% in the Netherlands.

Average liability premiums came in at 0.058% of revenue for European organizations, compared with 0.093% for U.S. companies. Even though U.S. companies take higher deductibles on their liability coverages, and the U.S. legal regime "produces higher loss costs," comments the report.

In addition, "this may be a feature of the soft insurance market and of companies questioning why they should retain more risk when insurance is relatively inexpensive but is also culturally driven," said Mr. Phillips.

The soft premium rating environment also could explain why property deductibles are low, even though European risk managers "typically devote considerable efforts to property risk control," suggests the report.

Typically, European organizations will use both insurance brokers and loss prevention service providers along with insurers to help them manage their exposures. On average, European companies pay 0.124% of their revenues for outside services, compared to 0.015% paid by their U.S. peers.

This could be because North American companies tend to have much larger risk management departments, with an average of 16 people performing a company's risk management functions, compared with an average of six in a European organization. Again, the variation in the number of people engaged in risk management activities is markedly wide across European countries, ranging from just an average of three per organization in France and Italy to an average of 13 per organization in the Netherlands.

But brokers are expected to provide a wider range of services to European companies, and survey respondents were equally split between remunerating them through fees and commissions. Most respondents use up to three brokers, and those that own captives typically pay their managers on a fee basis.

Almost three-quarters of the European companies polled in the survey own a captive, with 18% owning two. Belgian and U.K. companies are most likely to have at least one captive in place, and of those organizations that owned captives, 85% used them for reinsurance business.

At least a quarter of property premiums are retained by most companies' captives, and the same holds true for liability premiums. European captives also write credit and financial risks coverages.

Uninsured risks tend to be pollution, product recall, fraud, automobile and political risk exposures, though "very few risk managers admitted that they are deliberately not insuring some of the risks that have been identified," comments the report.

Less than 20% of European risk managers are responsible for workers compensation or employers liability programs.

•

An executive summary of the 1997 European Cost of Risk Survey Report is available free from Tillinghast-Towers Perrin, 44-171-379-4411. Full copies of the report are available only to survey participants. Risk managers who want to participate in next year's report should contact Julian Phillips at Tillinghast-Towers Perrin at the above telephone number.

Mercury

Continued from page 41

performance standards for the utility and outline the power provider's obligations, the report said.

Power to Auckland's central business district was limited for at least two months after Mercury Energy's four power cables failed in February (*BI*, March 2; March 23). The failure forced many businesses to activate contingency plans, including using backup generators.

A total insured loss figure was not available as not all insurers have reported claims payouts related to the outage, said Chris Ryan, chief executive officer of the Insurance Council of New Zealand Inc.

The outage began in unseasonably hot weather in February. Initially, two cables failed. A third line subsequently failed and, on Feb. 20, the fourth line collapsed, leaving the 1-square-mile business district with only 10% of its usual power supply. The power lines were installed in 1959.

Mercury Energy's used an emergency line and generators provided a limited power supply to the city.

The inquiry report said Mercury Energy was a competent power distributor but lacked procedures to manage its power lines or resolve problems. Mercury Energy did not regularly conduct audits of the 110kV power lines.

"Overall, operations and maintenance practices were a significant contributing factor to the failure of the power supply," the report said.

Mercury's risk management committee did not oversee the "mechanisms for accountability and monitoring network risk management," according to the report.

Instead, those areas were overseen by the board. "Network risks and other risk management procedures differed, and accountability and the performance and implementation of both was not clear," the report said.

Also, Mercury did not attend power industry conferences and other forums to learn about trends and management techniques.

The inquiry recommended that Mercury establish a management plan for its transmission lines to the central business district, independent of management of distribution assets.

Further, the report recommended the New Zealand government require network operators to disclose risk management plans and security standards.

Max Bradford, New Zealand energy minister, said Mercury Energy had guaranteed it would comply with the government's recommendations.

In a joint statement, Mercury and the Auckland Energy Consumer Trust, which is a majority shareholder in Mercury on behalf of power consumers, said many inquiry recommendations had been implemented or were in progress.

Jim Macaulay, Mercury Energy board chairman, said the report recommended that Mercury have its cable management plan reviewed by independent experts in 110kV cables of a similar design and age, and said that was implemented in April.

He said other initiatives already implemented included plans for a new underground cable to the central business district to diversify supply, and fast-tracking tunnel equipment installation to increase security of supply.

'Overall, operations and maintenance practices were a significant contributing factor' to the failure, the report said.

The statement said the report reflected Mercury Energy and the trust's view that the failure was 'many years in the making."

Mr. Strange, Mercury's acting chief executive, said some of the report was "absolutely fair." "While it is not a pleasant pill to swallow, we accept it and will learn from it," he said. Mr. Strange succeeded former Mercury CEO Wayne Gilbert, who died last month.

Mr. Strange said Mercury would look urgently at other issues raised so they could be incorporated immediately into planning.

Mr. Bradford, the energy minister, said Mercury Energy's corporate governance structure meant it missed the chance to prevent the disaster, and the inquiry recommended Mercury strengthen its corporate governance procedures.

The report said Mercury's board lacked clear lines of accountability and had no clearly defined statement of corporate intent defining common shareholder and board objectives, especially regarding security of power supply.

New Zealand does not have a utility regulator that oversees Mercury Energy. However, a reform law enacted by New Zealand's Parliament July 23 requires Mercury Energy and other power providers to keep their technical and sales operations as separate entities, with separate boards.

The inquiry also said the practice of appointing Auckland Energy Consumer Trust trustees as Mercury directors had the potential to create conflicting duties for those board members and diminish the board's effectiveness.

Stanley Lawson, trust chairman, said most issues raised by the inquiry were operational. Mercury intends to "ensure the company's governance and structure fits the modern commercial environment," he said. BI

Insurers

Continued from page 41

cial motor markets, but Mr. Scott said he also expects to see a rise in liability rates after a U.K. House of Lords ruling in July that will significantly increase court awards in personal injury claims (*BI*, July 27).

Mr. Scott also said estimates of future cost savings as a result of the merger have been raised to £270 million ($450.3 million) annually, starting in June 2000, against the estimate of £225 million ($375.3 million) made when the merger was announced.

Both companies also experienced poorer U.S. results.

Royal & Sun Alliance achieved an operating profit in the United States of £77 million ($128.4 million), down 16.3% from the same period last year. A rise in weather losses to £27 million ($45 million) from £16 million ($26.6 million) contributed to U.S. underwriting losses rising to £30 million ($50 million) from £14 million ($23.3 million).

In the United States, CGU's pretax profit on non-life insurance fell 78.7% to £13 million ($21.7 million), as underwriting losses increased to £141 million ($235.1 million) from £97 million ($161.4 million). U.S. weather-related losses more than doubled to £70 million ($116.7 million) from £28 million ($46.6 million). BI

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Asia

Continued from page 41

be considered. "Frequently, more developed competition can create a better environment than that in which insurance is an unknown product, or one reserved for the very rich," she noted.

Ms. Belkin warned that some cultures are averse to buying insurance. In strict Muslim countries, for example, insurance is considered "gaining at the expense of others" and therefore is not encouraged. "The view that a culture can be redirected to meet the needs of the company is unsound," she said.

Some nations have adopted a "welfare" system or have the view that families are responsible for caring for others after a disaster, so insurance was unnecessary.

The ease with which foreigners are accepted could have a major effect on whether insurers succeed in a new country.

"Perhaps the single most important factor to be considered when evaluating a potential expansion is the eagerness of the regulatory sector to welcome foreign investment and the willingness of the market, and the existing insurance community, to accept new competitors," Ms. Belkin noted.

On a country-by-country analysis, Malaysia has a growing middle class with expendable income, but the economic downturn may reverse that, Ms. Belkin said. The currency, the ringgit, is "quite unstable."

She offered these assessments of specific countries:

• **Thailand:** The government plans to reform its insurance laws. Buddhism is the religion of 95% of the population, and "earthly rewards are not mandatory in this lifetime," according to Ms. Belkin. Because Thailand is behind its neighbors in growth, the effect of the economic downturn may be more dramatic there.

• **Indonesia:** There is a great difference between the rich and the poor; infrastructure has not matched business growth, particularly in communications; and the currency is not easily convertible on the world market.

• **The Philippines:** Standards for foreign entrants to the insurance market are strict. The economy has remained fairly stable during the economic downturn.

• **India:** The non-life insurance industry has been a state monopoly since 1973, and the life industry since 1956. There are plans to permit private competition from domestic and foreign insurers, but the plans are not yet implemented. "The potential is incredible and so are the pitfalls," Ms. Belkin noted. BI

Officials differ on whether consolidation is healthy

By KATE TILLEY

SYDNEY, Australia—Is big beautiful?

The debate over whether mergers and acquisitions ought to continue within the insurance industry was a key theme at the International Insurance Society's 34th annual seminar at The Regent Hotel in Sydney, Australia, July 12-15.

Many varied views were expressed. Malcolm M. Jones, chief executive officer of Sydney-based Zurich Australia Group Ltd., said that while there are many multinational insurers, none can claim to be truly global. He defines a global insurer as one that operates uniformly across the globe selling the same products in every market in which it operates.

Mr. Jones told IIS delegates the insurance industry is not global because each market has its own regulatory regime and home-grown insurance products that meet local markets' needs. There are no strong, global insurance brands, he said.

Mr. Jones said the varied goals of the regulatory environments are partly why no truly global players have emerged. To operate in different countries, insurers and brokers have to have different structures that meet those countries' regulations. "Some regulators wish to protect local companies; others just need to protect consumers," he said.

Because insurance is a product dependent on trust, it is more likely to be provided by a local company selling a local brand, a company people would trust if they had a claim, he said.

Distribution methods are not truly global, either, Mr. Jones noted. "There is no global retail organization that can distribute insurance."

And he said smaller insurers in niche markets are more profitable. "The small insurers do have higher cost ratios, but these costs seem to be a good investment—they pay off in better loss ratios."

Mr. Jones said research shows that increasing company size hurts the combined ratio and the profit margin.

"The smaller, more focused companies... invest in good, cautious underwriting. They know their markets better and are able to cherry-pick the best of the bunch."

For example, in Australia, insurance companies owned by auto clubs are among the most profitable. NRMA Insurance Ltd., the Sydney-based insurance subsidiary of the National Roads & Motorists' Assn., an auto club that provides a breakdown service in New South Wales, is the nation's largest non-life insurer, with 1997 gross premiums of $1.87 billion Australian ($1.16 billion).

Mr. Jones, who was NRMA Insurance's chief executive officer until a month ago, when he resigned and took up the new position at Zurich, said the success of NRMA and other auto club-owned insurers, which write predominantly auto and homeowners policies direct, shows the strength of domestic insurers' at building a strong brand and loyalty with a large customer base.

The auto club-owned insurers have not entered the commercial market, where they would compete with multinationals, he noted.

Jan H. Holsboer, a member of the executive board of Dutch-based ING Group, said that though mergers and



acquisitions would continue in the industry, and development of the euro currency would fuel mergers and acquisitions in Europe, barriers to integration of insurers remain and that growth would be long-term, not short-term.

Insurers' attempts to merge or acquire other insurers would be tempered by differences in language, legislation, tax and distribution methods, and by established brands' strengths, he noted.

"Is big better?" Mr. Holsboer asked. "Not necessarily; size as a strategic goal in its own right could be a mistake."

Mr. Holsboer said growth strategies have to be selective. It is more important to have a balance of internal and external growth; patience, particularly in the Asian markets; and teamwork and synergy within a company.

It is not possible to use a single brand across the world, because that could be perceived as arrogant in many markets, he noted. For example, ING does not use the ING brand name in all its markets because the name does not have universal recognition.

Thomas Wellauer, CEO of Winterthur Insurance Co. in Winterthur, Switzerland, told the seminar that while size alone would not deliver improved results, "it can facilitate cost leadership, brand recognition and skill building."

Mr. Wellauer said the largest insurers continue to increase their market share in Europe and that Winterthur is no exception. The company's strategy is to shape its portfolio of businesses, even to the extent of selling profitable business if someone else could create more value.

Winterthur's goal is to achieve underwriting profits in its non-life businesses, "not only in good years, but consistently, over time," Mr. Wellauer said.

Like their non-life counterparts, life companies are following merger and acquisition strategies, including financial convergence with banks and other financial institutions.

Robert M. Devlin, chairman and CEO of Houston-based life insurer American General Corp., said his company had completed nearly $6 billion in acquisitions since 1995 to achieve size and scale in distribution and profit.

