

Business Insurance

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Hall's new chairman receives \$1.75 million annual salary, bonus

NEW YORK—Frank B. Hall & Co. Inc. Chairman and Chief Executive Officer Donald R. Bell, who assumed control of the New York-based brokerage May 15, is the highest paid CEO of any publicly traded insurance brokerage firm.

Mr. Bell is being paid a \$750,000 salary and a five-year, \$1 million per-year cash bonus, both guaranteed by an insurance bond, according to Hall's 10-Q statement filed with the Securities and Exchange Commission last week.

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Health care costs

Premium hikes stabilizing at midyear

By DONNA DiBLASE

Despite continued double-digit percentage increases in group health care plan costs at midyear, there may be a glimmer of hope on the horizon: Premium increases are finally leveling off.

The trend lines that insurers use to project group health indemnity plan rates appear to be stabilizing, insurers and consultants explain.

As a result, employers that renewed their indemnity plans at midyear received about the same premium increases—ranging primarily between 25% and 35%—as employers that renewed their plans in January.

Self-insured employers' average plan cost increases at mid-year measured 10% to 20% and the rate of increase in premiums for many health maintenance organizations averaged 5% to 20%, also about the same as in January, HMO officials and consultants note.

The January increases were significantly higher than the July 1988 increases, which amounted to 10% to 20% for in-

demnity plans, 10% to 24% for self-insured plans and 10% to 15% for HMOs (BI, Sept. 26, 1988).

But even though 1989 renewals indicate that premium increases are leveling, no one expects increases to drop in the single-digit range anytime soon.

"The news now is—and it's the best news we're going to get for a long time—that the trend seems to have stabilized for now," observed Greg Davies, vp of finance for the large group services division of Blue Cross of California in Woodland Hills.

The health care cost trend has held steady at between 22% and 24% for the past six to eight months, insurers and consultants say.

This trend rate had been increasing steadily—to 30% or more for some insurers—over the past two years as insurers tried desperately to impose rate increases that would help them catch up with and get ahead of health care cost inflation (BI, March 20; Dec. 19, 1988).

Many experts say that trend lines have stabilized because

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Posgate, Grob found not guilty by London jury

By CAROLYN ALDRED

LONDON—A jury last week cleared former Lloyd's of London underwriter Ian R. Posgate and former Alexander Howden Group Ltd. Chairman Kenneth V. Grob on charges of stealing or conspiring to steal millions of dollars from Howden and Lloyd's syndicates.

But, despite the verdict, Mr. Posgate declared following his acquittal that he "will not attempt to go back to Lloyd's."

And, Mr. Grob is scheduled to stand trial next month, along with former Lloyd's underwriter Colin Hart, relating to the alleged theft of money from Mr. Hart's syndicates.

After deliberating for 20 hours and 43 minutes, the jury last Thursday acquitted Messrs. Posgate and Grob

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1st insolvency of risk group stirs concerns

By DOUGLAS McLEOD

SANTA FE, N.M.—The New Mexico Insurance Department is citing a recent risk retention group insolvency—the first insolvency of its kind—as an example of the "hazardous regulatory void" created by the federal Risk Retention Act.

A state judge in Albuquerque last month placed Rent Rite Advantage Services Inc., a Risk Retention Group, in voluntary receivership after an Insurance Department examination found the group insolvent by \$689,464 as of year-end 1988.

Rent Rite RRG—which wrote auto liability coverage for car rental companies—failed for several reasons, including inadequate capitalization, rapid growth, inadequate rates and excessive expenses, according to an Aug. 11 report on the group sent to the U.S. Department of Commerce, which is preparing a study on the impact of the 1986 amendments to the Risk Retention Act.

In a letter accompanying the report, New Mexico Insurance Superintendent Fabian Chavez Jr. said that the Rent Rite RRG insolvency is evidence of a regulatory void created by the federal act.

Even with supplementary state laws covering risk retention groups, "there are still large areas of uncertainty as to the states' authority to regulate under the act," the letter said.

Rent Rite RRG was formed as a profit-making corporation and was not operated for the direct benefit of policyholders, according to Mr. Chavez' letter, which added that "this is typical and is probably an unintended consequence of the Act."

The roughly 107 policyholders of the group with outstanding claims probably will not be paid in full and cannot receive payment from state guaranty funds as they could if they were insured by an admitted insurer, he said.

While state regulators have focused much of their attention on

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Brokers' stocks climb despite poor earnings

By LINDA J. COLLINS

Investors, betting that the soft property/casualty insurance market will harden next year, are beginning to buy insurance brokerage stocks despite continued poor brokerage earnings.

Analysts point out that brokerage stock prices have risen to record or near-record highs in the past several weeks, even though brokers reported sub-par earnings in the first half of 1989 and revenue growth pales in comparison with 1987 levels (see chart).

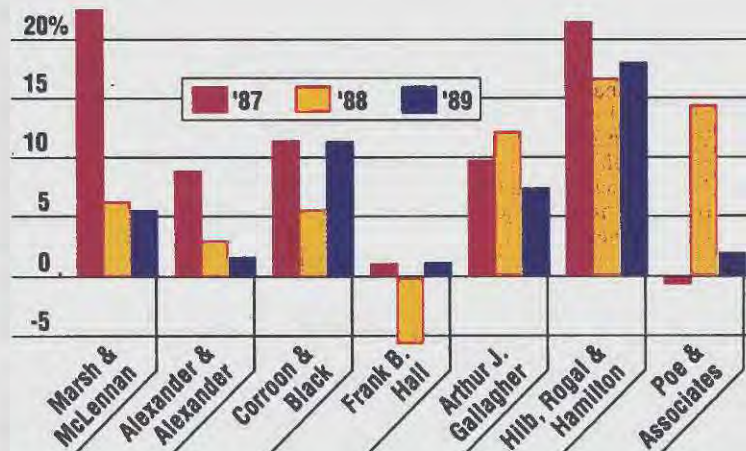
"Brokers' stocks are performing amazingly well, considering the truly atrocious earnings they are coming in with," observed Michael A. Smith, vp of Shearson Lehman Hutton Inc. in New York.

For example, while the New York Stock Exchange composite rose 8% between July 1 and Aug. 15, the stock values of Hilb, Rogal & Hamilton Co. rose 31.7%; Alexander & Alexander Services Inc. rose 14.6%; Arthur J. Gallagher & Co. rose 15%; Corroon & Black Corp. rose 10.9%; and Marsh & McLennan Cos. Inc. rose 6.9% in that period.

By contrast, only two brokerage stocks, Gallagher and M&M, performed as well as the overall market in the first six months of 1989.

Brokers' revenue growth depressed

Property/casualty insurance rate cutting continues to depress publicly held brokers' revenue growth. Figures are for the first halves of 1987, 1988 and 1989.



Source: Company reports

An exception to the brokerage stock boom has been New York-based Frank B. Hall & Co. Inc., which reported big net losses in the second quarter and first half of 1989.

Hall's stock, which was selling at \$2.75 per share on Jan. 1, rose 68.4% to a year high of \$4.63 per

share in July, but had dropped back to \$3.75 on Aug. 15.

In general, "even in the face of poor earnings news" in the first half and second quarter of 1989, "broker stocks have held their own or moved up in price," said Thomas G. Rosencrans, senior vp and

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Coverage for most recreations is abundant in soft market

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Lawyers debate necessity of jury research consultants

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Exxon Corp. seeks immunity from punitive damages for spill

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Update

New Hall CEO highest paid

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The only other CEO of a publicly traded broker expected to earn more than \$1 million this year is Frank J. Tasco, chairman of Marsh & McLennan Cos. Inc., the world's largest broker. Mr. Tasco's 1988 cash compensation totaled \$1.3 million (BI, June 26).

Mr. Bell also was given the option to purchase 2.5 million shares of Hall common stock with a contingent minimum appreciation value in five years of \$1.25 million as part of his employment agreement.

Mr. Bell was not at liberty to discuss his compensation package at Alexander & Alexander Inc., his former employer (BI, May 22).

Hall, the nation's sixth-largest broker, has been suffering financial problems since 1984. Mr. Bell was hired to lead the company to profitability.

Texas work comp rate request

AUSTIN, Texas—The National Council on Compensation Insurance is asking the Texas State Board of Insurance to approve an average 34.9% increase in workers compensation insurance rates, which would raise employers premiums by about \$900 annually.

The request comes after a second attempt to overhaul the state's workers compensation system failed in a special legislative session that ended in July. Gov. Bill Clements has said he will call lawmakers back for a third try in a November session.

The rate increase is needed because workers comp insurers' losses in Texas continue to mount, said Robert Hilton, an NCCI senior vp. The cost of an average lost-time workers comp claim increased 38% last year to \$18,000 from \$13,000 in 1987, he said.

Workers compensation rates for 1989 were increased an average of 18.7% (BI, Nov. 28, 1988).

Meanwhile, the Texas Workers Compensation Assigned Risk Pool was announcing a record deficit of \$399 million at year-end 1988. The pool of Texas work comp insurers provides coverage for 43,000 employers that cannot buy insurance in the commercial market.

Crash suits filed in state courts

CHICAGO—Two attorneys filing suits on behalf of passengers killed or injured in the crash of United Airlines Flight 232 last month in Sioux City, Iowa, are seeking damages in state courts because they believe those courts are more sympathetic to plaintiffs than federal courts.

Richard Schaden of Schaden, Swanson & Lampert in Denver has filed suit in both the Colorado State District Court in Denver and St. Louis County, Mo., Circuit Court, against United Airlines Inc.; parent company UAL Inc.; McDonnell Douglas Corp., which manufactured the DC-10; and General Electric Co., which manufactured the engine.

Mr. Schaden said he plans to file more suits in state courts. In addition, Philip H. Corboy of Corboy & Demetrio in Chicago has filed seven suits in Cook County Circuit Court in Chicago, against United, McDonnell Douglas and GE seeking unspecified damages.

Meanwhile, James R. Kahn, a partner in Philadelphia-based Blank, Rome, Comisky & McCauley, filed suit in the U.S. District Court in Philadelphia July 24 against United Airlines and McDonnell Douglas. The suit seeks class-action status.

The July 19 crash killed 111 of 293 people aboard (BI, July 24).

D&O shield discretionary: Court

CHICAGO—A Cook County Circuit Court is not required under Illinois law to invoke a fiduciary shield doctrine that would protect 29 former officers and directors of an insolvent insurer from a \$21 million directors and officers liability lawsuit filed by the state Insurance Department, the Illinois Appellate Court has ruled.

The Circuit Court now must re-examine its decision to apply the doctrine, the appellate court ruled.

The Circuit Court ruled in August 1988 that state law required it to apply the doctrine in litigation against the directors and officers of Chicago-based Optimum Insurance Co., which was ordered liquidated in April 1986 (BI, May 5, 1986).

Under the doctrine, the Circuit Court would not have jurisdiction over the defendants because they do not reside in Illinois and did not reside there during the time of their alleged actions.

But, the appellate court ruled that while the state recognizes the doctrine, state courts are not bound to apply it. The appellate court also noted that federal courts have suggested that the doctrine should

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Errors and omissions

• Due to a reporting error by the Pennsylvania Insurance Department, the total surplus lines premiums nationwide reported in the Aug. 14 issue was incorrect. Total surplus lines premiums amounted to \$6.5 billion in 1988, a 6% decrease from 1987 premiums of \$6.9 billion. In addition, premium taxes collected by the nation's regulators amounted to \$213.3 million in 1988, a 5.1% decrease from the \$224.8 million in taxes collected the year before. In Pennsylvania, surplus lines premiums totaled \$296.9 million in 1988, a 14% increase from \$260.5 million in 1987. Surplus lines premium taxes in Pennsylvania amounted to \$8.9 million in 1988, also up 14% from \$7.8 million in 1987.

• The address of Tri-City Insurance Brokers Inc. was incorrectly listed in the Aug. 14 issue. The correct address is 30 Cliff St., New York, N.Y. 10038.

• Two numbers were misstated in the directory of wholesale marketers in the Aug. 14 issue. The 1987 premium volume of Agency Marketing Services was \$6,330,000; the 1988 premium volume of W.A. Schickedanz Agency Inc. was \$6,000,000.

• Thomas F. Sheehan Inc. incorrectly reported its number of employees in the Aug. 14 issue. The company had 18 employees in 1988. Also, the company conducts business with H.S. Weavers (Underwriting) Agencies Ltd. as a broker, not a managing general agent.

Baby Bell pacts include minor cost shifts, PPOs

By MICHAEL SCHACHNER

Union employees at three regional telephone companies would pick up only a fraction of the health care costs the companies sought to shift to the workers under tentative contract settlements reached last week.

But, the tentative agreements that Bell Atlantic Corp., U.S. West Inc. subsidiary U.S. West Communications and Southwestern Bell Corp. reached with 124,000 unionized workers last week would require workers to use preferred provider networks to preserve broad coverage.

The agreements also include other benefit improvements and moderate wage increases.

In addition, two units of Chicago-based Ameritech agreed to maintain their health care cost sharing arrangements under tentative pacts reached with 570 unionized workers.

However, nearly 35,000 other

unionized workers of Ameritech's six units walked off the job at midnight Aug. 12 over health care and other issues. And, 11,000 workers at Bell Atlantic had not joined the tentative settlement as of Friday.

Including the Ameritech and Bell Atlantic workers that still were off their jobs, 113,400 unionized workers continued late last week to strike four of the so-called Baby Bells, primarily over health care issues. Earlier this month, 60,000 unionized workers struck NYNEX Corp. and 42,400 workers struck Pacific Telesis Group.

In addition, BellSouth Corp. in Atlanta reached a tentative agreement with 64,000 unionized workers in nine states on Aug. 5 under which the workers will assume some of their health care costs (BI, Aug. 14).

Under the tentative three-year agreement that Philadelphia-based Bell Atlantic reached Aug. 17 with 41,000 members of the Communications Workers of America, the

company would establish preferred provider networks in each region in which the company operates, said a company spokesman. Workers who use the network would not be required to pay a deductible for hospitalization. However, workers would be required to pay a \$10 co-payment for physician office visits, after which all expenses would be covered in full.

If a worker receives care outside of the network, there would be a \$250 deductible per person per household, regardless of the number of covered lives, after which all costs are covered in full.

Bell Atlantic had sought to initiate a \$150 deductible for individual and family hospitalization coverage under its self-insured health care plan. It also proposed continuing the \$150 deductible applicable to individuals and families for major medical benefits.

Bell Atlantic also agreed to increase pension benefits 13% in

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Exxon seeks immunity from punitive claims

By GLENN HUNTLEY

ANCHORAGE, Alaska—Plaintiffs are not justified in seeking punitive damages in connection with the Exxon Valdez oil spill, Exxon Corp. asserts in its first legal response to the flood of litigation set off by the March 24 disaster.

In court papers filed last Tuesday in Anchorage, the New York-based oil company is seeking immunity from punitive damage claims and to limit its liability for some compensatory damage claims.

The 400-page response was filed by Exxon subsidiary Exxon Shipping Co. last week in Alaska Superior Court and U.S. District Court in Anchorage.

Meanwhile, Alaska officials joined the legal fray last week by filing suit in Alaska Superior Court in Anchorage alleging that Exxon and six other oil companies that own Alyeska Pipeline Service Co. were negligent in their response to the massive spill.

And, the National Wildlife Federation also sued Exxon and Alyeska last week in state court in Anchorage seeking the creation of a multibillion-dollar fund to oversee the cleanup of Prince William Sound.

About 11 million gallons of crude oil were released into the sound after the Exxon Valdez ran aground on March 24 (BI, April 3). Fishermen, businesses and other parties have filed 140 separate lawsuits in state and federal courts seeking unspecified damages.

Total compensatory and punitive damages resulting from the oil spill could run "into the billions," said a spokesman for Alaska Gov. Steve Cowper.

However, Exxon contends that because it is heavily regulated by state and federal statutes that do not provide for punitive damages,

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Destroyed files give insured a victory

By STACY ADLER

CHICAGO—Accusing Liberty Mutual Insurance Co. of deceit because it destroyed old insurance documents, a state court judge in Chicago may force the insurer to provide coverage to an asbestos producer for claims dating back to the early 1940s.

Ruling from the bench on Aug. 9, Cook County Circuit Court Judge Robert L. Sklodowski compared the whole affair to Watergate.

"Perhaps if then-President Nixon had ordered the tapes destroyed in a similar manner (as Liberty Mutual), there may not have been a Watergate," said Judge Sklodowski.

Because Judge Sklodowski found the destruction of the insurance documents by Liberty Mutual to be a "smoking gun," he ruled that Liberty Mutual did, in fact, write product liability coverage for Chicago-based asbestos producer United States Gypsum Corp. from 1943 to 1949.

Liberty Mutual contends that the

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✓ The insolvency of the first risk retention group proves only that, as in all risk financing transactions, the buyer must beware, says this week's editorial. **PAGE 8**

✓ Manville Corp. continues to settle asbestos bodily injury claims more quickly and for more money than initially expected. **PAGE 10**

✓ Cambridge Reinsurance Ltd. has already paid more than \$2.5 million to 630 creditors four years after the Bermuda company collapsed with liabilities of about \$80 million. **PAGE 17**

✓ In Perspectives, Trisha Brambley of The Johnson Cos. warns employers to carefully examine the ramifications of adding a loan feature to a 401(k) plan. **PAGE 19**

✓ Insurance brokers' stocks have benefited from a shift

in investor sentiment toward financial issues. **PAGE 31**

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Pollution claims

Reinsurers design reporting form

By LINDA J. COLLINS

The magnitude of environmental liability claims and the amount of information reinsurers need to evaluate them have prompted a study group of U.S. and foreign reinsurers to develop a model environmental claims reporting form.

The reporting form, to be submitted by ceding companies to their reinsurers, is designed to simplify reinsurer review of environmental losses, facilitate the establishment of necessary loss reserves and reduce claims processing delays.

This is the first time reinsurers, ceding insurers and intermediaries have worked together to develop a reinsurance reporting form.

And, while use of the form would be purely voluntary, concern among some reinsurers and ceding companies over potential allegations of antitrust violations prompted the group to seek approval from the U.S. Department of Justice's Antitrust Division before circulating it to interested reinsurers, ceding companies and intermediaries.

"There's been a long-standing conversation between insurers and reinsurers" about the need to develop more extensive and consistent information on environmental claims, pointed out Kenneth R. Kay, a partner with Preston, Thorgrimson, Ellis & Holman in Washington, D.C., which is counsel to the reinsurer study group.

"Reinsurance brokers, insurers and reinsurers are concerned that environmental claims may reach an even greater magnitude than have asbestos claims," Mr. Kay explained.

"Reinsurers are going to be inundated with reports on environmental claims and those reports usually generated by cedants contain totally inadequate information" for assessing environmental claims, said David R. Preller, vp-claims in the New York office of Gerling Global Reinsurance Corp., one of the study group participants.

For example, in comparison with asbestos claims, where claims tend to arise from a few policyholders and involve only a limited number of insurers, "en-

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Ohio work comp reform aimed at cutting costs

By MEG FLETCHER

COLUMBUS, Ohio—Employers in Ohio are hoping that a new law reorganizing the state's cumbersome workers compensation system will help hold down workers comp costs by speeding claims processing and reducing administrative and medical expenses.

The law, which becomes effective Nov. 3, limits the authority of the existing five-member Industrial Commission to adjudicating claims. The commission currently shares responsibility for administering Ohio's work comp system with the state's Bureau of Workers' Compensation.

A new 12-member Workers' Compensation Board will be responsible for setting operational policy and overseeing implementa-

tion of the law by the existing Bureau of Workers' Compensation. The board will be composed of equal numbers of employers, labor representatives and legislators (BI, Aug. 7).

In addition, the board will select the administrator of the Bureau of Workers' Compensation, who is responsible for carrying out board policy and overseeing all non-adjudicatory functions, like claims handling. Previously, the governor appointed the administrator.

The law should help reduce the need for future work comp insurance rate hikes because it gives both employers and labor representatives equal authority in making workers comp insurance-related policy decisions, said Warren Smith, chairman of the Ohio Industrial Commission.

Employer and labor groups will nominate representatives for service on the board, and the governor will appoint four members in those two categories as the voting members.

"With four and four you can't be playing politics—you must do what's best," said John Hodges, president of the Ohio AFL-CIO. "We are trying to make the system responsive to injured workers at a price the employer can afford," he said.

Four state legislators—two from each party who represent committees in both houses that deal with work comp legislation—also will serve on the board, but only in an advisory capacity.

Private employers that buy workers comp insurance through

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Jury consulting standing trial with attorneys

By MONIQUE PARSONS

The jury is out on the value of jury research consultants that assist defense attorneys in preparing for trial.

Some attorneys will not handle a high-stakes lawsuit without a consultant by his or her side, though others view the service as only a tool and are more inclined to follow their own instincts.

And, several risk managers point out that these services are not cost-efficient in the majority of lawsuits they face.

For between \$10,000 and \$150,000, jury consulting firms—which typically work with defendants in product liability cases, as well as a growing number of toxic tort and coverage litigation cases between policyholders and insurers—provide a variety of statistical and demographic services that they claim will improve their clients' chances of winning a jury trial or allow their clients to settle on more favorable terms.

The research consultants typically are hired to identify the personality types of the jurors likely to hear a case so attorneys can test their arguments in mock trials before going to court.

Depending on the size of the consultant, the research is conducted by staffs consisting of specialists in various fields, including: psychology, sociology, statistics, mathematics, communications and related disciplines.

The consultants also will assemble what one firm calls a "shadow jury" in the courtroom during the actual trial. This group will give the client their impressions on how they are leaning in the case at the end of each day.

In addition, some consultants assist attorneys in designing graphics that juries can easily understand.

Many attorneys consider the service a crucial supplement to their own resources.

"I think jury research is essential in an important case," said Gary Crawford, an attorney with Skadden, Arps, Slate, Meagher &

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Robert Schillerstrom

Insuring summer fun

Recreation cover abundant

By KELLY WHITESIDE

More vacationers this summer are able to ride horses, zoom down water slides and raft down white-water rivers thanks to cheaper property/casualty insurance prices and more than adequate capacity compared with just two years ago.

Competition among insurers for business, combined with growing specialty markets for recreation risks and improved safety records, have eased the insurance problems of recreation facility sponsors.

Yet a group of mountaineers has had to stop scaling the peaks until it can find affordable liability insurance.

The Sierra Club, the San Francisco-based environmental organization, last October suspended all club-sponsored mountain climbing excursions because it did not want to pay the substantially increased premiums it had been quoted.

"Our premiums went up because our claims have been so high," said Andrea Bonnette, director of administration and finance, explaining that the club has filed two or three claims a year related to climbing trips.

Vicki Thorpe, financial controller of the club, said the annual premium the club was quoted for general liability insurance that would cover its mountaineering activities rose by \$350,000, which is more than double the club's total premiums, she said.

The Sierra Club's mountaineering activities and other outings were covered under its commercial general liability policy, Ms. Bonnette said. Sierra's primary liability insurer is Admiral Insurance Co. of Wilmington, Del.

According to Adolph Amster, chairman of the Sierra Club's Outing Committee, a task force recently was appointed to investigate ways to sponsor climbing trips without paying thousands of dollars more in insurance premiums. The task force is expected to complete its report in September.

The task force is composed of Sierra Club members who are insurance professionals and risk management consultants, Ms. Bonnette said. Because of the complex nature of the Sierra Club—which is engaged in political activism, public policy issues, outing programs and publishing, all of which are directed by vol-

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Faction seeks new liquidator in Mentor case

By ROGER SCOTTON

HAMILTON, Bermuda—A dissident group of Mentor Insurance Ltd. creditors wants one of the liquidators of Cambridge Reinsurance Ltd. to also oversee the Mentor liquidation.

The dissidents want David Lines, a Bermuda-based partner with Coopers & Lybrand, to either join or replace Charles Kempe and Michael Arnold, partners with Arthur Young & Co., as Mentor's liquidators.

Although the dissident creditors have not yet identified themselves, preferring instead to communicate through representatives in London, they have made no secret of their plans to force the appointment of a new Mentor liquidator (BI, May 1; Sept. 26, 1988). The dissident creditors hope to appoint a new liquidator at Mentor's next annual meeting on Nov. 1 in Bermuda.

Mr. Lines' name emerged after Messrs. Kempe and Arnold secured a Bermuda Supreme Court order last month that says that any creditor intending to introduce a resolution at the Nov. 1 annual meeting must notify the current liquidators in writing by Sept. 5.

In addition, according to the liquidators' latest report to Mentor's creditors, even if that filing deadline is met, the court order grants Messrs. Kempe and Arnold "absolute discretion" to decide if the resolution should be put to a vote at the meeting.

The only other way a resolution can be introduced at the meeting, according to the court order, is if the Bermuda Supreme Court orders that a resolution be put forward or if a resolution is supported in writing 30

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Image Bank/B. McNeely

Sierra Club can't find affordable insurance for mountaineering, despite the soft market.

Chubb, farmers settle suit with agent

By LAURA MAZZUCA

CINCINNATI—Chubb Corp. and 8,800 farmers who were denied drought coverage by the insurer last summer will share in a \$8 million out-of-court settlement with Chubb's managing general agent.

However, had the settlement not been reached, a jury would have awarded the farmers \$40 million from Good Weather International Corp., the MGA.

The jury also would have awarded Good Weather \$250,000 in a cross-claim against Chubb for the drought coverage actually written.

The settlement ends a year-long battle on behalf of the farmers stemming from Chubb's failure to bind \$400 million in drought insur-

ance sold by Good Weather International Corp. to farmers in 10 Midwestern states.

Chubb alleged that Good Weather had exceeded its binding authority by selling \$350 million to \$400 million in drought coverage when it was only authorized to sell up to \$5 million.

Chubb reached a separate \$48.1 million settlement with the farmers last November. That amount of the settlement was based on the losses the farmers would have recovered from Chubb if the coverage had been bound, less any premium reimbursements or goodwill payments the farmers already had received from the insurer (BI, Nov. 14, 1988).

The insurer then joined with the farmers earlier this year to sue Good Weather in the U.S. District

Court for the Southern District of Ohio in Cincinnati (BI, Jan. 2).

Although the original class-action suit filed against the Mineola, N.Y.-based MGA sought \$21

Attorneys agreed to the \$8 million settlement because that is the limit of the MGA's E&O coverage.

million for the farmers and \$73 million for Chubb, attorneys agreed to the \$8 million settlement on Aug. 11 because that is the limit of Good Weather's errors and omissions coverage written by Fire-

man's Fund Insurance Co., said James M. Ringer of the New York firm Rogers & Wells, who represented Chubb.

Good Weather President Henry Fox provided financial records that indicated that no other assets were available, Mr. Ringer added.

"Basically that's all there was," he said. "There was no way to get any more money."

While attorneys were negotiating the settlement, a jury was deliberating its verdict in the five-month trial in Cincinnati, said Janet Abaray, attorney with Waite, Schneider, Bayless & Chesley Co., one of the attorneys who represented the farmers in the class-action suit.

But, while the settlement negotiations proceeded, the jury reached its verdict, which Judge

Carl B. Rubin sealed until the attorneys reached a final agreement, said Ms. Abaray. The verdict was opened only after the settlement was reached, and the settlement will stand.

"Probably the overwhelming feeling is relief that it's all over," said Mr. Ringer, Chubb's attorney.

A major sticking point in the settlement negotiations was the interpretation of Good Weather's E&O coverage, according to Ms. Abaray. Good Weather had \$1 million in primary coverage per occurrence and \$3 million aggregate. It also had \$5 million in umbrella coverage excess of the primary policy.

Novato, Calif.-based Fireman's Fund maintained that failure to bind the drought coverage represented one occurrence, while plaintiffs' attorneys argued that it constituted multiple occurrences.

Fireman's Fund eventually agreed to provide \$8 million in coverage to Good Weather, said Ms. Abaray.

Ultimately, the farmers will receive \$4.93 million, and Chubb will receive the remaining \$3.07 million, said Mr. Ringer.

The formula used to distribute the farmers' share of the award will then be determined by the court-appointed special master who also is handling the distribution of the \$48.1 million settlement between Chubb and the farmers.

About 400 objections to the settlement between Chubb and the farmers must be decided before any additional disbursements of either the Chubb funds or the Good Weather funds are made, said Ms. Abaray.

The \$8 million to be paid by Good Weather's insurer will be deposited with the court, which will place it in an interest-bearing account.

The interest will be used to defray attorneys' and court fees, said Linda S. Kloth, senior administrator of the U.S. District Court for the Southern District of Ohio.

While the farmers' litigation against Chubb and Good Weather has been settled, litigation still is pending against Chubb and Good Weather in Cook County Circuit Court in Chicago by brokers seeking \$2 million in commissions for placing the drought coverage, said Ms. Abaray.

There Are Still A Few Places Where We Don't Have An Office



Tikikluk in the Artic Circle is one of them. But at the rate we're growing we could be sledding in there any day. Over the past 5 years our business has tripled. And so we're constantly expanding. Adding more convenient locations. Topnotch people, too.

Send For A Free Directory Of Our Offices

Our network of offices stretches from the Atlantic to the Pacific. The Great

Lakes to the Gulf of Mexico. And points in between. We'll be glad to send you a free directory of our locations if you call or write our Marketing and Sales Department.

Today Toledo, Tomorrow Tikikluk We're growing quickly because we have a reputation for giving our customers exactly what they need. And we'll be happy to tailor a program that's just right for you.

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Woolsey is promoted in Chicago

Christine Woolsey has been promoted to associate editor in *Business Insurance's* Chicago office, Associate Publisher and Editor Kathryn J. McIntyre announced.

In her new position, Ms. Woolsey will report on both risk management and employee benefit topics.

Ms. Woolsey, 24, joined *Business Insurance* in August 1987 as an editorial assistant and was named associate directory editor in January 1989.

Prior to joining *Business Insurance*, Ms.

Woolsey graduated with high honors from the University of Illinois in Urbana-Champaign with a bachelor of science degree in journalism.

Ms. Woolsey can be reached at 312-649-5460.



Ms. Woolsey



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You see, we administer our funds for our customers. We take care of the record-keeping details, including complicated IRS forms.

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And because our regional benefit specialists sit down with each client to customize each program, your retirement fund fits your employees' needs and your objectives.

