

Business Insurance

®

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

Entire contents copyright 1998 by
Crain Communications Inc. All rights reserved.

Purchase of SunAmerica to build AIG's retirement savings business

NEW YORK—American International Group Inc.'s acquisition of SunAmerica Inc. will expand AIG's reach into one of the world's fastest growing businesses: retirement savings.

According to Myron M. Picoult, director and senior insurance analyst at Wasserstein Perella Securities Inc. in New York, the \$18 billion deal is a long-term strategic move for AIG, rather than a knee-jerk reaction to a soft property/casualty market, downturns in Asian economies or other current business

See Updates on next page

California ruling exposes employers to bias suits

By ROBERTO CENICEROS

SAN FRANCISCO—California employers expect increased litigation will follow a state Supreme Court decision that allows employees to sue for discrimination if they are fired after returning to work from job-related injuries.

Employer groups said they will push for legislation to counter the high court's Aug. 17 ruling. The decision overturns seven appellate court decisions, rendered over 16 years, that found the workers compensation system provides an exclusive remedy for such cases, according to the Supreme

Court's opinion in *City of Moorpark et al. vs. The Superior Court of Ventura County*.

A five-member panel of justices unanimously agreed that workers can sue in civil court for discrimination under California's Fair Employment and Housing Act. Two justices dissented from an opinion that employees also can sue for common-law wrongful termination, saying the ruling is duplicative.

Under California's FEHA, plaintiffs have far more remedies available than under the workers comp system, especially if defendants are found to have willfully or negligently allowed dis-

crimination to occur, said Julianne Broyles, director of insurance and employee relations for the California Chamber of Commerce in Sacramento.

Plaintiffs can sue for compensatory and punitive damages under FEHA, legal experts agree. In contrast, employees typically can recover a maximum of \$10,000 in damages and \$250 for costs in the workers compensation system.

Under the ruling, plaintiffs can seek awards in both the workers comp system and in civil court. Collecting an award in one arena does not preclude action in the other, attorneys said.

See Ruling on page 22

Chubb launches reinsurer with Berger at the helm

By GAVIN SOUTER

WARREN, N.J.—Chubb Corp. will buck the trend of consolidation in the reinsurance market by establishing a new reinsurer later this month.

The new Chubb Re unit will be run as a management company, rather than a separately capitalized entity, and will be headed by John R. Berger. Mr. Berger is the former president and chief executive officer of F&G Re Inc., a recently acquired unit of The St. Paul Cos. Inc.

Chubb's new broker market reinsurer will be entering a market awash with capacity and falling rates, but the combination of Mr. Berger's reputation and the backing of Chubb should win the reinsurer a place on some programs, brokers say.

"John Berger is a great guy and Chubb is great security, so it would be dumb not to talk to them," said Steven Bolland, senior vp at Gill & Roeser Inc., a reinsurance interme-



Mr. Berger

diary in New York.

Chubb Re does not plan to compete vigorously when it enters the mainstream reinsurance market.

"We are going in with our eyes open, realizing that it's a brutal market, but we are going in for the long term," Mr. Berger said.

Initially, Chubb Re's main focus will be providing finite risk and other non-traditional reinsurance coverages, said Mr. Berger.

The structure of the company should allow Chubb Re to concentrate on profitable business without

running up large expenses, he said.

As a management company, Chubb Re will be backed by

See Chubb Re on page 22

Risk managers explore options as RISKWeb's days numbered

By DAVE LENCKUS

RISKWeb is dead. Long live RISKWeb.

The popular electronic discussion forum for risk managers, unceremoniously unplugged Aug. 13, was brought back online late last week but only for a limited time so subscribers can plan a successor forum.

RISKWeb owner InsWeb Corp. of San Mateo, Calif., intends to sack the 5-year-old service for good after Sept. 30. RISKWeb operated as both an Internet mailing list, distributing e-mail postings to subscribers as they were made, and a Web site—www.riskweb.com—where submissions were archived.