For the brokering industry, John Reeve, executive chairman of London-based Willis Corroon Group P.L.C., predicted more mergers, saying "there is still room for consolidation" among brokers. It is likely mid-size brokers will merge to find economies of scale, improved geographic coverage and enhanced placement power with insurers, he said. "It could lead to a more polar-

See Mergers on next page

Seminar draws 39 nations

SYDNEY, Australia—Thirty-nine nations were represented at the 34th annual seminar of the International Insurance Society Inc. held for the first time in Australia.

The seminar attracted 358 delegates to The Regent Hotel in Sydney, Australia, for the July 12-15 event. Three awards were presented, and three people were inducted into the IIS Insurance Hall of Fame.

The Hall of Fame was created in 1957 to honor individuals, alive or dead, who influenced insurance organizations' ability to serve society.

The Commissioners' General Award 1998 went to George R. Trumbull, chief executive officer and managing director of AMP Ltd., Australia's largest life insurer, based in Sydney. Before joining AMP, Mr. Trumbull worked for CIGNA Corp. in the United States for 24 years. He was chairman of the IIS's Board of Governors for the 1998 seminar and headed the Australian organizing committee.

Richard M. Murray, vice chairman of La Prov Corp., a New York subsidiary of Mexico City-based insurer Grupo Nacional Provincial,



was awarded the Kenneth Black Jr. Distinguished Service Award.

The John S. Bickley Founder's Award, Gold Medal for Excellence, went to J. Efran Ossa Gomez, an insurance educator in Columbia who died in 1993. He was general manager and CEO of Compania Central de Seguros in Bogota, Colombia, for 35 years. The founder's award goes to an individual, living or dead, and has the same criteria as the Hall of Fame.

Those joining the Hall of Fame were Hans Buhlmann, a former Swiss Re actuary who has advised the Swiss Government on actuarial issues; Canadian Thomas Bassett Macaulay, a former president of Sun Life Assurance Co. Canada, who died in 1942; and Jose Maria del Delas y Miralles, who developed the regulatory framework for the Spanish insurance industry. He died in 1954.

Next year's IIS seminar is scheduled to be held July 11-14 in Berlin at the Hotel Inter-Continental. For more information, contact Linda C. Bock, executive director, IIS, 101 Murray St., New York, N.Y. 10007-2165. 212-815-9261; fax: 212-815-9297; e-mail: lbock@tci.edu.

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Mergers

Continued from previous page

ized industry, with fewer participants in the middle ground between niche specialists and larger brokers," he predicted.

Brokers would seek to exploit placement leverage by establishing strategic relationships with insurers and attempts to rid the industry of some of the duplication of broker/insurer roles, Mr. Reeve said. There is potential for faster customer service, with fewer errors and delivered at a much lower unit cost, he added.

But, as brokers get larger, there also are potential disadvantages, including layers of management, lack of responsiveness to market changes and a loss of clear focus, Mr. Reeve said.

Clients are becoming better managers of risk and are increasingly looking to reduce their total cost of risk, of which transactional insurance premiums are only a component, he said. That means sophisticated brokers have to increase their advice services. They have to sell expertise and knowledge, not just insurance, he said.

Mr. Reeve noted that while, theoretically, megabrokers ought to be capable of producing price advantages because of their placement power, in practice, the effect was marginal. The excess capacity in the insurance markets means "enormous downward pressure" on premiums.

While he favors broker/insurer partnerships, Mr. Reeve warned that insurers have to select their broker partners carefully, as some megabrokers may be "aggressive and demanding, contribute less to the relationship and fail to be loyal over the long term."

Rudolph Ficker, a member of the supervisory board of Munich Reinsurance Co. in Munich, Germany, put the perspective on size from a reinsurer's viewpoint, saying "big is beautiful," but "size per se does not eliminate risk."

Mr. Ficker said economies of scale are a key reason for reinsurer consolidation. As the risks become more complex, there are greater demands on underwriters' expertise. "This is costly and only makes commercial sense if supported by large reinsurance shares (of risks)," he noted.

The value of single-risk exposures has increased, and the loss potential from natural catastrophes has increased, too. Climate change, such as global warming, has contributed to an increase in the incidence and severity of some natural hazards, he noted.

Reinsurers are facing competition from other sources, such as the capital markets, Mr. Ficker noted, but he said there is "more smoke than fire, more talk than facts."

However, he sees capital markets not as a threat but as potential partners with reinsurers. He said the sheer size of the capital markets means they can carry some of the risk insurers and reinsurers can't.

"A really large catastrophic event, such as a $100 billion hurricane loss, is even smaller than the average daily turnover in the U.S. capital markets," Mr. Ficker said.

Mr. Ficker said the better balanced a reinsurer's book, the more capacity it could offer, and the better it could calculate adequate prices and conditions. Reinsurers therefore need strong market positions in all potentially profitable geographic regions.

He expects reinsurance to retain its global share of the insurance market at 8% of worldwide premium ($2 trillion), as reinsurance premiums have remained "more or less" stable in the past few decades.

Although some trends pointed to a reduction in cessions to reinsurers, he anticipates little change. BI

Study finds reinsurers at risk

SYDNEY, Australia—Some international reinsurance companies "may be in serious financial trouble," according to a study by two U.S. insurance academics.

Mark Cross, professor of insurance at Miami University, and Robert A. Hershbarger, chair of insurance at Mississippi State University, presented the findings of their study of 94 reinsurers' financial situations at the International Insurance Society seminar in Sydney, Australia, July 12-14.

The study did not identify which reinsurers were at risk, but noted smaller reinsurance companies appeared to be "in poorer financial condition than larger companies."

That contrasts with the results of a 1997 survey the academics conducted on the financial status of U.S. reinsurers, which found that the smaller U.S.-based companies had stronger results. They also found all reinsurers' financial conditions had improved in



1994 and 1995 and that there was "no significant difference" in the financial status of international and U.S. reinsurers.

Messrs. Cross and Hershbarger said reinsurers are finding it increasingly difficult to assess potential risks inherent in major disasters. Also, they found that large, multinational corporations prefer to deal with a smaller number of direct writers that, in turn, deal with fewer reinsurers. Those factors mean the amount of risk each reinsurer deals with is increasing.

"Reinsurers are attempting to write more business across product lines and to diversify their business geographically," the study found.

The authors said their analysis found 40% of international reinsurers in the sample were "in good financial shape," and about 50% "have some financial deficiencies." Ten percent were in "poor financial condition, with capital less than the risk-based amount required."

—By Kate Tilley

Talent needed: CEO

By KATE TILLEY

SYDNEY, Australia—The insurance industry is suffering a shortage of "talent," a U.S. insurer executive says.

Douglas W. Leatherdale, chairman and chief executive officer of The St. Paul Cos. Inc. in St. Paul, Minn., told the International Insurance Society's 34th annual seminar in Sydney, Australia, July 12-15, that "talent"—not scale, brand strength or even capital—distinguishes high-performance companies.

He warned that insurers are being restrained by the inability to attract and retain qualified management staff. They are participating in "a high-stakes war for skilled executive management."

Many companies do not grasp the importance of the battle, and even those that do are vulnerable to competitors' raids, he noted.

St. Paul took part in a survey by management consulting firm McKinsey & Co. that found skilled people were more mobile and harder to retain. The survey also found that new executive managers require skills, including information technology competence, that are in short supply.

"There is a growing imbalance between supply and demand. The pool of 35- to 54-year-olds is declining," he said. The younger generation has different ideas on career fulfillment. The scarcity of executive management talent would be the major factor impacting insurers and other companies' long-term financial performance.

Mr. Leatherdale said the "talent war" can be won only with commitment from the CEO and board to build a culture that makes acquiring talent an objective.

McKinsey found the top companies were those proficient at acquiring the best people, he said.

Autonomy, job challenges, a sense that the company is well-managed and high regard for the corporate culture attract talent, he said. Pay and benefits, location and job security are less important, he said.

However, companies attracting talent paid more, but remuneration was linked to performance and used to differentiate the best employees from average ones.

Mr. Leatherdale said St. Paul, an insurer with "deeply ingrained attitudes," had found change slower and "more painful" than some managers may have liked.

But St. Paul implemented a plan where every employee was accountable for financial performance. St. Paul has implemented a rigorous employee review system and linked performance with stock ownership mechanisms, under which employees now own 12% of the stock.

The global reinsurance unit has a separate, long-term incentive program for senior management with rewards linked to profits and premium growth. The benefits can be up to 60% of a participant's annual salary.

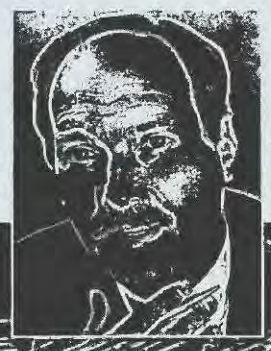
Mr. Leatherdale said St. Paul previously had employed people with good skills in underwriting, claims handling and risk management consulting but had focused less on leadership skills.

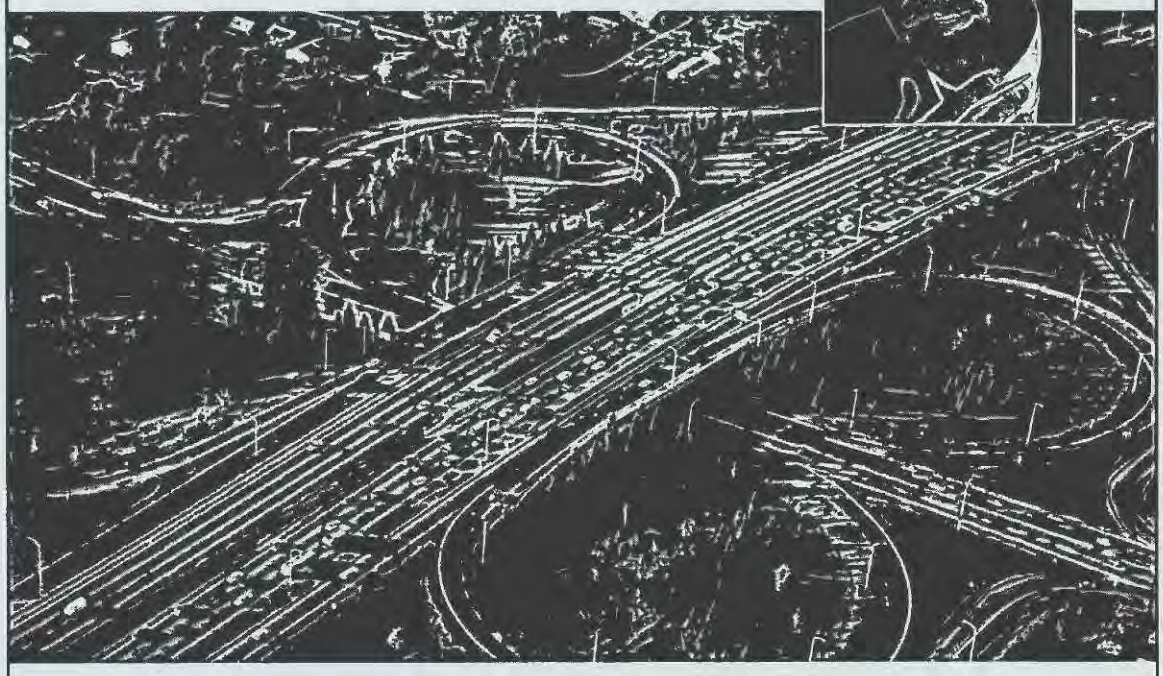
St. Paul recruited from outside the organization, getting people who had built profitable businesses elsewhere, he said. BI

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CHIEF OF MANAGED CARE
Position Number: 01261

The Department of Insurance is recruiting for a Chief of Managed Care. This position requires a high degree of administrative and office management capabilities. Experience must demonstrate the ability to perform at this level. **Preference will be given to applicants with extensive financial accounting and managed care experience.** Duties include: providing managerial supervision to the Bureau of Managed Care with respect to its discharge of the statutory responsibilities regarding the licensure, financial and regulatory review and market conduct oversight of managed care entities. Monthly salary range: $3,117.66 - $6,358.99. Submit a completed State of FL Employment application to: Sharon Binnun, Division of Insurer Services, Bureau of Managed Care, 200 East Gaines Street, Tallahassee, FL 32399-0326 by **August 31, 1998.** EEO/AA Employer.

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Palm Beach County School District wants a motivated, self-starter to manage the operations of a self-insured workers compensation and liability program for a 17,000-employee school district. This position oversees the work of a TPA and administers in house return to work program. Also responsible for purchasing required property and liability insurance.