So, if you're interested in a group retirement plan that concentrates on gathering retirement savings, not paperwork, contact your local Wausau account representative, or Steve Foster at the address below.



State to save with PPO, hospital pacts

By MICHAEL SCHACHNER

The state of West Virginia is hoping to save tens of millions of dollars in health care costs by establishing a preferred provider organization and negotiating freezes in hospital charges for state employees.

The state's Public Employees Insurance Agency hopes to save up to \$8 million in health care costs next year by creating a PPO network, according to the program's director.

The PEIA indemnity plan expects to save an additional \$15 million over the next two years through contracts with 62 hospitals that will freeze the current level of hospital charges for two years, according to Sally Richardson, director of the PEIA in

Charleston.

The establishment of the PPO and the hospital contracts are the result of several initiatives proposed by West Virginia Gov. Gaston Caperton aimed at paying off debts owed to West Virginia hospitals and doctors by several of the state's medical programs, including the PEIA.

Ms. Richardson explained that the PEIA—as well as other state medical programs like Medicaid and the state Department of Health—had accrued a \$200 million backlog of payments due hospitals and providers when Gov. Caperton took office last November.

Benefit beat

West Virginia currently offers its employees only a self-insured indemnity health care plan.

The indemnity plan paid out \$160 million in medical expenses in 1988, of which \$43 million was carried over from previous underfunded years, according to Ms. Richardson.

Under the indemnity plan, state employees pay a \$150 annual deductible per person. And employees pay 20% of medical expenses up to a lifetime maximum of \$500,000.

The new preferred provider network, which will be implemented before the end of the year, will be open to 91,000 state employees and

their dependents.

Ms. Richardson said the entire PPO network will feature 7,000 to 10,000 providers.

Ms. Richardson said the new PPO will allow the state to make payments based on a "reasonable and customary" fee schedule in which fees cannot exceed a level of what 80% of West Virginia physicians charge.

Legal benefits

About 25,000 union employees of Deere & Co. will receive fully paid legal service benefits as part of a new three-year contract signed last month between the United Auto Workers and Deere.

Under the UAW-Deere pact, which went into effect Aug. 1, union employees, retirees and their

dependents now may obtain a wide range of legal services from Cleveland-based Hyatt Legal Services. The services include unlimited consultation related to wills, document preparation, personal bankruptcy, divorce, custody, uncontested adoptions, consumer matters and civil litigation and defense of misdemeanor charges and traffic violations, among other things.

The Moline, Ill.-based farm and industrial equipment manufacturer will fully fund the benefit. The company declined to disclose the cost of the program.

The plan has been extended to union employees in more than a dozen cities, although the bulk of Deere's workers are located in the Quad Cities area, which includes Moline and Rock Island, Ill., and Davenport and Bettendorf, Iowa.

Participants in the plan may use Hyatt's 500 attorneys in any of the firm's 173 offices nationwide. Employees who do not live near a Hyatt office have access to selected lawyers that subcontract with Hyatt.

New Upjohn ESOP

The Upjohn Co. has established an employee stock ownership plan that will allow the company to match employee contributions to its 401(k) plan with preferred convertible stock.

The Kalamazoo, Mich.-based pharmaceutical manufacturer will borrow approximately \$300 million over 15 years to purchase 7,440 shares of a new issue of convertible preferred stock.

Upjohn currently estimates that the shares will convert to about 7.4 million common shares after 15 years, which will give the ESOP about 4% ownership in the company, a spokesman said.

Shares controlled by the ESOP will be allocated to almost 12,000 domestic employees of Upjohn as matching contributions under the company's existing 401(k) savings plan.

Upjohn currently matches employee contributions to the 401(k) plan with common stock from the company treasury at a rate of 50 cents on the dollar up to a maximum contribution of 5% of an employee's salary, according to the spokesman.

That 50% matching formula will continue, he said.

In the past, employees with common Upjohn stock in their savings portfolio were not allowed to vote those shares. Under the new plan, however, ESOP participants with preferred stock will have voting rights.

Saab early retirement

In a move designed to trim costs spurred by falling domestic auto sales, Saab-Scania of America is offering early retirement to U.S. employees age 50 or older with at least five years of company service.

The Orange, Conn.-based automaker announced that employees who were age 50 or older on Aug. 1 and opt for early retirement will be credited with an additional five years of age and five years of service for pension benefit calculations.

In addition, those who choose to retire early will receive severance pay based on actual years of service.

Saab declined to comment on the formula used to determine severance pay.

Approximately 60 of Saab's 600 domestic employees may opt for the program. Saab's sign-up deadline was last Friday and those who accept the offer will retire as of Sept. 1.

"My son is back home, and he's batting 325"

Andy fumbled some easy field balls during little league practice. His dad knew something was wrong. Andy said he felt "weird." "Maybe it's the flu," he told his dad.

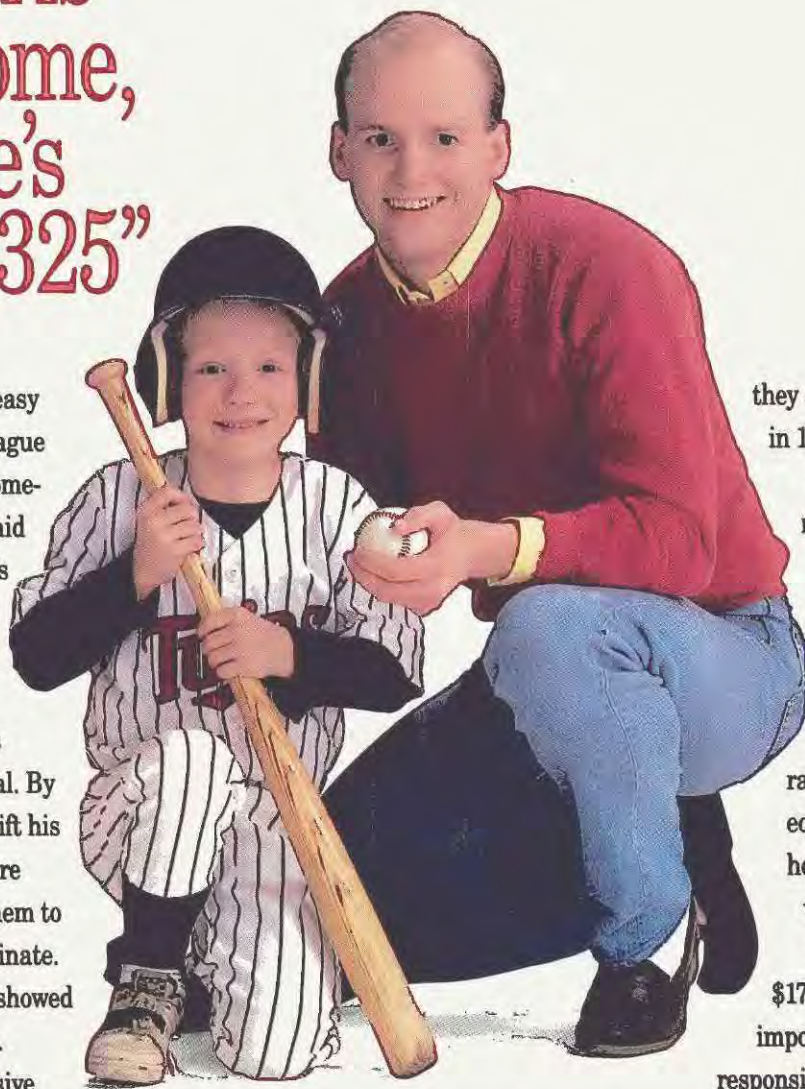
Next day, when Andy's temperature spiked to 105, his parents rushed him to the hospital. By this time, Andy couldn't lift his head. A throbbing pressure behind his eyes caused them to cross. He began to hallucinate.

At the hospital, tests showed 13 abscesses on his brain. Doctors prescribed intensive intravenous (IV) antibiotic therapy. They wanted him hospitalized. Indefinitely.

After a month, however, Andy's parents wanted him home.

His dad's company then turned to HRM's Coordinated Case Management (CCM) program. CCM manages large, long-term, catastrophic cases to make sure patients like Andy receive appropriate care at appropriate costs and within appropriate timeframes.

Because of its comprehensive case management process, for example, HRM saved clients \$13 for every \$1



Managed Care from HRM made the difference.

they spent on CCM services in 1988.

So, when Andy's CCM case manager got involved, things started to happen.

She brought in an expert who taught his parents how to administer IVs.

She negotiated reduced rates for at-home medical equipment. She found a home care nurse who would visit Andy daily.

Her efforts saved the client \$17,500 in medical costs. Most important, she provided

responsive, reassuring information and support to Andy's anxious parents—who

thought their son was going to die.

After several weeks of tender loving care and IV therapy at home, the abscesses disappeared. Andy is back in school making Bs and batting 325 for his little league team.

HRM. Your independent source for a full line of managed health care services since 1977. Call us toll-free today for details. **Together we can make a healthy difference.**



A System of Discipline and Trust That Works

Over the past several months, there has been considerable discussion in Congress and several state legislatures over the role MGAs, or Managing General Agents, play in insurance company operations in the excess and surplus lines business within the property and casualty industry. Several recent insurance company insolvencies have caused considerable concern in Congress and many states about the role Managing General Agents played in the demise of these companies.

In the excess and surplus lines market, some insurance companies delegate total administrative, underwriting, claims and reinsurance placement authority to a Managing General Agent. In the case of a few recent insurance company insolvencies, company management may have delegated these authorities with no controls and little monitoring or auditing of the MGA's activities.

These insolvencies are indeed unfortunate, but they should not be allowed to sully the accomplishments and reputation of the vast majority of excess and surplus lines companies and their general agents.

The group pictured in this advertisement are all MGAs who are on the advisory council of Guaranty National Insurance Company and Landmark American Insurance Company, part of the Orion Capital Corporation family of companies. These agents, along with 50 other general agents representing Guaranty National and Landmark American, are dedicated, disciplined, and extremely knowledgeable in their field of insurance in the excess and surplus lines marketplace. Our company delegates underwriting and pricing authority to our commercial general agents based upon their insurance technical expertise and underwriting skills. We control claims handling and reinsurance placement and reunderwrite all business placed in our companies. We also conduct numerous internal and external audits, which our general agents encourage and support. Our general agents dedicate

their attention to front-line field underwriting and risk selection. The combined efforts of the company and these disciplined professional agents have given our companies continuous underwriting profits, which we share with our agents.

Our advisory council is only representative of the thousands of professional and dedicated MGAs who, along with their insurance companies, understand the role of an integrated underwriting and disciplined operating insurance system. The general agency system does work for the vast majority of companies and agents, provided they operate like professionals.

Guaranty National and Landmark American are proud to do business with these professional businessmen and businesswomen.



Guaranty National's General Agency Advisory Council represents professional and dedicated individuals who understand the role of a disciplined operating insurance system. They are sitting left to right, front row: Dick Thomas, Adco General Corp., Denver, Colo., Curtis Anderson, Skanco International, Ltd., Scottsdale, Ariz., Joan Buschbach, J. Buschbach Insurance Agency, Inc. Chicago, Ill., Jimmy Stringer, Jr., Jimmy Stringer Co., Atlanta, Ga., and Bill Jackson, Agents Insurance Markets, Inc., Richmond, Va. From left to right, back row: Chuck Conway, Delaware Valley Underwriting Agency, Inc., Pittsburgh, Pa., John Griffin, Cochrane, Griffin & Co., Bellevue, Wash., John Snyder, Snyder General Agency, Madison, Wisc., and Elton George, Elton George & Co., San Antonio, Texas.



**Guaranty National
Companies**
Englewood, Colorado

The buyer must beware

NO ONE should be surprised that the first risk retention group has gone broke.

Nor does the first insolvency of a risk retention group prove that these risk financing mechanisms need stricter state insurance regulation than is currently permitted under the federal law authorizing the formation of risk retention groups.

And, the insolvency does not suggest that the federal Risk Retention Act and its 1986 amendments are a failure.

The insolvency does prove that, as in all risk financing transactions, the buyer must beware.

Rent Rite Advantage Services Inc., a Risk Retention Group, was placed in voluntary receivership last month in New Mexico, insolvent by \$689,464 as of year-end 1988 (see story, page 1).

A risk retention group insolvency should not be surprising, given the track record of insurance companies operating in the United States and indeed around the globe. There were, for example, 142 insolvencies of U.S.-based property/casualty insurers between 1969 and 1986.

And, while the number of insolvencies has slowed in the last few years as higher insurance premiums helped many insurers recover financially, there will be an increase in insolvencies in the next few years as the impact of cheap insurance prices charged during this cycle hits the market.

State insurance regulators have not been able to prevent insurance company insolvencies. They do not have the resources to adequately monitor insurance company management and loss reserves on a current basis to stop insurance companies from driving themselves into the ground. And when regulators do detect an insurance company is in financial trouble, they too often do not act soon enough to shut down it down.

State insurance regulators will not be able to prevent risk retention group insolvencies for the same reasons. It will not be because officials lack adequate authority to regulate risk retention



groups. Any state can shut down a risk retention group it believes faces financial trouble.

No one should view this insolvency as proof that risk retention groups do not work as risk financing mechanisms. That would be as rational as concluding that an insurance company insolvency proves that insurance companies cannot succeed.

Instead, this insolvency should remind insurance buyers—whether they participate in a risk retention group or buy insurance from a commercial insurer—that they have to vigilantly monitor the finances of their risk financing facility.

And, those participating in risk retention groups must be especially watchful and demanding that the risk retention group is operated for their direct benefit and not for the benefit of its managers.

Risk retention group members that carefully monitor the activities of their group will be the best watchdog against its insolvency.

Letters

Make polluting too expensive for violators

To the editor: The July 17 editorial "Speed Oil Spill Cleanups" is 100% correct that we have to make it more expensive to spill oil in our waterways than it is to adopt the programs needed to prevent such spills in the first place.

An economist would call this turning an "externality" into a cost of doing business, and it applies to everything from dangerous autos and airplane design to real estate development that destroys neighborhoods.

In fact, "externalities" are at the heart of the "tort liability crisis" we've all spent the last 10 years wailing and finger-pointing about. The tort system is a cruelly inefficient, horrendously expensive method of making (some) economic actors pay for (some of) the consequences of (some of) their actions.

A modest proposal: Risk managers and

the insurance industry are in an excellent position to push individuals as well as corporations to recognize the consequences of our actions and prevent or ameliorate those that would be negative for others.

Can we do it? Will we do it? Are you holding your breath?

Mary A. Carroll
Chicago

Insurers still shooting themselves in feet

To the editor: Last year, I wrote a letter to *Business Insurance* (BI, Aug. 8, 1988) that stated: "We are perceived by most people as a group of dishonest individuals operating in a crooked industry."

That perception was instrumental in the passage of Proposition 103 in California. This industry has learned nothing from Proposition 103 and continues to shoot itself in the foot at every conceivable opportunity.

An example of this is workers comp dividends. All of us know that dividends cannot be guaranteed, yet insurers make promises they know they cannot live with.

I have just received a dividend check for one of my clients. Based upon the original retention quote and its loss ratio, the dividend should have been more than \$17,000. The actual dividend is \$2,700. Obviously, the company is within its legal rights, but what is legal is not always moral.

It's very sad to think we can look forward to additional Proposition 103s for each and every line of insurance.

Jerry Nisker
North American Insurance Agency
Orange, Calif.

Risk Manager of the Year nominations

Nominations for the 1990 *Business Insurance* Risk Manager of the Year Award and Risk Management Honor Roll are being accepted by *Business Insurance*.

Candidate nominations must be submitted according to guidelines contained in a nominating package available from *Business Insurance*. The nominating package ensures that comparable information is submitted for each candidate.

A panel of 10 independent judges—including former recipients of the awards, brokerage and insurance company executives, an academician and a risk management consultant—will select the 1990 Risk Manager of the Year and members of the Honor Roll (BI, July 10).

Business Insurance created the award in 1977, on the 10th anniversary of its publication, to recognize outstanding achievement in the practice of risk management.

All risk managers, whether part-time or full-time, are eligible for the award, as long as the candidate is a full-time employee of the organization for which he or she acts as the risk manager.

Although the deadline for submitting nominations is Nov. 28, *Business Insurance* Associate Publisher and Editor Kathryn J. McIntyre recommends beginning preparation of the nominations soon.

Nominating packages can be obtained by writing Risk Manager of the Year Award, *Business Insurance*, 740 N. Rush St., Chicago, Ill. 60611-2590.

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Reporting weekly for corporate risk, employee benefit and financial executives

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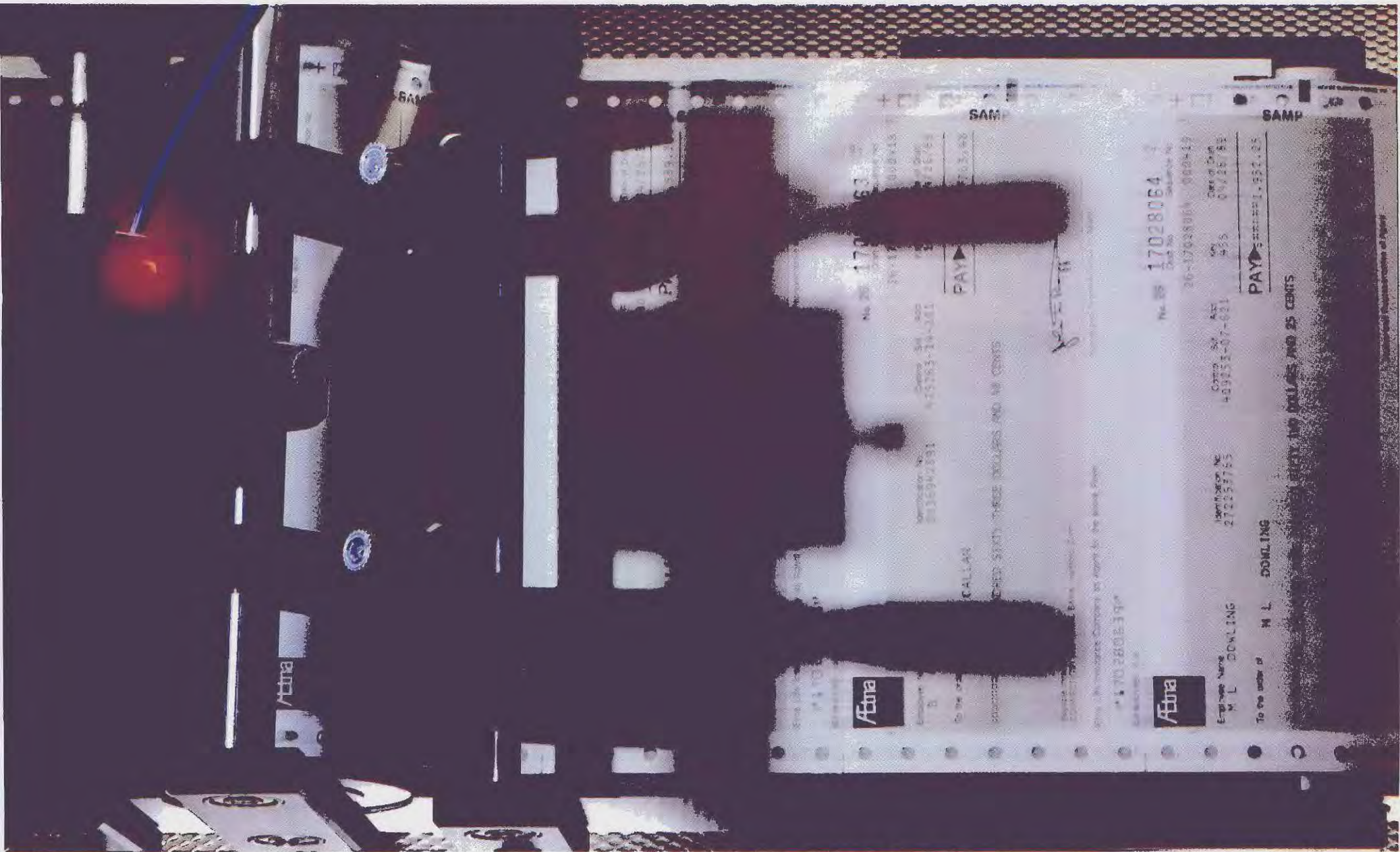
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The check really is in the mail.



Very few things in life are more frustrating than waiting for money that someone owes you.

Particularly if that someone is an insurance company.

Unfortunately, it's by no means unusual to wait months on end for an insurance company to pay up.

At Aetna, we think that's unconscionable.

So at our Employee Benefits Division, we've reduced the entire health insurance claims process to a mere nine days. Despite the fact we receive nearly a quarter-million claims a day.

Of course, you don't get results like this by waving a wand. At Aetna, it takes a national on-line claims network, three mainframe computers, 32 automatic collating machines, five huge Zip Code pre-sorters, and 225 people dedicated solely to getting all those checks in the mail.

Still, we find the extra effort pays. We like to think that such unusual promptness is why so many companies are so quick to employ us for their employee benefit programs.

And why they're so slow to leave us.

AETNA. WE GIVE NEW MEANING TO THE WORD DILIGENT.



Manville payouts' high pace continues

By STACY ADLER

WASHINGTON—The Manville Personal Injury Trust continues to settle asbestos bodily injury claims more quickly and for more money than originally anticipated.

The trust—which is the centerpiece of Manville Corp.'s massive reorganization plan—in the seven month period ending June 30 settled 14,810 claims for a total of \$598.7 million. During that period, settlements averaged \$40,424.

Before the trust was created, it was envisioned that settlements would average \$25,000 per claim. In addition, the trust's architects projected that it would settle only 7,000 to 10,000 claims per year.

The trust was criticized earlier this year for settling claims quickly, which officials refuted (*BI*, Feb. 15).

"We are simply getting better at what we do," said Marianna Smith, executive director of the trust.

Manville filed for reorganization under Chapter 11 of the Federal Bankruptcy Act on Aug. 26, 1982. At that time, the company faced more than 17,000 asbestos bodily injury claims, and new claims were being filed at a rate of more than

At issue

How extensively do employees use 401(k) loan provisions?



Peggy B. Fayfich
vp-corporate benefits
PNC Financial Corp.,
Pittsburgh

We have a very strong participation rate. We just implemented 401(k) loan provisions in January, and we've put in about 1,000 new loans since then. We have approximately 13,000 participants eligible to contribute. However, the new loan regulations appear to limit the attractiveness of loans for employees with shorter service and smaller balances.



Ann K. Dudero
employee benefits manager
Jostens Inc.,
Minneapolis

Our employees use the loan provisions much more than was anticipated—averaging around 65 loans per month...with an active participant base of 3,900. Although we sometimes feel like Jostens Savings & Loan, the implementation of a loan feature was crucial to retaining good participation now that withdrawals are so restrictive.



Harry G. Hoyt
manager-employee benefits
Deere & Co.,
Moline, Ill.

Before putting our 401(k) loan provisions into effect in 1986, we studied other firms' experience. Based on that research, our expectations have come very close to reality. We now have 890 loans outstanding from a participant base of 8,500 eligible employees. However, the maximum payback period is 54 months, so we haven't gone through a complete cycle.



Merle Flaata
vp-benefits
First Bank System Inc.,
Minneapolis

The loan option is an important feature of our 401(k) plan. Since 1984, about 85% of our eligible employees have elected to participate in the plan each year. I believe the loan and withdrawal features have helped us maintain this high participation rate. In total, approximately 18% of our active participants have outstanding 401(k) loans.

Compiled by Christine Woolsey

'We are simply getting better at what we do,' says Marianna Smith, director of the trust.

400 a month (*BI*, Sept. 6, 1982). The trust currently faces more than 25,000 claims, while the number of future claims has not been estimated.

The Manville Personal Injury Trust began negotiating settlements in January 1987. At the time Manville emerged from reorganization in November 1988, the trust had made 11,786 settlements at an average cost of \$39,429. The total cost then was \$464.7 million.

The average size of each settlement increased slightly during the recent seven month period ending June 30 because the trust recently settled several expensive claims for severe cases of mesothelioma, a painful asbestos-related disease, according to Ms. Smith.

In addition, the trust has been able to settle as many claims as it has because it works closely with plaintiffs' attorneys to keep these cases out of the courts, Ms. Smith said.

"We are working hard with the plaintiffs bar to control the liability" for these cases by controlling litigation costs, she said.

Nevertheless, a group of plaintiffs earlier this year attempted to derail the trust's progress.

A group of 4,000 shipyard workers filed a petition in U.S. Bankruptcy Court in New York seeking to enjoin the Manville Personal Injury Trust from making further cash payments to asbestos claimants.

The shipyard workers claimed that the trust was using more than half of its available cash to pay only 15% of the claimants.

However, a judge in May denied the workers' petition for a temporary restraining order, and the suit was dropped.

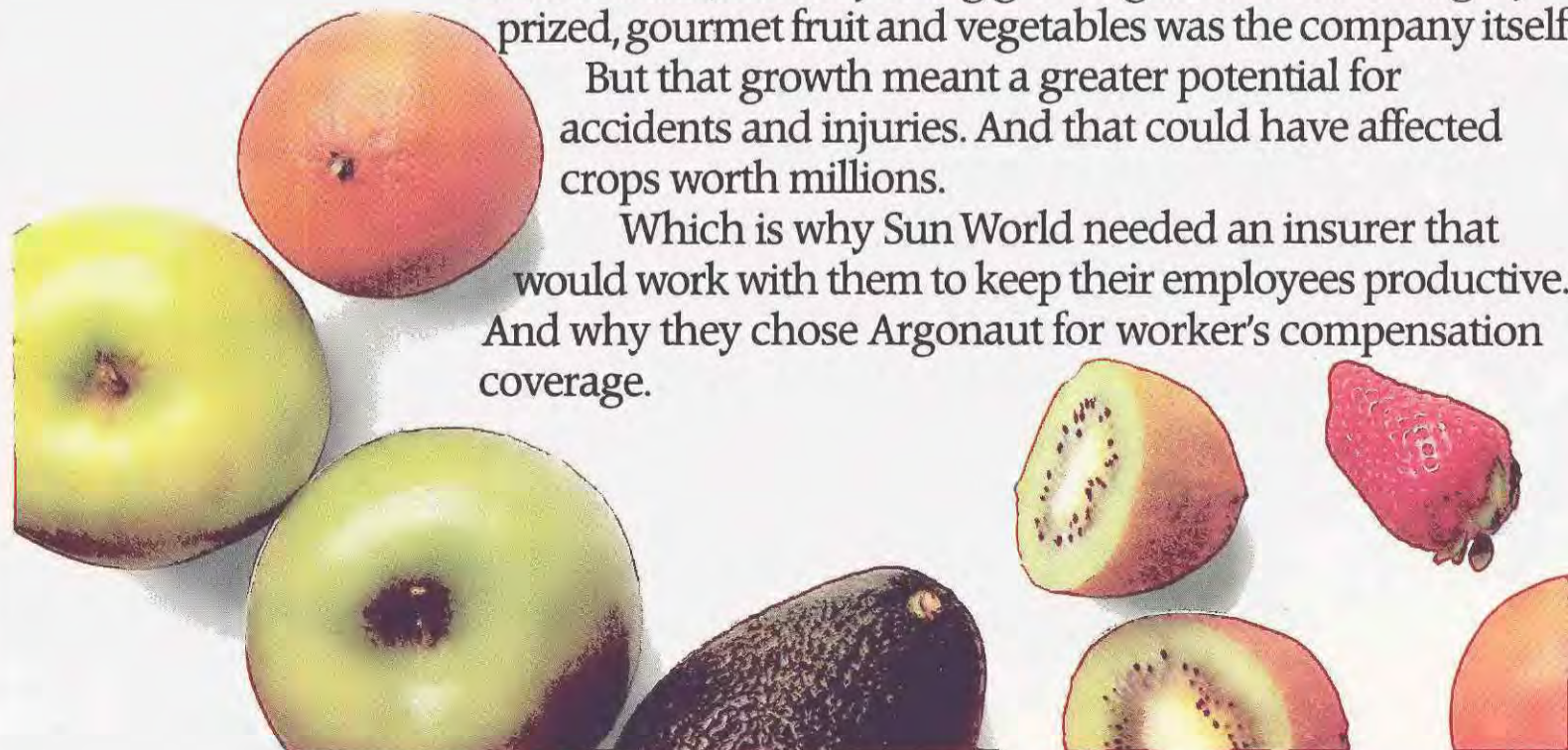


Sun World Chose Us Because We Understand Money Does Grow On

At Sun World, the only thing growing faster than its highly prized, gourmet fruit and vegetables was the company itself.

But that growth meant a greater potential for accidents and injuries. And that could have affected crops worth millions.

Which is why Sun World needed an insurer that would work with them to keep their employees productive. And why they chose Argonaut for worker's compensation coverage.



Health care costs

Continued from page 1

insurers are beginning to feel comfortable that their rates have caught up with health care cost inflation.

Trend lines take into account several factors, such as the projected increase in overall health care cost inflation; the effects of cost-shifting against indemnity plans by Medicare, Medicaid and managed care plans; the added cost of technological advances; and catastrophic claims.

These trends are combined with claims experience and other factors to determine a premium.

"Trend factors are coming down to the 20% range. They had been about 30% for some insurers over the last year and a half. These trends reflected not only health care costs, but also catch-up by the insurers," noted Jay Catlin, a consultant in the Harmon Meadow, N.J., office of Buck Consultants Inc.

"The trend is holding in the 22% to 24% range. It doesn't seem to be

increasing or decreasing at this point" for plans renewing at mid-year, noted John D. Moynahan, an executive vp at Metropolitan Life Insurance Co. in New York.

"The increase in indemnity plan premiums is slowing down now because the catch-up aspect that is figured into the premiums is slowing down. We got through some 60% to 70% increases that were necessary to make up for the inadequacy of premiums before," he explained.

At Fort Wayne, Ind.-based Lincoln National Corp., "our trends for indemnity premiums are at about 22% to 24%. These are staying high for now because of the degree of catching up we are doing" with health care cost inflation, said John P. Cole, executive vp and chief operating officer of the managed health care group.