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The School District of Palm Beach County
Ms. Glenda Hoffmeyer
Employment & Placement Services
3364 Forest Hill Blvd., Suite A-115
West Palm Beach, FL 33406-5870
VP/EOE

CLAIMS MANAGER

National leader in facilities management and services has an immediate opening for a Regional Claims Manager to oversee worker's compensation, general liability and automobile liability claims. Duties include strategy development, claims resolution, and statistical analysis. Candidates must have a Bachelor's degree, ten years experience in casualty claims and strong written and oral communication skills. In-depth knowledge of WC medical management is a plus. We offer a competitive benefit package and a salary commensurate with experience. For immediate consideration, please fax or send your resume with salary history:

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EOE M/F/D/V

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- A Bachelor's degree with insurance designation preferred (CPCU, ARM);
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- Experience working with vendors and advisory boards; budget experience; policies and procedures development; strong supervisory and litigation management skills; strong communication and staff development skills;
- Creates effective communication within the claims unit and among other internal and external departments, vendors, customers and governmental agencies;
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We offer competitive compensation, a challenging environment, excellent benefits package and room for professional growth. Please mail your resume with cover letter and salary history to:

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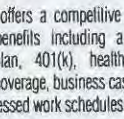
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The National Association of Insurance Commissioners (NAIC) has been helping our members protect the interests of consumers since 1871. We currently have an opening for the Director of our Securities Valuation Office (SVO). This position is responsible for the day to day operation of the NAIC's Securities Valuation Office in New York City. Responsibilities include supervising all aspects of securities valuation work to ensure the timely and accurate production of the NAIC Database which consists of stocks, bonds and derivative securities; chairing the SVO Steering Committee which is responsible for development of SVO analytical policies; providing staff support to the Valuation of Securities Task Force and its working groups; and, supervising the administration of the office including personnel, budgeting, purchasing, and MIS.

Requirements include a master's degree (M.A.) in finance, business, accounting or related field; or, 10 years experience in finance or securities; or equivalent combination of education and experience. Must have proven ability to manage 40 or more employees and or a satellite office/business operation. Requires outstanding written and oral communication skills. Regulatory and/or security rating experience a plus. The position is located in New York City.

The NAIC offers a competitive salary and wide array of benefits including a defined benefit pension plan, 401(k), health/dental/vision/life insurance coverage, business casual attire, flexible and compressed work schedules, and much more.

Please submit your resume to: National Association of Insurance Commissioners, Human Resources Department, Dir., SVO, 120 W. 12th Street, Suite 1100, Kansas City, MO 64105, fax (816/374-7186), or E-mail your resume to: broper@naic.org

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Sr. Accreditation Manager

The National Association of Insurance Commissioners (NAIC) has been helping our members protect the interests of consumers since 1871. The NAIC seeks a Sr. Accreditation Manager to implement and manage the NAIC accreditation program, and oversee the quality of states' regulation for solvency. The successful candidate must possess strong management and communication skills. Requirements include a Bachelor's Degree with CPA and/or CFE designation. Minimum of 7 years public accounting w/specialization in insurance or equivalent insurance regulatory experience is also required.

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HELP WANTED

NOTICE OF SOLICITATION
LIRR EAST SIDE ACCESS PROJECT - OCIP
REQUEST FOR CONCEPTUAL PROPOSALS (RFCP)
RFCP CLOSING/RESPONSES DUE BY:
SEPTEMBER 22, 1998 by 10:00 AM

- The Metropolitan Transportation Authority's Risk and Insurance Management Department is soliciting competitive conceptual proposals from qualified brokers/agents and/or direct writers to market and provide insurance and administrative services for a Long Island Rail Road Co. Owner Controlled Insurance Program (OCIP) for the East Side Access Project. This project has been assigned DBE goals as follows:
- Disadvantaged Business Enterprise sub-contracting goal: 10%
- There will be no charge for RFCP bid documents. Solicitation documents may be requested by mail, or fax at (212) 878-1203. Mail and fax requests should be made on company letterhead and addressed to **Lauren Gregory, ARM, Director, Risk and Insurance Management Department, 347 Madison Avenue, (341/18), New York, NY 10017.**

MTA **Metropolitan Transportation Authority**

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Alameda-Contra Costa Transit District (AC Transit), one of the largest transit systems in the Western United States, serving the San Francisco East bay region, has an excellent opportunity for a Risk Management professional to plan, oversee and direct liability claims, insurance, and associated activities and functions of the District's Risk/Claims Management Section. The successful candidate will use critical skills to assist the Risk Manager in managing the day-to-day activities of the Claims Section, and will provide direct supervision over assigned professional and administrative support staff, and perform other related duties as required.

Minimum Qualifications: A combination of education and work experience equivalent to graduation from a four-year college or university with a major in Business Administration, Insurance, Pre-Law or a closely related field. Completion of a certificate program in risk management, claims administration and/or insurance is highly desirable. Work experience must be equivalent to at least (3) years increasingly responsible professional level experience in risk and claims management (preferably with a self-insured organization similar in size and complexity to AC Transit), including a minimum of two (2) years responsibility for major liability claims investigations, settlements and trial preparations, and including one (1) year of supervisory or management experience in the risk/claims area.

For an application packet contact: AC Transit District; Human Resources Department, 1600 Franklin Street, 4th Floor, Oakland, CA 94612. **Phone: (510)891-4783, TDD: (510)891-4788.** Deadline for receipt of application is 5:00PM on August 28, 1998. Resumes in lieu of the application packet (application form and supplemental), and postmarks and faxes not accepted

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Sub-total 32,154
Associations 286
Government, Unions and Educational Institutions 1,019

Commercial Consumers Sub-total 33,459
Insurance Agents and Brokers 8,083
Insurance Companies 6,933
Accountants, Actuaries, Attorneys & Consultants 2,705
Adjusters, Appraisers, TPA's, Captive Managers & Health Care Providers 1,578
Others Allied to the Field 757

Total Qualified 53,525
Non-qualified/Paid Subscriptions 14
Single Copy Sales 27

TOTAL CIRCULATION 53,556

★ *Source Business/Occupational breakdown of qualified circulation, November 24, 1997 Issue, as submitted to BPA for December 1997 BPA Publisher's Statement*

Brokers

Continued from page 2

insurers that would provide an additional £37 million ($61 million) in coverage, plus an option on a £25 million ($41.2 million) excess layer above that.

"We are trying to take out as much uncertainty as possible," said Rob White-Cooper, Sedgwick's chief executive officer. The facility is the first of its kind, and Sedgwick has pioneered ART mechanisms for clients' asbestos and pollution exposures, including the recent $800 million placement for Hanson P.L.C. (*BI*, Aug. 10). Other companies hit by the misselling problem could buy into a similar mechanism through Sedgwick.

Arthur J. Gallagher's six-month profit decline is attributable to a one-time $6.2 million gain in the second quarter of 1997, when it sold two underperforming offices.

Executives from Marsh & McLennan Cos. Inc. and Aon Corp., on the other hand, say savings from their recent megamergers have helped boost their bottom lines in 1998. M&M reported a 37.2% rise in net income to $424 million, while Aon's profits improved more than 200% to $277.8 million in the half.

While the U.K. pension misselling may be hitting London broker's balance sheets, observers seem more focused on the future of Willis Corroon.

Last month, Willis announced that Trinity Acquisition P.L.C., a consortium led by U.S. private equity firm Kohlberg Kravis Roberts & Co. L.P. with five insurers, issued a £951 million ($1.56 billion) offer to acquire a majority stake in the world's fourth-largest broker (*BI*, July 27).

If stockholders approve the deal this month, Willis will become a private broker. In the middle of last week, Willis Corroon said it had not received a counterbid.

While the deal is seen as similar to American International Group Inc.'s $200 million cash infusion into then-struggling Alexander & Alexander Services Inc. in 1994, the issue of vertical integration and potential conflicts of interests between Willis and its insurer investors has raised some concerns among risk managers (*BI*, Aug. 3).

Competing brokers have various opinions regarding vertical integration and the Willis deal.

"The issue of vertical integration has been in evidence for the better part of the last 15 to 20 years," noted J. Michael Bischoff, vp-corporate development for Marsh & McLennan in New York. "Generally, our feeling is the two should be separate," he said, referring to underwriters and brokers. "There are lots of examples throughout the world where underwriters owning brokers and brokers owning underwriters just hasn't worked out," he said.

Mr. Bischoff added he believes the insurers investing in Willis are doing so to keep the distribution system open and the deal should not be viewed as vertical integration.

"Willis is a very good company," said Patrick G. Ryan, chairman and chief executive officer of Aon Group in Chicago. "They obviously felt they needed to make a change in their shareholding base. We have to wait to see if they can run the company better as a private company rather than a public company."

The proposed Willis deal also has put a spotlight on Sedgwick, which has said it is willing to enter a merger or acquisition under the right conditions.

"We talk to lots of people about lots of things all the time," said Sedgwick Chairman Sax Riley when asked if they had spoken to Kohlberg Kravis Roberts & Co. "We are reviewing all our options because, basically, the game is changing all the time," he said, and the intermediary business is moving closer toward consulting and service business.

Individual results of the world's largest publicly held brokers follow:

Marsh & McLennan

Revenues from Marsh & McLennan's insurance services and consulting operations grew 21.4% to $2.38 billion during the first half of 1998.

Including revenues from its Boston-based investment management unit, The Putnam Co., and M&M's corporate investment income, total corporate revenues grew 24.3% to $3.54 billion in the half. Corporatewide profits likewise grew, bolting 37.2% in the first half to $424 million.

The second quarter reflects, for the first time, the acquisition of Johnson & Higgins in both 1998 and 1997 figures. Revenues from the combined insurance services and consulting operations of J&H and M&M were up 6.3%, to $1.16 billion, for the three months ending in June.

The integration of the brokerage giants is nearly complete, Mr. Bischoff added. Efforts are now focusing on integrating the London operations and relocating about 1,000 employees in nine offices into two new offices, he said. After that, "the last thing left with the integration is systems," he said, adding that that process will be complete by the end of 1999.

M&M estimates that the entire acquisition will result in net savings of between $120 million and $130 million when the integration is complete. Of that, $75 million will be realized throughout 1998, Mr. Bischoff said. For the first six months, "We're very much on track with that."

In terms of the operating environment, there is "absolutely no general change in conditions, which means it's still a very competitive market. . .with price declines in most lines of business," Mr. Bischoff said.

Considering market conditions in the first half, M&M did well, he said.

Mr. Bischoff specifically points to M&M's benefit consulting unit, William M. Mercer Inc., whose revenues increased 11.5% to $727 million during the first half, as one of the factors in the company's overall growth so far in 1998.

He attributes the growth to the combination of a strong economy, global positioning and innovative products.

Aon Corp.

Revenues from Aon's brokerage and consulting unit, Aon Group Inc., are up 19.2% to $2.15 billion for the first half.

Corporatewide revenues, including those derived from Aon Corp.'s underwriting operations, are up 14.6% to $3.2 billion for the half. Corporatewide profits are up more than 200% for the half to $227.8 million.

Broken down, revenues from Aon's retail brokerage, reinsurance brokerage and specialty business are up 20.5% to $1.84 billion in the first half, and consulting revenues are up 11.7% for the year to $305.3 million.

"Aon Group had particularly good new business, and I would say that really helped overcome the very tight market and difficult pricing," Mr. Ryan said. "We had good reinsurance and retail new business growth, particularly in the U.S., and retention was good particularly in Europe," he said.

Revenues from its consulting business were not as large in the second quarter as in the past, increasing only 7.6%, due to some "temporary" client relationship problems with the auto consulting business, Mr. Ryan said, specifically pointing to the recent General Motors Corp. strike.

Mr. Ryan said Aon "is on track" with its savings estimates of $300 million this year from the acquisitions it made in 1997.

In July, Aon announced that it had taken a minority holding in a new Chicago-based minority-owned insurance broker, EBRM Risk Management & Consulting L.L.C. Aon will provide exclusive access to specialized resources and expertise to EBRM, which specializes in risk management consulting and insurance brokerage for domestic and global accounts.

Sedgwick Group

Brokerage and fee revenues bounced back after a first-quarter drop, to £469.2 million ($774.1 million), an increase of less than 1% for the first six months of 1998. Converting into dollars at the prevailing exchange rates, this represents a 1.9% increase from $760 million for the first six months of 1997, and at constant exchange rates, Sedgwick estimates revenues increased 4% over the same period last year.

Investment income rose to £23.4 million from £19.6 million (to $38.6 million from $32 million). This led to corporatewide revenues rising 1.6% in the first half to £492.6 million. Converted to dollars at relevant exchange rates, Sedgwick's corporate revenues rose 2.6% to $812.6 million.