And, "we are still using a trend in the 20% to 24% range for rating purposes. But, there are early indications that the trend could be in the 17% to 19% range next year," said John Brunosky, a vp and actu-

ary with Aetna Life & Casualty Co. in Middletown, Conn.

CIGNA Corp. also is using a trend of "about 24% for the pure indemnity side of the house," said Chris Doerr, senior vp and chief financial officer of the employee benefits group of the Hartford, Conn.-based insurer.

"Toward late 1988 and early 1989, we saw some encouraging signs that the medical inflation trend was actually dropping a bit. But, by the second quarter of this year, we saw it go up a bit. So, there is some small reduction in the trend, but we can't tell if it's an aberration at this point."

At EQUICOR, "we're on the high end—toward 24%—of the trend we're using for indemnity rates. But, we're not making any judgments about which way this will go until we see the July CPI numbers," observed Martin Dickler, senior vp and chief actuary in New York.

Newark, N.J.-based Prudential Insurance Co. of America Inc. also is using a trend in the 22% to 24% range, said Joseph Maginnis, vp of

group marketing for Prudential Insurance Co. of America Inc.

And, Blue Cross of California has used a trend of about 20% for the last 12 months, "with some minor adjustments of one or two percentage points," Mr. Davies said.

"On most of our group health contracts, we have the right to put in midyear rate increases when necessary, and we haven't had to do that this year," he noted.

While employee benefit consultants also say they have observed insurers maintaining health care cost trends in the 22% to 24% range, some doubt these trends will decline much further in the near future.

"We are right now in a very interesting cycle. The actual rate of increase in health care claims costs for some of our clients is down by 1% or 2% compared to six months ago," noted Tim Borchard, a consultant with Hewitt Associates in Lincolnshire, Ill.

But, "insurers, in calculating renewals, still are not recognizing this

decline. They are still maintaining the 23% increase in projected costs trend. They are doing that because of the anxiety they have about where cost trends will go in the next year," he explained.

"It would appear that the insurers have a little bit more margin built into their premiums" to protect against a surge in inflation, said Lawrence B. Leisure, a principal with TPF&C, a division of Towers, Perrin, Forster & Crosby Inc. in New York. "But, the insurers are unwilling to drop that trend just yet."

And, after being caught by surprise by a surge in inflation a year or so ago, "insurers have built larger margins into their premiums to protect themselves," said David L. Brenne-man, a vp in the East Orange, N.J., office of Noble Lowndes, an international benefits consulting firm.

"I think we're beginning to get the feeling that double-digit inflation in our claims costs will be a fact of life for the next five years or so," Prudential's Mr. Maginnis said.

The rate of increase charged some employers at midyear might seem stable compared with other employers' January renewals for another reason, said Edwin Freedman, vp and director of the national health care group of the Alexander Consulting Group Inc. in Lyndhurst, N.J.

"If the insurer overcharged last year in an effort to catch up with inflation, then the increase this year is less than last year," he said, referring to individual renewals. "But, does that mean claims costs were actually lower for the employer, or did the insurer just drop the rate to make up for the overcharge last year?"

According to the Bureau of Labor Statistics, the medical care component of the CPI rose at an annual rate of 8.3% for the six months ended June 30, 1989.

By comparison, the overall CPI rose at an annual rate of 5.9% for the same period.

The rate of increase in the medical care component of the CPI has outpaced the overall CPI for the past few years. In 1988, the medical care component rose 6.5%, compared with a 4.9% rise in the overall CPI. And, in 1987, the medical care component rose 6.1%, compared with a 4.5% increase in the overall CPI.

The stabilization in indemnity plan trend lines translated into premium increases in the range of 20% to 35% for most employers whose plans renewed in the last two months.

"We are certainly seeing some increases as high as 50%. But, we have one client that will have an increase of less than 10%. For the most part, indemnity plans are renewing in the high 20% range," said Harry Don, actuary at The Wyatt Co. in Cleveland.

For example, Irvine, Calif.-based Fluor Corp. experienced a 14% increase in its minimum premium indemnity plan, which renewed in April, said Morton D. Jones, director of employee benefits for the engineering and construction firm with about 14,500 employees nationwide.

The plan, which is underwritten by Connecticut General Life Insurance Co. of Bloomfield, Conn., includes a number of health care cost containment programs, he said.

"I think these programs have helped control costs, but unfortunately nothing has seemed to stop the tide. But, I would hate to think what costs would be like without these programs," he said.

In comparison, health care claims costs at one self-insured employer—DeKalb Corp., an energy and agricultural products firm in DeKalb, Ill. with about 4,000 employees—have increased between 15% and 20% "and that is a conservative estimate," said Donna Turner, the company's benefits director.

To help control costs, "we are initiating an inpatient utilization review and controls on some outpatient procedures beginning in January," she said.

Ms. Turner said that she believes that a self-insured health plan pro-

Continued on next page



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Health care costs

Continued from previous page
vides the company with more control over costs. "Some of the companies in our region that are not self-insured are looking at huge increases compared to DeKalb."

While DeKalb's self-insured plan costs increased 15% to 20%, numerous large, self-insured employers with which TPF&C works "are experiencing less than 15% increases in their plan costs, and some are as low as 10%," Mr. Leisure noted.

Along with the stabilization in the rate of increase in indemnity plan rates, the percentage increase in HMO premiums also seems to have stabilized, HMO officials say.

Premiums for plans renewing at midyear 1989 are increasing 15% to 30%, the same level as increases for January 1989 renewals, but still higher than the 12% to 15% increases common last year, HMO executives and benefit consultants say.

"For the first and second quar-

ters of 1989, our increases were about 18.5%. For the whole year, our average increase will be about 17%," said Leonard Abramson, president of U.S. Healthcare Inc. in Blue Bell, Pa.

HMO USA, a national HMO network operated by the Chicago-based Blue Cross & Blue Shield Assn., increased its premiums 12% to 25% for contracts renewing throughout 1989, a spokeswoman said.

Premiums for CIGNA Healthplans Inc. HMOs have renewed at a lower rate of increase in the second half of the year than they did in January, Mr. Doerr said.

"Earlier this year, we had increased HMO premiums in the 25% to 35% range. But, the business we wrote in the second half of the year had increases in the 15% to 25% range," he said.

And, Metropolitan Life increased its HMO premiums an average of about 12% throughout the year.

However, Kaiser Foundation Health Plans is increasing premiums in "excess of 15%" mainly as a result of health care cost inflation, said a spokesman for the Oakland, Calif.-based HMO firm. In December, Kaiser officials predicted premiums would increase about 11%.

Premium increases for Fluor Corp. HMOs ranged from 15% to 20%, Mr. Jones said.

As a result of the continuing health care cost inflation, employers are becoming more aggressive than ever at managing their health care costs.

For example, benefit managers are expressing more of an interest in adopting open-ended HMO-type managed health care plans to replace their traditional indemnity plans, the experts report. These managed care plans enable employers to control their health care costs while not completely restricting employees' choice of providers.

And while still concerned with the employee relations ramifications of limiting employees' choice of health care providers, more employers are interested in developing plans that impose financial penalties for using non-network providers.

"Last year, we were seeing just a few firms being really aggressive in their managed care efforts. Now, it's becoming more mainstream," observed Mr. Leisure of TPF&C.

For example, Los Angeles-based First Interstate Bancorp this year launched a new open-ended HMO plan administered by Metropolitan Life (BI, Jan. 2).

Also, Cincinnati-based Procter & Gamble implemented a similar plan earlier this year (BI, Sept. 5, 1988).

In addition, Marriott Corp. of Washington, D.C., will implement a managed care program in January administered by Prudential.

"There's a steadily growing interest among employers to use stricter managed care approaches. And, these programs do change the way people receive their health care. But, intelligent employers do understand that this is a change that can be made and can be well-managed," said Mr. Moynahan of Metropolitan Life.

Employers interested in managed care plans also would like insurers to assume more financial risk under the plans, intrigued by the example set by Morristown, N.J.-based Allied-Signal Inc. and CIGNA. Under this three-year contract, CIGNA agreed to hold Allied-Signal's health care cost increases to a certain level. Any increases above this level are assumed by the insurer (BI, Feb. 22, 1988).

Overall, the rising cost of health care and the risk of losing more money on the business is forcing health insurers to more efficiently manage the cost and delivery of health care.

"The big group health insurers are now in the business of managing health care delivery instead of just being in the indemnity insurance business," said Mr. Brenneman of Noble Lowndes. "If insurers are assuming more risk, they don't want to do this unless they can control that risk."

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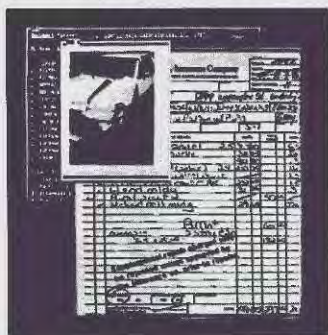
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Mentor

Continued from page 3

days before the meeting by creditors representing not less than 10% of the claims for which they are entitled to vote.

Which creditors will be allowed to vote at the Nov. 1 meeting and the weight of their votes will be the subject of a separate advisory notice to the creditors from the liquidators, scheduled to be released Sept. 8.

Although the dissident creditors are critical of some of the provisions of the Supreme Court order and may yet attempt to challenge them, the liquidators say in their latest report that the court order was necessary to protect Mentor creditors.

The court order was needed because of "potential difficulties" that could have the effect of "disenfranchising the overwhelming majority of creditors from voting at this year's meeting and possibly

in the future," the liquidators say in the report.

Without naming him, the liquidators' report criticizes lawyer Francis Mackie of the London firm of Clyde & Co., who introduced a surprise motion of no confidence in the liquidators' 1988 report during Mentor's annual meeting held in September 1988. That resolution failed.

Referring to Mr. Mackie only as "the representative for Lloyd's syndicates 391 and 947"—creditors that are claiming \$600,000 from Mentor's estate—the liquidators' report says that "his continued interference behind the scenes can only serve to increase costs and hinder the progress toward an early distribution."

Messrs. Kempe and Arnold say in the report that they have offered to meet Mr. Mackie's "principals" directly to discuss their concerns, "but in the absence of any response they can only assume that this request has either not been conveyed to the relevant parties or they have declined to meet" with the joint liquidators.

Against this background, the liquidators say they have found it difficult to continue a dialogue with Mr. Mackie, "given that they (the liquidators) have no comfort or assurance whatsoever as to the motives or rationale behind the party or parties for whom he is alleged to be acting."

In addition, the liquidators criticized the "representative" for issuing circulars or making comments that are "inaccurate or misleading."

Messrs. Kempe and Arnold say in the report that their overall strategy is to adjudicate creditors' claims and declare an interim cash distribution to creditors "during or before" 1992.

But according to Michael Adamson, an accountant with London-based H.S. Weavers (Underwriting) Agencies Ltd. and a representative of the dissident creditors, that strategy is unacceptable to many of the creditors.

Mr. Adamson said that the creditors that he represents and those represented by Mr. Mackie have "overwhelming support" from the main body of Mentor's 2,500 creditors.

He declined to elaborate on that support but said that the dissidents, which are committed to changing the liquidators, their policies and the committee of inspection overseeing the liquidation, are now working on resolutions to introduce before the Nov. 1 meeting.

Since last year's annual meeting most of Mentor's U.S. creditors and all of its European and Japanese creditors have switched sides and now back the dissidents, Mr. Adamson said last week.

Mr. Lines, who is attempting to complete Cambridge Re's first cash dividend payment to creditors, was unavailable last week for comment (see story, page 17).

Creditors of Cambridge, which collapsed about the same time as Mentor, have received about \$2.5 million in dividends, a fact that the dissident Mentor creditors are quick to mention when calling for changes in the Mentor liquidation.

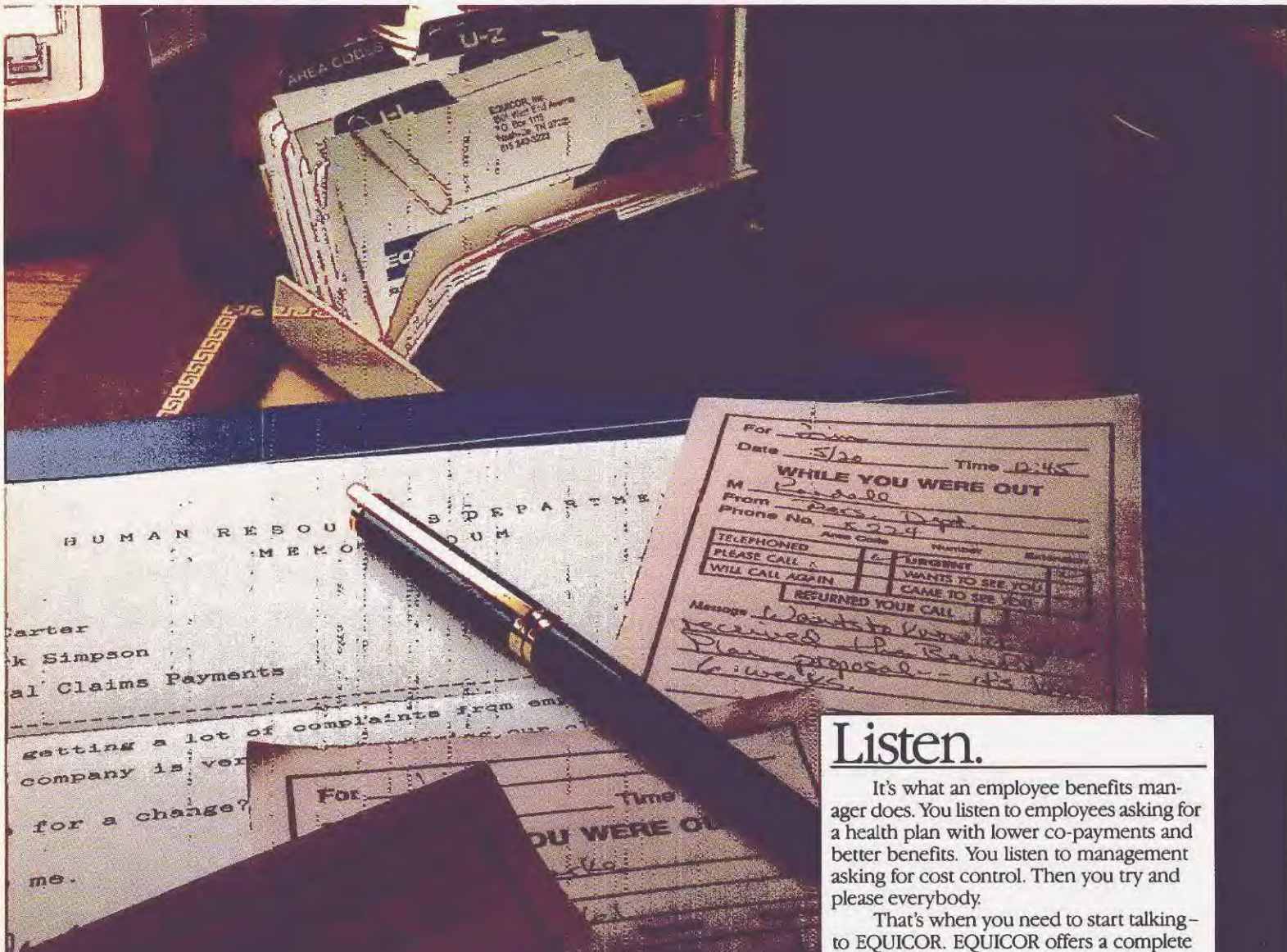
The dissidents would like the Mentor liquidators to use an expedited claims assessment process used by the Cambridge liquidators which would speed payment of dividends to Mentor creditors (BI, March 16, 1987).

However, the Mentor liquidators have resisted this demand, explaining that the long-tail business written by Mentor does not lend itself to the Cambridge approach.

The bulk of the liquidators' report centers on receipts and payments for the year ending June 30.

According to the report, liquidation expenses in the year ending June 30 totaled \$8.8 million, of which the greatest sum—\$3.7 mil-

Continued on page 17



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CHANGING TIMES

1969 COLLEGIATE JOB CHOICES



1989 COLLEGIATE JOB CHOICES



College students no longer avoid insurance careers

By MARK A. HOFMANN

Insurance companies looking for young talent are benefiting from the about-face in student attitudes about business careers during the last 20 years.

The soaring interest in business among college students has helped the insurance industry shed its image as a stodgy enterprise that offers few job opportunities beyond door-to-door life insurance sales, insurance company recruiters say.

In addition, although insurers still must compete with more glamorous businesses based on Wall Street to snap up qualified entry-level personnel at college job fairs, pay scales have been improved to put insurance on par with other financial industries, the recruiters say.

"We are starting to see some evidence that kids are looking our way," said Dan Borbas, vp-human resources for the Zurich-American Insurance Cos. in Schaumburg, Ill. "We can compete with virtually any industry, and we don't have to take a back seat any longer."

This contrasts sharply with 1987, when Mr. Borbas reported that "too few totally competent people" were entering the insurance industry (*BI*, Feb. 9, 1987).

However, some nagging image problems remain, observers say. "I think it's getting better, but we still have work to do," said Norman A. Baglini, president of the Insurance Institute of America Inc. in Malvern, Pa.

Zurich's Mr. Borbas, like several other insurance company human resources officials, attributed part of the reason for college students' apparent increased interest in insurance careers to a more positive image of business in general.

"You might call it the 'Michael J. Fox syndrome,'" Mr. Borbas said. Alex Keaton, the conservative character played by Mr. Fox on the hit television show "Family Ties," may have helped some young people realize that "there's nothing wrong in working in the private sector," Mr. Borbas explained.

"We don't feel we're having problems recruiting," agreed Kate Ort, vp-employee relations and organizational development for Continental Insurance Co. in New York. But, she added, insurers do have to work harder at demonstrating to prospective employees that insurance offers a broad range of career opportunities.

"There is an image problem. When you say 'insurance,' the first thing they think is sales. We try to indicate that insurance is much more than sales. It's kind of a microcosm," said Rich Pescatore, superintendent of staffing and placement at Baltimore-based United States Fidelity & Guaranty Co.

Mr. Baglini agreed: "We have to show students that insurance isn't green eyeshades and mulling over mounds of paper."

When speaking to college students at career days and industry forums, Mr. Baglini stresses such aspects of insurance as loss control, loss exposure analysis and risk management.

By emphasizing what Mr. Baglini called "the more exciting things" about the insurance industry, recruiters can help overcome a widespread image of insurance as "long contracts with long terms and conditions," he said.

"The problem is to get them to come to talk," said Richard J. Hoag, senior vp and chief of staff for CIGNA Corp. in Philadelphia. "Relatively few undergraduates understand the range of jobs available."

The only job most students connect with insurance is that of an agent, agreed Sandy Ginnis, director of staffing and recruitment for Travelers Corp. in Hartford, Conn.

To give students a broader perspective on insurance industry careers, Travelers recruiting teams include people with three to five years experience as well as executives, Ms. Ginnis said.

In addition to showing students that an insurance career means more than selling policies door-to-door, recruiters also must convince students that it is not a low-paying industry.

Salaries offered by the insurance industry, and CIGNA in particular, are about on par with what other comparable industries pay.

Continued on next page

Insurance careers

Continued from previous page
CIGNA's Mr. Hoag said.

"Salaries have gone up dramatically in the past 15 years," added Zurich-American's Mr. Borbas.

Insurers admit, however, that one reason they're able to compete with other industries in terms of salary is that they are deliberately not seeking the absolute academic cream of the graduating class.

"I believe we're offering competitive salaries at the entry level," said Ms. Ginnis, adding that Travelers currently is undertaking an across-the-board compensation study.

But, she pointed out, Travelers is not competing with Wall Street investment firms. "If Wall Street offers \$50,000 at entry level, that's not competitive with us," she said.

"We don't believe we are a low-paying industry," agreed Continental's Ms. Ort. "But we most definitely do not compete with the New York financial markets" for students with 3.8 out of 4.0 grade point averages who demand—and receive—starting salaries of \$35,000, she said.

Competing with Wall Street for the top collegiate talent might not be to the insurance industry's benefit, said Mr. Baglini. "We may not want them."

Many of the top students have "very unrealistic expectations" of how quickly they should rise to the top, he explained. "They expect to be president of a company in two years."

"The insurance industry is looking for the ones who are not afraid of work" and who will realize that time spent handling claims and in performing other less-than-glamorous tasks will be valuable in furthering their careers, he said.

"I do think we do a much better job of attracting these bright young people," Mr. Baglini said.

Although beginning salaries are not a recruiting stumbling block, some insurers find themselves compelled to prove to new hires that they will provide an attractive career path.

Kemper Group's national property/casualty cos. has had great success with its career development program, said Tony Catania, vp-human resources.

Under the program, employees who rate as "standard" or above during their annual performance appraisal discuss their career potential with their supervisors, who use a departmental career development guide.

For example, if an employee wants to develop skills in a different area, the employee and supervisor work together to accomplish that goal, Mr. Catania said.

However, "career development is voluntary," Mr. Catania stressed, adding that meeting stated career development goals does not guarantee an automatic promotion.

"You've got to be ready to go, and there must be an opportunity for you to move," he said.

Mr. Catania also noted that while Kemper has not had problems recruiting qualified people, it has had some problems in the past retaining them. The career development program gets them ready for the next step, he said.

The challenge now facing Kemper is to make the opportunity available, he added. To help achieve this, "We have a very aggressive promote-from-within policy," Mr. Catania said.

Within specialty areas like loss control, insurers have taken extra steps to convince professionals that they are not stuck in a dead-end career (IT, April 17).

For example, many companies have programs that pinpoint loss control experts for professional development, leading them through

various fields of expertise as a means of reaching the executive suite.

In the case of actuaries, the Basking Ridge, N.J.-based Crum & Forster Insurance Cos. also make a special effort to promote from within, said Bill Rowland, senior vp and actuary.

"The demand for actuaries has increased almost every year" in the past two decades, he said.

Traditional insurers seeking to find and keep actuarial talent face competition from captive insurers, risk retention groups and non-insurance companies launching self-insurance programs, observers note.

Crum & Forster rotates actuaries through various departments to keep them challenged and to prepare them for advancement, Mr. Rowland said.

In addition, senior actuaries are part of the senior management team, and their compensation is attractive, Mr. Rowland said.

"When we have openings, we'd

rather promote from within" than go to another company, he said.

For small and regional insurance companies, the challenges of finding and retaining qualified personnel differ somewhat from those faced by national companies.

For example, Patrons Mutual Insurance Co. of Connecticut, a Glastonbury, Conn.-based regional company licensed in three New England states, does not recruit on college campuses for a simple reason, said William Siclari, vp-administration.

"When people get here, they have to do the job. We can't afford the luxury of training people," Mr. Siclari said. As a result, Patrons either promotes from its clerical staff or hires from other companies, both regionals and nationals, Mr. Siclari said.

To hire someone straight out of college would be unfair to the individual because chances for advancement at a company with 40 or so employees would be infrequent and there is no group of contemporaries

for the individual to mix with socially, he said.

But, Patrons does not have a hard time filling vacancies, Mr. Siclari added. "A lot of people like to work for a company this size."

Word-of-mouth advertising has worked so well that the only time Patrons has had to turn to a corporate recruiter was to fill the first computer programmer's job it created, he said.

Charlotte Harrington, vp-human resources for Preferred Mutual Insurance Co. in New Berlin, N.Y., said that her company's biggest problem is its location.

"We're stuck sort of out in the boonies," she said, noting that New Berlin has one traffic signal.

Preferred Mutual recruiters hit every college campus—both junior and four-year—in a 60-mile radius, she said. In addition, when technical openings occur, the insurer advertises in Syracuse, Binghamton and Utica newspapers as well as local press.

Preferred, which is licensed in 15 states primarily east of the Mississippi, also recruits from other nearby regional insurers.

"Our best source is to promote from within," Ms. Harrington said. The insurer encourages employees to move up the ladder by completing in-house training programs, she said. This will be a particularly critical effort in the next few years because Preferred, which currently has about 225 employees, projects it will have 400-person staff by 1996 because of an expansion program, she said.

But out-of-the-way locations can be a recruiting help as well as hindrance, said Tom Peterson, vp-claims of IMT Insurance Co. in Des Moines.

The insurer, which has offices in Nebraska and South Dakota as well as in Iowa, has found that one of its most effective recruiting tools is to promise a would-be claims professional that he or she will be assigned to an office near their home.

"Our advantage is 'You know where you'll be located,'" said Mr. Peterson. In some cases, a student who knows he or she will be in the Sioux Falls, S.D., office rather than assigned to the home office in Des Moines will join IMT even if the insurer is offering a lower starting salary than a competitor, said Mr. Peterson.

To give further impetus to this system, the insurer recruits its new claims classes, which usually consist of six people each year, from schools near its branches, he said.

The system works much better than IMT's former policy of hiring only experienced people, Mr. Peterson said.

"We'd advertise for experienced people and end up with other people's 'castoffs,'" he said.

Although insurers say that they're having fewer problems competing for qualified people than they have often had in the past, several industry experts pointed to a looming personnel crunch. The problem is one of demographics—because of declining birth rates in the 1970s, fewer young people will be looking for jobs in the 1990s.

"We're creating a lot more jobs and we won't have the people to fill them," said Ellen Thrower, president of The College of Insurance in New York.

"In the 1990s, we're going to be scrambling just to get our fair share" of qualified entry-level personnel, agreed Zurich-American's Mr. Borbas.

Joanne Morrissey, principal with Firemark Consultants Inc., a Morristown, N.J.-based financial consulting firm specializing in the insurance industry, questioned whether insurers currently are up to that challenge.

"Bright people who come into the industry get discouraged," she said. "What good does it do to hire and train bright young people and then lose them?"

Although Ms. Morrissey said that she thinks insurance compensation remains uncompetitive with Wall Street firms, corporate culture is as much a problem in attracting and keeping top-notch people.

"The insurance industry is still very parochial and paternalistic," Ms. Morrissey said. Insurers must make a greater effort to hire and promote women and minorities if they are going to compete with other industries for talent, she said.

Insurers also will have to redouble efforts to provide in-house training and advancement, she added.

"In the long run, if you get good people in there, and you pay them and you train them, you get more value for your dollar" than by saving money in the short run by holding the line on salary increases and cutting back on training programs, Ms. Morrissey said.

Competition still keen for insurer executives

By MARK A. HOFMANN

While insurers say that they're having less trouble filling entry-level positions than they were a few years ago, competition among insurers to hire for senior-level personnel remains hot.

But some industry observers say that executive compensation, long a sore spot for insurers, is no longer the sole hitch. In fact, insurers appear to be playing a fairly effective catch-up game with other industries in terms of pay and bonuses.

Competition for qualified insurance professionals is keen partially because general unemployment is low and fewer higher-level employees are willing to gamble on a job change, observed Rich Pescatore, superintendent of staffing and placement for Baltimore-based United States Fidelity & Guaranty Co.

In addition, an increased emphasis on career development within insurance companies increases the chance that a professional will find a new challenge in his current environment.

Mr. Pescatore sees the quest for qualified professionals with a proven insurance track record as being tougher than it was in January 1987 (IT, Feb. 9, 1987).

At that time, Mr. Pescatore said that on a scale of 1 to 10, with 1 being "no need" for qualified people and 10 representing a "dire" need, the insurance industry ranked at 7 or 8. "If you look at experienced people, it's probably moved up a notch to 8 or 9 now," he said.

To fill the gaps, some insurance companies are putting more emphasis on cultivating talent in-house.

"Five years ago, we would have been almost exclusively tied" to a search firm to fill executive positions, said Dan Borbas, vp-human resources at Zurich-American Insurance Cos.

Today the Schaumburg, Ill.-based insurer hopes to fill 75% of its executive-level openings from within, Mr. Borbas said.

In addition, because the insurer has become a more "visible entity" than it was in the mid-1980s, Zurich-American has been better able to attract qualified candidates from outside the company.

Better pay is one reason insurers are at least more prepared to compete for qualified talent.

"Pay for good people, whether it's at the entry level or for experience, in the financial services has been bid up," said David Cates, a consultant with Hewitt Associates in Lincolnshire, Ill.

"At the top executive level, the insurance industry has done a lot of catching up in the past five or six years," Mr. Cates said, adding that property/casualty insurance insurers pay "a little more aggressively" than their life/health counterparts.

However, pay for top executives throughout the insurance industry now parallels that of the banking industry, he said.

According to a Hewitt Associates survey, salaries increased an average of 6.4% in 1988 among insurance executives receiving base salary increases. By comparison, among executives for all non-manufacturing companies, the average salary increase was only 5.8%.

But executive pay for insurers generally lags be-

hind that of manufacturers and of Fortune 100 companies, Hewitt's Mr. Cates said. Most of the difference can be attributed to the smaller bonuses awarded in the insurance industry, he added.

In the top levels of manufacturing, bonuses last year could be as high as 60% to 70% of a top executive's base pay, Mr. Cates said. For top insurance executives, 1988 bonuses tended to average 30% to 45% of their base pay, he said.

But, even though the insurers' bonuses percentages lagged far behind those of other executives, the 1988 figures represented a significant improvement over those of a year earlier, Mr. Cates said. In 1987, insurer executives' bonuses were only 25% to 35% of their base salaries, he said.

Mike Emig, principal consultant with The Wyatt Co. in Washington, D.C., also cited bonuses as an area in which insurers have made strides. He said that insurance companies of all types had begun putting greater emphasis on bonus plans during the past two years as a means of competing with other financial services industries.

In order to retain qualified managers below the top executive level, bonus programs are "trickling down deeper into insurance organizations," Mr. Emig said. This is true for both life/health insurers and their property/casualty insurance counterparts, he said.

"We think the insurance industry is taking a hard look at itself," Mr. Emig said. As investment-sensitive insurance products have become more complicated and as insurance products in general have emerged in a more complex legal and actuarial environment, insurers have found themselves seeking some of the same people courted by Wall Street firms, he said.

"It's the same thing that was happening 10 years ago with the banks," Mr. Emig said. When deregulation hit the banks, banks had to revise their compensation scales to attract the expertise they needed.

Now insurers are doing the same thing, he said. Insurers realize that they have to pay for the creative people they need or risk losing them to either competitors or other industries, he said. As a result, "the insurance companies have become increasingly competitive with other financial industries including Wall Street," Mr. Emig said.

Hewitt's Mr. Cates, however, added a caveat regarding insurers' ability to compete with other industries. Insurers have been lagging behind other industries in terms of financial results, he said, and financial results determine bonuses and other financial incentives that bring top-notch people into a company. The challenge before insurers is to pay enough to attract and keep qualified people in the face of financial results that are not on par with other industries, Mr. Cates said.

"There are few managers/entrepreneurs in the industry—and that's what's needed," Mr. Cates added. Such people tend to gravitate to the "better organizations" and then stay there, he said.

"If you need the ideal executive, it's going to be hard to find him or her. And if you have one of these people—or one with that kind of potential—the challenge is holding on to him or her," he said.

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Educators seek more input from insurers

By MARK A. HOFMANN

The insurance industry needs to more actively encourage the best and the brightest students to pursue insurance careers, many professors of risk management and insurance say.

To do this, insurers should be more involved in existing insurance education programs by recruiting insurance majors, financing more academic research, offering more scholarships and pushing for the inclusion of insurance and risk management studies in the course work required of business majors, insurance educators and corporate recruiters suggest.

"If you want quality education, find those programs that offer what you need and support them," advises John H. Thornton, Regents' professor of insurance at the University of North Texas in Denton.

"What I see happening is presidents of insurance companies saying, 'We support insurance education' through the endowment of chairs of insurance," said Jerry D. Todd, risk management professor at St. Mary's University in San Antonio. But, "one of the real problems is that doesn't communicate down through all levels" of insurance companies recruiting students, he stressed.

"There's got to be a demand for insurance and risk management majors. And that's got to come through personnel, which it doesn't."

Ellen Thrower, president of the New York-based College of Insurance, agreed that the message has to filter down to insurance company personnel who visit campuses, adding that insurers should be careful when choosing their campus recruiters.

For example, insurers often send very junior employees to campuses, she said. But because many junior recruiters don't know that much about the corporate culture, they may not be able to field questions adequately, leaving students with a negative image of the company.

Two other major mistakes some insurers make in recruiting are delaying announcing their job openings until shortly before graduation and failing to target colleges that offer insurance programs, Ms. Thrower said.

Close to graduation, students who might otherwise consider working for an insurer will choose another line of work because they haven't been told what is available until it's too late, Ms. Thrower said.

To effectively compete with other industries, insurers must let students know what jobs are open—early, she stressed.

Ms. Thrower also advised insurers to recruit students at colleges and universities that offer insurance courses.

"These bright young men and women have made a precommitment to insurance" by choosing insurance or risk management courses, she said. Students who take such courses do not look at insurance as a "fourth choice," but as a top choice, she said.

Insurers often don't make enough effort to single out insurance majors, many collegiate insurance and risk management studies departments complain.

S. Travis Pritchett, professor of insurance at the University of South Carolina at Columbia, said that the most important initiative insurers could take would be simply "showing a preference for insurance majors" during their recruiting drives.

While there admittedly aren't enough insurance majors in the nation to meet the needs of insurers seeking to fill positions in their home and branch offices, insurers in general are not taking advantage of the supply that does exist, said Mr. Pritchett, whose program produces about 50 insurance majors a year.

However, insurers explain that they're more interested in hiring qualified people who can learn the business regardless of their academic

background rather than graduates who would arrive at their desks with a half-dozen or so courses of insurance and risk management under their belts.

"We're looking for people who are going to fit," said Richard Hoag, senior vp and chief of staff for Philadelphia-based CIGNA Corp.

While CIGNA does hire insurance majors, it also hires liberal arts majors and students who have majored in other disciplines, particularly when seeking to fill highly specialized jobs, Mr. Hoag said.

For example, if asked to choose between a general insurance major and a mathematics major to fill an actuarial slot, CIGNA would probably choose the math major because the job requires mathematical skills rather than general insurance knowledge, he said.

Basking Ridge, N.J.-based Crum & Forster Inc. seeks out actuarial science majors from the handful of colleges that offer such courses, such as the Newark, N.J.-based New Jersey Institute of Technology. However, many of Crum & Forster's hires come from the ranks of math and science majors who attend colleges near the company's headquarters, said Bill Rowland, senior vp and actuary.

"Because of the diverse kinds of jobs, we do target many different schools for different reasons," said Sandy Ginnis, director of staffing and recruitment for the Hartford, Conn.-based Travelers Corp.

While Travelers targets schools with actuarial and insurance programs when hiring actuaries, and colleges with strong computer science programs when seeking to staff management information departments, "the vast majority of jobs" are filled by business and liberal arts majors, Ms. Ginnis said.

Some insurers also are offering financial incentives to attract qualified students to insurance careers. Often these scholarships are aimed at minority students.

For example, Kate Ort, vp-employee relations and organizational development at Continental Insurance Co. in New York, said her company offers three internships with two-year full tuition and room-and-board scholarships to students at Howard University, a predominantly black university in Washington, D.C.

The scholarships, named after the late Continental Chairman J. Victor Herd, began in 1987, Ms. Ort said. The scholarships are granted each year to one actuarial student and two general insurance students.

Local professional groups and the branch offices of national insurers offer scholarships for insurance students at the University of North Texas, Mr. Thornton said.

For example, the Insurance Women of Dallas offers two \$1,000 scholarships to students of either gender each year, he said.

In addition, Washington, D.C.-based GEICO Insurance Co.'s regional office offers an annual \$750 scholarship, while the Fort Worth, Texas, chapter of the Society of Chartered Property & Casualty Underwriters and other local donors also provide financial aid to students, Mr. Thornton added.

About 15 scholarships offered by local insurers and insurance professional groups are available to insurance students at the University of South Carolina, Mr. Pritchett said.

"But publicizing the availability of financial support for insurance students is not enough; the industry also must provide information explaining what an insurance career is all about, professors say.

"I don't think (the industry has) ever had the image of being a real interesting type of business," observed William Feldhaus, associate

professor of risk management and insurance at Georgia State University in Atlanta.

"They think if they major in insurance, they're going to be a door-to-door life insurance salesman," Mr. Feldhaus added.

Even though insurance is a financial discipline, "students don't perceive it as finance," concurred Norma Nielson, an associate professor of insurance at Oregon State University in Corvallis, Ore.

Insurance educators concur that a critical reason for the poorly defined image is that insurance and risk management courses are not required in the "core curriculum" recommended for accreditation by the St. Louis-based American Assembly of Collegiate Schools of Business. The AACSB recommends that schools offer courses in five broad areas:

- Production, marketing and finance.
- The economic and legal environment of for-profit and non-profit organizations, with ethical considerations.
- The concepts of accounting and management information systems.
- Work theory, behavior and personal communications.
- Administrative processes.

The American Risk & Insurance Assn.—an Orlando, Fla.-based organization of college insurance and risk management professors—has repeatedly called for inclusion of insurance or risk management courses. However, so far it has been unsuccessful (BI, Aug. 29, 1988).

Both Mr. Thornton, the current president of ARIA, and Mr. Todd, who will succeed Mr. Thornton as president this week, have called on insurers to push for the inclusion of insurance courses in the AACSB core.

And although the New York-based Risk & Insurance Management Society Inc. pledged its support to the effort at the 1988 ARIA meeting in Reno, Nev., no significant movement has occurred.

One obstacle is the AACSB's requirement that at least 40% of a business majors' course work consist of non-business courses. By adding an insurance course requirement, one business elective would have to be eliminated or the AACSB's standards would have to be changed.

However, when students are exposed to insurance courses, they often decide to major in the discipline.

For example, when business students at South Carolina are given the option of taking one of three required courses—an introductory insurance course, an advanced mathematics course or an operations research course—roughly 90% choose the insurance course, Mr. Pritchett said.

And, afterward, many of those students stay on to complete the bachelor of business administration degree program in insurance, he added.

At the University of Georgia at Athens, the insurance program graduates about 200 students a year, making it the largest such program in the country, noted Sandra G. Gustavson, professor of insurance. "We were about half this size three years ago," she said.

One reason that insurers began recruiting more vigorously in the mid-1980s was because of the hard market, when underwriters were suddenly at a premium, she said.

In response, the insurance program began actively attracting students through the use of speakers and discussions of insurance as a career. As more students signed up for insurance courses, the program reached a kind of "critical mass," she said. Students told their friends, and their friends signed up for courses.

Continued on next page

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INSURER TOPICS

Bring insurance into high school: Expert

INDIANAPOLIS—Insurance education should be offered in high school to increase public understanding of how insurance works and the role it plays in the economy, an insurance association executive says.

Insurance education should not be reserved for the collegiate level, says Robert Kraft, executive director of the Indianapolis-based Insurance Education Foundation.

To introduce high school students to the topic, the IEF has launched a continuing education program for high school teachers designed "to reach future consumers before their attitudes are set in concrete," he said.

And, IEF backers hope this approach will make students more aware of the career opportunities that insurance provides, he said.

The IEF was founded last year by the Indianapolis-based National Assn. of Mutual Insurance Companies after NAMIC's public relations and education task force concluded that a program aimed at high school students would be more effective at improving the property/casualty insurance industry's image than more widespread efforts.

The task force recommended a two-pronged approach—"Educating Main Street America About How Insurance Works," which includes:

- A two-week college course on insurance for high school teachers.
- Creation of teaching materials about insurance for use with existing high school curricula.

The IEF's continuing education program has been well-received, according to Mr. Kraft.

The IEF's first teachers' workshop at Drake University in Des Moines during the summer of 1988 drew 38 teachers, he said.

As an incentive, teachers received three graduate credits for completion of the Drake course. The IEF also provided scholarships to cover the cost of tuition, materials, and room and board for the participants.

Teachers' only costs were transportation and meals during the intervening weekend, said Mr. Kraft.

Insurance careers

Continued from previous page

One reason for Georgia's success is its Insurance Career Day held each February, she said. The job fair is held at off-campus and is open only to insurance majors. This February, about 40 companies participated.

While many insurance academics say that more work needs to be done to improve college insurance courses, the state of collegiate insurance education is better than it was a few years ago, some observers say.

The University of North Texas' Mr. Thornton recalled that 10 years ago a recruiter for a Texas-based life insurance company refused to interview insurance majors for jobs, saying his company would have to retrain them. But, that scenario would be rare now, he said.

Richard C. Bourne Jr., an insurance agent with Financial Insurance Services Corp. in Fairfax, Va., agreed that attitudes toward insurance education have changed dramatically during the past decade.

For example, insurance majors were relatively rare 10 years ago when Mr. Bourne entered a management training program with CIGNA Corp.

"Out of my group of 20 or so, only one happened to be an insurance major," said Mr. Bourne, who later worked as an underwriter and a marketing representative for CIGNA and as industry affairs director for the National Assn. of Professional Insurance Agents in Alexandria, Va.

"My distinct impression is things have gotten better," he said. "But, they've still got a way to go."

This year, the program has been expanded to The College of Insurance in New York, where 25 teachers attended, Mr. Kraft said. In addition, another 36 teachers attended this summer's session at Drake.

"We'd like to blanket the country," he said, adding that the IEF hopes eventually to offer the program at eight campuses each year.

The second prong of the program, called "Choice-Chance-Control," is a package of printed and videotaped materials designed to be integrated into existing classes, such as economics, home economics, drivers education, social studies, mathematics and history, said Mr. Kraft.

Assembled by Media Options Inc., a Chicago-based producer of educa-

tional materials, the package includes a 20-minute videotape that presents risks through the ages in a light-hearted way. The video also explains how insurance has evolved to deal with those risks.

Other materials include a teacher's guide, lesson plans, a poster and suggested projects.

As part of the project, students are asked to predict how many baskets will be made if each class member shoots three times. After the class shoots a round of baskets, the students estimate how many baskets will be shot during the next round, Mr. Kraft said. Generally, after shooting about three rounds, students have a reasonable grasp of how probability works, he said.

Reaction so far to the Choice-Chance-Control project has been positive, Mr. Kraft said. The IEF currently is distributing 5,000 Choice-Chance-Control kits to schools across the nation.

To further promote its programs, the IEF hopes to raise \$1 million annually from NAMIC members, other insurers and other industry groups, Mr. Kraft said.

An annual budget of \$1 million would allow 360 teachers to participate in the two-week workshops and 9,000 teaching kits to be distributed, which, in turn, would expose more than 2 million students to the materials, Mr. Kraft said.

The Malvern, Pa.-based Society of Chartered Property & Casualty Un-

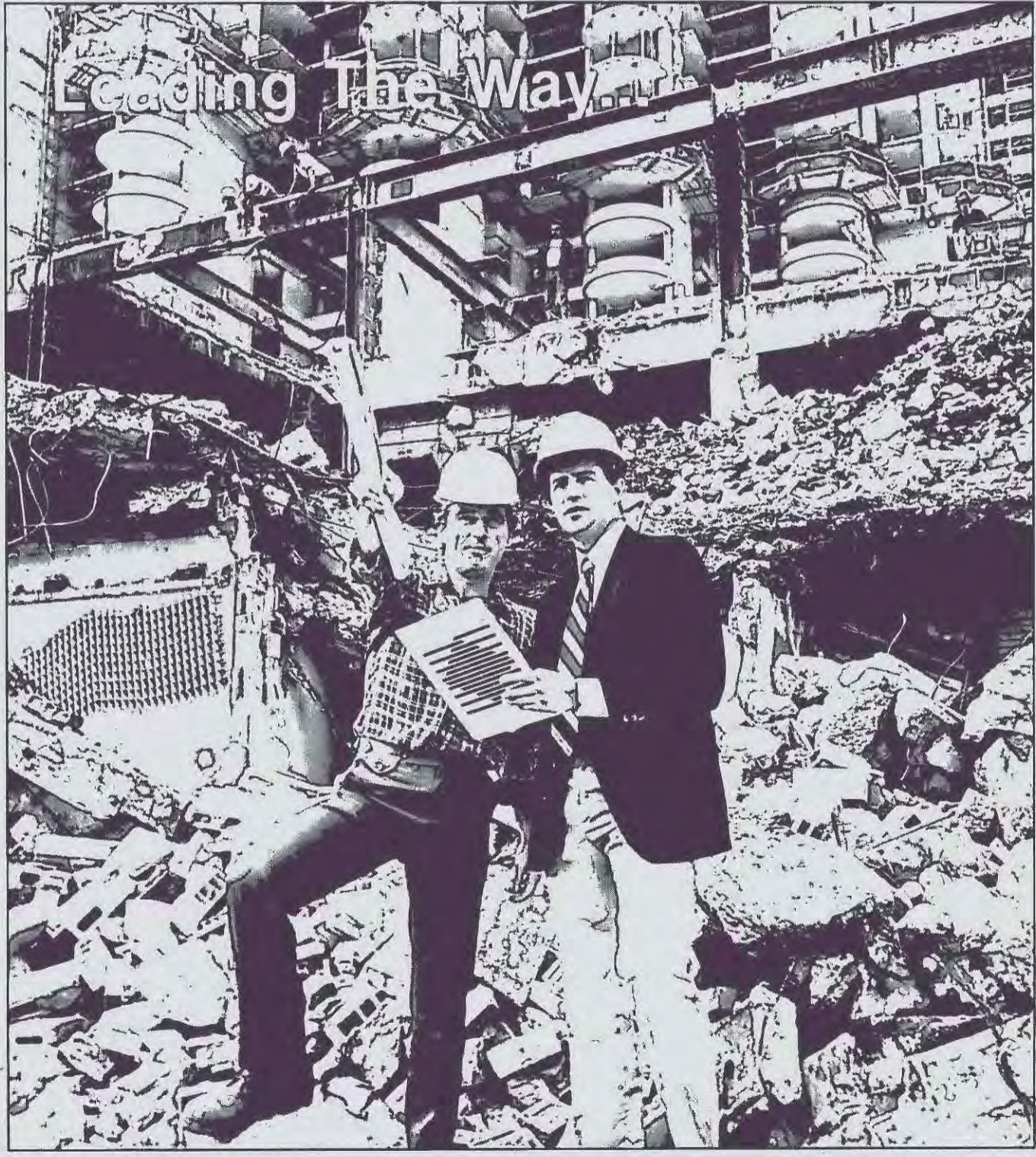
derwriters recently gave its formal support by purchasing and sending one Choice-Chance-Control kit to each of its 145 chapters.

Within a month of the mailing, more than 40 chapters had agreed to purchase the kit at \$35 and several had purchased multiple kits for distribution, according to Cynthia Zeigler, the society's director of continuing education.

In addition to improving public understanding of how insurance works, Mr. Kraft hopes the education effort will encourage students to consider insurance as a career.

As the program spreads, "this will show that insurance can be a first choice for a career," he said.

—By Mark A. Hofmann



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Insurers use recruiters in special cases

By MARK A. HOFMANN

Insurance companies generally rely on their own resources to find new professional and executive employees, but do call on corporate recruiters when looking for specialized talent.

"We use (corporate recruiters) when it makes sense to do so," said Richard J. Hoag, senior vp and chief of staff for Philadelphia-based CIGNA Corp.'s property/casualty insurance companies. For example, CIGNA relies on recruiters mostly to fill specialty positions.

Long Grove, Ill.-based Kemper Group's national property/casualty insurance companies follows much the same approach by using "headhunters" only for "very, very hard to find talent," explained Tony Catania, vp-human resources.

United States Fidelity & Guaranty Co. considers recruiters "the course of last resort," said Rich Pescatore, superintendent of staffing and placement for the Baltimore-based insurer. "We try to do as much recruiting as possible in-house."

One reason insurers prefer to do their own personnel searches is to save the expense of hiring a corporate recruiter.

While using an outside firm "takes the onus of initial research off of you" when hiring at the executive level, "it is an expensive undertaking," said Sandy Ginnis, director of staffing and recruitment for Travelers Insurance Co. in Hartford, Conn.

Indeed, corporate recruiters' services do

not come cheaply.

For example, Dunhill Personnel of Boca Raton, Fla., a franchise of the nationwide Dunhill Personnel System Inc. corporate recruiting firm, charges up to 30% of a prospect's annual salary.

And, Indianapolis-based Technical Resource Group Inc., a 22-person corporate recruiting firm with four employees who specialize in the insurance industry, charges up to 35% of annual salaries for providing successful candidates.

However, corporate recruiters assert that their services, while expensive, can be more cost-effective for insurers in the long run.

"Those companies that say they don't need recruiting firms probably end up paying more for recruiting internally than they would have if they'd used an outside firm," asserts Roger Brummett, president of Technical Resource Group. "In 75% of the cases where we compete with internal efforts, we win."

One of the biggest mistakes insurers make is relying solely on advertising positions as they open and thinking that they'll be reaching their targets, Mr. Brummett said.

"Let's say a company is looking for an actuary," he said, adding that the insurer will place classified advertisements in various publications, including trade journals and daily newspapers.

But this can trigger a lot of questions, according to Mr. Brummett, including:

- How many actuaries subscribe to a given publication?

- Of those subscribing actuaries, how many will read the classified ads?

- How many who read the classifieds will see that ad?

- How many who actually read the ad are interested?

- How many who are interested are qualified?

"We like to concentrate on the performers," rather than on people looking for a job, said Bill LaMorte, president of Dunhill Personnel of Boca Raton, which specializes in recruiting for the insurance industry.

"We can qualify the technical abilities of people," he said.

Mr. LaMorte described the recruiting process in terms of challenges. The first challenge for the recruiter is to make sure that the client has provided enough information about the job, he said. Then the executive search professional must be able to present that information to potential recruits. "A good concise presentation is very important."

The recruiter must then determine whether the applicant is qualified, he said. If possible, this is done in a face-to-face interview.

In addition to determining professional qualifications, the recruiter finds out about the applicant's interests, and attempts to determine whether the applicant would mesh with the client's corporate culture, Mr. LaMorte said.

The interview is the next challenge, he said. "We try to set it up so there are as few surprises as possible. That way, both sides

are more comfortable," he said. Finally, after the interview, the corporate search executive should debrief both sides, he added. "Some things are misinterpreted in an interview."

In their role as independent third parties, corporate recruiters can facilitate the hiring process, pointed out Mr. Brummett of Technical Resources Group.

"Companies somehow believe that they're making a decision by not making a decision," and leaving would-be recruits in limbo, he said. But "companies must learn to strike while the iron's hot."

Mr. Brummett also said that candidates can be turned off by ill-considered questions. Insurer personnel shouldn't be asking applicants, "Why do you want to work for us?" but rather attempting to sell the prospect on working for them, he said.

Persuading attractive candidates to work in an industry where personnel demands ebb and flow with the market tide is especially difficult, corporate recruiters note.

"We're a tough industry to work with from the (employment) agent's point of view," admits Kate Ort, vp-employee relations and organizational development for New York-based Continental Insurance Co.

An insurer may seek to have a job filled through a recruiter, and then pull the offer back because market conditions have changed, she said.

For example, although there currently is a demand for senior underwriters, property underwriting experts are in little demand, Mr. LaMorte said. ■

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Agent/Broker Topics

Actuarial program for minority students searching for funds

By MARK A. HOFMANN

SAN FRANCISCO—A program designed to encourage minorities to study actuarial science may have to turn down a growing number of applicants if it cannot raise additional funds.

The program, which provides college scholarships and educational workshops for high school students, is coordinated by the joint subcommittee on minority recruiting of the Schaumburg, Ill.-based Society of Actuaries and the New York-based Casualty Actuarial Society.

During the 1988-89 academic year, the subcommittee raised about \$60,000 that was used for scholarships and for educational workshops, said subcommittee Chairwoman Linda M. Kahn.

And, for that academic year, the foundation supplied aid to about 25 of the nearly 100 students who applied.

However, the subcommittee will have to turn down still more qualified applicants unless it raises more money from insurers and individuals, Ms. Kahn said.

Rapidly increasing college costs have cut into the effectiveness of the subcommittee's efforts, she added.

The subcommittee needs to raise at least \$100,000 for the 1989-1990 academic year to maintain both funding of the high school workshops and to meet the demands of financial aid, she said.

The group has placed appeals for financial support in the professional journals of both actuarial societies, Ms. Kahn said. In addition, the subcommittee has sent personal letters to prominent actuaries and insurance executives seeking support from either the individuals or their companies.

The 97 applications for scholarships received during the 1988-89

academic year represented a 14.1% increase from 85 applicants the previous year, according to Ms. Kahn, an actuary who is director of program management at the Pacific Maritime Assn. in San Francisco, a non-profit organization of West Coast maritime employers.

And the quality of the applicants has increased as well, making the prospect of having to deny aid to qualified applicants that much more distressing, she said.

The ranking of an actuary's job as the most desirable profession in the country by "The Jobs Rated Almanac" in May 1988 has helped attempts to draw students to the career, she said (BI, May 30, 1988).

Since the joint subcommittee was formed 12 years ago, the actuarial societies have tried to stir interest in the profession by placing notices in minority-oriented publications and by financially supporting two annual summer workshops aimed at minority students.

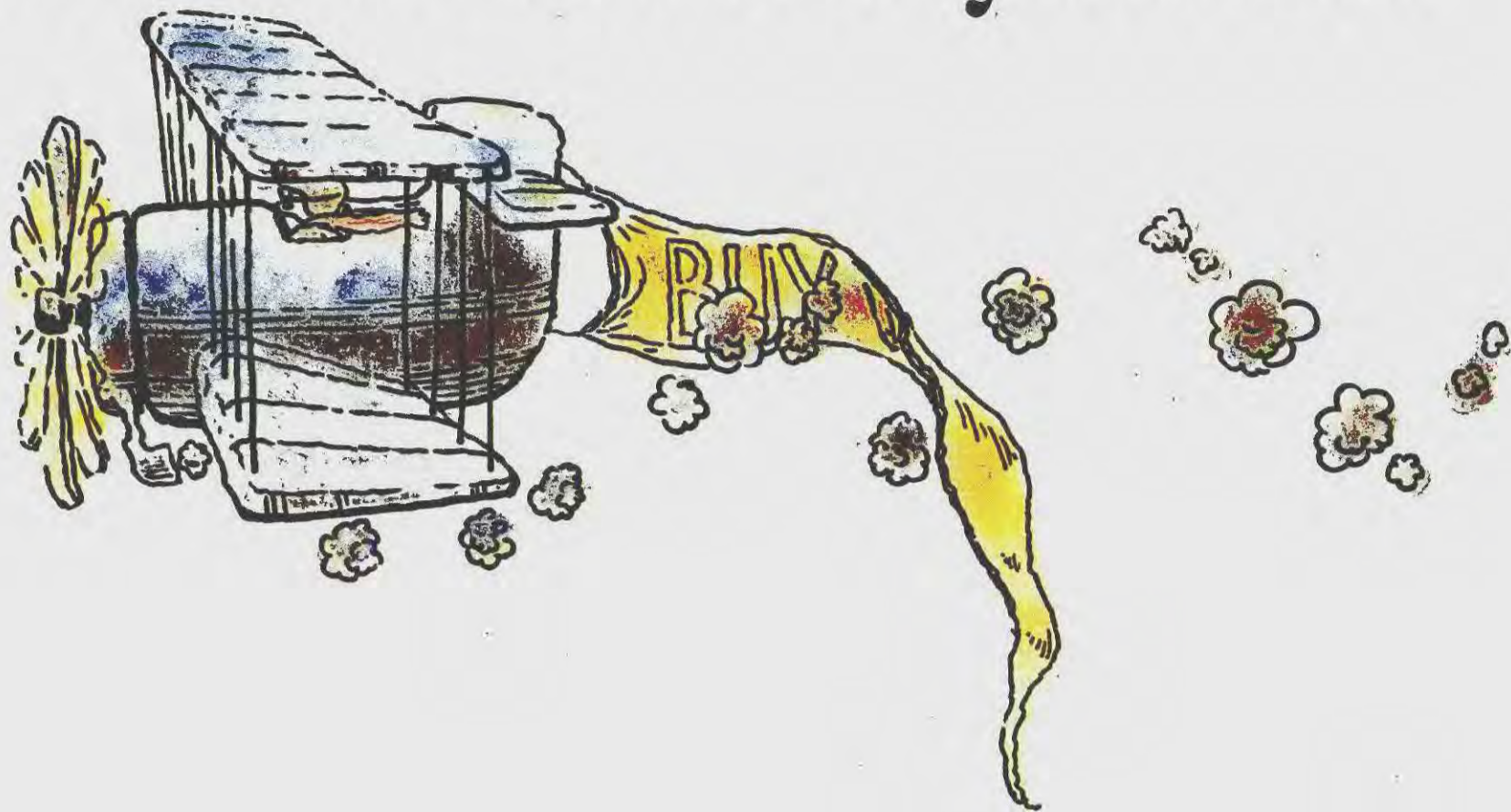
Ms. Kahn said that the two programs—held at Howard University in Washington, D.C., and Florida A&M University in Tallahassee, Fla.—are particularly effective for attracting minorities to the actuarial profession. Both schools have predominantly black enrollments, she noted.

The workshops give minority high school students with a proven mathematical aptitude—as demonstrated by scores of more than 60 on the Preliminary Scholastic Aptitude Test—an immersion in basic actuarial mathematics.

The minority subcommittee's work continues on the college level by providing grants.

Ms. Kahn said that the amount of financial support given a particular student varies according to need, but "none of the scholarships are full scholarships." Freshman through seniors are eligible for consideration, she said. ■

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Tradition vs. 'teamwork'

Life insurers experiment with new workplace concept of self-managed teams

By MONIQUE PARSONS

Some life insurers are discarding their traditional "functionalized" workplace structure, under which each employee is responsible for a specific task and is supervised by several tiers of management.

In its place, these insurers are dividing their workforces into small teams, which are self-managed and are collectively responsible for a number of functions.

For example, a team of employees may be responsible for most activities relating to a book of business, including processing applications, underwriting, issuing policies and handling claims and other customer service functions. All of these functions would normally be handled by different departments.

Some workplace experts applaud the team concept, noting that the highly mechanized system used by most businesses fragments a company into isolated departments of overly specialized bureaucrats, which leads to slow, impersonal and expensive service.

At least two life insurers that have made the change—Shenandoah Life Insurance Co. in Roanoke, Va., and Aid Assn. for Lutherans in Appleton, Wis.—say the new workplace structure has led to increased productivity, improved morale and increased customer satisfaction. And, other insurers are now following in their steps.

However, a few insurers that have tried the concept later discarded it and returned to a traditional workplace structure. And insurers that have made the transition point out that the change initially is difficult for employees.

The team structure "is definitely the trend in American business, in general," said Mike Rosow, executive vp of Work in America Institute, a Scarsdale, N.Y.-based non-profit research group that studies and initiates "leading-edge changes in the workplace."

However, the change to this type of workplace has been "slow-going" among insurers, Mr. Rosow says. He attributes this to the "traditional" nature of the insurance industry and a lack of foreign competition, which has given insurers little incentive to change.

However, in light of the successes at Shenandoah and AAL and as part of the insurance industry's attempt to strengthen its credibility, more insurers will be tempted to switch to the team structure, Mr. Rosow predicts.

The team system "is working very well" at Shenandoah, said Richard C. Wagner, vp of individual insurance services. Since the teams were set up in 1985, Shenandoah has seen a 48% increase in productivity, based on the volume of business and the amount of time it takes to process that business.

Claims once processed in four or five days can now be handled in just one day, Mr. Wagner said.

In addition, the insurer's high employee turnover rate in the early 1980s has diminished to less than 1% under the new system, he said.

"Morale is very high today" among employees, said Mr. Wagner. "They say the new way is better, although it's not easy."

Founded in 1914, Shenandoah has 257 employees in its home office and writes individual life and disability income insurance and group life insurance. The company has more than \$9 billion of life insurance in force in 20 states and the District of Columbia.

The transition to the team structure at Shenandoah was instigated from the top.

At the end of the 1970s, when profits were stable but costs were rising, Shenandoah President William Battle launched a "productivity program"—a year-long study by managers of ways to increase productivity and trim costs. With the help of John B. Myers, then-vp of human resources, four "total processing teams" were established in the individual insurance services department.

Under the old structure, three separate departments once were responsible for policy issuance, premium accounting and policyholder service. With the new system, each team member can perform all three functions. The 27 people across all four teams will eventually each be capable of doing 17 different jobs, Mr. Wagner said, noting that a "pay for learning" system rewards those who learn additional skills.