Expenses also rose, up 3% to £429 million ($707.7 million), though they are up just 2% if the effects of acquisitions are stripped out, according to Finance Director Stuart Tarrant. The second-quarter results are on track for the year's outcome, he said, predicting year-end 1998 revenue to be up 7%, with expenses up 6%.

Pretax profits were down 10.3% in the first half, to £60.1 million ($99.1 million). This included foreign exchange losses of £3.1 million and disposals of two Dutch managing general agencies that knocked £2.1 million off the half-year figures.

Exceptional items cost Sedgwick a total of £77 million in the first six months. In addition to the £80 million provision for pension reparations, Sedgwick also paid out £6.4 million in restructuring costs, particularly in its U.K. and Dutch operations, though this was tempered with a £9.4 million profit from the sale of its Dutch subsidiaries.

When exceptional items are taken into account, Sedgwick posted a pretax loss of £16.9 million ($27.9 million) for the half year, compared with a £66.5 million profit for the same period last year. After taxes, the broker had an £8 million ($13.2 million) loss, down 117.2% on its previous year's level of £46.5 million. Converted into dollars at the relevant exchange rates, this represented a fall of 117.4% from $75.9 million last year.

Sedgwick's employee benefit consulting unit, Sedgwick Noble Lowndes, posted a 2.3% increase in first-half revenues to £114.4 million.

Within the insurance and reinsurance brokerage operations, Sedgwick Ltd.—responsible for all property/casualty business outside Asia-Pacific and the United States—recorded revenues up 7% to £187.6 million ($309.5 million). Within Sedgwick Ltd., Corporate Risk Solutions, the marine, energy and aviation business, was down 9% to £64.2 million, a factor of the continuing soft market, said Mr. White-Cooper. International Risk Solutions saw revenues shoot up 27% to £67.2 million ($110.9 million), largely because of the joint venture with Gruppo Nikols in Italy and Dextra, a Norwegian broker. Specialist Risk Solutions posted an 11% increase to £56.2 million ($92.7 million).

North America has seen good client retention, said Mr. White-Cooper, and the operations there have "won some very big household names." Brokerage and fee revenues were fairly static at £134.3 million ($221.6 million).

Asia-Pacific revenues were up 16% at constant exchange rates, to £20.3 million ($33.5 million).

Willis Corroon

Although upstaged by the announcement of a proposed acquisition towards the end of last month, Willis Corroon's fist-half brokerage and fee revenue rose 9.5% to £339 million ($559.3 million). Investment income dropped slightly to £20.1 million, resulting in corporatewide revenues of £359.1 million, a modest rise over last year. Converted to dollars using relevant exchange rates, first-half corporate revenues rose 1.6% to $592.4 million.

Exceptional items hit Willis' profit and loss account. Along with its £25 million pension reparation provision, Willis also wrote off £30.3 million on closing Professional Liability Underwriting Managers Inc. PLUM, a Minneapolis-based professional liability wholesale operation, was closed in May, resulting in a loss of £700,000 ($1.2 million) and a goodwill write-off of £29.6 million ($48.8 million).

Operating profits, including the pension review charge, dropped 54.9% to £26.4 million ($43.6 million), in line with Willis' own expectations.

Adding PLUM's closure into the equation, Willis' pretax profits dropped to £3.9 million ($6.4 million) from £60.2 million for the same period last year.

After tax, Willis made a loss of £9.4 million ($15.5 million) for the half-year, compared with a £33.6 million profit for the year-earlier period, a 128.0% fall.

Profits before exceptional items fell 12.1% to £51.4 million ($84.8 million), though Willis' holdings in French and German ventures brought in £7.2 million ($11.9 million), compared with £2 million last year. This was largely due to Willis' one-third stakes in French broker Gras Savoye & Cie. and German broker Jaspers Wuppesahl Industrie Assekuranz.

Willis has secured its aim of becoming one of the top three brokers in key European markets with the recent acquisition of 30% of Assurandorgruppen, Denmark's largest insurance broker and employee benefit consulting firm.

Mr. Colraine now expects Willis to make "selective investments" in Latin America, a region where the company already has several operations.

He also anticipates taking the broker private will attract more people to the organization. "We attracted probably a few less this year than we had hoped," he said. Once Willis is out of the public glare, it should become easier to get the right people on board, and the effect on expenses most likely will not be seen since reporting requirements will be much less onerous for a private company.

Arthur J. Gallagher

Revenues from commissions and fees increased 8.1% during the first half for the Itasca, Ill.-based broker to $228.7 million. Corporatewide revenues, which include investment income, rose 7.9% to $241.3 million.

On the other hand, profits took a 7.7% tumble in the first half to $20.3 million. The decline is mainly attributable to $6.2 million in one-time revenue gains that occurred during the second quarter of 1997 when Gallagher sold two underperforming offices, explained Michael J. Cloherty, executive vp. "Obviously, with nonrecurring gains, we were not able to duplicate that" in 1998, he said.

However, excluding the one-time gains, total operating earnings are up 28.1% for the first six months.

Mr. Cloherty said that a good portion of the broker's top-line growth is coming from its fee-based business, Gallagher Bassett Services Inc. Revenues from the claims management and risk control consulting unit rose 13.2% to $96.4 million during the first half.

Gallagher Bassett "started 1998 with the largest dollar amount of known new business ever," Mr. Cloherty said. The unit also has been "very, very successful during the first six months in putting on new business, which will aid our fee-based line during the third and fourth quarters," he said.

In addition to Gallagher Bassett, the broker is looking to its year-old Bermuda-based rent-a-captive facility, Artex Insurance Co., and its year-old wholesale broker, Risk Placement Services Inc., to contribute more in the second half of 1998.

In June, Gallagher acquired two insurance brokers: McElveen Insurance Agency Inc., a Lake Charles, La.-based commercial and personal lines property/casualty broker specializing in construction and surety bonds; and Pickard, Tate & Allen Inc., a Tulsa, Okla.-based commercial property/casualty broker specializing in pipeline construction and bonds. BI

Broker results

1998 six-month results for the world's largest publicly held brokers

(in millions of dollars)

	Brokerage & Consulting		Corporate			
	Gross revenues	% change from 1997	Gross revenues	% change from 1997	Net income	% change from 1997
Marsh & McLennan [1]	$2,381.0	21.4%	$3,538.0	24.3%	$424.0	37.2%
Aon Corp.	2,149.2	19.2	3,184.5	14.6	277.8	NM
Sedgwick Group [2,3]	774.1	1.9	812.6	2.6	(13.2)	(117.4)
Willis Corroon [2,3]	559.3	2.0	592.4	1.6	(15.5)	(128.0)
Arthur J. Gallagher	228.7	8.1	241.3	7.9	20.3	(7.7)

1. 1997 figures have been restated 2. British pound = $1.6497 (1998), $1.6330 (1997) 3. Fiduciary investment income is not included NM = Not meaningful
Source: *BI* survey

HMOs

Continued from page 1

reported a 24% increase in second-quarter net income, to $52 million.

"I think Humana is a very strong company," said Richard Shaw, an analyst with A.M. Best Co. in Oldwick, N.J. "I think they will proceed and do what's best for them at this point," said Mr. Shaw. Whether it means acquiring or being acquired "is strictly up to management," he said.

A United HealthCare spokeswoman said the company "will continue to explore strategic opportunities" within its business segments. In fact, last week it announced it has completed the acquisition of Corpus Christi, Texas-based Principal Health Care of Texas Inc., a 38,000-member health plan that has more than 1,200 physicians, 27 hospitals and 80 pharmacies in its south Texas network. Terms of the transaction were not disclosed.

The Humana deal's failure means not only that United lost a sound merger candidate, but the organization's credibility has been eroded in terms of its ability to manage its medical costs as well, said Patrick Finnegan, senior vp at rating agency Moody's Investors Service Inc. in New York.

"It also perhaps may cast a little bit of shadow on the progress of their integration of past acquisitions" the company has completed over the past five years.

"I think that probably it will take them a while to rebuild or regain, but as an industry leader, I would expect them to do just that," added Mr. Finnegan.

Mr. Shaw also said that United "is a very strong company, well capitalized with no debt, and still a very good balance sheet. Ultimately, they'll be challenged going forward, but I don't see any problem with their staying ability," he said.

"I think we're seeing the sorts of things that occur in the final stages of a shakeout in an industry," said Michael LeConey, an analyst with National Securities Corp. in New York.

"Probably the worst should be behind us here, shortly," Mr. LeConey said.

Norwalk, Conn.-based Oxford Health Plans' pretax $507.6 million loss in part reflects $174 million in restructuring charges and another $112 million in "unusual" charges. Results also reflect a $152 million addition to surplus ordered by the New York Insurance Department.

The restructuring charge includes $45 million in provisions related to consolidation of operations; a $62 million provision for disposition of non-core assets, investments and subsidiaries, a $51 million reserve for non-core Medicare and Medicaid businesses that the company will restructure or exit by year end, and $16 million in reserves for certain other assets.

The $112 million in unusual charges includes $38 million for the write-off of the company's investment in San Diego-based FPA Medical Management, a physician practice management company that filed for Chapter 11 bankruptcy protection last month. Another $74 million relates to strengthening of various reserves and allowances.

Dr. Norman C. Payson, Oxford's chief executive officer, said at a news conference that despite the results, the company remains fundamentally strong. Many of the charges relate to its turnaround plan, under which the company will focus on core commercial customers in New York, New Jersey and Connecticut, he said.

He said he anticipates Oxford will be profitable by the second half of 1999 and generate margins of 3% to 5% by the year 2000. "We believe Oxford has a strong and high value franchise, one that is nearly impossible to replicate," said Dr. Payson.

Mark Puccia, managing director-insurance ratings group at New York-based Standard & Poor's Corp., which placed Oxford on CreditWatch with negative implications last week, said the company now has $1.4 billion in assets and current liabilities of $1.2 billion. "That's not a lot of margin, there."

"The fact is that Dr. Payson basically has to engineer a turnaround in profitability," which means having customers pay higher premiums and providers accepting less compensation, "and he's got to do this high-wire act all the while he's keeping customers," said Mr. Puccia.

"The historical strength of Oxford has been they provide a very comprehensive and flexible physicians network while being very competitive on their rates, and now they're going to have to rework some of the underpinning of that concept," said Mr. Puccia. "We think they can pull it off, but there's a lot of vulnerability in their ability" to do so, he said.

'I think we're seeing the sorts of things that occur in the final stages of a shakeout in an industry,' says Michael LeConey.

Other reported HMO results:

- Santa Ana, Calif.-based PacifiCare Health Systems Inc. reported $90.2 million in net income for the six months, up 46.7% for the comparable period in 1997.
- CIGNA Corp. reported its HMO and indemnity operations had operating income of $273 million for the six months, a 12.3% increase over the comparable period in 1997. Results for Healthsource, which CIGNA bought last year, are reflected as of June 25, 1997.
- Los Angeles-based Foundation Health Systems Inc. reported $956,000 in second-quarter net income from continuing operations after a $50 million charge in connection with FPA.

This compares with a $205.8 million net loss from continuing operations for the comparable period in 1997, when FHS had posted $403.6 million in charges associated with the merger between Foundation Health Corp. and Health Systems International Inc.

- St. Louis-based RightCHOICE Managed Care Inc. reported $1.2 million in second-quarter net income, vs. a $2.3 million loss for the comparable period a year ago. For the six-month period, the company reported $2.2 million in net income, a 43.6% decline over the same period in 1997.
- Hartford, Conn.-based Aetna U.S. Healthcare, which includes the managed care, indemnity and group insurance products and services of Aetna Inc., reported $180.7 million in operating earnings, down 38.3% from 1997's first half, after unusual items in both years.
- Oakland, Calif.-based Kaiser Permanente reported $2 million in net income for the quarter, which reflects $61 million in operating losses and $63 million in net investment gains and interest. This follows the $33 million net loss reported for the first quarter and a $270 million 1997 loss (*BI*, May 18). Kaiser did not report comparable results a year ago.
- Los Angeles-based Maxicare Inc. reported a $19.8 million net loss for the quarter vs. $4.2 million in net income for the comparable period a year ago.
- After special charges related to the disposal of its workers compensation business and FPA, Woodland Hills, Calif.-based WellPoint Health Networks reported a $46.8 million net loss for the quarter compared with $49.3 million in net income for the same period last year. For the first half, it reported an $11.7 million profit vs. a $100 million profit for the same period in 1997.

"It continues to be tough," said Mr. LeConey. "I keep thinking that we're hitting bottom, and a lot of things seem to suggest that," including management changes, write-offs and poor earnings.