A five-person management team, led by an assistant vp, gives support to the four full-service teams, with managers serving as "advisers" rather than bosses, he said. The concept requires the teams to manage themselves; plan work flow, schedules and vacation time; and address disciplinary matters within the team, leaving the man-

"Our purpose in doing it was really getting closer to the customer," said Mr. Laubenstein. With the help of consultant Bob Janson, president of Roy W. Walters & Associates in Mahwah, N.J., Mr. Laubenstein eliminated 40 supervisory positions by cutting out three levels of management. He also set up 16 full-service teams, which handle all phases of the insurer's business, from underwriting to claims handling.

Fifteen of the teams are responsible for a specific group of agencies. The 16th team communicates information from the AAL mainframe computer to agents in the field.

Each team has 20 to 35 employees, depending on the size of the agencies served. These teams are then divided into three or more "functional self-managed teams" of six to 10 people. Each person is capable of handling "any service that comes into the team," Mr. Laubenstein said.

The system allows employees to "grow in breadth as well as in depth," he said.

Traditional insurer workforces are set up on "a production line basis," and one "job" may pass through four or more people or divisions, he said. "No one has responsibility for the whole service. The new concept is that the team

proach on a small scale, but later returned to a traditional, departmentalized system.

Travelers worked with consultant David Felten, president of TSO Inc. in Burlington, N.C., to restructure two group claim offices into self-managed teams in 1986. However, both offices—in Breck, Calif., and Albany, N.Y.—have reverted back to the traditional structure.

One reason the new system was dropped was that "management in the home office didn't understand the idea" and were "more comfortable with the traditional ideas," said John Rhine, organization development consultant in Travelers' National Accounts Group in Hartford. He emphasized, though, that Travelers is still studying the self-managed team structure, having learned that "it isn't designed to be a quick fix."

Aetna set up a team system in one of its claim offices but it, too, later reverted back to the traditional structure, according to a spokeswoman, who could not provide any other details.

Consultants point out that the self-managed team structure is most successful when the change is instituted companywide, rather than on a limited basis.

"You can't do it separate from the company and expect it to inter-

helped implement the teams at Shenandoah and now oversees three self-managed work teams in an individual health insurance unit at Blue Cross & Blue Shield of Virginia.

"Now, the bits and pieces you are dealing with are not as large as you think," he said.

Each team at BC/BS of Virginia has 14 members whose responsibilities range from underwriting new policies to billing to claims processing, said Mr. Myers, now general manager of human resources at the government and individual business center at BC/BS of Virginia.

Improved customer service is the primary benefit of the team system, Mr. Myers said. Customers may request a specific service representative for more personalized service, and each team member is capable of handling processes once handled by several people in several departments. Team members also make house calls to customers who are confined to their homes.

"You can't differentiate yourself in product and price" in the insurance industry, Mr. Myers said. "You differentiate in terms of how you deliver the product."

Central Life Assurance Co. in Des Moines, Iowa, also set up a "pilot team" of eight people whose duties include all types of responsibilities, from premium billing to handling complaints to adjusting claims, according to Edward D. Allen, director of customer service.

With the help of Mr. Janson, who also served as consultant to AAL, Mr. Allen plans to organize into teams all 65 people in the insurer's administrative unit, which handles billing, claims, policy loans, customer complaints and other functions, he said.

"What we're looking for ideally is a one-stop shopping sort of thing," he said. The project has much executive support, he said, predicting that eventually the underwriting section will be incorporated into teams as well.

Chuck Rohm, senior vp of individual insurance at Principal Mutual Life Insurance Co. in Des Moines, also is working with Mr. Janson to transform the insurer's individual insurance division into a team environment. The company plans to establish 12 teams, composed of 15 to 20 people each, to handle underwriting, customer service and claims services.

Principal Mutual anticipates that the team approach will allow it to reduce its 700-employee workforce by as much as 20%, Mr. Rohm said.

The company created a "Talent Bank," similar to AAL's employee placement program, where displaced managers are counseled and reassigned to new jobs within the company, he said.

"There's a lot of anxiety currently," he added. "This is hard to do."

Mr. Rohm and other Principal Mutual executives hold weekly meetings to answer questions and create enthusiasm for the new organizational structure.

Despite the difficult transition to a new work structure, consultants say the movement will become more widespread as larger companies successfully restructure into self-managed teams.

"It is definitely the wave of the future," said Travelers' consultant Mr. Felten. "Wherever products are sold, services rendered and you have a gathering of five or more people, it works."

The team structure 'is definitely the trend in American business,' says Mike Rosow, executive vp of Work in America Institute. However, the change to this type of workplace has been 'slow-going' among insurers, because of the 'traditional' nature of the insurance industry and a lack of foreign competition, which has given insurers little incentive to change.

agers free to fulfill new roles such as developing new products, upgrading the computer system and improving customer service.

Of course, the new system was not without its snags.

During the transition phase many employees were intimidated by the prospect of expanding their duties and separating from friends in their old offices, Mr. Wagner noted. In addition, some managers were worried about losing their jobs.

In response, the company held "many, many, many meetings" to explain the process and diminish the "fear factor," assuring managers that although their jobs would change, they would neither lose them nor earn less money, Mr. Wagner said.

Shenandoah's success attracted to Roanoke as many as 30 companies from various industries to take a first-hand look at the new structure, he said. Among the early visitors was AAL, which launched its own companywide, self-directed teams in August 1987.

Founded in 1902, AAL is a fraternal association composed of more than 1.5 million Lutherans and their families. With more than \$43.2 billion in life insurance in force, it ranks as the largest fraternal association life insurer in the country. AAL also insures medical, disability and long-term care insurance.

AAL President Richard L. Gunderson, elected in 1985, set out to improve efficiency through a "corporate transformation." He instructed Jerry Laubenstein, who was appointed vp of individual insurance services in 1986, to reduce staff and regionalize the company.

has responsibility for the whole service."

An additional team of 10 policy specialists, who report to four regional managers, ensure that all four work teams are handling policies consistently.

Productivity has increased by 25% under the new system, Mr. Laubenstein said, explaining that AAL measures the productivity of its teams by comparing its current volume of business and processing time with the company's 1978-1980 productivity rate.

Quarterly customer service polls show that customer satisfaction has improved as well.

Like the change at Shenandoah, the change to the new system at AAL "was quite stressful" on many employees, he said. Through an "employee placement program," displaced employees could receive job counseling, temporary assignments and training for jobs in new areas of the company, with the same salary they earned prior to the restructuring.

In addition, a "very lucrative retirement" package was offered to employees nearing retirement, and those who chose to leave AAL received an "outplacement bonus" based on their length of service.

All told, because of the restructuring, AAL was able to reduce its staff by 12.5% to 424 from 484 full-time employees.

Following the example of AAL and Shenandoah, other life insurers have attempted to adopt the self-managed team approach, but some companies' attempts have been largely unsuccessful.

For example, Travelers Life Insurance Co. and Aetna Life Insurance & Annuity Co., both based in Hartford, Conn., tried the new ap-

proach with the company" effectively, said Mr. Felten, Travelers' consultant.

However, Shenandoah, AAL and consultants say that insurers of all sizes should be able to benefit from a full-scale restructuring, though the transition period will be lengthier and perhaps more stressful for large insurers.

"There is no reason why (Shenandoah's and AAL's successes) cannot be extrapolated to a huge, sprawling company," said Mr. Rosow of Work in America Institute.

Although AAL's Mr. Laubenstein said he sees nothing "unique about AAL" that made the team structure so effective, Mr. Rosow and Mr. Janson, AAL's consultant, both emphasized that the culture of the company is an important factor.

AAL is a "very large employer with a high degree of visibility in a small town," said Mr. Rosow. Employees have contacts outside of work, and it is perceived as "a nice business in a nice town." In larger cities where insurance companies are somewhat "stigmatized in the popular press" and in large companies with many branches, each with their own "culture," the concept of cooperation and teamwork may be less feasible, he said.

Shenandoah's Mr. Wagner noted that Shenandoah "has a good reputation in the area. That has helped us" attract loyal employees.

However, other insurers believe that large companies can successfully restructure into a team system one office at a time.

Because the numerous offices and divisions are like "mini-companies," they can restructure relatively quickly, said Mr. Myers, who

Mentor

Continued from page 14
 lion—was spent on legal fees and expenses.

The legal fees and expenses paid in the latest fiscal year stem from the appeal of the dismissal of the liquidators' racketeering complaint filed in U.S. District Court in New Orleans against Mentor's parent, Ocean Drilling & Exploration Co., and other defendants; discovery taken in the United States in the summer and autumn of 1988 relating to that litigation; separate litigation filed by the liquidators against Financial Guardian Group Inc.; and day-to-day legal advice, according to the report.

A three-judge panel of the 5th U.S. Circuit Court of Appeals in June upheld the lower court's ruling dismissing the liquidators' suit against ODECO on the grounds that the U.S. court is an inconvenient forum for the litigation. The

entire 5th Circuit last month refused to rehear the panel's decision (BI, July 31; July 3).

The liquidators can, however, bring a suit in Bermuda against the same defendants.

In May, a federal court jury in Kansas City, Mo., ruled in favor of Financial Guardian, an FG subsidiary and the subsidiary's former president after the Mentor liquidators filed a \$40 million lawsuit alleging fraud and breach of contract (BI, May 1).

However, according to the liquidators' latest report, a \$750,000 settlement was agreed upon after the liquidators appealed the verdict to the 8th U.S. Circuit Court of Appeals.

The liquidators' report points out: "The further total expenditure of \$8.8 million demonstrates the size and complexity of the liquidation as one of the largest reinsurance liquidations in the world. All costs continue to be controlled and there is inevitably a large element

of 'front end' cost, including in particular the litigation against ODECO et al, against which the benefits to creditors should accrue in the future."

In addition to the legal expenses, the report shows that about \$2.2 million was spent in 1988-89 on

The liquidators say it is still too early to draw conclusions about Mentor's total liabilities.

operating costs, which include salaries paid to the 30 accounting and administrative staff members now working on the Mentor liquidation and administrative and office costs, and \$2.1 million was the joint liquidators' remuneration.

The report describes sums paid

to the liquidators as payments for their services and for the services of their partners and staff working on the liquidation.

The report also shows that since the liquidators began their work on June 6, 1985, they have spent \$30.3 million, including \$9.6 million on legal fees and expenses and \$7.6 million for the liquidators' remuneration.

Mentor's assets stood at \$173 million as of June 30, an increase of \$24.4 million during fiscal 1988-89.

The liquidators have not made a new estimate of Mentor's liabilities since an actuarial study in 1986 estimated liabilities at \$650 million, the report says, adding that the estimate makes no provision for "industrial disease" claims, which include claims related to asbestosis, Agent Orange—the defoliant used during the Vietnam War—diethylstilbestrol or pollution.

Although creditors have filed claims against Mentor's estate to-

taling \$839 million (BI, June 12), the liquidators say it is still too early to draw conclusions about Mentor's total liabilities "pending an updated actuarial study and the results of the adjudication process."

Reinsurance balances recovered during 1988-89 totaled \$19.2 million. That, combined with investment income of \$14 million, produced total receipts of \$33.2 million.

The liquidators' report estimates the book value of reinsurance balances receivable to be \$68 million as of June 30, a decrease of \$47 million since their last valuation.

The reduction is attributable to the commutation of \$21.3 million of balances due from Mentor's retrocessionaires, the collection of \$3.3 million in unpaid balances, a downward revision of \$14 million reflecting the arbitration of a retrocessional program (BI, April 3) and revisions of other balances due.

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Liquidators pay Cambridge Re creditor dividends

HAMILTON, Bermuda—Cambridge Reinsurance Ltd. has already paid more than \$2.5 million to 630 creditors four years after the company collapsed with liabilities of about \$80 million.

The first dividend payout, which will total \$5.3 million when fully paid, is equivalent to 4% of Cambridge's total outstanding claims of about \$130 million (BI, April 3).

Joint Liquidator David Lines said in an interview last month that the liquidators now are seeking to "resolve differences" that have prevented some creditors from collecting their share of what is being called the fastest cash payout of its kind in a reinsurer insolvency.

Creditor companies usually must wait decades for payments from insolvent insurers.

"Sensible cooperation" from creditors is needed to help complete the bulk of the first dividend payments to an estimated 2,000 creditors within the next three months, said Mr. Lines, a Bermuda-based partner with Coopers & Lybrand.

Of those still awaiting payment, 50 creditors are proceeding with legal appeals against the liquidators' initial assessment of their claims, an evaluation that used actuarial calculations to establish the current value of incurred-but-not-reported claims, rather than waiting 15 to 20 years for claims to mature (BI, March 16, 1987).

The 50 appellants are claiming a total of \$30 million while the liquidators' calculation indicates they are owed closer to \$20 million. No creditors' names are being released, but the liquidators say that sums being sought by three of the reinsurer's biggest claimants, two of which are also in liquidation, account for most of the \$10 million in dispute.

In addition to the 50 appeals, another 100 creditors have filed proofs of debt that have not yet been reconciled with the liquidators' records.

Payment to another group of 400 to 500 creditors, whose first dividends at 4% of outstanding claims were less than \$25 each, also is being delayed.

Liquidators are holding back these small payments until they each exceed \$25, in compliance with a Dec. 7 Bermuda Supreme Court order.

Mr. Lines said that a total of about 500 payments to creditors owed about \$1 million are being delayed because of brokers' funding arrangements, which he described as "a real headache to unravel."

He said that brokerage firms involved in these funding arrangements—a common practice in the London market whereby brokers advance sums owed to their clients—have been given 90 days to have the debt assigned to them by the ultimate creditor. Failure to do so will result in the payment going to the insurance client rather than the broker, regardless of whether obligations have been already funded.

The liquidator refused to predict the size and timing of the next dividend. Mr. Lines said both would depend largely on his ability to collect sums owed to Cambridge by its retrocessionaires, amounts that he said he can only describe as "significant."

Cambridge, a subsidiary of Nova Scotia-based National Sea Products Ltd., was last estimated to be insolvent by about \$63.6 million (BI, March 20).

—By Roger Scotton

'Sensible cooperation' from creditors is needed to help complete the bulk of the first dividend payments to an estimated 2,000 creditors, says Mr. Lines.



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CIGNA

Obstacles exist to 401(k) loans

By Trisha Brambley

PICTURE THIS: A jubilant employee has just had a loan provision added to her company's 401(k) plan. She is happy because she now has access to the money in her account—without having to pay taxes or the 10% penalty normally associated with a 401(k) withdrawal. In addition, she is not permanently depleting her retirement savings because the money she needs for a financially secure retirement will be repaid in installments through convenient payroll deductions.

Now picture the 401(k) plan administrator. He's hard to see because he's buried under a mountain of paper.

While many companies currently are considering introducing loan provisions to their 401(k) plans, recently approved restrictions that limit 401(k) plan withdrawals have sent companies into a panic over how to sustain employee participation.

Account balance accessibility has long been a popular attribute of 401(k) plans. Now that some accessibility is gone, employers are searching for alternatives to keep employees interested in 401(k) participation. Loans, on the surface, seem like a simple means of restoring short-term access to 401(k) account balances and reversing flagging plan participation, but knee-jerk impulses to institute such provisions may not be the best move.

Employers should carefully examine the ramifications of adding a loan feature to the plan. There may be a better way to build enthusiasm for 401(k) participation. For example, recommunicating a plan to emphasize the benefits of long-term savings can boost participation. Increasing company matching contributions or adding investment options are other plan improvements that may prove more attractive to your employees than a loan provision.

However, some important ramifications of loan provisions are overlooked by many companies.

Often investment managers grant lower interest rates on guaranteed income contract funds if a 401(k) plan includes a loan provision. There is less actual cash in the GIC due to outstanding loans, so the institution issuing the GIC will be less willing to pay a high rate of interest.

In addition, the Department of Labor on July 20

Option may muddle plan administration

issued final regulations governing loans. These new regulations apply to all participant loans granted or renewed after Oct. 18. These regulations are in addition to existing statutory requirements and Internal Revenue Service regulations governing participant loans (*BI*, Aug. 7).

Special measures must be taken in order for the loan provision to remain in compliance with both the Labor Department and the Treasury Department. The Treasury says that a uniform and non-discriminatory rate of interest has to apply to all loans. The Department of Labor regulations say that interest rates should depend upon "the opportunity for gain and the risk of loss" on a case-by-case basis.

Under the Labor Department rules, it would be necessary to charge a clerical worker a higher rate of interest than an upper manager if he or she is not considered to have the creditworthiness of a higher-paid worker. But, granting highly compensated employees more favorable interest rates would be considered discriminatory under the Treasury regulations and could cause a plan to lose its tax-qualified status.

The best solution to the Treasury/Labor conflict appears to be to charge the highest interest rate to every plan member. Continuing with the above example, if, after researching the going commercial interest rates you find that the clerical worker would have to pay a 12% interest rate and the upper manager would be eligible for a 10% rate for a similar loan, you could charge the higher rate of 12% to everyone in your plan and satisfy both the Treasury and the Labor Department.

Another provision of the new Labor regulation is that companies will now have to permit anyone with an active account balance, including vested terminated employees, to take out a plan loan. Loans to terminated employees pose greater administrative burdens. Since these individuals are not on the company payroll,

repayment must be handled via personal checks.

However, the Labor Department does not require that employers charge terminated employees the same interest rate they charge active employees. Employers may want to consider charging a higher rate of interest to ex-employees to discourage them from taking loans.

The major objective of adding a loan provision is to increase accessibility to participants' funds. However, a loan provision will, in fact, reduce access to some of the funds for a financial hardship. Treasury regulations governing financial hardships require a participant to borrow the maximum amount available before he or she may receive a hardship withdrawal.

For example, an employee who wants to withdraw money to purchase a home will not be permitted to do so if he or she is permitted to borrow the necessary amount from the plan. This will be frustrating to the employee who doesn't have sufficient income to repay the loan.

From an internal standpoint, administration of loans can be complicated and very expensive, particularly when a loan setup hasn't been well thought out. A lot of paperwork is involved in loan administration—including amortization schedules, documents and reports—so companies should strive to make the provision as easy to administer as possible. This can be accomplished when the terms of the loan, the security and repayment methods are established.

One of the first things companies can do when designing a loan feature is to clearly establish reasons for which employees can take loans.

Many companies only permit employees to take loans for the reasons they can take hardship withdrawals. Other companies make their loan provisions more lenient, but if they leave them too wide open employees tend to take more frequent loans, adding to the cost of administration. This is particularly true of companies that offer no matching contributions and have relatively young, lower-paid employees.

Another way of simplifying loan administration is to permit only one loan at a time and to set a minimum years of participation requirement. In the past, many plans set a minimum dollar amount on loans to prevent employees from taking small, burdensome loans. However, proposed Internal Revenue Code Section 401(a) (26) regulations governing qualified retirement plans appear to make such a restriction unworkable, particularly for a newly established 401(k) plan. The proposed regulations generally require that each separate plan benefit or feature must be available to a minimum number of employees. If a minimum dollar limit is too high, the loan provision may not be available to 50 employees or 40% of the company's total employees and, thus, may violate code section 401(a) (26). In addition, the Labor Department loan regulations contain a safe harbor minimum loan amount of \$1,000.

Companies must also establish a method of calculating interest rates on repayments when setting up a loan provision. Most companies tie their interest rate to what a local bank would charge for a similar loan under comparable circumstances. This conforms to the final Labor Department regulations, but could prove cumbersome if the plan administrator is required to process a large number of loans.

Employers must also decide who "owns" the loan—the plan as a whole or the plan participant—when setting up a loan privilege.

If the loan is held as a general asset of the plan, the investment return of all participants will be impacted. If the loan belongs to the participant (known as an "earmarked loan"), only the participant's investment return is affected by the loan. Earmarked loans are more expensive to administer because it is more costly to handle plan transactions individually than on a plan-wide basis. But earmarked loans are easier for participants to understand, and they can save the plan administrator time from lengthy explanations of how interest is handled... and time is money.

After deciding how the loan will be made, an important consideration is to determine what the source of money will be.

Continued on next page



ASK A RISK MANAGER

Cost containment trims comp costs

Q

In an earlier column on ways to control workers compensation costs, you mentioned medical cost

containment programs as a means to accomplish cost reductions. Please describe how these programs work.

A

In recent years it has become readily evident to employers that workers compensation costs have escalated more rapidly than costs associated with

general health care coverage. There are several reasons for the alarming increase. Awarding workers compensation benefits for a diverse range of occupational diseases and illnesses has been a contributing factor as well as the steady rise in actual costs associated with treating ill or injured employees.

The majority of risk managers will agree that attempting to rehabilitate the bureaucratic workers compensation system is a slow and grueling process. Therefore, they are vocalizing the need to control the cost of medical services as a critical step in containing workers compensation expenses.

In response to their cries for relief, insurers and service providers are beginning to create and market formal medical cost containment programs. Cost containment measures, after all, have been used successfully by general health insurers for years.

An important factor to keep in mind when describing the execution of an overall program is that the service is administered through a medical professional, often referred to as a medical director (physician or registered nurse, or both), instead of a claims

adjuster. The obvious benefit to this approach is the medical director—who represents the cost containment service provider and its client—and the actual medical service provider speak the same language.

My experience with workers compensation cost containment programs began a year ago when our claims administrator made the service available, and my company became an enthusiastic subscriber. Since that time I have reviewed other programs and learned they are composed of similar, basic components.

Typically the initial phase of the program and perhaps the cornerstone of the entire process is utilization review. It is intended to eliminate unnecessary hospitalizations, prohibit unnecessary surgical procedures and control the length of hospital stays. Utilization review involves:

- ✓ Preadmission review.
- ✓ Emergency admission review.
- ✓ Continued stay review.
- ✓ Discharge planning.
- ✓ Case management.
- ✓ Second surgical opinions.

Preadmission review aims to determine the medical necessity of a hospital admission, explore alternatives to inpatient treatment, establish the type of treatment required, specify the appropriate length of stay and assign a medical director to manage the case.

Emergency admission review and continued stay review follow the same general guidelines as preadmission review. Discharge planning centers on the "personal needs" of the patient at the time of discharge and afterwards.

The role of the medical director expands to include making arrangements for any special services, such as home health care and medical equipment following discharge from the hospital. The medical director meets face to face with medical service providers to better manage the level of services through early intervention.

The last components of utilization review are second surgical opinions. They simply provide a step to verify the need for a certain surgical procedure. Treatment confirmation is achieved through a second, independent diagnosis

and consensus as to the appropriate type of surgery required.

The second step in our cost management program is medical case management. This service is especially beneficial when managing a case involving a prolonged or disabling occupational injury or illness. The medical director meets personally with the claimant, family members, treating physicians and other service providers to establish an ongoing treatment program. Medical case management combines all of the elements of utilization review and discharge planning.

The third step, medical bill audits, monitors costs after the various stages of treatment have been completed and can easily identify a case out of control. Medical services included are charges from treating physicians, chiropractors, physical therapists, psychologists and laboratories, to name a few. The relationship of service to the compensable injury or illness is confirmed or denied.

Characteristics such as the frequency and duration of treatment are screened and any duplicate charges are "flagged" and removed from the billing. The audit process is performed by computer. A report is generated that clearly states the reasons for a recommended cost reduction. Such questionable bills are normally returned to the medical service provider within 48 hours or less for revision.

The fourth step of the cost containment program is hospital bill audits. Reasons for such an audit would be the reputation of the hospital, suspected duplicate charges, disproportionate departmental charges or an understanding between the client and cost containment service provider that any bill exceeding a given threshold should be checked.

The hospital bill audit process is also computerized. Charges are sorted by department with each department's charges analyzed as a percentage of the total billing. By using such an organized review process, discrepancies are more likely to be identified.

As the workers compensation medical cost containment fervor spreads throughout our industry, risk managers will find many companies aggressively marketing their products. However, since

cost containment processes relating to workers compensation are in the infancy stage, risk managers should be cautious when selecting a vendor.

It is absolutely imperative that the service company be able to provide timely, detailed and meaningful reports that identify actual savings generated on a case-by-case basis. Only by receiving accurate reports will the risk manager be able to determine if the medical cost savings vs. the administrative cost of the program is justified.

In my opinion, workers comp cost containment programs represent the most realistic means of controlling workers comp medical expenses. The 1990s certainly will find us fully exploring the concept.

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

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

This month's column on risk management issues is written by Susan M. Werner, director of risk management at Hardee's Food Systems Inc. in Rocky Mount, N.C. Joseph W. Duwa, director of employee benefits at Allied-Signal Inc. in Morristown, N.J., answers benefits



Ms. Werner

management questions. William J. Miner, an actuary with The Wyatt Co. in Chicago, answers actuarial questions on benefits issues. And, Richard E. Sherman, a principal with Coopers & Lybrand in San Francisco, answers actuarial questions in the casualty field.

Mr. Duwa's and Ms. Werner's columns usually appear alternately on the second Monday of each month. Mr. Miner's and Mr. Sherman's columns appear alternately on the first Monday of each month.

Ms. Werner's next column will appear in October.

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

401(k) loan options

Continued from previous page

One approach is to stipulate that loans can be taken only from the safest investment account; for example, the savings fund. If there is insufficient money in that particular fund, money must be transferred from another fund before the loan can be taken; for example, from a stock fund to a savings fund.

Another method is to allow an individual's loan to be drawn from each investment fund in the same proportions in which contributions are invested. For example, if an employee directs 75% of contributions to the savings fund and 25% to the stock fund, his or her loan would be taken from the funds in the same percentages.

Once the source of loans has been established, how loan repayments will flow back to participants' accounts must be decided. Employers should make sure their payroll administrator can accommodate loan repayments. For example, if a separate loan fund is established as the source, the payroll company may not be able to handle both employee contributions and loan repayments.

Another important decision that must be made when establishing repayment terms is the method by which employees will make their actual payments. The best method is repayment through payroll deduction.

First, it's the most convenient means of repayment for both the employee and the plan administrator because the employee doesn't have to make out a check every quarter and the company doesn't have to keep after the employee to make sure the payment is on time. Second, automatic payroll deduction prevents employees from defaulting on payments.

Loan defaults are a very serious issue for a 401(k) plan sponsor. An employee who fails to make even a single principal repayment on a loan he took out to buy a car places his company's entire plan in jeopardy. He has received what is considered to be a distribution from the plan, yet he has not experienced an event that qualifies as an IRS-approved financial hardship. The plan is thrown out of compliance because the company has distributed money for a reason that is not legally permitted for 401(k) elective deferrals.

While adding a loan feature seems like a natural

way to increase access to account balances beyond the limits of hardship withdrawals, carefully considering the intricacies of loan administration before deciding to implement a loan provision is of utmost importance.

But before plunging into administrative considerations, companies should take a very hard look at the advisability of including a loan feature at all. The government is sending a very clear message through all recent legislation that 401(k)s are designed to help employees save for retirement, not for short-term needs.



Trisha Brambley is vp of retirement plan marketing at The Johnson Cos. in Langhorne, Pa.

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Rent Rite RRG

Continued from page 1

the problems of monitoring purchasing groups formed under the Risk Retention Act, some also express concern about risk retention groups.

"All of these mechanisms, because of the loose federal law, are potential objects of abuse. That is and will continue to be a concern," said William Hager, Iowa insurance commissioner and chairman of a National Assn. of Insurance Commissioners' panel that has criticized provisions of the Risk Retention Act (BI, June 26).

Many risk retention groups are undercapitalized insurers writing long-tail coverages, and regulators are "pessimistically, but I think realistically," expecting more insolvencies as the groups mature, said NAIC General Counsel David Simmons.

"It's really fairly early to see this kind of activity," added Mr. Simmons, referring to the Rent Rite RRG insolvency. "I think there's a sense of dread. We don't want to see it, but I guess we're going to see more of it happening."

Risk retention groups are subject to more direct regulatory scrutiny than purchasing groups: Risk retention groups must be licensed in at least one state and must provide operating plans and financial information to regulators in other states in which they intend to do business.

Mr. Hager conceded that regulators in any state—even those outside a risk retention group's state of domicile—theoretically could act to bar a group considered to be in hazardous financial condition.

However, "the level of monitoring that kind of oversight presumes is significantly intensive," he said. "Regulators have enough challenges already without having to double-check every risk retention group that operates in their state."

Officials from the National Risk Retention Assn. could not be reached for comment.

Rent Rite RRG was licensed in New Mexico on June 1, 1987, as a wholly owned subsidiary of Albuquerque-based Rent Rite Reservation Network Inc., which operates a national reservation network for inde-

pendent car rental companies.

The risk retention group, formed with \$250,000 in initial capital and surplus, offered general and auto liability coverage with a limit of \$1 million. The group retained \$100,000 of each risk, reinsuring \$900,000 excess of \$100,000 with Louisiana-domiciled North American Indemnity Co., according to the New Mexico department examination report.

Rent Rite RRG wrote gross direct premiums of \$1.8 million in 1988. Direct premiums since the group's inception totaled \$2.3 million, according to the New Mexico department's report to the Commerce Department.

About 47% of Rent Rite RRG's premiums were written in California, with 29% written in Florida and the remaining 24% written in 17 other states. The group did not write any business in New Mexico, Mr. Chavez's letter says.

Rent Rite RRG reported a surplus deficit of \$160,888 in its 1988 annual statement, though Insurance Department examiners later found the deficit to be \$689,464 as of last Dec. 31.

Among other things, examiners disallowed a \$300,000 letter of credit contributed as an asset by Rent Rite Reservation Network. The LOC did not qualify as an admissible asset because it was not irrevocable, did not contain an evergreen clause and was not issued by a qualified financial institution, the exam report says.

The New Mexico department's Aug. 11 report cites several reasons for the Rent Rite RRG failure, including:

- Initial capital and surplus that was not adequate to defray start-up costs and cushion the group against adverse loss experience.
- At the time the group was licensed, New Mexico did not have any law regarding capitalization of risk retention groups. However, the state last year adopted a law requiring \$1 million in capital and surplus, the same requirement that applies to licensed insurers.
- Inexperienced management. None of Rent Rite RRG's managers had any previous experience running an insurance company.
- Excessive growth. Net written premiums climbed to \$1.6 million last year from \$493,316 in 1987, while surplus was falling, the report notes.
- Inadequate rates and excessive expenses.

While a business plan called for the risk retention group to charge policyholders 150% of Insurance Services Office Inc. rates, Rent Rite RRG still experienced a 94% loss ratio on

business written from its formation through the end of last year.

The expense ratio, meanwhile, ran at 54% from the group's formation through year-end 1988. This included commissions amounting to 13% of net premiums, general expenses amounting to 16% and management fees paid to Rent Rite Reservation Network or its affiliates amounting to 25%, the report says.

Rent Rite RRG's combined ratio from its inception to Dec. 31, 1988, was 148%.

In his letter to the Commerce Department, Mr. Chavez said the risk retention group "in no way furthered the purpose of the 1986 Risk Retention Act, which was to increase the availability of reliable liability insurance. In fact, vigorous competition was a major factor in the demise of Rent Rite RRG."

George Lovato Sr., who heads Rent Rite Reservation Network, could not be reached for comment on this story. However, Mr. Lovato defended the risk retention group in an Aug. 15 letter to the Commerce Department.

Rent Rite Reservation Network formed the group in response to the needs of its rental car company clients that were having difficulty finding affordable liability insurance, Mr. Lovato's letter says.

Rent Rite RRG complied with reporting requirements in the states where it did business and was never denied authority based on its financial statements, the letter says.

Mr. Lovato's letter also blames underpricing of the group's coverage on Preston F. Wood Insurance Service of San Juan Capistrano, Calif., the managing general agent for Rent Rite RRG until the MGA terminated its agreement in April 3.

Preston Wood, president of the MGA, denied the allegation, saying that Mr. Lovato has "distorted the facts. The book of business was priced very adequately and priced in line with the plan of operation."

He added that after the MGA terminated its agreement, Mr. Lovato offered the group's policyholders rate reductions as an inducement to stay with the program.

Mr. Wood said he terminated the MGA agreement for several reasons, including the risk retention group's failure to notify him that the New Mexico Insurance Department had ordered the risk retention group to increase its capital and surplus to \$1 million by year-end 1988, and that the Rent Rite RRG wanted to terminate its professional claims adjusters and move claims management services in house. ■

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THE FAST TRACK TO A COMEBACK

Jury research

Continued from page 3

Flom in New York, who has defended several major manufacturing companies in product liability cases.

"It's pretty expensive, but we use them in the lawsuits where the stakes are so huge that it really doesn't matter that much," he said.

"I've heard some people suggest that if you don't do this kind of stuff, it's malpractice," noted a Chicago attorney whose firm uses various jury research consultants "all the time."

"Lawyers, by and large, once they have gone through law school, have forgotten to think like people," said attorney Robert Hanley with Morrison & Foerster in Denver and former chairman of the American Bar Assn.'s Litigation Section.

He said that by working with jury research consultant Litigation Sciences Inc., he has been able to "clean up" his presentations and speak more clearly to the jury.

"We can help the client essentially manage the docket from a risk management perspective," said Donald E. Vinson, founder and chairman of Rolling Hills Estates, Calif.-based Litigation Sciences, which has been a unit of London-based Saatchi & Saatchi Co. P.L.C. since 1987.

Jury research consultants can both predict adverse verdicts and closely estimate settlement amounts in a va-

riety of cases, according to Mr. Vinson, who has a 120-member staff and generally charges between \$40,000 and \$120,000 per case.

"Our experience has been that people have really been able to turn around what would otherwise have been adverse verdicts and have been able to reduce settlements," said Art Raedeke, executive vp at jury research firm Public Response Associates of San Francisco, which generally charges between \$20,000 and \$100,000 per case.

Both firms, as well as the Jury Research Project division of Touche Ross & Co. in New Orleans, claim they have predicted the outcome of more than 95% of the cases they have handled.

At the inception of a case, the staffs of jury research consultants conduct interviews in the community from which jurors will be chosen and identify demographic and psychological characteristics, as well as physical and behavioral traits, that tend to indicate certain biases. The number of interviews conducted depends on the size of the research firms.

Many of these biases will not be immediately obvious to attorneys, and statistical results on what kinds of people will be more sympathetic to a certain company in a certain prod-

Continued on next page

Jury research

Continued from previous page
uct liability case, for example, are sometimes unexpected, said Mr. Vinson.

Attorneys also can practice arguments before a mock jury drawn from this survey group to determine which arguments or displays work best or are too complex.

Many lawyers contend that using consultants gives clients added confidence before they go to trial or attempt to settle a lawsuit.

"You're usually relying on the trial lawyer and the crystal ball. This provides you with some objective background," said the Chicago attorney, who has worked with Litigation Sciences and smaller jury research consultants.

At Touche Ross, which charges between \$10,000 and \$150,000 per case, client attorneys know they are ready for trial when they are able to win over the "worst" mock jury, explained Douglas Green, senior consultant with Touche Ross' five-member jury consulting team.

In addition, the mock juries are asked at various stages what they would view as appropriate damages to prepare clients for possible damage awards or to encourage the defendant to settle.

"Clients who have settled the cases tend to feel a bit more comfortable about the settlement" after using the research service, the Chicago attorney said.

And, when a case goes to trial, some jury research firms use what Litigation Sciences has dubbed the "shadow jury" technique that provides feedback to an attorney from mock jurors who are sitting in the courtroom during the litigation.

These "jurors"—who are not told whether they have been hired by the plaintiff or defendant—have psychological and demographic characteristics similar to those of the actual jurors. They observe all or part of the

cal manufacturers of the toxic defoliant Agent Orange.

The firm's research, which found that jurors would likely rule for the plaintiffs, helped "substantially" in negotiating the \$180 million settlement on behalf of the plaintiffs, said an attorney with Clausen, Miller, Gorman, Caffrey & Witous in Chicago, who represented the veterans.

A New York federal judge approved the settlement in September 1984 (BI, Oct. 1, 1984).

However, some risk managers and attorneys question the value of the consulting firms' services.

For example, R.J. Molloy, associate general counsel for Dearborn, Mich.-based Ford Motor Co., who has worked with several jury consultants nationwide, questioned whether the consultants deserved credit for the automaker's success in those cases.

"They gave us some new insights, but in some instances they confirmed what we felt," Mr. Molloy said. "Our question is, 'Did they tell us something we didn't know already?'"

Frank Rothman, an attorney with Skadden, Arps, Slate, Meagher & Flom in Los Angeles, echoed Mr. Molloy's comments.

Mr. Rothman used Litigation Sciences when he defended the National Football League in the antitrust suit brought by the now-defunct United States Football League and found the firm "moderately helpful, not tremendously helpful." A jury found the NFL guilty of monopolizing the marketplace, but awarded the USFL only \$1 in damages, which was trebled to \$3 under antitrust law.

And, both Bob Stanley, risk manager for Hoffmann-LaRoche Inc. of Nutley, N.J., and Wilmer Hough, corporate risk manager for Mack Trucks Inc. of Allentown, Pa., do not use consultants. They say their large in-house legal staffs are sufficient to manage their litigation.

Some risk managers and attorneys warn others not to rely on the consultants to predict outcomes of cases.

daunted if the opposing attorney notices his shadow jury. "The other side has a right to use one, too."

Nevertheless, judges frequently grant his clients' requests to prevent opposing attorneys from mentioning the tactic during the trial on the grounds that a "shadow jury is not relevant to the case," he said.

Many risk managers also do not think the jury research consultants' services are cost-effective if their companies are not facing multimillion-dollar damages.

"We've used them on a very selected basis," said D.D. Gaitley, assistant general counsel for Chrysler Corp in Highland Park, Mich. "You certainly can't do that type of thing for the hundreds and hundreds of smaller cases. We're not talking about ordinary automobile accidents. It takes a more complex case to justify going to that kind of extent."

But, Public Response's Mr. Raedeke said it is increasingly common for companies to hire their services for cases where although damages are low, the risk of damaging the company's reputation is high.

Jury consultants are "hardly a panacea for trial problems," summed up Harlan M. Dellsey, vp and general counsel for Commonwealth Edison Co. of Chicago.

"It has a value," he said, but the problems associated with going to trial—like "the cost, the hassle and the risk"—are not diminished when these research services are used. ■

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'We've used (jury research consultants) on a very selected basis,' says Mr. Gaitley. 'You certainly can't do that type of thing for the hundreds and hundreds of smaller cases. It takes a more complex case to justify going to that extent.'

trial and give their impressions each night to the consultants, who notify client attorneys of their daily strengths and weaknesses.

Jury research is "very valuable," said the senior counsel of an automobile manufacturer that Mr. Green assisted in a multimillion-dollar personal injury lawsuit initially won by the automaker. The case is on appeal.

"I wouldn't go into the trial of another case like that without jury research and a mock trial first. We found in doing the mock jury trial that the jury didn't understand some of the exhibits we were presenting," the senior counsel said.

Jury research has been used in some famous legal battles.

For instance, Firestone Tire & Rubber Co. in Akron, Ohio, has used Litigation Sciences in several "Firestone 500" lawsuits, said Barbara Tittle, a paralegal at Firestone.

Mr. Vinson estimates that Litigation Sciences consulted on at least one dozen of these cases.

Firestone was sued by millions of consumer who purchased allegedly defective Firestone 500 radial tires in the mid-1970s. The suits alleged, among other things, negligence and breach of implied warranty.

"We were very happy with the work they did," Ms. Tittle said. "It was expensive but worth it."

Public Response, which has a staff of 16 full-time professionals and 40 part-time professionals, drew praise from a Chicago law firm in a rare case in which the consultant worked on behalf of plaintiffs. The law firm represented Vietnam veterans in their class-action suit against seven chemi-

"It's silly to abdicate your control over a trial. This is just another service. The buck stops with the trial lawyer," pointed out Mr. Hanley of Morrison & Foerster.

"The results of trial consultants should not be followed slavishly," agreed the Chicago attorney.

For example, he recalled a recent case in which he ignored a jury research consultant's recommendation to object to a particular juror during pre-emptory challenges. His instincts that the juror would decide in his favor were ultimately correct.

The Chicago attorney also questioned the value of the so-called "shadow jury" service.

"In the middle of a big trial, you don't have time to be diverted. It's like getting advice when you're in the battlefield," he said.

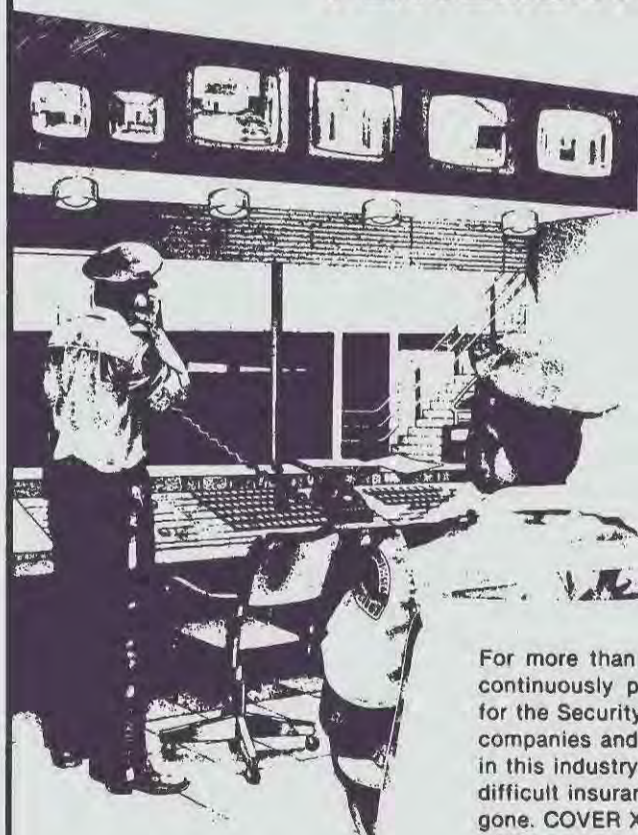
Another concern about "shadow juries" is that the opposing attorney can use this to his advantage with jurors if he or she is aware the other side is using this service.

"It contributes to the perception of the disparity of resources" between the plaintiff and the corporation, which may lead some jurors to sympathize with the plaintiff, Public Response's Mr. Raedeke said.

If this is a concern to the client, Public Response may limit the number of shadow jurors to two or three, and in some cases, they will observe only the opening statements or the testimony of key witnesses, he said. "It is an extremely valuable tool, but there's a danger that it may become an issue in the trial."

However, Mr. Vinson of Litigation Sciences said that he generally is un-

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Ohio work comp

Continued from page 3
 the monopolistic state fund learned last month that average workers compensation premiums will increase 9.5%—or a total of about \$115 million—in the fiscal year that began July 1. Rates for some job categories increased up to 30%. (see related story).

"I think the new law will tend to keep a lid on rate increases in the future," Mr. Smith said.

The new 321-page law "can go a long way toward minimizing the need for rate increases," agreed Raymond LeBlanc, corporate risk manager for Cleveland-based BP America Inc., the U.S. affiliate of British Petroleum Co. P.L.C.

Mr. LeBlanc also is president of the Ohio Self-Insurers Assn.

"The new law 'will probably help put the brakes on increases, but it won't stop them,'" said Andrew Doehrel, vp of governmental affairs and staff counsel for the Ohio Chamber of Commerce.

It is hoped that employers, which want to keep workers comp insurance premiums low, and labor representatives, who want to keep benefits high, can find common ground in reducing the system's "friction" costs—like disputed claims and attorneys' fees—and in streamlining operations to ensure that injured employees receive appropriate and prompt medical care and benefits.

The work comp board "will constantly be pressing and improving things because of their experience and their self-interest," Mr. Smith said. He noted that he is especially interested in seeing the board spark more cost containment efforts because the state system "has not done enough."

Mr. Smith observed that monopolistic work comp funds, like Ohio's, have little incentive to implement changes, like cost containment measures. As a result, the

medical cost component of work comp claims in Ohio increased 12% to 13% last year, which is about twice the rate of increase nationally, he said.

Other cost containment measures that the new board will be responsible for establishing include: a medical section within the bureau to assist in developing policies that medical providers must follow; an updated fee schedule; procedures to evaluate temporary total claimants' conditions more quickly; and enhanced bill review capabilities.

The law also requires an evaluation of data processing operations and calls for establishing additional advisory groups to help conduct studies, resolve disputes between the commission and the bureau, oversee implementation of the new law and promote safety.

The law also "should improve" the adjudication of claims because the commission will no longer be responsible for "myriad" details related to operations, Mr. Smith said.

For example, an employee with a bona fide claim currently may have to wait eight weeks to one year before receiving any money, Mr. Hodges said.

"There is no excuse for it," he said. The current system is "just bogged down in bureaucratic problems," he added.

The law calls for compensating board members and the administrator at an unspecified level that will attract "high-caliber" individuals, Mr. Smith said.

Another provision of the bill entitles employers to reimbursement from the state Surplus Fund when benefits have been paid for a claim that is subsequently disallowed either in whole or in part.

The law also is designed to reduce costs for self-insurers with good workers comp loss experience and promote safety among all self-insured employers.

The contributions that a self-in-

Work comp premiums to rise 9.5% in Ohio

COLUMBUS, Ohio—Private employers in Ohio that buy workers compensation insurance from the state's monopolistic work comp fund will be paying an average of 9.5% more in premiums this fiscal year due to rate increases implemented last month, according to the state.

But employers with workers classified in 170 of 230 jobs—including some positions in construction, mining and nursery operations—will see 30% rate increases, according to Paul Whitacre, director of the actuarial section of the Ohio Bureau of Workers' Compensation.

Workers comp rates, though, dropped between 1% and 29% for 24 employee job classifications, including some jobs in tobacco processing and ball bearing manufacturing, he said.

The rate changes went into effect July 1. Employers that buy insurance from the state work comp fund will receive bills beginning in January, the first of two installments for the rating year of July 1, 1989, to June 30, 1990.

With the new rates, employers will pay a total of about \$115 million more in workers comp premiums for fiscal 1989-90.

The 9.5% increase represents a weighted average that reflects the amount of payroll employers have in each job classification.

The Long-Range Finance Committee, which was appointed by the Ohio Industrial Commission in 1988 to address the state insurance fund's \$2.3 billion deficit, had recommended no change in rates. That would have given the commission one year to assess the effects of the reorganization of the work comp system mandated by a state law that takes effect Nov. 3.

However, the industrial commission decided that

an overall 9.5% increase was needed, anticipating a 3% increase in medical costs and a 5% increase in benefits due to higher pay levels. The remaining 1.5% of the increase will be applied to funding the actuarial deficit.

But, the average 9.5% increase "could be misleading to employers," said Raymond LeBlanc, corporate risk manager for Cleveland-based BP America Inc. and president of the Ohio Self-Insurers Assn.

Adding the changes in rates for each job classification and dividing that number by the total number of classifications shows that rates actually are rising an average of 16.7%, Mr. LeBlanc said, though he acknowledges that this method does not factor in payroll.

An employer that budgets for a 9.5% premium increase may be surprised when its biannual bill arrives early next year and shows that the employer owes a higher amount, Mr. LeBlanc explained. That could happen if an employer's workers are engaged in jobs where the rates increased by 30%.

The rate hikes by the state fund also currently affect employers that self-insure their workers comp risks. Self-insurers are assessed by the state to help pay system and program costs based on a formula that reflects their payroll and rate levels.

Under the new workers compensation law, though, self-insurers will be assessed for state-mandated contributions on the basis of workers comp claims payments rather than payroll.

However, they will still face assessments based on the increased work comp rates from July 1 through Nov. 3, when the new law takes effect.

Rates for government entities are set separately.

—By Meg Fletcher

sure employer must make to the state to finance the cost of the work comp administrative system now will be based on the amount of benefits paid by the employer rather than on its payroll.

Under the new law, self-insured

employers that generate many claims will pay more of the cost of handling them, which will encourage self-insured employers to become more safety conscious, Mr. LeBlanc said.

Overall, the changes are the

equivalent of "an about-face" for a massive organization, so the effects will not be seen next year to any significant degree, Mr. Doehrel said. It will take until 1991 before improvements will be noticeable, he predicted.

Bank of America names insurance chief

Richard W. Ryan, 42, named manager of corporate insurance at Bank of America National Trust & Savings Assn. in San Francisco. In this newly created position he is responsible for the bank's worldwide corporate insurance program, including property/casualty and fidelity coverages and loss control activities. He reports to Peter McDonough, vp and director of risk management. Prior to joining Bank of America Mr. Ryan was a broker with Johnson & Higgins. He holds a bachelor of engineering degree from the State University of New York Maritime College in Fort Schuyler. In addition, Mr. Ryan holds the Associate in Risk Management designation and has

Comings & goings: buyers

taught A.R.M. courses. He is working toward the Chartered Property & Casualty Underwriter designation and is a member of the American Society of Mechanical Engineers.

Richard A. Williams, 41, named director of risk management and insurance at Lynn Ladder & Scaffolding Co. Inc. in Lynn, Mass. In this newly created position he is responsible for risk management and property/casualty insurance programs, group captive participation, claims handling, loss prevention and safety

and employee benefits, including pension administration. He reports to Frank M. Koughan, vp/general manager. Prior to joining Lynn Ladder, Mr. Williams was corporate risk manager of Malden Mills Industries Inc. in Lawrence, Mass. He holds a bachelor of arts degree in mathematics and business from the University of New Hampshire in Durham and a master of business administration degree from Suffolk University in Boston. Mr. Williams is a deputy member of the Risk & Insurance Management Society and a member of the New

England Employee Benefits Council.

Sandra K. Jackson, 39, named risk manager of AP Parts Manufacturing Co. in Toledo, Ohio. In this newly created position she is responsible for the development and administration of the company's property/casualty insurance and risk management programs. She reports to John Ziegler, director of finance and administration. Prior to joining AP Parts, Ms. Jackson was liability insurance manager at Owens-Illinois Inc. in Toledo, Ohio. Prior to that, she served as insurance administrator at Sheller-Globe Corp. in Toledo. Ms. Jackson received a bachelor of science degree from the University of Arkansas at Pine Bluff.

Anton M. Kronenburg, 38, named risk manager at Ivy H. Smith Co. in Jacksonville, Fla. In this newly created position he is responsible for the development and management of the risk management function, including property/casualty insurance, claims management and loss control. He reports to George S. Summers, vp-operations. Prior to joining IHS, which is an underground utility contractor, Mr. Kronenburg was an account representative with Metropolitan Life Insurance Co. in Tallahassee, Fla. He received bachelor of science and master of science degrees in social science from Florida State University in Tallahassee. In addition, he holds the Associate in Risk Management designation and is a licensed insurance broker.

Cynthia Wesson named director of risk management at Restaurant Associates Industries Inc. in New York. She is responsible for the administration of RAI's risk manage-

ment program, property/casualty insurance and loss control and prevention. She reports to James M. Beltrame, executive vp and chief financial officer. Prior to joining RAI, which operates a chain of restaurants, Ms. Wesson was assistant director of risk and insurance at Girl Scouts of the United States of America in New York. Prior to that she served as a risk management consultant with Coopers & Lybrand in New York. Ms. Wesson received a bachelor of business administration degree in management and economics from Pace University in New York. In addition, she holds the Associate in Risk Management designation and is working toward the Chartered Property & Casualty Underwriter designation. Ms. Wesson is a deputy member of the Risk & Insurance Management Society.

Also at RAI, **Margaret Bridge** named director of corporate benefits. In this newly created position she oversees the administration of all employee benefits. She reports to Mr. Beltrame. Prior to joining the restaurant chain, Ms. Bridge was manager, corporate benefits at Mutual Benefit Life Insurance Co. in Newark, N.J. She received a bachelor of arts degree from Temple University in Philadelphia. In addition, she holds the Fellow, Life Management Institute and Certified Professional Insurance Woman designations.

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Summer risks

Continued from page 3

unteer leaders from its membership—it is difficult to obtain affordable insurance when the nature of these activities is misunderstood, she said.

Despite the problems of obtaining affordable liability coverage for the club's mountain climbing excursions, Mr. Amster does not consider the activity to be a high risk.

"If skilled people are doing the climbing, it's safer than driving on a freeway," he said.

Most other recreation activities, however, are in full swing this summer thanks to more available and more affordable liability insurance compared with a few years ago when high insurance costs forced some to limit or shut down their operations (BI, June 29, 1987).

The Nantahela Outdoor Center in the Great Smoky Mountains of North Carolina, for example, was forced to eliminate rock climbing and bicycling programs in 1985 to keep its insurance costs down.

Although the outdoor recreation outfitter discontinued these activities, its liability insurance was canceled later that year by underwriters at Lloyd's of London. Prior to 1985, the center had only filed one claim in 15 years.

"Lloyd's did not understand what a good safety record we had," said Marc Hunt, treasurer of the Nantahela Outdoor Center. "Because of the crisis of the hard market, we were an easy target to run away from."

While coverage is again available for Nantahela's rock climbing and bicycling programs, it has not reinstated these programs mainly because they were not a major part of its operations, Mr. Hunt said.

The outfitter now mainly runs

from insurance market changes.

In 1987, the Mount Rushmore Campgrounds of America franchise in Hill City, S.D., had difficulty finding affordable liability coverage for its water slide.

"At that time, the minimum premium for the water slide was larger than our gross coverage premium. . . . We had to close the slide down and then reopen it once the insurance was available," said Al Johnson, vp of De Smet, S.D.-based Satellite Cable Services, which owns the Mount Rushmore KOA.

After several weeks without coverage in 1987, the KOA franchise purchased \$500,000 in liability insurance for the slide from Golden Eagle Insurance Co. of San Diego, though the coverage cost about 20% more than the previous year's price.

While Mr. Johnson jokingly admits his campground is a "real insurer's nightmare" with 325 camp sites, a water slide, hot tubs, trail rides and propane sales, he was able to obtain insurance this year from New York-based Continental Corp. for all the campground's facilities except the water slide and trail rides. The campground has \$1 million in primary liability coverage and \$2 million in umbrella coverage.

The water slide is now insured through R.J. Salisbury & Associates of Bountiful, Utah, a managing general agent for Utah Home Fire Insurance Co. of Salt Lake City, at a premium that was "a little less this year."

Liability coverage for the trail rides is written by syndicates on the Illinois Insurance Exchange, Mr. Johnson said, at a "better deal" than two years ago. His coverage has increased to \$500,000 in limits from \$300,000 for the same premium.

Bill Lenssen, owner of a KOA franchise in Daytona Beach, Fla., also had to eliminate a water slide and horseback riding from his campground during the hard market.

In 1987, the campground's property/casualty insurance premiums were raised to \$34,000 for \$2 million in umbrella coverage underwritten by CIGNA Corp., compared with \$18,000 for a \$5 million policy in 1984.

But the KOA campground now has \$1 million in primary coverage and \$3 million in umbrella coverage underwritten by CIGNA and brokered by Jim Calfee Insurance Agencies Inc. of Broomfield, Colo.

But because the campground has made some major changes, it is difficult to compare current premiums to those in 1987, Mr. Lenssen said, yet he noted costs have not risen and the camp now has more coverage.

During the hard market, higher insurance costs forced Mr. Lenssen to raise camping rates \$2 per night to \$17 for an overnight stay. Although the current rate—\$20 per night—is higher, it is largely due to renovations at the campground and not insurance costs, he said.

However, Mr. Lenssen has chosen not to reinstate the water slide nor horseback riding. Instead, half of the campground has been converted to a mobile home park and renovated to appeal to large groups and conventions, he said.

Mr. Lenssen attributes his affordable insurance costs to the "meticulous safety-oriented program" instituted by Jim Calfee Insurance Agencies.

Because the agency visits and audits each camp for potential liabilities to suggest improvements before placing the camp's insurance, the Calfee program has made a big difference in the way camps are insured, Mr. Lenssen said.

The Calfee safety guidelines have been developed for a range of specific activities that are becoming popular in resort or "destination" campgrounds, such as water slides, horseback riding and other non-camping attractions, explained Jim Calfee, president of the agency, which places insurance for 1,760 campgrounds, including 297 KOA franchises.

Coverage is available for these activities as long as the owner adheres to the safety guidelines, he said. Because of these guidelines, the loss ratio on the agency's book of business from campgrounds over the past five years has been 38%, whereas the campground industry's loss ratio during the same period has been 93%, according to Mr. Calfee.

Due to his 14-year-old program, Mr. Calfee said he has been able to secure coverage for campgrounds with CIGNA and has "weathered the worst times of the market."

In response to the crises of the last hard market, alternative risk financing facilities and new insurers were formed to insure recreation risks.

One Barbados captive, Evergreen Indemnity (Barbados) Ltd., provides liability, property and inland marine coverages to privately owned U.S. campgrounds.

The captive, founded in 1986, offers \$500,000, \$1 million and \$2 million in limits for occurrence-based coverage, said Dick Hartford, president of International Insurance Services in Lewiston, Maine, which manages the captive on behalf of Twenty First Century Management Co. Ltd. of Barbados.

The market for campground coverages has softened compared with the hard market of the mid-1980s, he said.

"The reason the market opened like it did now. . . is because a group of campground owners got together and started their own insurance company," Mr. Hartford said.

A market for water park liability coverage formed in 1987 is T.H.E.

Insurance Co. of Metairie, La., a subsidiary of Allied Specialty Holding Co. of St. Petersburg, Fla.

T.H.E. began offering \$1 million in liability coverage for water parks, water slides, amusement parks and other amusement facility risks. The insurer now offers limits up to \$2 million, said Charles T. Landrum, director of the insurer.

Premium volume is down 10% compared to 1987, he said, due to the competitive market. And because of reduced premiums, the insurer's loss ratio is going up, he said.

Mr. Landrum said that T.H.E.'s rates are about 15% to 18% lower than in 1987, but he believes that the property/casualty insurance industry's rates as a whole are 50% lower compared with 1987.

Despite the lower premium volume and reduced rates, T.H.E. will write coverage for water and amusement parks for the "long haul as other companies enter and leave the market throughout the soft and hard markets," Mr. Landrum said.

However, he said he believes that the hard market is just around the corner. "As the market turns again in 1990-91, I expect premium volume to increase again," he said.

Like other summer recreation activities, amusement parks are enjoying the ride through the soft market.

"There is no crisis of availability" for amusement parks, said Bruce A. Esselborn, president and chief executive officer of United Capitol Insurance Co. in Atlanta.

The surplus lines insurer, which was formed in 1986 at the height of the hard market (BI, Aug. 11, 1986),

originally wrote a larger amount of amusement park business, he noted. United Capitol currently specializes in product liability coverage and coverage for asbestos abatement contractors.

"In 1986 you couldn't even get coverage. In 1987 and 1988, yes, you could get it, but at what price? Today we're approaching palatable levels," says Phil Coulson, president of the entertainment division of Haas-Wilkerson & Associates, a managing general agency in Kansas City, Mo., that places liability coverage for some amusement risks.

Although the amusement park insurance market has softened and terms and conditions offered have substantially improved compared with a few years ago, the cost of insurance remains relatively expensive because of the perceived risk involved, said Joe E. Yungel, president of Associated Underwriters Inc. of St. Petersburg, Fla. The wholesale broker specializes in placing coverage for amusement parks, water slides and small recreation facilities.

"The problem is not the number of accidents, but the sophistication of the equipment. It used to be that the biggest thrill was the merry-go-round and now it's the faster the roller coaster is," Mr. Yungel said. ■

Insurers and the recreation industry 'have gotten to know each other better,' says Marc Hunt.

white water rafting and canoeing trips in the United States and foreign countries and hosts about 100,000 people a year, Mr. Hunt said.

Nantahela's \$500,000 in general liability insurance is written by Frontier Insurance Co. of Monticello, N.Y., and covers lawsuits brought in the United States but not in foreign countries. Nevertheless, the center continues to run rafting and other outdoor adventure trips outside the United States, Mr. Hunt said.

"We just hope we won't be sued in a foreign land," he added.

Nantahela also has \$500,000 in liability coverage excess of the primary policy that exclusively covers rafting trips on the Ocoee River in Tennessee. The Tennessee Valley Authority, which controls the Ocoee River, requires \$1 million in liability coverage of all river trip sponsors.

Landmark America Insurance Co. in Englewood, Colo., writes Nantahela's excess policy.

The outfitter pays \$50,000 to \$60,000 in premiums for both policies, Mr. Hunt said.

The availability and affordability of coverage can partly be attributed to the soft market, but "the big difference between 1985 and today is the fact that insurance companies and the recreation industry have gotten to know each other better," Mr. Hunt said.