"You continue to see an erosion in several fundamental areas for many companies," which has been primarily related to the "lag risk" taken as managed care companies base their price hikes on claims costs to date, said Moody's Mr. Finnegan. Medicare also has been a problem for managed care firms, he said.

However, "I think just in general the industry results seem to have stabilized in 1998" with improvement by several companies, said Douglas L. Meyer, an analyst with Duff & Phelps Credit Rating Co. in Chicago, pointing specifically to PacifiCare.

"I guess from my standpoint we're generally positive in terms of the outlook for the industry near-term. We see some significant firming up in terms of pricing, and it's beginning to reflect itself in the earnings improvement," Mr. Meyer said.

"I think managed care is still a strong industry," said Best's Mr. Shaw. "You're starting to see some of the implications of the rate increases that were applied for '98, and you're seeing a return to more favorable results on a lot of their plans. I think that will continue over the short term, definitely, but I think you'll also see some challenges hitting the HMOs," including maintaining profitability and provider relationships.

He said the industry is unlikely to return to 15% to 20% rate hikes, but "normal" rate increases of 3% to 5% will continue. "That's most likely what the plans will be able to get at this point," he said.

More rate hikes may still be needed, said Greg Baird, senior vp of group sales for Woodland Hills, Calif.-based Blue Cross of California, a subsidiary of WellPoint Health Networks Inc.

"I think we're seeing HMO rate increases in the 5% to 8% range, and that could be enough, and it could be that we need to increase it more over time," said Mr. Baird.

"We clearly are in a cycle of higher medical costs," Jay M. Gellert, FHS' president and CEO, said at the press conference announcing his company's results. He said the two antidotes are higher rates and more efficient medical management. BI

Carvill

Reinsurance Intermediary

INDEPENDENCE
INTEGRITY
SERVICE

CONSISTENT PHILOSOPHY & PERFORMANCE
SINCE 1977

Atlanta Bermuda Chicago London Stamford

Palm

Continued from page 2

language school in Iran. While there, he met Mr. Gluckstern, forming a team that more than a decade later would start Centre Re.

After returning from Iran in 1978, Mr. Palm worked at the Bank of Boston in the corporate finance department and in 1986 joined Mr. Gluckstern at Berkshire Hathaway, where they conceived the idea of Centre Re. Two years later, they launched their new company after raising $250 million in financing from seven institutional investors.

The venture of the two longtime friends utilized their complementary talents.

"Michael and I were the classic Mr. Inside and Mr. Outside," Mr. Gluckstern said in an interview. "Michael was the thinker and I was the doer."

"Michael was the intellectual. He was the guy who could see through complex problems clearly," he continued.

Mr. Gluckstern attributes much of the company's success to using common sense and a lesson they learned at Berkshire Hathaway. "Don't do anything you don't understand," he explained.

Zurich Insurance Group, an original investor in Centre Re, became a majority owner in 1991 and sole owner in 1993. Centre Re was renamed Centre Solutions in 1997 and is now part of Zurich Centre Group.

At the end of 1997, Mr. Palm retired from Centre Solutions to devote his time to intellectual pursuits and charitable organizations.

His work with various charities dominated Mr. Palm's life outside of insurance. He gave millions of dollars to organizations that fight AIDS and help those with the disease.

Despite his success in business, Mr. Gluckstern says Mr. Palm's true passion was for his charitable causes.

"His legacy will not be in the insurance business," Mr. Gluckstern said.

Mark Robinson, the executive director of the Gay Men's Health Crisis Inc. in New York, where Mr. Palm was senior vp of the board of directors, said Mr. Palm generously gave his time and money without seeking publicity.

"There was never a hidden agenda," Mr. Robinson said. "The generosity was much more out of a personal feeling rather than getting his name spread around."

Mr. Palm's largest gift to the GMHC was for $2.5 million in 1995. Mr. Palm's private nature was such that only with Mr. Robinson's urging did Mr. Palm finally agree to having a wing of the group's headquarters named in his honor.

In addition to his involvement with the GMHC, Mr. Palm sat on the board of various organizations, including the Human Rights Campaign and the Gay & Lesbian Alliance Against Defamation.

Perhaps his most lasting achievement, however, was the establishment of the Michael Palm Foundation. To date, the foundation has provided more than $10 million in grants to more than 30 organizations, primarily for gay rights, education and the arts. BI

Commentary

Clothing critique finds following

Readers' response to my column on how badly some people define "business casual" dress has really surprised me. I half-expected to be deluged by nasty missives from all those whose wardrobes I so harshly criticized and those executives who are ardent defenders of clothing for comfort in the workplace.

Instead, letters, e-mails and voice mails arrived endorsing my suggestion that everyone take a second look in the mirror before venturing out to be seen in public, let alone to go to the office or get on an airplane.

Many of those readers' responses are worthy of being shared with you and not left to languish in my fan mail folder.

One reader from an insurance company in New Jersey wrote: "I absolutely agree with your column. Business casual can get much too casual."

He added: "One other peeve can be added to yours—the need to acquire a whole new wardrobe. It wasn't so bad when it was Fridays only. Now our office has gone to BC (business casual) from Independence Day to Labor Day. Business casual seems to involve a little of what I call a summer mindset. It's definitely less businesslike, especially among the younger set, even with restrictions like 'no jeans.' "

He signed his letter, "Regards," noting parenthetically, "that's business casual, too."


Kathryn J. McIntyre

I, for one, would buck that company's policy and dress for business at least Monday through Thursday.

An insurance professor sent me an e-mail, commenting: "I just read your humorous/serious column on casual business dress and what some people wear on airplanes. . . .Given that comfort is a factor on a longer flight, we might grant some leeway, but some folks apparently don't know where to quit (or, in some cases, to begin). My wife says that if they make her czar of the whole world, she will pass a law that all persons must have a full-length mirror in their homes. She has been known to threaten to put a Post-It note right on a person or to report them to the fashion police. Personally, I find that sitting in an airport, especially a big one like O'Hare, can provide a real laboratory experience in the subject of personal expression. And if they make me czar of the world, I will ban tank tops for men. NO exceptions."

I agree that people-watching at O'Hare can be quite amusing, but I still don't want to sit next to some of those people on an airplane. And as for tank tops for men, I'm inclined to say they are OK at the beach or in the semi-privacy of one's own backyard.

A reinsurance company executive from Bermuda said in his fax: "My congratulations on your column regarding dress code. I strongly agree with all the points that you made. Unfortunately, it is extending itself beyond the business area. Last week I had to draw the attention of the Dinghy Club management to the standard of dress at various lunches and dinners."

He also noted that "traveling abroad, it is quite appalling to see how tourists dress, even when visiting more exclusive restaurants, hotels, etc., particularly regarding sneakers at all times."

As a sailor, I agree we should all spruce up for meals at a yacht club. But the Bermuda-based executive is even tougher than I am. I can live with sneakers, if they are clean and tied.

A broker, formerly of London and now in the United States, commented in his letter: "Somehow, wouldn't it look stupid if everyone at, say, Lloyd's, dressed down real casual on a Friday? They might as well be shoppers in any supermarket."

Actually, I've seen shoppers at some supermarkets who were better dressed than people at some offices.

One reader simply tore out the page and circled my question: "Can I be the only one who does not want to sit in cramped quarters next to a half-dressed stranger?" He wrote: "Kathryn—I do not like to sit next to half-dressed strangers. Nice article."

An executive secretary sent me a copy of my column with the simple message "Thank you! Thank you! Thank you!"

To her and all those who wrote and also called, you are most welcome.

Publisher and Editorial Director Kathryn J. McIntyre and Editor Paul D. Winston publish columns on alternate weeks.

Distress

Continued from page 1

vestors regarding the availability of coverage. Liberty Mutual settled the two suits for $3.45 million.

First Investors then sought indemnification and defense costs for the other suits it faced.

In 1995, First Investors sought summary judgment on the duty to defend. The federal district court denied the motion in 1997. Under New York law, insurers' duty to defend is wider than the duty to indemnify.

First Investors asserted that based on the 1992 decision in *Lavanant vs. General Accident Insurance Co. of America* by the New York Court of Appeals, the highest court in the state, emotional distress arising out of economic loss constitutes bodily injury and is covered by CGL policies.

In *Lavanant*, tenants of a property sought damages for emotional distress after a ceiling collapse, even though they did not suffer any physical injury. The court held that in those circumstances, coverage for bodily injury did include emotional distress.

But the First Investors case differed because there was no "occurrence" or "accident" that caused the emotional distress, the 2nd Circuit ruled.

"It was the economic losses resulting from the diminishment in value of the investments that caused the emotional distress. Simply stated, those economic losses do not constitute an 'accident,' " according to appeals court.

CGL policies insure against alleged torts causing bodily injury rather than economic loss, according to the court.

"In sum. . .because, under New York law, CGL policies insuring against 'bodily injury, sickness, and disease' do not cover emotional distress claims arising out of economic losses of the sort alleged in the underlying claims, Liberty Mutual has no duty to defend under those policies," the court concluded.

The ruling sets an important precedent in New York on an issue receiving increasing attention in many states, said Mr. Potashner.

"If it had gone against the insurer, then companies would have been able to argue that other types of claims with emotional distress issues should be covered," he said.

Attorneys for First Investors did not return telephone calls.

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First Investors Corp. vs. Liberty Mutual Insurance Co., 2nd U.S. Circuit Court for Appeals; Nos. 97-9407, 97-9435.

Award

Continued from page 2

merger with Martin Marietta Corp.

Lockheed employees were able to sue their employer under California law, which permits employees to go outside the workers compensation system if an employer's conduct is found to present a grave danger, the Lockheed spokeswoman said.

This month's jury verdict against the chemical manufacturers is "totally out of line," a Unocal spokesman said. The defendants have several grounds for appeal, including bias by the judge, the spokesman said. As of late last week, a motion to appeal had not been filed.

In their lawsuit, the plaintiffs claim they have suffered from several ailments, including skin rashes and cancer, after being exposed to solvents and other chemicals that did not have adequate warning labels.

But the jury never had the opportunity to hear evidence that the chemical manufacturers did provide warning labels on their chemical containers, a Unocal spokesman said.

"The judge just instructed them that the warning labels were inadequate, and that was it. They never even knew we had warning labels," the spokesman said.

The judge also told jurors before their deliberation that they needed to send a message to large chemical companies, he added.

The contact with solvents and other chemicals took place in the 1960s, '70s and '80s at the Lockheed facility in Burbank, the plaintiffs charged in court papers. The 38 plaintiffs comprise the fifth group of Lockheed employees to go to court with similar allegations against the chemical manufacturers.

But it is the first group of Lockheed plaintiff employees awarded punitive damages and the first group in which the defendants were not allowed to show the jury evidence that the companies did provide warnings, the Unocal spokesman said.

In two previous cases, Lockheed employees did win "minimal" economic damage awards, the spokesman said. He did not provide a specific amount for those awards but said those decisions are being appealed.

More than 600 Lockheed workers have participated in the suits, with several still waiting to resolve their cases.

In California, punitive damages generally are not insurable, and spokespeople for the defendants declined to say whether their companies are insured for the economic damages.

The chemical companies all referred telephone calls to their joint counsel, Laurence F. Janssen, a partner in the Los Angeles office of Steptoe & Johnson. Punitive damages of this magnitude generally are overturned or substantially reduced, Mr. Janssen pointed out.

Safety practices were the responsibility of Lockheed, he said. During the trial, a former Lockheed hygienist and a senior scientist testified that the employer knew a great deal about the chemicals involved and their health hazards, Mr. Janssen said.

Lockheed's spokeswoman said the company dealt with the chemicals in a fashion that was normal and acceptable in past years. But she pointed out that government safety standards were not as stringent in past decades and that Lockheed had started implementing stronger safety practices even before the employees began filing lawsuits in the 1980s.

Now, she said, there is more employee training in hazardous materials and enforced use of safety equipment. Another major improvement has been in working with chemical manufacturers to substitute benign substances for more toxic chemicals, she said. BI

Alabama reins in punitive award

By GAVIN SOUTER

MONTGOMERY, Ala.—Juries cannot award punitive damages unless they also award compensatory damages, the Alabama Supreme Court has ruled.

The decision should significantly benefit insurers and business in Alabama and help refocus trials in the state on the issue of damage rather than the alleged reprehensible behavior of the defendant, a defense attorney said.

But the ruling still will take only a slight edge off Alabama's reputation as a plaintiff-friendly state, a product liability reform lawyer said.

The case involved five kindergarten employees who sued a life insurer, alleging one of its agents had misrepresented a life insurance plan he sold them.