"The prime reason insurance coverage is available and affordable is because smaller insurance companies are looking for niches where they can work closely with an industry and understand its exposure and potential for losses better. These insurance companies that specialize in the recreation industry will be here if there is a downturn in the market," Mr. Hunt added.

Campgrounds also have benefited

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Brokers' results

Continued from page 1

director of research for Interstate/Johnson Lane in Atlanta.

After three years of property/casualty rate cutting, investors "are beginning to anticipate a decrease in competition over the next 12 months," Mr. Rosencrants explained.

"We're turning up the heat on (broker) stocks, and we're a little more aggressive in recommending them," said Ira H. Malis, securities analyst with Alex. Brown & Sons Inc. in Baltimore.

While investors may have to wait until at least next year before rising insurance rates boost broker profitability, "it may be better to be a little earlier than to miss the move," Mr. Malis observed.

"There isn't going to be a whistle blown to say, 'Buy now!'" the minute the insurance market stabilizes, Mr. Malis added.

Earnings potential for investors in brokerage stocks during a hard property/casualty insurance market is high, he said, pointing out that while stock values in general rose about 50% between mid-1984 and 1986, when the hard market was in full force, brokerage stocks' values jumped an average of 150% during the same period.

"We think it's a little risky for institutional investors to not buy broker stocks. They are not any more expensive relative to the market now than they were before the 1984 move," Mr. Malis said.

Mr. Rosencrants said he has also recently "turned a notch more positive on the group, with the exception of Hall, where problems continue to be extensive."

But, Shearson Lehman's Mr. Smith feels that broker stocks have "been making a big move in the absence of fundamentals."

He agreed, though, that "it looks like investors are willing to ride out up to 15 to 18 months of bad news to be in there when the market turns."

Like Mr. Smith, analyst David Seifer, vp of Donaldson, Lufkin & Jenrette in New York, is not so optimistic about the earnings potential of broker stocks.

While investors are anticipating a "soft landing by the end of the year in terms of market competition and an upturn in pricing in 1990, I think that's too early," Mr. Seifer said.

"Our approach has been that the fundamental outlook isn't there, and the earnings aren't there. We're saying hold at these levels," Mr. Seifer said.

Despite the stock market's recent enthusiasm for broker stocks, brokers and analysts agree that the competitive property/casualty insurance marketplace—which has slowed broker revenue gains and eroded most brokers' net incomes over the past two years—continues to run its course.

"The pressure on our top line revenues continues as premium rates remain at current depressed levels," said Michael J. Cloherty, Gallagher's vp of finance.

"The market is still soft and continues to drift downward, although the amount of rate decreases is much less than it was a year ago," observed William F. Poe, chairman of Tampa, Fla.-based Poe & Associates Inc.

Marsh & McLennan

At New York-based M&M, the world's largest insurance broker, gross revenues grew 6.4% in the second quarter to \$606.3 million from \$570 million in the second quarter last year. And, in the first six months of 1989, the broker's revenues rose 5.5% to \$1.23 billion from \$1.17 billion in the first half of 1988.

M&M's net income rose 0.4% in the quarter to \$77.3 million from \$77 million in 1988. But in the first half, M&M's net income fell 3.2% to \$165.6 million from \$171.1 million in the first half of 1988.

M&M's diversification into employee benefits consulting and investment management over the last

few years is paying off for the broker in the current soft market, according to Mr. Seifer.

Its consulting revenues jumped 20% in the quarter to \$190.5 million from \$158.8 million in 1988. And, in the first half of 1989, M&M's consulting revenues rose 21.1% to \$368.5 million from \$304.2 million in 1988.

"Our consulting business is seeing very solid performance—18% to 20% growth, excluding acquisitions, for the last four to 4½ years," said J. Michael Bischoff, vp-corporate development group.

"The strongest part of M&M's business now (in terms of profitability) is consulting, the biggest portion of which is employee benefits consulting," Mr. Rosencrants said. "The outlook for employee benefits consulting is exceptionally bright."

In addition, M&M's revenues from investment management subsidiary Putnam Inc. grew 2.1% in the second quarter to \$67.1 million from \$65.7 million. For the first half, Putnam revenues grew 2.3% to \$133.3 million from \$130.3 million in the first half of 1988.

"Putnam is maintaining solid growth in earnings, and expenses are up only 4% from last year," Mr. Bischoff noted.

M&M's insurance services re-

A&A reported a second quarter pretax gain of \$5.3 million from its sale of real estate in the United Kingdom.

In addition, in both the first and second quarters, A&A purchased annuities to fund the pension obligations of some of its U.S. retirees. Because it no longer owes a pension obligation to those retirees, it reduced its expenses by \$6.9 million in the second quarter and by \$7.9 million in the first quarter (BI, May 15).

The "upside" of A&A's pension annuitization "is that it takes expenses off their income statement," noted Shearson Lehman's Mr. Smith. "The bad news is that it's a cash event" for the broker, since the broker paid cash for the annuities, he said.

"We felt that given the softness of the market, our results were pretty good. The strength of the dollar against the pound (sterling) hurt us against our revenue line," said A&A Senior Vp and Chief Financial Officer Paul E. Rohner.

"Had we not had any change in the currency rate, our revenues would have been up about 4% in the quarter. We see that as pretty good performance," he added.

However, Mr. Rohner noted that the exchange rate also helped reduce A&A's expenses. The broker's

half of 1988. However, last year's first half results were distorted by a non-recurring first quarter aftertax gain of \$73.9 million from the broker's sale of its 29.9% stake in London broker Minet Holdings P.L.C. (BI, Feb. 1, 1988; Dec. 14, 1987).

Also during the first half this year, an increase in the frequency and severity of claims against Corroon & Black's small life, accident and health insurer subsidiary, Consumer Benefit Life Insurance Co. of Nashville, Tenn., prompted the broker to add about \$1.5 million to the insurer's reserves. The broker also re-underwrote the insurer's book of business.

"We don't anticipate any further (reserve) deterioration. We feel the company now has adequate reserves," Mr. Cuthbert said.

However, Shearson's Mr. Smith anticipates that problems related to this book of business will linger "a little bit longer than they believe."

Mr. Smith said that when Consumer Benefit Life's book of business was re-underwritten, the clients with the best loss experience went to other insurers for a better price, leaving behind policyholders with adverse loss experience.

Thus, "you end up with a book of business that will never have a correct price," Mr. Smith said.

But, analysts note that despite current problems in Corroon & Black's reinsurance brokerage and life/health insurance operations, the broker has positioned itself well for a turn in the property/casualty insurance market through a series of strategic acquisitions over the past few years.

"We will look back and say that they made acquisitions at the right time in the cycle," Alex. Brown's Mr. Malis said.

But, Mr. Rosencrants of Interstate/Johnson Lane cautions that Corroon & Black needs to "look more carefully" at its expenses, because its pretax profit margin dipped to 13% in the first half of 1989 from 16.9% in the first half of 1988.

The broker already is addressing this issue, according to Mr. Cuthbert. For example, it currently is analyzing its subsidiaries on an office-by-office basis "to make sure they are doing everything feasible to minimize their expenses."

Frank B. Hall

Frank B. Hall reported that its gross revenues in the second quarter increased 4.3% to \$93 million from \$89.2 million in 1988. And, for the first half, Hall reported a 1.1% gain in gross revenues to \$193.2 million from \$191.2 million last year.

However, Hall reported a net loss of \$60.8 million in the second quarter—\$10.8 million on continuing operations and \$50 million from discontinued operations—which brought its first-half net loss to \$63.9 million (BI, Aug. 14).

In comparison, the broker reported a \$7.1 million loss in the second quarter of 1988 and a \$1.4 million net loss in the first half of 1988.

A Hall executive attributed the loss from continuing operations to numerous factors: the soft market, expenses generated by the broker's aggressive hiring of seasoned broker talents over the past 12 months, a widespread employee educational program and automation enhancements.

Many of the new hires are operating under two- to three-year non-compete agreements with their former employers and thus are not yet generating business at their full potential, he explained.

The loss from discontinued operations included:

- \$16 million to fund Hall's portion of a \$48 million settlement with the New York Insurance Department of litigation involving its former underwriting unit, Union Indemnity Insurance Co. of New York (BI, June 5).
- A \$15 million write-down of its investment in former claims adjusting subsidiary Adjustco Inc. Hall regained a 49% stake in the company when its buyer failed to honor the

terms of its 1987 purchase agreement (BI, July 17).

- \$19 million to increase the reserves of two discontinued foreign reinsurance underwriting subsidiaries now in runoff and to establish reserves for pending securities litigation.

Reliance Group Holdings Inc., Hall's major shareholder, is investing another \$50 million in Hall to help the broker offset the second-quarter loss. In return, Reliance is receiving a new issue of convertible preferred stock (BI, Aug. 14).

The Hall executive said the broker is confident it is now on the right track and that its discontinued operations losses are behind it.

But, analysts have mixed opinions on Hall's future.

Mr. Malis of Alex. Brown is confident that Hall will survive its current problems, and he views the broker's revenue growth and new business development in the second quarter as positive signs.

He also predicts that Reliance will either sell Hall outright or first take the company private, clear up its problems and then sell it.

Shearson Lehman's Mr. Smith is not quite as optimistic about Hall's prospects, but he observed: "If there is a bright spot here for the company, it is that Saul Steinberg has again demonstrated his commitment to the company through his investment of another \$50 million," he said, referring to Reliance's major shareholder and Hall's former chairman and chief executive officer.

"Clearly, he is going to end up owning Hall," Mr. Smith predicted.

But, Mr. Rosencrants stressed that "Reliance has no alternative but to continue to pour money into Hall. If Reliance Group fails to provide Hall with additional financing, Hall would immediately default on its debt and would seek protection from creditors by filing for bankruptcy," he said.

It would cost Reliance if it allowed Hall to go under, because Reliance would "then be forced to write down its nearly \$150 million investment in Hall preferred stock potentially to zero," Mr. Rosencrants pointed out.

Moody's Investors Service last week downgraded its ratings on both Hall's subordinated notes and the broker's cumulative convertible preferred stock, stating that the "action reflects the company's ongoing losses from discontinued operations, its negative net worth and its contingent liabilities."

Arthur J. Gallagher

Gross revenues at Rolling Meadows, Ill.-based Arthur J. Gallagher grew 9.1% in the second quarter to \$38.5 million from \$35.3 million in 1988. First-half revenues rose 7.3% to \$79 million from \$73.6 million in 1988.

Net income rose 3.4% in the second quarter to \$1.9 million from \$1.8 million in the second quarter last year. But, net income for the first half dropped 0.4% to \$5.78 million from \$5.8 million a year ago.

Gallagher managed to "substantially offset" the pressure of market conditions "by strategic new business development in the risk management area, along with the cost controls we implemented in 1988," said Mr. Cloherty.

Mr. Malis noted that Gallagher's second-quarters are "by far its smallest quarters" but that the broker's results were "in line" with his expectations.

And Interstate/Johnson Lane's Mr. Rosencrants observed that an examination of Gallagher's third-quarter results will be more meaningful because the quarter is a larger revenue-generating quarter for the broker.

Mr. Rosencrants also noted that Gallagher's first-half pretax profit margin was 11.6%.

Hilb, Rogal & Hamilton

Richmond, Va.-based Hilb, Rogal & Hamilton reported a 13.1% gain in second-quarter gross revenues to

Continued on next page

First-half 1989 broker results

Results are reported in thousands of dollars

Broker	Gross revenues	% change	Net income	% change
Marsh & McLennan	\$1,229,000	5.5%	\$165,600	-3.2%
Alexander & Alexander	622,100	1.5	37,300	1.9
Corroon & Black	229,722	11.2	18,326	-80.8 ¹
Frank B. Hall	103,993	7.3	-60,809	N/M
Arthur J. Gallagher	78,999	7.3	5,784	-0.4
Hilb, Rogal & Hamilton	31,539	17.8	3,365	30.5
Poe & Associates	19,182	1.8	2,021	-27.5

¹1988 first-quarter income includes a net aftertax gain of \$73.9 million from the sale of its equity interest in Minet Holdings P.L.C.

N/M-Not meaningful

Source: Company reports

nues, including brokerage and reinsurance brokerage, grew only 1% in the second quarter to \$348.7 million from \$345.5 million in the second quarter last year.

And, insurance services revenues were down 0.5% in the first six months of 1989 to \$727.2 million from \$730.8 million in the same period last year.

Mr. Bischoff considers M&M's ability to maintain its 1988 revenues from brokerage operations in 1989 as an accomplishment.

"In this type of a market environment, where you see a continuation of marked rate competition and premium reductions, to perform well requires strong new business efforts and expense control," Mr. Bischoff said.

Excluding the effects of the foreign exchange rate, expenses for M&M's insurance services operations were flat in 1988 and have grown only 3% in the first half of 1989, he added.

M&M is "really keeping its expenses down" throughout its operations, agreed Mr. Seifer of Donaldson, Lufkin & Jenrette.

M&M also has the highest pretax profit margin of all the publicly traded brokers at 23.6%, according to Mr. Rosencrants. This figure is arrived at by dividing pretax earnings by gross revenues.

Alexander & Alexander

A&A, the world's second-largest insurance broker, reported 2.1% growth in revenues in the second quarter to \$319.6 million from \$312.9 million in 1988. Revenues grew 1.5% in the first half to \$622.1 million from \$612.9 million in the first half in 1988.

A&A's net income rose 25.9% in the second quarter to \$25.3 million from \$20.1 million in 1988, while net income increased 1.9% in the first half to \$37.3 million from \$36.6 million in 1988.

operating expenses grew only 0.8% in the quarter.

"A&A's expense control was excellent," Mr. Malis said, adding that the quarter was in line with his expectations.

Interstate/Johnson Lane's Mr. Rosencrants said A&A's second quarter was "a little better" than he had expected. "The steps they are taking continue to be positive, and I'm enthusiastic about their prospects for the future," he said.

However, A&A's pretax profit margin is "still lower than all of the other healthy brokers," Mr. Rosencrants pointed out.

He noted that while A&A's pretax margin for the first half was 10.7%, it was only about 8% when the non-recurring gains from the real estate sale and pension annuitization are excluded.

Corroon & Black

New York-based Corroon & Black's gross revenues grew 9.5% in the second quarter to \$110.1 million from \$100.5 million in 1988's second quarter. First-half gross revenues grew 11.2% to \$229.7 million from \$206.6 million in 1988.

However, the broker's net income dropped 24.9% in the second quarter to \$6.2 million from \$8.3 million in the same period last year.

Vp and Controller Robert P. Cuthbert attributed the earnings drop in the quarter in large part to "further deterioration in the profitability" of Corroon & Black's reinsurance brokerage group because of rate competition and high insurer retentions.

Earnings suffered in the quarter also because of "adverse developments within our life and health division," he said.

"Except for our life and health division, earnings were in line with our expectations," he added.

In the first half, Corroon & Black's net income plunged 80.8% to \$18.3 million from \$95.3 million in the first

Model form

Continued from page 3
Environmental claims are much broader," pointed out R. Bruce Stephen, vp-claims department for Reinsurance Corp. of New York, which is another member of the study group.

"All carriers have some exposure to environmental claims and the nature of the claims themselves is very complex, involving multiplicity of dump sites and people doing the dumping" and often involving incidents spanning a number of years, Mr. Stephen explained.

In addition, there is no "easy definition of loss," since environmental claims can involve such variables as diminished property value and any number of different illnesses, Mr. Stephen added.

Mr. Preller said basic claims reporting forms in use usually include such standard information as policy number, policy period, date of loss and a description of loss or

statement of facts.

But, when reporting environmental liability claims, the ceding company may simply list "environmental," or "dump site" under the description of loss, Mr. Preller explained.

The reinsurer then has to contact the ceding company for further information to determine whether losses would be covered under the reinsurance contract, as well as to determine the appropriate loss reserves to establish for future claims, he said.

Additional information requested on the study group's three-page model form includes:

- A description of the policyholder and the status of litigation pending against the policyholder.
- A site analysis, including the number of defendants, the years in which the site was in active use and the date of discovery of contamination.
- The nature of the claims, such as whether they allege property

damage or bodily injury, and the total estimated cost of the claims.

- Details about the status of the cleanup process.
- The number of plaintiffs and their alleged injuries or damages.
- How claims are being handled, including coverage defenses used

The form was sent to the Justice Department 'strictly as a matter of caution,' Mr. Stephen says.

by the primary insurer to avoid liability for the claim like "late notice," "pollution exclusion" or "owned property exclusion."

Whether an insurer believes it is liable or not, it must notify its reinsurers of environmental liability claims to protect its reinsur-

ance. With the increasing number of environmental liability claims filed with insurers, reports to reinsurers have been multiplying.

The study group "initiated an exchange of information regarding environmental claims to find a way to help cedants and reinsurers expedite the handling of these claims," Mr. Kay explained.

This exchange was accomplished through informal meetings with major ceding companies and reinsurance intermediaries like Guy Carpenter & Co. Inc. in New York, Mr. Stephen said.

"This is the first attempt we are aware of where ceding companies, reinsurers and brokers were all sort of brought into a process" to develop a common model reporting form, noted Jamie Stirn, an associate with Preston, Thorgrimson, Ellis & Holman.

The study group was originally formed in 1986, not to design a reporting form, but to develop background information on environmental claims—such as where potential claims could arise and what knowledge reinsurers and ceding companies would need to handle these claims—and to track changing environmental laws, Mr. Stephen said.

Discussions about a model environmental reporting form began when "we realized that there was no consistency in the information being received by reinsurers" on claims reports, he added.

Mr. Kay said "in a situation where a ceding company is on a treaty with multiple reinsurers, it would have to report the claim to all of the reinsurers separately. It facilitates matters if the cedant can fill out one report and submit it to all the reinsurers."

Mr. Stephen said that the form was submitted to the Justice Department's Antitrust Division "strictly as a matter of caution. One of the concerns at the time we were developing the form was the rash of antitrust litigation

coming out," he explained.

Mr. Preller agreed. "Our cedants should be satisfied that they don't have to shy away from use of such a form for fear of potential violation of the antitrust act," he said after the Justice Department approved the form July 21.

The Justice Department's review letter states: "Although your business review request states that there will be no express agreement among reinsurers or among primary insurers to use the proposed form, the Department cannot foreclose the possibility that joint action to adopt and promote the form would result in widespread adoption of the proposed form.

"We believe, however, that such a result would not be anticompetitive and therefore would not be a basis for challenging the underlying agreement."

Mr. Stephen said that interested cedants, intermediaries or reinsurers can adopt the reporting form as is, modify it or not use it at all.

"It's just an information form that includes the kind of information needed to handle an environmental claim," he said.

While "it is very unlikely that the form could be filled out completely right at the outset, as the ceding company develops this information, it can supply more and more information to the reinsurer," Mr. Stephen added.

Other members of the study group included: Northbrook, Ill.-based Allstate Insurance Co.; the U.S. arm of Hamburg, West Germany-based Hamburg International Reinsurance Co. in Orlando, Fla.; Philadelphia-based Philadelphia Reinsurance Corp.; St. Paul, Minn.-based St. Paul Reinsurance Management Corp.; and Hamilton, Bermuda-based Walton Insurance Ltd.

The Nordic Information Office on Asbestos Claims, a group of Scandinavian reinsurers, also participated in the study group. ■

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Broker results

Continued from previous page
\$14.7 million from \$13 million in 1988's second quarter. First-half revenues grew 17.8% to \$31.5 million from \$26.8 million last year.

Net income rose 17.6% in the second quarter to \$917,000 from \$780,000 in 1988. For the first half, net income jumped 30.5% to \$3.4 million from \$2.6 million in 1988.

President Robert H. Hilb is "extremely happy" with HRH's second-quarter results. While policies "renewed at a lower premium, on average, than in 1988, that was offset by our strong sales results and our acquisition program," he said.

The broker's strategy of acquisitions and new business development "is still working in this market," Mr. Hilb said. "And, if prices firm, I think we will have some outstanding years," he predicted.

"We continue to recommend Hilb stock," Mr. Malis said. "It probably has the most exciting long-term prospects among the smaller companies," he added.

"We've been pounding the table on HRH," Mr. Rosencrants agreed. "We're excited about its Main Street book of business strategy, which reduces volatility, and about its growth."

"I continue to have high regard for its strategy, management and long-term outlook," he added, pointing out that M&M is the only public broker with a profit margin exceeding HRH's 14.4% margin.

Poe & Associates

Poe & Associates' gross revenues grew 8.5% in the second quarter to \$9.3 million from \$8.5 million last year. In the first six months, revenues grew 1.8% to \$19.2 million from \$18.8 million in 1988's first half.

But, Poe's net income dropped 13.8% in the second quarter to \$791,000 from \$918,000 in the sec-

ond quarter of 1988. And for the first half, net income fell 27.5% to \$2 million from \$2.8 million in 1988.

Poe's second-quarter purchase of Dean Davidson Insurance Agency Inc. in Phoenix was responsible for the broker's slight increase in gross revenues in the second quarter, Mr. Poe explained. Second-quarter results would have been flat otherwise.

But, "we considered it a good quarter under the circumstances," said Mr. Poe, citing property/casualty rate competition.

The broker's general expenses also increased slightly in the second quarter, he added.

None of the analysts contacted track Poe's results.

Rollins Burdick Hunter

Chicago-based Aon Corp. also has released second-quarter results, which include the results of its brokerage unit, Rollins Burdick Hunter Group.

RBH Group reported that second-quarter gross revenues grew 5.8% to \$71.4 million from \$67.5 million in the second quarter last year. Revenues in the first half increased 10.2% to \$147 million from \$133.4 million in 1988.

However, pretax income in the second quarter fell 26.5% to \$7.5 million from \$10.2 million in the second quarter of 1988. For the first half, net income dropped 19.7% to \$16.9 million from \$21.1 million in the first half last year.

"Continued investments in our retail brokerage operations, coupled with the ongoing competitive rating environment, were the elements which led to our margin results being below expectations in the second quarter," said Arthur F. Quern, chairman, president and chief executive officer of Rollins Burdick Hunter Co., the group's retail brokerage affiliate. ■

Destroyed files

Continued from page 2

documents were destroyed by warehouse employees two years before the litigation was filed and that the employees had not consulted the claims or legal departments.

U.S. Gypsum in 1983 sued 22 insurers, including underwriters at Lloyd's of London, for coverage for asbestos claims. U.S. Gypsum has been named in more than 11,000 state and federal lawsuits alleging bodily injury from asbestos products the company made until the mid-1970s. In addition, U.S. Gypsum has been named in nearly 150 asbestos property damage lawsuits.

The first phase of the massive coverage litigation involved a dispute between U.S. Gypsum, Liberty Mutual and Transamerica Insurance Co., on behalf of New York Casualty Insurance Co., over the substance of lost insurance policies. New York Casualty's business was acquired by Transamerica.

Subsequent phases of the trial will deal with specific policy provisions and counterclaims from the insurers.

In the first phase, U.S. Gypsum claimed it had primary product liability coverage from Liberty Mutual from 1943-1949, and both primary and excess product liability coverage from New York Casualty from 1949 to 1950.

Liberty Mutual claimed it insured U.S. Gypsum for property damage and bodily injury claims—but excluding product liability—from 1943 to 1949. Transamerica, on behalf of New York Casualty, also denied any product liability coverage.

Two years before this litigation was filed, some warehouse employees at Liberty Mutual destroyed index cards that summarized insurance policies written by the insurer in the early 1940s.

U.S. Gypsum claimed the destruction of the cards made it more difficult for the policyholder to accurately determine its coverage.

"Sometime after U.S. Gypsum and others began asking for these policies, the coverage cards were destroyed," said U.S. Gypsum attorney Stephen Harper of Kirkland & Ellis in Chicago.

Furthermore, "The evidence showed the documents were destroyed outside the normal document

retention and destruction program," said Mr. Harper.

However, because U.S. Gypsum had previously made inquiries to Liberty Mutual about its coverage, the coverage cards relating to its policies had been copied and saved.

But U.S. Gypsum alleged that there was no way to decipher the codes on its coverage cards without looking at all the cards Liberty Mutual wrote during the relevant time period.

Ruling for U.S. Gypsum, Judge Sklodowski called the destruction of the coverage cards "a smoking gun," and ruled that the policies written by Liberty Mutual cover product liability claims.

Judge Sklodowski also said he saw evidence suggesting that Liberty Mutual handled two product liability cases for U.S. Gypsum during the disputed policy period. He also noted that the 71-year-old underwriter of the U.S. Gypsum account testified that the asbestos producer always purchased very broad coverage.

In addition, Judge Sklodowski ruled that the disputed New York Casualty policy also provided product liability coverage.

The judge reasoned that since a 1951 policy issued by New York Casualty to Gypsum that was a "renewal" of one of the disputed 1949-1950 policies covered product liability, the earlier policies also must have provided product liability coverage.

There will be subsequent litigation before Judge Sklodowski to determine the limits of U.S. Gypsum's coverage as well as battles over exclusions and coverage clauses.

"It boggles the mind to attribute some sort of ill-intent to the destruction of the documents by Liberty Mutual," said Chris Mansfield, general counsel for Liberty Mutual.

"The court not only overlooked the fact that Liberty Mutual maintained and produced copies of the U.S. Gypsum cards but also did not seem to appreciate the fact that the disposal took place more than two years before the U.S. Gypsum litigation was ever initiated," he said.

Furthermore, "the employees involved in the disposal process were completely divorced from the then-budding dispute with U.S. Gypsum," he continued.

Mr. Mansfield said he was "surprised and discouraged" by Judge

Sklodowski's ruling.

Mr. Mansfield said Liberty Mutual "will seek legal recourse" from Judge Sklodowski's decision.

Litigation between policyholders and insurers over the content of very old policies is becoming more and more frequent, attorneys say.

"This is growing body of law," said N. Douglas Martin, assistant vp and counsel for Fireman's Fund Insurance Cos. in Novato, Calif. Fireman's Fund, like many insurers, is currently involved in several similar cases, he said.

"It is very troublesome for former insureds and the insurance company to go back and determine the substance of policies written 40 years ago," explained Mr. Martin.

Often insurance documents more than 20 years old are routinely destroyed by insurers as part of their normal document retention and destruction program, he said.

"This is a very paper-intensive business," said Mr. Martin. "The relevance of materials over a 20-year period of time is questionable."

Furthermore there are no laws requiring insurers to keep documents for decades, he said.

"As a means of managing information and space, documents must be destroyed," Mr. Martin added.

The destruction of old insurance documents has created a whole new industry of so-called insurance archaeology, which involves piecing together a picture of lost policies.

Insurance documents more than 30 years old are often destroyed or lost, said Sheila Mulrennan of Inses-2ran Archaeologist Group Ltd. in New York.

"Insurers have different retention policies, but it is standard to keep policies for about seven years," said Ms. Mulrennan. "Claims files could be around for 20 or 30 years."

"I think that an insurer is less likely to throw away these kinds of records today," in light of the current explosion of litigation surrounding long-tail claims, she said.

It is too early in this type of historical coverage litigation to point to a trend in the courts, according to attorneys.

For example, in the massive litigation brought by Shell Oil Co., California Superior Court Judge William Lanam held the policyholder to a much higher standard of proof of

Update

D&O shield discretionary: Court

Continued from page 2

not apply when a company has insufficient assets to pay damages.

The defendants include officers and directors of Optimum, parent Optimum Holding Corp. of New York; and Ideal Mutual Insurance Co. of New York, an insolvent insurer that owned 51% of OHC.

Some defendants are appealing the appellate decision.

Fire suit seeks punitive award

SAN JUAN, Puerto Rico—U.S. District Court Judge Raymond L. Acosta has given defendants in the San Juan Dupont Plaza hotel fire litigation until today to respond to plaintiffs' motion seeking a determination of whether they can seek punitive damages.

While prohibited under Puerto Rican law, punitive damages can be awarded under federal law or the laws of other jurisdictions involved in this multidistrict litigation, argue plaintiffs' attorneys.

Judge Acosta on Aug. 11 had ordered sealed court documents to be opened, which revealed that 39 of the more than 80 remaining defendants have signed a joint defense and judgment/settlement sharing agreement. Among other things, the pact prohibits those defendants from bringing evidence against each other in court and from settling out of court—alone or as a group—without majority approval.

The plaintiffs earlier this year reached a \$108 million out-of-court settlement with several defendants (BI, May 15).

The Dec. 31, 1986, fire at the hotel killed 97 people and injured more than 100 others (BI, Jan. 12, 1987; Jan. 5, 1987).

Briefly noted

Natural catastrophes caused \$1.25 billion in insured property damage during the second quarter of 1989, the highest second-quarter total since the insurance industry began keeping such records. . . . The federal government says it will not ask the U.S. Supreme Court to review an appellate ruling that the government must contribute to an **asbestos bodily injury settlement**. The 1st U.S. Circuit Court of Appeals ruled in March that the government must pay one-third of a settlement to a family member exposed to asbestos brought home by a Navy shipyard worker (BI, April 10).

coverage than did Judge Sklodowski.

In that litigation, which involved Shell and 260 of its liability insurers, the judge was asked to determine the terms of lost policies from the years 1942 to 1946.

Shell argued that by looking at policies issued by various insurance companies from 1946 on, the judge should be able to determine the terms and conditions of the pre-1946 policies. But Judge Lanam said it was impossible to determine the scope of old policies by looking at subsequent policies.

"The logical sequence of the inference that Shell wished to have drawn is that the material terms and

conditions of coverage did not change from policy period to policy period, a proposition that is obviously contrary both to common experience and to the policies actually issued for the period 1946 to 1982 which are in evidence."

As a result, Judge Lanam ruled in favor of the insurers that Shell did not have coverage prior to 1946 for an estimated \$2 billion to \$4 billion cleanup of a hazardous waste site near Denver that Shell used prior to 1946.

A jury later determined that Shell had no coverage because it expected and intended to pollute the environment (BI, Dec. 26, 1988). ■

Telephone company contracts

Continued from page 2

1990 for workers retiring on or after Aug. 6, when the CWA contract expired.

Also, eight new family care initiatives designed to help workers care for children and dependents will be implemented. The initiatives include unpaid leaves of absences with continuation of health care benefits for part of that period and the establishment of pretax dependent care reimbursement accounts.

However, the spokesman declined to elaborate until other local issues were resolved.

Formal negotiations were set for last Friday with representatives of 11,000 members of the International Brotherhood of Electrical Workers union who walked off their jobs at Bell Atlantic on Aug. 7.

Meanwhile, under the tentative three-year agreement that Englewood, Colo.-based U.S. West Communications reached with 42,000 CWA members in 14 states, the company would offer a PPO option that would pay 100% of hospitalization and major medical charges after deductibles are met if preferred providers are used.

Workers that receive care from providers outside of the network would be required to pay a 20% copayment after the deductible.

U.S. West Communications had asked workers to assume a 20% copayment for all health care costs.

U.S. West Communications also agreed to maintain the current \$450 deductible per household, regardless of the number of covered lives, for

hospital and major medical coverage. The company had proposed raising the deductible to \$750 per individual and as much as \$1,800 per family.

The company also agreed to maintain a \$1,000 individual and family out-of-pocket maximum for medical expenses. The company had proposed raising the maximum to \$3,000 per individual and \$5,000 per family.

In addition, the agreement would require workers to obtain pre-authorization for inpatient hospital care, inpatient rehabilitation care and home health care.

The agreement also creates one health care plan to cover the workers, who previously were covered under separate plans established by three U.S. West Communications units: Pacific Northwest Bell, Northwestern Bell and Mountain Bell.

"Are we taking steps to contain costs? Yes. Are they enough? We don't know," a company spokesman said. "We don't feel we have to shift costs to the employee to contain them."

The settlement also includes other benefit improvements.

For example, pension benefits will be increased 10% immediately and an additional 3% in 1992.

And, U.S. West Communications agreed to upgrade both vision and dental benefits and institute a drug and alcohol abuse treatment program, the details of which will be determined later by a joint committee of labor and U.S. West Communications management.

Bill Frazee, a CWA representative in Denver, declined to elaborate on the agreement until the CWA com-

municates the terms of the proposal to its members. Mr. Frazee expects the pact will be ratified by Sept. 15.

Under a tentative three-year agreement that St. Louis-based Southwestern Bell reached with 41,000 CWA members in Arkansas, Kansas, Missouri, Oklahoma and Texas, workers will assume slightly more of the cost of the company's self-insured health care plan.

For example, deductibles will be

'Are we taking steps to contain costs? Yes. Are they enough? We don't know,' says a U.S. West spokesman.

slightly increased for hospitalization and major medical services obtained outside of the company's preferred provider network. The individual deductible will increase \$5 each year of the contract to \$165 from \$150 currently. The deductible for couples will increase similarly to \$315 from \$300, and family deductibles will increase to \$515 from \$500.

In addition, the copayment for preferred physician office visits will increase to \$10 from \$5, while the mail-order prescription copayment will increase to \$8 from \$5.

But, the company lowered the existing emergency room copayment to \$20 from \$25 and waived the copayment if an emergency room visit

leads to hospitalization.

Workers also will receive a \$50 annual allowance for mammograms.

Southwestern Bell did not win concessions from labor on other major health care cost shifting proposals, including initiating worker premium contributions for dependent coverage and making retirees meet age and service requirements before they qualify for retiree health care benefits at no cost.

Jennings Wooldridge, northern area director for District 6 of the CWA in St. Louis, said the CWA agreed to the tentative settlement, which he expects will be ratified by Sept. 19, because it was "able to get rid of the major cost shifting issues."

The company also agreed to other benefit improvements, including:

- Increasing the pension formula, which is multiplied by years of service to compute pension benefits, in each year of the contract by 3% for workers aged 55 and younger, 4% for workers aged 55-59, and 5% for workers aged 60 and older.

- Increasing maximum vision care and orthodontic benefits by 20%.

- Raising by 20% the percentage of dental charges for which it would reimburse workers and increasing annual maximum dental benefits to \$1,000 from \$750 per person.

- Implementing a one-year unpaid leave of absence program for dependent and child care. Workers would receive complete health care coverage during the first six months.

- Initiating a pretax dependent care spending account.

Indiana Bell, a subsidiary of Chicago-based Ameritech, reached a settlement Aug. 12 with 370 members of the International Brotherhood of Electrical Workers.

Under the three-year pact, the company agreed to maintain the current hospitalization and major medical coverage deductible of \$150 per person up to a \$450 maximum family deductible. Indiana Bell also agreed to maintain the 10% copayment workers pay after their deductibles are met under the company's self-insured indemnity plan, said Tom Beagley, president of IBEW Local 336 in Downers Grove, Ill.

The company had sought to increase deductibles and copayments. In addition, out-of-pocket expenses will be maintained at \$3,000 per year per household, Mr. Beagley said.

However, workers are fully covered after meeting the deductible if they obtain health care through the company's preferred provider network.

Ameritech's support services subsidiary, Ameritech Services, reached a tentative three-year contract with 200 IBEW members in Illinois and Indiana under which the company agreed to maintain deductibles at \$150 per individual and \$300 per family.

Workers are not required to make any copayments above the deductibles when they receive care from members of an existing preferred provider network, but they are required to pay 10% of the cost of health care obtained outside of the network, according to an Ameritech Services spokesman. ■

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Howden trial

Continued from page 1

of all charges filed in connection with the alleged transfer of millions of dollars of Lloyd's syndicate reinsurance premiums through offshore companies to buy, among other things, a Swiss bank.

Both defendants, sitting several feet from each other in the dock, appeared relieved as the jury's foreman repeatedly answered "not guilty" to each of the 16 charges against Mr. Grob and to the one charge pending against Mr. Posgate.

Turning to face Mr. Grob for almost the first time during the 15-week trial, Mr. Posgate said, "Ken, you must be feeling pleased."

Afterward, Mr. Posgate told reporters, "I am very pleased. I just feel vindicated."

Mr. Grob, after telephoning his wife with the good news, said: "It's a huge relief. I have lived with this for so long."

The Crown prosecution had alleged that Mr. Grob and three other ex-Howden executives, but not Mr. Posgate, set up a "secret empire" of offshore reinsurance companies and secret trusts to steal money from Howden underwriting subsidiaries and Mr. Posgate's Lloyd's syndicate for their own "criminal enrichment."

Among other things, the four men were accused of using the money to secretly buy 51% of the Banque du Rhone et de La Tamise from Howden.

Mr. Posgate was accused of conspiring to steal money from his syndicate to buy the bank through the secret "purchasing syndicate" set up by the four executives, in which Mr. Posgate had a 10% share (BI, May 8).

During the trial, Mr. Grob said that he thought the money used to purchase the bank came from the Howden executives' personal funds. Mr. Posgate denied that he conspired to

steal from his Lloyd's syndicates and said he did not know that he owned a share of the purchasing syndicate.

The acquittals of Messrs. Posgate and Grob cap seven years of investigation by Lloyd's of London, the British Department of Trade and Industry and the City of London's Serious Fraud Squad into the Howden affair (BI, Sept. 22, 1982).

Allegations against Messrs. Posgate, Grob and other former Howden executives were first brought in 1982 after Alexander & Alexander Services Inc. acquired Howden and, while subsequently conducting a fair-value audit, uncovered accounting irregularities and the "disappearance" of tens of millions of dollars.

A&A filed two lawsuits in September 1982 against Messrs. Posgate and Grob and former Howden Directors Ronald Comery, Allan Page and Jack Carpenter, alleging that at least \$56 million in funds from Howden companies and Howden-managed syndicates were filtered through companies owned by the defendants.

A&A later dropped the lawsuits for the return of Howden assets.

However, Lloyd's disciplinary proceedings in 1985 led to the expulsions of Messrs. Grob, Comery and Carpenter from Lloyd's and the suspension of Mr. Posgate from underwriting for two consecutive six-month periods (BI, July 22, 1985).

Mr. Posgate, formerly one of Lloyd's most successful underwriters, applied in 1986 to be readmitted as a Lloyd's underwriter. But Lloyd's refused, claiming he was not a "fit and proper person" (BI, July 14, 1986).

Messrs. Posgate, Grob, Carpenter, Page and Hart were arrested and charged in July 1987 for their alleged illegal activities (BI, July 20, 1987).

Mr. Comery died in a car accident in 1987. Charges against Mr. Page were dropped in 1988 during a pretrial hearing because he is ter-

minally ill. Mr. Carpenter, who had been standing trial with Messrs. Posgate and Grob, was dismissed from the proceedings last month, also for medical reasons.

The jury, composed of seven men and five women, heard testimony for 15 weeks in one of the most complex and lengthy fraud trials in British legal history.

The prosecution used computer graphics and called on several expert witnesses from the London insurance market to explain the workings of the market to the jury.

"God bless them all, the jury, for coming to that decision," said Mr. Grob outside the courtroom.

The jury had to deal with extremely complicated issues, Mr. Grob noted following the verdict.

However, "it would be awful" to deny the right to trial by jury in complicated fraud cases, he added.

Mr. Grob said the trial and preceding years of investigation had been "a tremendous strain."

However, he added that he was "particularly pleased for Mr. Posgate. I am a much older man. When you are 68 you don't take things so hard."

"I have enjoyed Lloyd's all my life. . . I have nothing but loving affection for the Lloyd's market," Mr. Grob said. "I wish it nothing but good in the future."

Mr. Posgate, 57, said he planned to celebrate by "going to bed" to catch up on his sleep.

"I can't tell you how exhausting the court is," he added. "It's been a long time—seven years—longer than anyone should have to bear."

He refused to answer questions about Lloyd's or the authorities who conducted the investigations.

However, he did say, "I have no interest in going back to Lloyd's," though he added that he "will continue to be a member" of Lloyd's.

Lloyd's would not comment on the outcome of the trial. ■

Oil spill

Continued from page 2

it should be immune from punitive claims.

"Our argument is, punitive damages are just not available to parties under these conditions," said Peter J. Shapiro, a Seattle attorney who prepared the legal response for Exxon Shipping.

However, plaintiffs' attorney Randall Scarlett says Exxon will have a tough time convincing any court that punitive damages are not appropriate in the oil spill situation.

"If there's ever been a punitive damages case, this is it," said Mr. Scarlett of San Francisco-based Belli & Belli, which is representing about 200 oil spill plaintiffs.

Any awards arising from the numerous lawsuits would come on top of the estimated \$1.3 billion Exxon already has agreed to pay to clean up the spill (BI, July 31).

Exxon's liability insurance is expected to cover only about \$400 million of the cost, while the company has taken aftertax losses of \$30 million in the first quarter and \$850 million in the second quarter for the additional expenses.

Exxon has \$400 million in pollution liability insurance from International Tanker Indemnity Assn., a Bermuda protection and indemnity club. Exxon also purchases \$100 million in general liability insurance in the Scandinavian market. This coverage is subject to a \$200 million deductible. London market insurers then write \$200 million of general liability coverage excess of \$700 million. But, the coverage written by Scandinavian and London insurers may exclude third-party claims and pollution resulting from collisions (BI, July 31; June 26; April 3).

Exxon's response to the earlier lawsuits also argues that any compensatory damages awarded to plaintiffs should be "offset" by amounts that the oil company has paid to some plaintiffs, mostly fisherman, to conduct cleanup operations.

Any amounts from out-of-court

settlements with individuals and groups also should be deducted from any future compensatory damages that are awarded, Mr. Shapiro said.

Exxon so far has paid claims totaling more than \$56 million to parties affected by the spill, he said.

Exxon also maintains that some lawsuits have been brought under statutes that do not allow plaintiffs to recover damages that were not directly caused by the spilled oil. However, those arguments are on narrow legal grounds and do not necessarily apply to the majority of lawsuits, Mr. Shapiro said.

Exxon's attempt to limit claims for compensatory damages to only those cases where the spilled oil directly caused damage came as no surprise to plaintiffs' attorneys.

"They are going to draw a line," said John T. Hansen of Hansen & Lederman in Anchorage, which represents more than 100 plaintiffs.

For example, Exxon may attempt to establish that people who work on refrigeration equipment on fishing boats are not entitled to damages because they are not directly involved in fishing, he said.

Exxon has not yet decided whether to also cite a 19th century admiralty law, which is based on British statutes intended to encourage shipping, that could limit its liability to the loss of the ship and its cargo, Mr. Shapiro said. Under the law, Exxon has six months from the date of the oil spill to file its arguments.

Attorneys for the company will decide by the deadline next month whether to attempt to take advantage of the law, he said.

The state's 42-page lawsuit was filed last week partly to head off any attempt by Exxon to invoke the admiralty law, said Alaska Attorney General Douglas Bailey.

If Exxon tried to use the admiralty law to limit its liability, legal proceedings related to the oil spill could be delayed for months, he added.

"We've spent much of the past months gathering evidence in prepa-

ration for this suit, and we believe we have adequate information now to proceed with it," Mr. Baily said.

State officials expanded the legal fight by adding six other oil companies to the list of defendants.

In addition to Exxon, the state lawsuit names the pipeline subsidiaries of Unocal Corp., Phillips Petroleum Co., Mobil Oil Co., British Petroleum Co., Atlantic Richfield Co. and Amerada Hess Corp.

The six companies, along with Exxon, share ownership of Alyeska Pipeline Service Co., operator of the Trans-Alaska Pipeline. Alyeska, the state charges, was responsible for the immediate response to the oil spill.

The state's lawsuit alleges Alyeska and its member companies are liable for damages because they failed to take prompt action to contain and recover the spilled oil and misrepresented Alyeska's ability to handle a major spill.

And, Exxon was negligent for allowing the conditions that led to the grounding of the Exxon Valdez, the lawsuit alleges.

In its lawsuit, the state says more than 1,000 square miles of land, waters and resources suffered severe environmental damage including devastation of beaches and coastal waters, death or injury to thousands of animals, curtailment of commercial fisheries and impairment of recreational opportunities.

A spokesman for the National Wildlife Federation was unavailable for comment on the Washington, D.C.-based organization's suit.

London sources say Alyeska does not purchase its own pollution liability coverage. Any damages awarded against Alyeska would be covered by its owners' insurance.

Exxon officials declined to comment on specifics of the state's action. "We will defend ourselves vigorously against the state's lawsuit," the company said in a statement.

Spokesmen for the other oil companies also declined to comment on the suit or on their insurance. ■

Broker stock surge belies results

By **LEONARD M. WILSON**
Special to Business Insurance

JUDGING BY THE ACTION of insurance brokerage stocks recently, no one would be inclined to believe that the soft market continues largely unabated. The shares of publicly owned brokers have joined in the broad market advance despite lackluster second-quarter earnings reports (see story, page 1). Although the brokers' latest results provided few surprises, they certainly afforded little basis for rising stock prices.

Could it be that investors are now willing to discount a turn in the market without any corroborating straws in the wind?

Our discussion of second-quarter earnings starts with domestic commissions. Here, the impact of the soft market was quite evident. Commissions on U.S. brokerage business were essentially unchanged from the level of a year earlier. Year-over-year progress, feeble at best, improved for most brokers over the first-quarter rate of gain but the difference was slight. Some observers were heartened, nonetheless, by the exiguous improvement in commission growth compared with the first quarter, but our view is a more cautionary one.

New business on the domestic front remained robust. We estimate the commissions might typically have received a 15% boost from new business.

The momentum has not slackened, and new business continues as the key to sustaining commissions in the face of soft rates. New business unit gains are all the more striking, given rate reductions of sizable magnitude.

Lost business has stabilized now for a number of quarters.

By our calculation, new business net of lost business generated a 10% gain in commissions for most public brokers.

Renewal premium rates across the full spectrum of commercial lines probably dropped 12% to 13%. This figure is derived from disaggregating the change in commissions from such components as real growth, insurable values, new business, lost business and finally the impact of premium rates as a

residual. Our estimate receives some degree of confirmation from industry contacts. Reinsurance brokerage has entered its third year of stagnation, in marked contrast to the prior soft market. Then, for most of the cycle, reinsurance brokerage bolstered brokers' results.

Reinsurance premium rates, we gather, are soft but not distressingly so. Retentions, though, are high and so far show no signs of declining. Reinsurance brokers, as a consequence, are doing well to keep commission income flat and, in some instances, volume has shrunk appreciably.

International insurance brokerage—whether reinsurance, wholesale or retail—is not robust. Reduced demand for reinsurance, an aversion of foreign markets to U.S. liability coverage and generally lower premium rates are all factors that brokerage contacts bring up in their assessments. The stronger dollar has helped margins to a degree for those brokers with sizable dollar denomin-

By our calculation, new business net of lost business generated a 10% gain in commissions for most public brokers.

ated volume serviced in British pounds, however.

Employee benefit consulting operations posted gains that ranged from around 10% to 20% year over year. Fundamentals are still quite attractive with government regulations and escalating costs driving an intense search for more economical solutions for this expanding category of business expense. Market share gains are probably also a factor in the good showing of the category.

Investment income rose markedly in the quarter. Higher short-term rates were the primary component of the advance. Growth in investable funds was held back by the static premium throughput.

Expenses were tightly controlled in the quarter and, as we have indicated in past columns, cost restraint has become ingrained at least for the present in the brokerage culture. Headcounts are stable and most ex-

pense categories are under close scrutiny.

Operating profit margins were under modest pressure in the quarter, since revenues rose less than expenses. We believe that the cloud over brokerage profit margins cannot lift until revenue growth moves up to gains of around 8% to 10%. Growth of that magnitude awaits a material lessening of rate competition.

With the squeeze on profitability, earnings per share did well to match the year-earlier figures and even the modest performance was not achieved in every instance. Share buybacks have become the norm as brokers deploy excess cash to sustain shareholder value.

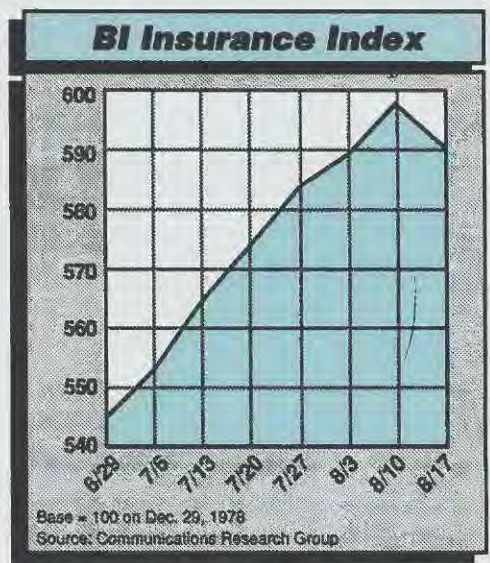
In this generally subdued environment, the quarter did have some bright spots. Marsh & McLennan Cos. Inc. posted a 20% rise in benefit consulting revenue. Alexander & Alexander Services Inc. was able to book appreciable gains on a real estate transaction that lifted reported earnings as well as freed cash. Corroon & Black Corp. recorded solid gains in specialty products. Arthur J. Gallagher & Co.'s self-insurance fees rose better than 20% in the quarter, belying the conventional wisdom that self-insurance services are eclipsed in a soft market.

We began our column with the observation that brokerage stocks shrugged off the negative impact of soft rates on quarterly comparisons.

The present mood of investors is an optimistic one. In addition, with the drop in interest rates, financial stocks have regained a degree of investor favor. Insurance brokers, which in our view are cyclical growth stocks, were beneficiaries of the shift in sentiment toward financial issues.

Premium rates, though, will continue as the dominant influence on longer-term brokerage investment performance.

There are few hopeful portents currently except one. The decline in premium rates since the end of 1986 has been so precipitous that it is distinctly possible that the worst is behind. Therefore, it could be argued that even if the soft market persists into 1990, smaller rate reductions could mitigate the impact on brokerage comparisons. And, indeed, better but moderate revenue growth might be sufficient to allow earnings to resume their growth. This possibility might justify generally more favorable attitudes toward the brokers.



Insurance industry stocks turned downhill last week, as the *Business Insurance Index* fell 7.8 points to 590.4 on Aug. 17, from 598.2 on Aug. 10. Advancing issues were led by SCOR U.S. Corp., up 10.1%; Phoenix Re Corp., up 7.9%; and Hilb, Rogal & Hamilton Co., up 6.7%. Decliners followed Western Health Plans Inc., down 24.0%; Nobel Insurance Ltd., down 11.7%; and Pacificare Health Systems, down 10.7%. The most active issue was Sears, Roebuck & Co. (Allstate), 2.4 million shares traded. The *BI index* lost 1.3%; the Dow Jones 30 Industrials fell 1.2%; the Standard & Poor's 500 was down 1.1%; and the New York Stock Exchange Composite lost 1.0%.

British Issues

Aug. 17 Companies	Price pence	P/E	DIV. pence	Yield %	1 Week High-Low pence
Comml Union	413	17.2	29.3	7.1	413-401
Genl Accident	1012	10.0	68.0	6.7	1050-1010
Genl Royal Exch	217	11.4	15.7	7.2	217-212
Royal	445	13.6	34.0	7.6	445-433
Sun Alliance	315	9.1	17.0	5.4	315-305

Brokers	Price	P/E	DIV.	Yield	1 Week High-Low
Bradstock	191	13.1	10.0	5.2	191-190
CE Health	460	13.1	34.5	7.5	460-459
Hogg Robinson	148	12.3	9.3	6.3	150-144
Lloyd Thompson	220	16.9	8.0	3.6	220-219
PWS Holdings	50	12.5	3.3	6.7	50-48
Sedgwick Grp	247	17.4	16.7	6.7	247-244
Steel Birl Jones	234	15.6	15.3	6.6	236-234
Wills Faber	218	16.1	15.3	7.0	218-215

Source: Philip Olsen/Alan Clifton, Insurance Industry Specialists Kitcat & Aitken Stockbrokers, London

BI Industry Stock Report

AUGUST 17, 1989

8/11/89 THRU 8/17/89

	Price	Weekly		Year to Date		Annual		Vol.(000)	\$ Div.	% Yield	P/E	Book value	Mkt/Bk. value	Price	Weekly		Year to Date		Annual		Vol.(000)	\$ Div.	% Yield	P/E	Book value	Mkt/Bk. value				
		% change	% change	% change	% change	High	Low								High	Low	High	Low												
BROKERS																														
Alexander & Alexander Svcs	NYSE	28.75	-1.3	22.3	29.63	22.63	433	1.00	3.5	17.7	2.90	9.91	9.91	28.75	-1.3	22.3	29.63	22.63	433	1.00	3.5	17.7	2.90	9.91	9.91	9.91	9.91	9.91	9.91	9.91
Corroon & Black Corp	NYSE	36.63	0.4	17.7	37.38	30.75	60	1.24	3.4	15.7	7.62	4.81	4.81	36.63	0.4	17.7	37.38	30.75	60	1.24	3.4	15.7	7.62	4.81	4.81	4.81	4.81	4.81	4.81	4.81
Gallagher Arthur J. & Co	NYSE	23.00	-5.7	37.3	24.75	16.13	39	0.52	2.3	16.2	5.33	4.32	4.32	23.00	-5.7	37.3	24.75	16.13	39	0.52	2.3	16.2	5.33	4.32	4.32	4.32	4.32	4.32	4.32	4.32
Hilb, Rogal & Hamilton	OTC	19.50	6.7	27.9	19.75	13.75	200	0.20	1.0	7.0	4.60	4.24	4.24	19.50	6.7	27.9	19.75	13.75	200	0.20	1.0	7.0	4.60	4.24	4.24	4.24	4.24	4.24	4.24	4.24
Marsh & McLennan Cos. Inc.	NYSE	69.63	-1.1	23.8	72.13	55.13	326	2.50	3.6	7.2	6.48	10.75	10.75	69.63	-1.1	23.8	72.13	55.13	326	2.50	3.6	7.2	6.48	10.75	10.75	10.75	10.75	10.75	10.75	10.75
Poe & Assoc. Inc.	OTC	8.50	0.0	3.0	8.75	8.25	2	0.40	4.7	9.7	1.43	5.94	5.94	8.50	0.0	3.0	8.75	8.25	2	0.40	4.7	9.7	1.43	5.94	5.94	5.94	5.94	5.94	5.94	5.94
BROKERS AVERAGE																														
CONGLOMERATES & HOLDING COMPANIES																														
Berkley W R Corp	OTC	34.63	-1.8	17.4	36.25	29.25	100	0.40	1.2	7.3	21.28	1.63	1.63	34.63	-1.8	17.4	36.25	29.25	100	0.40	1.2	7.3	21.28	1.63	1.63	1.63	1.63	1.63	1.63	1.63
Berkshire Hathaway Inc. DEL	NYSE	7825.00	-3.1	66.5	8175.00	7996.00	108	0.00	0.0	27.0	2468.63	9.01	9.01	7825.00	-3.1	66.5	8175.00	7996.00	108	0.00	0.0	27.0	2468.63	9.01	9.01	9.01	9.01	9.01	9.01	9.01
ITT (Hartford Group)	NYSE	62.13	-0.6	23.9	64.00	49.75	1516	1.48	2.4	10.4	56.33	1.10	1.10	62.13	-0.6	23.9	64.00	49.75	1516	1.48	2.4	10.4	56.33	1.10	1.10	1.10	1.10	1.10	1.10	1.10
Sears Roebuck & Co. (Allstate)	NYSE	46.13	-0.5	12.8	48.00	40.13	2385	2.00	4.3	15.7	36.09	1.28	1.28	46.13	-0.5	12.8	48.00	40.13	2385	2.00	4.3	15.7	36.09	1.28	1.28	1.28	1.28	1.28	1.28	1.28
CONGLOMERATES AVERAGE																														
INSURERS/REINSURERS																														
Aetna Life & Cas Co	NYSE	58.88	-0.8	24.6	60.13	46.75	641	2.76	4.7	8.6	58.11	1.01	1.01	58.88	-0.8	24.6	60.13	46.75	641	2.76	4.7	8.6	58.11	1.01	1.01	1.01	1.01	1.01	1.01	1.01
AmBase Corp	NYSE	16.38	2.4	48.9	16.38	11.00	680	0.20	1.2	5.8	18.66	0.88	0.88	16.38	2.4	48.9	16.38	11.00	680	0.20	1.2	5.8	18.66	0.88	0.88	0.88	0.88	0.88	0.88	0.88
American General Corp	NYSE	37.75	-0.3	26.3	38.50	29.50	457	1.50	4.0	9.8	28.04	1.35	1.35	37.75	-0.3	26.3	38.50	29.50	457	1.50	4.0	9.8	28.04	1.35	1.35	1.35	1.35	1.35	1.35	1.35
Amer Heritage Life Invst	NYSE	26.25	0.9	1.9	27.88	25.00	2	1.20	4.6	10.0	22.47	1.17	1.17	26.25	0.9	1.9	27.88	25.00	2	1.20	4.6	10.0	22.47	1.17	1.17	1.17	1.17	1.17	1.17	1.17
Amer Indty Finl Corp.	OTC	10.00	0.0	-4.8	13.00	9.50	5	0.56	5.6	6.4	17.38	0.58	0.58	10.00	0.0	-4.8	13.00	9.50	5	0.56	5.6	6.4	17.38	0.58	0.58	0.58	0.58	0.58	0.58	0.58
American Int'l Group	NYSE	95.13	0.1	40.4	96.63	66.25	943	0.48	0.5	12.0	33.55	2.84	2.84	95.13	0.1	40.4	96.63	66.25	943	0.48	0.5	12.0	33.55	2.84	2.84	2.84	2.84	2.84	2.84	2.84
Aon Corp	NYSE	35.88	-2.0	28.1	38.00	27.00	264	1.40	3.9	11.9	16.67	2.15	2.15	35.88	-2.0	28.1	38.00	27.00	264	1.40	3.9	11.9	16.67	2.15	2.15	2.15	2.15	2.15	2.15	2.15
Argonaut Group	OTC	63.62	1.2	45.4	64.25	43.50	40	1.00	1.6	8.3	36.83	1.72	1.72	63.62	1.2	45.4	64.25	43.50	40	1.00	1.6	8.3	36.83	1.72	1.72	1.72	1.72	1.72	1.72	1.72
AVEMCO Corp.	NYSE	25.25	5.2	-2.4	26.13	22.63	81	0.40	1.6	13.6	9.20	2.74	2.74	25.25	5.2	-2.4	26.13	22.63	81	0.40	1.6	13.6	9.20	2.74	2.74	2.74	2.74	2.74	2.74	2.74
Baldwin & Lyons Inc.	OTC	20.25	1.3	36.1	20.50	14.50	15	0.20	1.0	6.8	17.57	1.15	1.15	20.25	1.3	36.1	20.50	14.50	15	0.20	1.0	6.8	17.57	1.15	1.15	1.15	1.15	1.15	1.15	1.15
Belvedere Corp	AMEX	5.13	-2.3	14.0	6.50	4.50	3	0.04	0.8	8.0	8.43	0.61	0.61	5.13	-2.3	14.0	6.50	4.50	3	0.04	0.8	8.0	8.43	0.61	0.61	0.61	0.61	0.61	0.61	0.61
Chandler Insurance	OTC	10.50	0.0	51.3	10.88	7.00	115	0.00	0.0	5.9	9.53	1.10	1.10	10.50	0.0	51.3	10.88	7.00	115	0.00	0.0	5.9	9.53	1.10	1.10	1.10	1.10	1.10	1.10	1.10
Chubb Corp	NYSE	76.13	-2.2	31.3	78.50	57.63	283	2.32	3.0	8.3	53.50	1.42	1.42	76.13	-2.2	31.3	78.50	57.63	283	2.32	3.0	8.3	53.50	1.42	1.42	1.42	1.42	1.42	1.42	1.42
CIGNA Corp	NYSE	60.88	-3.7	29.2	63.88	45.88	454	2.96	4.9	10.4	53.08	1.15	1.15	60.88	-3.7	29.2	63.88	45.88	454	2.96	4.9	10.4	53.08	1.15	1.15	1.15	1.15	1.15	1.15	1.15
CNA Fin'l Corp.	NYSE	82.00	-0.5	35.5	84.88	57.63	141	0.00	0.0	9.9	54.52	1.50	1.50	82.00	-0.5	35.5	84.88	57.63	141	0.00	0.0	9.9	54.52	1.50	1.50	1.50	1.50	1.50	1.50	1.50
Continental Corp	NYSE	37.13	-2.0	1																										

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