The employees of Bay Christian Academy in Fairhope, Ala., alleged that in 1991 the agent for Life Insurance Co. of Georgia told them he would enroll them in a plan where their pretax contributions would be used to establish a "savings plan" or "retirement program," court papers say.

In fact, the agent sold the employees universal life insurance policies. The employees alleged that the insurance policy could subject them to potential tax liabilities they would not have incurred under a cafeteria savings plan they had thought they were joining.

Life of Georgia subsequently set up a $400,000 trust to meet any increased tax liabilities the employees would face. Life of Georgia argued that because it had set up the trust, the employees had not suffered any damage.

At trial, the jury awarded no compensatory damages but did award $1 million in punitive damages against Life of Georgia.

In considering the case, the Supreme Court of Alabama said the courts in the state had held widely differing views on whether punitive damages could be awarded in the absence of compensatory damages or significant compensatory damages.

In one case, *BMW of North America Inc. vs. Gore*, a jury awarded $4,000 in compensatory damages and $4 million in punitive damages. The Alabama court reduced the punitive damages to $2 million. But on appeal, the U.S. Supreme Court ruled the award excessive (*BI*, May 27, 1996).

The Alabama court noted the *BMW* decision in the Life of Georgia case: "We recognize that closer scrutiny of the relationship between compensatory damages and punitive damages is necessary. . . . We now require, therefore, that a jury's verdict specifically award either compensatory damages or nominal damages in order for an award of punitive damages to be upheld."

The court sent the Life of Georgia case back to the lower court for retrial.

The decision will benefit businesses and insurers in Alabama, said Charles Kelley, a partner at Carr, Allison, Pugh, Howard, Oliver & Sisson in Montgomery and a member of the Defense Research Institute.

"Plaintiffs in Alabama had shifted the focus of trials from the issue of whether there was damage to the alleged reprehensibility of the defendant. This decision brings back into focus the fact that the plaintiff has to prove that there is some damage," he said.

It will particularly benefit companies that recognize they made an error and then try to rectify it, Mr. Kelley said.

But the decision does not go far enough, said Victor Schwartz, a partner at Crowell & Moring in Washington.

"It's good to see the court coming more into the mainstream of American law with respect to product liability, but two major issues still remain—will Alabama courts exercise great restrictions on when punishment is approved, and will they exercise restraints on the amount of the awards," he said.

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Life Insurance Co. of Georgia vs. Janelle S. Smith, Supreme Court of Alabama, CV-94-373.

Plan

Continued from page 1

loss reinsurer to pay claims.

"ISI as the administrator did not have the money" to cover the claims, Mr. Hyde conceded. "The reinsurer is supposed to pay it."

The Labor Department, however, cited ISI's purported stop-loss arrangement as one of a wide array of "imprudent" and self-dealing actions that the department says violate the Employee Retirement Income Security Act.

The purported stop-loss reinsurer is Colonnade Insurance Co. A.V.V., an Aruba company formed in 1996 that is "not financially secure" and that is operated by James Charge, the complaint notes. Mr. Charge previously ran another offshore insurer that was barred in California in the early 1990s and is now defunct.

In addition, ISI reached Colonnade—which paid ISI a "kickback" of 22.5% of its stop-loss premiums—through a chain of five intermediaries that included one man already sanctioned by the Labor Department in an unrelated case and another who had worked with Mr. Hyde on a previous failed health plan in the 1980s, court filings say.

A federal judge in San Francisco earlier this month issued a temporary restraining order freezing the assets of ISI, Thorndyke, Mr. Hyde and several other defendants named in the Labor Department's complaint. The court also appointed an independent fiduciary to take over the ISI health plan.

A hearing on a preliminary injunction to continue Labor Department control of plan is scheduled for Friday.

The "ERISA Advantage Self-Insured Retention/Single Employer Trust" program started operating in 1994 with Thorndyke as plan administrator, according to court filings. In August 1997, ISI acquired Thorndyke and took over administering the program. Mr. Hyde was president of both companies.

Under the program, ISI set up individual trust accounts for each of about 300 participating employers. Plan documents called for ISI to allocate 30% of each employer's premiums to the employer's trust account to fund a self-insured portion of its losses, with the remaining 70% supposedly paying for stop-loss insurance that would cover claims in excess of the retention.

The plan's actual operations bore little resemblance to this, though, with ISI commingling employers' contributions and paying only 3.7% of the contributions into the employers' trusts and 5.5% to Colonnade, the Labor Department charges.

Along the way, the ISI plan's operators misrepresented many aspects of the program and committed "a remarkably wide range of ERISA violations," the government alleges in a lawsuit filed Aug. 4 in U.S. District Court in San Francisco. In addition to ISI and Thorndyke, the suit names Mr. Hyde and his wife, daughter and son, who acted as directors, officers and/or shareholders of ISI and Thorndyke.

In 1984, the California Insurance Department fined Mr. Hyde after finding that he had committed several violations of state law as plan administrator of a now-defunct health trust known as the Scotsman Plan, including making false statements to plan beneficiaries, court filings say.

In 1988, he filed for personal bankruptcy but was hit by the bankruptcy court with a $1.8 million judgment for defrauding an Arizona life insurer, documents show.

Mr. Hyde and Thorndyke began offering the single employer trust program in 1994, initially through a Texas organization, called the National Assn. of Preferred Providers, and later on their own (*BI*, July 22, 1996).

In the face of state regulatory scrutiny that followed complaints of unpaid claims, Mr. Hyde later moved several hundred of these single-employer plan participants into a purported New York-based union welfare fund called the Local 122 Health & Welfare Fund Inc. Employee Benefit Plan Trust, court papers say. The Labor Department last summer won an injunction against the Local 122 plan, which an actuary estimated to have a $1.2 million deficit.

Shortly after agreeing to the injunction, Mr. Hyde activated ISI, then a shell company, which then acquired Thorndyke and continued the single-employer trust program, the Labor Department says.

Also named in the San Francisco lawsuit are:

- Lawrence R. Sellars, an unlicensed Irvine, Calif., consultant who acted as an intermediary on ISI's stop-loss placement with Colonnade.

Mr. Sellars worked with Mr. Hyde on placing coverage for the Scotsman Plan in the 1980s and was found by California regulators to have aided Mr. Hyde in misrepresenting the plan, court filings say.

Of $2 million in employer contributions, only token amounts went into employer trusts, the suit says.

In 1986, Mr. Sellars also pleaded no contest and was sentenced to 30 months' probation on a felony charge of defrauding the state of Alaska on insurance covering state deposits in Alaska credit unions. An Alaska judge discharged the probation and expunged Mr. Sellars' record in 1988, according to a copy of the order provided by Mr. Sellars.

In an interview, Mr. Sellars also denied any wrongdoing connected with the Scotsman plan, calling it an "outstanding program" that generated no complaints while he was involved.

- Kenneth L. Ruff, an officer and shareholder of ISI and Thorndyke.
- Security National Corp. of Washington, D.C., which acted as trustee for the 300-odd employer trusts ISI set up at Riggs Bank in Washington; and Patricia Tyler, who operated Security National from her home.
- Malcolm Cordell Hull, who marketed the ISI program as executive director of the National Assn. for Alternative Staffing, an Austin, Texas, association of staff leasing companies.

Mr. Hull is a former Texas insurance agent whose license was revoked in 1992 for marketing worthless health insurance written by the fraudulent Cabot Day Insurance Co. of the British Virgin Islands. Cabot Day left $5.7 million in unpaid health claims after it collapsed.

- Billie Gannaway, a Texas insurance agent and former partner of Mr. Hull, and Herman Robert Brown, a Phoenix agent, both of whom marketed the ISI plan.

Messrs. Ruff, Hull, Gannaway and Brown could not be reached.

The Labor Department charges the defendants with a variety of ERISA violations.

Mr. Hyde and ISI, for example, misled participants by promising that 100% of their contributions would be used exclusively to benefit their own employees.

In fact, Mr. Hyde moved employer funds at will among several accounts he controlled, commingling the money and using a given employer's funds to pay other employers' claims, the suit charges.

Of $2 million in employer contributions collected between August 1997 and last April, only token amounts went into employer trusts, and only $1.1 million was used to pay claims and reinsurance premiums, the suit says.

Another $888,382—a "grossly excessive" 45% of contributions—was siphoned out as fees and commissions to ISI's operators and service providers, making the health plan roughly twice as costly as the most expensive "legitimate" health plans, federal regulators charge.

The suit cites several examples of the alleged waste of plan assets, including ISI's payment of $9,000 a month to Riggs Bank to maintain the employer trusts. The trusts served no purpose other than to maintain the illusion the the program was an ERISA plan rather than a multiple employer welfare arrangement subject to state regulation, regulators allege.

ISI's stop-loss program also represented a waste of assets, the Labor Department says. While claiming at various times that the program was insured by several domestic "A" rated insurers, Mr. Hyde placed the coverage with Colonnade through a string of intermediaries who each took a commission on the placement.

Mr. Hyde was referred to Mr. Sellars by Martin Levine, a Los Angeles-area consultant who had previously done work for the Thorndyke program and who is barred from most roles in ERISA plans under a 1995 consent order in an unrelated case. Mr. Levine said in an interview that he offered Mr. Hyde several names, including Mr. Sellars', and received no payments from ISI.

Mr. Sellars then went to Graham Mitchell, a Beverly Hills, Calif., intermediary, who in turn went to Hans Goemans, president of Christal International Management Ltd., a Dublin, Ireland, broker. Mr. Goemans then approached Moorgate Management (U.K.) Ltd. of Brentwood, Essex, which is owned by David King and Colonnade's Mr. Charge and which placed the risk with the Aruba insurer.

In the 1980s, Mr. Charge—who could not be reached—tried to obtain a license for Victoria Insurance Co. in Delaware. Victoria was later licensed in Georgia and run by the late insurance swindler Alan Teale before it collapsed in 1988. In the early 1990s, Mr. Charge operated the now-defunct West Point Insurance Co. of Antigua, which California regulators barred from the state (*BI*, May 4, 1992).

Mr. King, meanwhile, confirmed that he pleaded guilty "four or five years ago" to a U.K. criminal charge related to a diversion of funds from an intermediary in which he was a partner. Mr. King said he received a suspended sentence.

The Labor Department charges that the web of intermediaries was unnecessary and that a prudent health plan manager would not have bought coverage from Colonnade.

ISI never received an actual policy from Colonnade—only placement slips—and Colonnade has since canceled the coverage and has failed to pay claims amid a dispute with ISI over the terms of the reinsurance and ISI's withholding of reinsurance premium, court records say.

Mr. King said he believes Colonnade is financially sound.

In a Nov. 30, 1997, balance sheet audited by New York accountant Charles J. Davitian—who also audited West Point's financial statements—Colonnade reports $102 million in assets, including $100 million in "investments" that consist of "negotiable treasury certificates, denominated in U.S. dollars, issued by the United States Government." BI

Updates

Lockheed insured in explosion

Continued from page 2

The $344 million Titan IVA rocket exploded 40 seconds into its launch from Cape Canaveral, Fla. Seconds later, ground controllers detonated the self-destruct mechanism to destroy the rocket and disperse the debris, which fell harmlessly into the Atlantic Ocean.

The spy satellite was owned by the National Reconnaissance Office, a part of the Department of Defense.

A Lockheed Martin spokesman said a consortium of domestic and international insurers, led by United States Aircraft Insurance Group, has insured the company for liability and property.

The federal government assumes any losses above the policy limits, which the company spokesman would not disclose.

The policy does not include the cost of the satellite, a loss the government will absorb. The NRO would not comment on the satellite's value.

The cause of the crash still was under investigation last week.

Workplace fatalities stay stable

WASHINGTON—The number of fatal work injuries in 1997 remained stable compared with 1996, according to a U.S. Bureau of Labor Statistics census.

Last year's work-related fatality total reached 6,218—up six from 1996. While work-related deaths from highway crashes, falls and the operation of machinery rose last year, job-related homicides and deaths as a result of air crashes decreased, according to the report.

Highway crashes were the leading cause of worker fatalities, accounting for 22% of last year's deaths.

The second leading cause of worker fatalities was homicide, accounting for 14% of last year's fatalities. However, homicides were down 7% from 1996 and reached their lowest level in six years. Most of the homicides resulted from shootings, and robbery was the primary motive in instances where the motive could be determined.

Fatal falls to a lower level rose slightly over 1996 and accounted for 10% of the fatality total, while being struck with an object accounted for 9% of last year's deaths.

On average, about 17 workers were fatally injured each day last year, according to the Census of Fatal Occupational Injuries.

Restaurant considering appeal

MIAMI—Joe's Stone Crab Inc. is consider appealing a federal district court judge's ruling last week ordering the landmark restaurant to pay more than $150,000 to four women and subjecting it to mandatory recruiting and hiring procedures to remedy alleged discrimination.

The Equal Employment Opportunity Commission sued the Miami crab house, alleging its hiring practices from October 1986 through December 1995 discriminated against females applying for food server positions.

In July 1997, U.S. District Court Judge Daniel T.K. Hurley in West Palm Beach, Fla., ruled that Joe's hiring practices violated Title VII of the Civil Rights Act. Last week, Judge Hurley ruled on the damage phase of the suit.

In his 35-page opinion, Judge Hurley said: "Throughout this litigation, Joe's has sought to portray itself as the hapless victim of a powerful government agency gone awry. Yet it is indisputable that it was not until 1991, after the EEOC announced its investigation, that Joe's began to hire female food servers in significant numbers. Until then, virtually every member of the 70-plus staff was male."

From her vacation home in North Carolina, Jo Ann Bass, owner of the 84-year-old restaurant, said: "We still feel that the whole case is unjust and fabricated by the EEOC. It's a manufactured case using us as an example because we're high-profile."

Ms. Bass said she wanted to "hold back" from saying anything specific about the judge's decision "until we've contacted an appellate attorney."

Under Judge Hurley's decision, a court-appointed monitor will be present during Joe's hiring process and prepare a report to the judge through the year 2001. Joe's also was ordered to advertise openings in the local newspapers, adopt a corporate resolution stating it is an equal opportunity employer and provide training to the restaurant's human resources personnel.

The $154,205 awarded to four women who were interviewed for waiting positions but denied employment is not covered by insurance, Ms. Bass said.

Briefly noted

The 11th U.S. Circuit Court of Appeals has affirmed an earlier District Court judgment that Lloyd's names can conduct **Lloyd's-related disputes** only in English courts and under English law. . . .**Travelers Property Casualty Corp.** has set up a subsidiary in Bermuda to cover punitive damages, loss portfolio transfers, contractual liability, miscellaneous bonds, excess liability and professional liability. Travelers (Bermuda) Ltd. is capitalized at $10 million and has $50 million in capacity. The company will be managed by Mutual Risk Management Ltd. . . .**John Berger,** president of Morristown, N.J.-based F&G Re and head of the combined St. Paul Re-F&G Re North American Treaty and Specialty operation in New York has resigned, effective today. F&G Re was the reinsurance operation of USF&G Corp. It combined with St. Paul Re in April as a result of The St. Paul Cos.-USF&G merger (*BI*, Jan. 26). . . .A federal district judge in Philadelphia has sentenced **Allen W. Stewart**, a former attorney who was convicted of looting two insurance companies, to 15 years in prison. Mr. Stewart was also ordered to pay a $150,000 fine and pay restitution of $60.1 million to policyholders and the state's insurance guarantee fund. Mr. Stewart's appeals of his December 1997 conviction are still pending. . . .William M. Mercer Inc. is purchasing the U.S. compensation consulting practice of **KPMG Peat Marwick L.L.P.** Terms were not disclosed. Earlier, Watson Wyatt Worldwide purchased Peat Marwick's Northeast benefit consulting business.

Ticker

Tough times for insurers to grow

By MYRON M. PICOULT
Special to *Business Insurance*

We recently produced some statistics on the stock segment of the property/casualty industry that involved reviewing the growth rates in net premiums written, premiums earned, combined ratios (after policyholder dividends), net investment income and operating margins. We went back over a 25-year period and calculated average growth rates in five-year increments. For example, over the period from 1972 to 1997 (using estimated figures for 1997), net written premiums increased at an average 8.4% rate.

For the 20 years from 1977 to 1997, growth slowed to 7.5%. The time frame from 1982 to 1997 showed an average growth rate of 7%, while the 10-year period of 1987 to 1997 dropped to a snail's pace of 3.5%. The growth rate recorded for the last five years, 1992 to 1997, which was somewhat distorted by a 7% rise in 1993, did a little better, increasing to 4.7%. During the past four years, however, premium growth has run at a 4.1% pace.

We are at a point now in the infamous underwriting cycle where there is virtually no organic growth. This, together with an ongoing spate of pricing pressures, creates a very interesting and difficult environment for insurers.

A similar diminishing growth pattern over the various time frames also was exhibited by net premiums earned. Net investment income growth, which moved along at a 12.1% clip for the past 25 years, slowed to a 4% rate for the period from 1992 to 1997.

This marked reduction in growth relates to a combination of factors that include a downward tilt in the yield curve; diminution in cash flows; and the fact that the bigger the base, the faster you have to run to grow at the same pace.

The combined ratio, at 106.4% for the past five years, is the best number of the five time-frame averages that we reviewed. Likewise, the operating ratio at 90% is also the best. As we have noted many times in this column, we are very skeptical about reported operating results in recent years, as they have appeared to come at the expense of some severe compromising of balance-sheet integrity. The industry—according to data provided by the Insurance Services Office Inc.—has been operating at a paid-to-incurred ratio that exceeds 100%. Reserve liquidation can't go on forever.

The aforementioned slowdown in premium growth can be attributed in part to the material increase in pricing competition in recent years and in part to the reduction in inflation and its salutary effect on premium increases. There is, however, another factor that has to be reviewed.

We are at a point in the infamous underwriting cycle where there is virtually no organic growth. This, together with an ongoing spate of pricing pressures, creates a very interesting and difficult environment for insurers.

The alternative risk market has been taking on an increasing share of the commercial property/casualty market. In fact, it is often argued that the better business has been gravitating to the self-insured market.

The most obvious vehicle used has been the captive insurance company. Originally, captives were set up to take advantage of the tax deductibility of insurance premiums paid for self-insurance mechanisms. Today, the main attraction captives hold is their ability to control the cost of insurance protection vis-a-vis the purchase of more traditional coverage.

Furthermore, captive programs can be more neatly tailored to meet the specific needs of a client. In the early 1980s, it was estimated that captives had taken on about one-third of the commercial insurance market. Today, the numbers appear to be closer to the 50% mark.

Clearly, captives have come of age. They can and are used for virtually any form of insurance and have become a standard tool for risk managers worldwide.

In addition to the single captive, we see more and more groups and associations forming captives and smaller companies making use of "rent-a-captive" plans. As a result, fewer commercial premium dollars are flowing through the traditional insurance mechanisms.

As if this were not enough, there are other methodologies on the horizon that could siphon off more premium dollars and introduce—believe it or not—smaller profit margins to the business. The changing dynamics of the insurance business are resulting in a greater focus on financial products and offshoots and less on traditional coverage.

Clients are seeking balance-sheet protection, insulation from earnings volatility and various types of "risk solution" coverages. For example, there are approaches that appear to be in the wings that involve derivatives and/or hedge transactions; these provide coverage for corporations that could have a legal liability if certain events or combination of events were to occur. A liquid or semi-liquid asset could be used as collateral in such a transaction, which in essence end-runs the insurance process, as an insurance purveyor may not have to be directly involved.

The key to all of this is that the capital markets are introducing the discipline of low transaction costs. The appearance of such market fee parameters, and/or "banking spreads," in the traditional insurance business presents a material challenge to the insurers that toil in that marketplace. This concept is not likely to disappear any time soon.

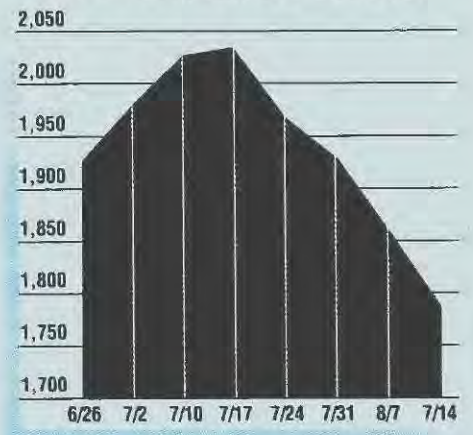
It portends not only margin compression for those that cannot compete effectively but also presents a potentially formidable form of premium disintermediation for both primary insurers and reinsurers. BI

Myron M. Picoult is a director and senior insurance analyst at Wasserstein Perella Securities Inc. in New York. He is the past president of the Assn. of Insurance & Financial Analysts and a member of the New York Society of Security Analysts.



An online archive of Mr. Picoult's columns can be viewed on the World Wide Web at www.businessinsurance.com/Ticker/headlines.html

BI Insurance Index



Base=100 on Dec. 29, 1978
Source: *Nordby International Inc.* (nordby.com) Boulder, Colo.

PCS catastrophe options

As of Aug. 14

Call spread	Price bid/ask
National Annual 1998	
60/80	5.0/12.0
100/120	3.0/6.0
120/140	1.0/—
Southeastern September 1998	
40/60	2.0/—
Northeastern September 1998	
100/150	0.8/—
Florida September 1998	
40/60	1.0/2.4
California Annual 1998	
150C	0.6/—
Western Annual 1998	
40/60	1.4/—
80/100	1.0/2.0
150C	0.8/—
Eastern September 1998	
20/40	3.0/—
40/60	2.2/3.5

Total volume: 60 Total open interest: 19,596

For information on PCS cat options, call the Chicago Board of Trade at 312-435-3674.
Source: Chicago Board of Trade

British Issues

Companies	Price pence	P/E	Div. pence	Yield %	52-week high-low
Gdn Royal Exch	284	4.3	13.4	4.9	495-266
Legal & Gen	682	18.7	13.3	2.6	785-400
Royal & Sun	545	13.1	23.6	4.5	825-491
Brokers					
Lmbrt Fenchurch	102	7.6	5.7	7.3	138-100
Lloyd Thmpson	172	11.6	10.0	7.2	194-151
Sedgwick Grp	149	60.3	7.0	4.7	171-118
Willis Corroon	199	23.1	6.9	4.3	210-116

Note: Prices are Aug. 14 closings; other numbers from Aug. 13.

Source: *Nordby International Inc.* (nordby.com) Boulder, Colo.

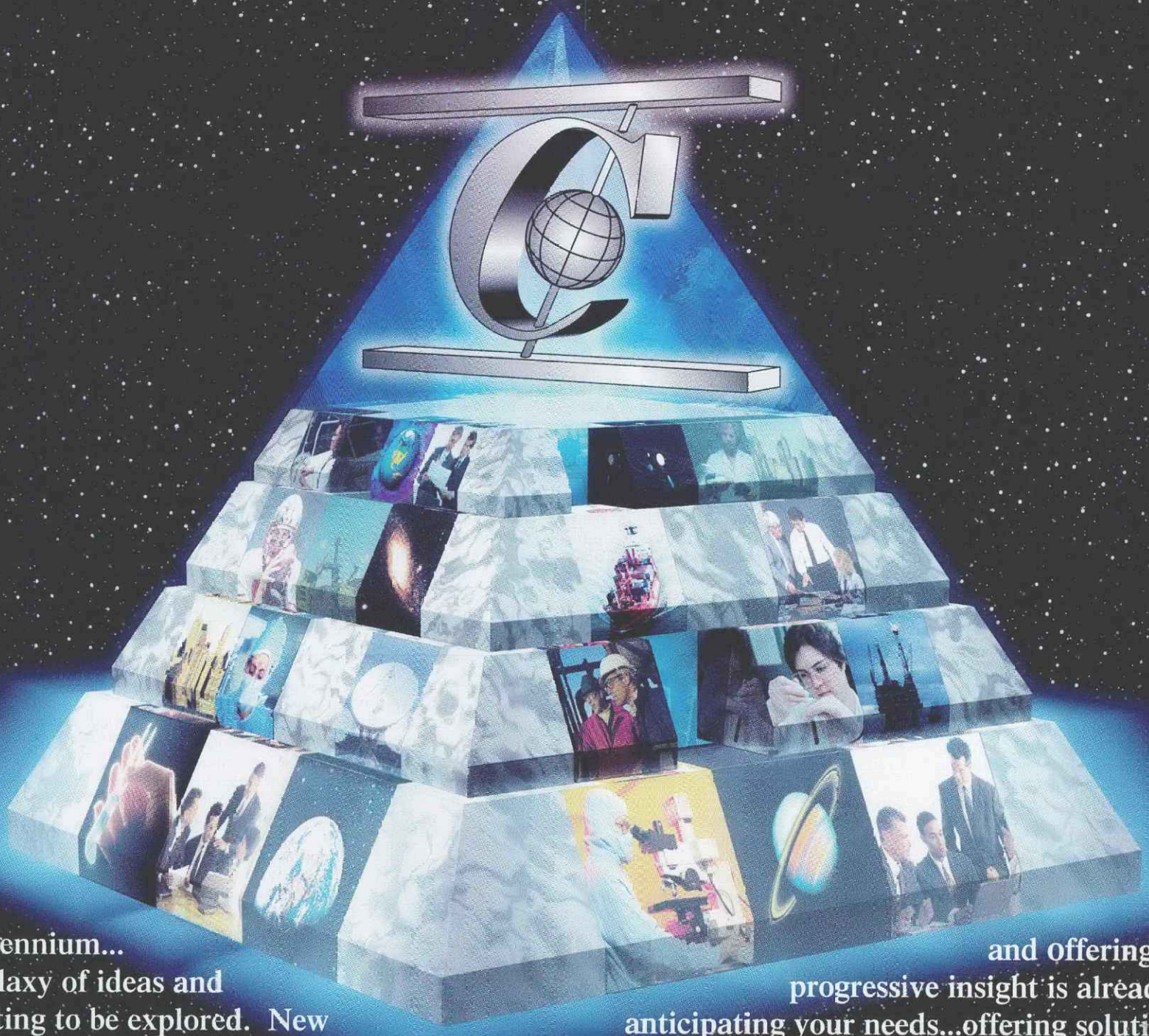
BI Industry Stock Report AUG. 10, 1998, THROUGH AUG. 14, 1998

BROKERS		Price	Weekly % change	Year to date % change	52-week High	52-week Low	Vol.(000)
Aon Corp.	NYS	66.38	-0.09	13.22	75.56	50.00	1320
E.W. Blanch Holdings Inc.	NYS	36.75	-0.51	6.72	38.75	28.00	97
Gallagher Arthur J. & Co.	NYS	38.19	-3.32	10.89	46.56	33.56	141
Hilb, Rogal & Hamilton	NYS	17.94	-3.04	-7.12	19.63	15.38	55
Kaye Group Inc.	NDQ	6.94	-0.89	4.72	9.00	6.13	90
Marsh & McLennan	NYS	56.88	-6.28	14.42	64.31	44.00	3227
Poe & Brown	NYS	39.25	-4.27	31.93	42.50	23.88	74
Sedgwick Group PLC	NYS	12.50	-2.44	1.52	14.44	9.63	68
Willis Corroon Corp.	NYS	15.88	-2.68	28.93	16.88	9.75	295
BROKERS	AVERAGE		-2.93	11.50			
INSURERS/REINSURERS							
ACE Ltd.	NYS	34.19	-3.53	6.28	43.00	26.38	984
Acceptance Insurance Cos.	NYS	22.38	-2.98	-7.49	28.63	21.25	156
AEGON N.V.	NYS	86.75	-5.83	93.58	111.31	34.00	290
Aetna Life & Casualty	NYS	67.50	-1.73	-4.34	106.94	65.00	3390
AFLAC Inc.	NYS	30.63	-8.24	19.80	38.25	22.13	1889
Allied Group Inc.	NYS	47.13	0.27	64.63	47.19	25.00	67
Allstate Corp.	NYS	42.19	1.05	-6.77	52.38	35.44	10270
AMBAC Indemnity Corp.	NYS	54.56	-3.96	18.61	65.94	38.94	1135
American Bankers Ins.	NDQ	59.56	1.82	29.66	66.06	32.38	1441
American Financial Group	NYS	37.13	-2.30	-7.91	46.75	34.56	542
American General	NYS	66.38	0.09	22.77	75.69	46.56	3198
American Heritage Life Ins.	NYS	22.31	-2.46	23.96	26.06	17.06	42
American Indemnity/Fin'l	NDQ	13.38	-3.60	-3.60	15.50	9.50	4
American International	NYS	88.31	-6.05	21.81	102.38	62.50	7706
American Safety Insurance	NDQ	11.25	1.12	-8.63	15.06	10.00	56
Argonaut Group	NDQ	29.50	-3.28	-12.92	38.13	28.00	115
AXA-UAP Group	NYS	63.31	-5.94	62.34	71.25	31.69	341
Baldwin & Lyons Inc.	NDQ	22.06	6.33	-8.55	28.75	18.50	1
Berkley W.R. Corp.	NDQ	34.88	0.18	-20.51	49.88	33.13	754
Berkshire Hathaway Inc.	NYS	69710.00	-0.13	51.54	84000.00	41300.00	1
Capital RE Corporation	NYS	31.81	-5.74	2.52	38.69	24.94	208
Capitol Transamerica Corp.	NAS	20.63	-2.94	-3.23	28.13	19.00	20
Cenitis Group Inc.	NYS	10.63	-3.41	-4.76	14.81	9.69	188
Chartwell Re	NYS	28.31	-2.37	-16.11	36.25	27.81	222
Chubb Corp.	NYS	70.44	-2.25	-6.86	88.81	63.50	2166
CIGNA Corp.	NYS	62.00	-3.69	7.90	74.50	45.63	2819
CNA Financial Corp.	NYS	39.81	0.79	-6.51	53.25	36.44	530
CNA Surety	NYS	14.13	0.89	-8.50	16.75	12.75	101
EMC Insurance Group Inc.	NDQ	13.00	0.97	-1.89	15.88	12.25	40
ESG Re Limited	NDQ	21.00	3.70	-10.64	28.88	19.75	168
Enhance Financial Services	NYS	30.44	-2.99	2.31	37.56	22.75	395
Everest Reinsurance	NYS	38.88	-4.60	-5.76	45.25	33.00	859
Executive Risk Inc.	NYS	45.56	2.53	-34.74	75.75	41.38	399
EXEL Ltd.	NYS	79.19	0.00	24.95	84.00	54.25	0
Fremont General Corp.	NYS	52.00	-1.42	-5.02	62.13	36.75	273
Frontier Insurance Group	NYS	17.19	0.36	-24.86	35.69	15.88	932
Gainsco Inc.	NYS	7.38	9.26	-13.24	10.19	5.75	490
General RE Corp.	NYS	235.63	-1.82	11.14	275.00	191.00	1396
Gryphon Holdings	NDQ	14.75	-3.28	-11.94	19.38	14.00	51
Harleysville Group	NDQ	27.00	4.85	12.50	28.50	18.88	308
Hartford Steam Boiler	NYS	48.13	-4.35	30.80	59.56	33.25	207
HCC Insurance Holdings	NYS	20.88	11.71	-1.76	29.38	15.63	499
ING Groep N.V.	NYS	65.88	-7.71	55.69	76.75	38.88	299
IPC Holdings Ltd.	NDQ	27.25	0.46	-15.34	33.25	25.88	375
Hartford Financial Services	NYS	49.75	-2.09	6.35	60.00	39.25	2099
LaSalle Re Holdings Ltd.	NYS	31.88	-0.39	-9.89	42.94	30.50	89
Lile Re Corp.	NYS	91.56	0.41	40.46	92.94	49.75	478
Lincoln National	NYS	91.75	-1.21	17.44	98.88	64.63	2277
MAIC Holdings Inc.	NYS	26.00	-4.81	-2.93	30.38	22.44	48
Markel Corp.	NYS	159.00	-3.60	1.84	187.00	135.00	35
MBIA Insurance Group	NYS	64.06	-3.21	-4.12	80.94	56.50	1246
Meadowbrook Insur. Group	NYS	28.31	-1.95	8.63	35.00	21.88	5
MMI Cos. Inc.	NYS	18.06	-6.77	-28.11	27.06	18.06	168
Mutual Risk Mgmt. Ltd.	NYS	36.00	0.52	20.25	39.94	22.63	188
NAC Re Corp.	NYS	50.56	-5.49	3.59	55.88	43.50	305
Navigators Group	NDQ	18.00	-0.69	-4.16	22.50	17.00	31
Nobel Insurance Ltd.	NDQ	0.66	-22.22	-95.00	1.00	0.40	20
NYMagic Inc.	NYS	25.13	-4.74	-8.84	34.25	23.00	15
Ohio Casualty Corp.	NDQ	41.00	-1.50	-8.12	51.75	37.50	378
Old Republic Int'l	NYS	23.50	-8.96	-5.21	32.25	22.38	2596
Orion Capital Corp.	NYS	39.50	-10.48	-14.94	59.25	39.00	858
Partner Re Ltd.	NYS	42.81	-11.38	-7.68	52.50	39.44	470
Penn-America Group Inc.	NYS	12.81	-0.49	-37.50	23.00	12.25	61
Pennsylvania Manufacturer's Co	NDQ	19.88	-0.31	18.66	23.75	16.25	96
Philadelphia Cons. Holding	NDQ	20.13	-0.92	13.38	24.38	15.50	81
PXRE Corp.	NYS	29.50	1.51	-11.11	35.25	26.44	58
Reliance Group Holdings	NYS	15.44	-2.37	9.29	19.81	11.63	1232
Reliastar Financial Corp.	NYS	46.75	-0.40	13.51	52.44	33.63	886
RenaissanceRe Holdings Ltd.	NYS	45.88	-3.67	3.97	50.75	38.19	154
Risk Capital Holdings	NDQ	25.00	0.00	12.36	25.50	19.75	61
RLI Corp.	NYS	40.25	0.16	1.00	45.63	28.81	49
St. Paul Companies	NYS	34.75	-4.47	-15.31	47.19	33.69	5054
SCOR	NYS	66.75	-1.84	39.79	72.75	39.25	11
SAFECO Corp.	NDQ	46.06	-0.54	-5.51	56.00	40.75	5042
SCPIE Holdings Inc.	NYS	30.69	0.82	6.05	38.38	25.75	NA
Seibels Bruce Group	NDQ	4.88	-24.27	-35.00	8.94	4.44	143
Selective Ins. Group	NDQ	19.00	-5.00	-29.63	29.25	18.25	948
Terra Nova Insurance Co. Ltd.	NYS	29.75	-4.03	13.33	35.00	22.31	160
TIG Holdings	NYS	17.63	-1.74	-48.89	36.56	17.06	2036
Tokio Marine & Fire	NDQ	45.13	-7.91	-21.86	66.00	41.25	169
Torchmark Corp.	NYS	39.50	-3.07	-6.37	49.81	34.81	1633
Transatlantic Holdings	NYS	90.94	-0.55	27.19	91.94	67.44	286
Travelers Property Casualty	NYS	38.75	1.81	-11.93	46.06	34.88	1872
Travelers Corp.	NYS	56.00	-8.48	3.94	73.50	42.00	31566
Trenwick Group Inc.	NDQ	34.88	-0.36	-7.31	41.75	33.38	153
Unico American Corp.	NDQ	12.00	-14.29	-2.04	18.13	11.00	67
United Fire & Casualty	NDQ	37.38	-1.64	-15.54	47.00	37.00	5
Unitrin	NDQ	62.31	-2.83	-3.58	74.13	56.25	413
UNUM Corp.	NYS	47.00	-9.07	-13.56	59.63	40.69	2750
Vesta Insurance Co.	NYS	15.63	-1.19	-73.68	64.75	12.25	857
Zenith National Ins.	NYS	26.00	-1.65	0.97	30.50	24.50	56
INSURERS/REINSURERS	AVERAGE		-2.57	1.10			
HEALTH MAINTENANCE ORGANIZATIONS							
Foundation Health Systems Inc.	NYS	16.44	-9.00	-26.12	33.94	16.25	2754
Humana Inc.	NYS	14.88	-18.77	-28.31	32.13	14.88	17943
Oxford Health Plans	NDQ	6.84	-0.45	-56.02	80.00	5.81	18614
Pacificare Health Sys.	NDQ	63.50	1.09	26.37	88.88	46.75	119
Safeguard Health Enter.	NDQ	5.50	-4.35	-59.26	14.88	5.00	15
Sierra Health Services	NYS	16.44	-9.93	-26.67	27.75	16.25	712
United Healthcare Corp.	NYS	31.31	-13.77	-36.98	73.94	29.56	27986
Wellpoint Health Networks	NYS	57.25	0.44	35.50	75.00	38.63	2324
HMOs	AVERAGE		-6.84	-21.44			
ALL COMPANIES	AVERAGE		-4.12	-2.94			

Top advancing issues: HCC Insurance Holdings, Gainsco Inc., Baldwin & Lyons Inc. Leading decliners: Seibels Bruce Group, Nobel Insurance Ltd., Humana Inc. Most active issue: Travelers Corp. The *BI* Index dropped 4.0%; the Dow Jones 30 Industrials dropped 2.0%; the S&P 500 decreased 2.5% and the NYSE Composite dropped 2.5%. Average P/E: Brokers, 23.8; Insurers/reinsurers, 15.9; HMOs, 18.0.

Source: *Nordby International Inc.* (nordby.com), Boulder, Colo.

STRAIGHT AHEAD WITH NEW CENTURY



The new millennium...
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