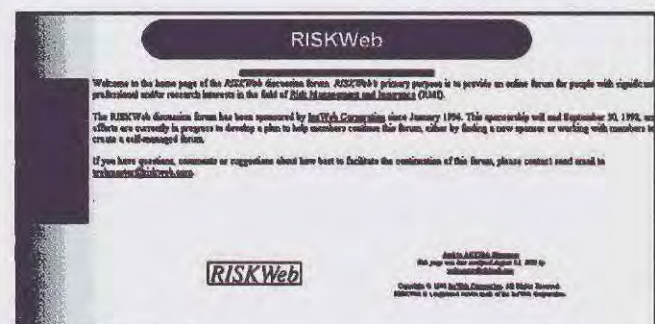
Late last week, a small group of subscribers already had identified a couple of potential sponsors for a successor forum.

One is William R. Storie & Co. Ltd., a Bermuda-based insurance consulting firm that created one of several interim mailing lists made available to risk managers within days after RISKWeb shut down.

Risk managers last week were using the Storie mailing

list to begin sorting out their alternatives. To subscribe to the list, send an e-mail to riskbiz@webcom.com.

To continue networking with peers on daily risk management, see RISKWeb on page 19



InsWeb temporarily restored the RISKWeb site and mailing list on Friday after users complained about its sudden and unannounced disappearance.

1998 Ward's Results
Ward's 50
Property/Casualty
and Life/Health Insurers
page 3

TO SUBSCRIBE CALL

1-800-673-9595

Updates

AIG to expand retirement reach

Continued from previous page factors.

SunAmerica specializes in retirement savings and investment products and services. "Clearly in terms of AIG this adds to the diversity of its businesses," Mr. Picoult said. "AIG picks up a national consumer retail franchise with a brand name. It's something they've never had before. And it picks up another platform for AIG products distribution."

Meanwhile, "SunAmerica picked up a partner that clearly opens some very wide doors for it," Mr. Picoult said.

Discussing the transaction last week with analysts, AIG Chairman and Chief Executive Officer Maurice R. Greenberg said, "Retirement savings will be in our view the growth market not only in this country but worldwide. It's a strategic move by AIG into the retirement asset accumulation business, not just in the United States but globally."

Under the definitive agreement announced last Thursday, AIG will acquire 100% of SunAmerica's outstanding common stock, with SunAmerica shareholders receiving 0.855 shares of AIG common stock for each SunAmerica share. SunAmerica will continue to operate under its own name and current management and maintain its Los Angeles headquarters. Two of SunAmerica's top officers—Chairman and CEO Eli Broad and Vice Chairman Jay S. Wintrob—are expected to join AIG's board of directors.

The merger, approved by the boards of both companies, must be approved by the shareholders of both insurers as well as regulators.

Thiele leaves The St. Paul

ST. PAUL, Minn.—Patrick A. Thiele, executive vp of The St. Paul Cos. Inc. and president and chief executive officer of The St. Paul's worldwide insurance operations, resigned from the company last week.

Mr. Thiele, 47, was responsible for St. Paul's international and domestic underwriting and was instrumental in establishing a platform for the integration of St. Paul and USF&G Corp.

A spokeswoman for St. Paul said Mr. Thiele's decision to leave the company was entirely his own and surprised executives at the company.

Chairman Douglas W. Leatherdale promoted several executives and announced new reporting relationships.

Stephen Lilienthal, formerly USF&G's executive vp and chief underwriting officer, was promoted to executive vp of St. Paul Fire & Marine Insurance Co. and will assume responsibility of general commercial, small commercial and major markets.

Paul Liska, executive vp and chief financial officer of St. Paul Fire & Marine, will assume additional responsibility for information systems, personal insurance, surety, non-standard auto and ceded reinsurance.

Joe Nardi, executive vp of St. Paul Fire & Marine, will continue to oversee custom markets, professional markets and medical services.

Messrs. Lilienthal, Liska and Nardi will report to Mr. Leatherdale, who is assuming Mr. Thiele's responsibilities for international underwriting.

Mark Pabst continues his role as president and chief operating officer of international underwriting but will now report to Mr. Leatherdale.

Generali settles Holocaust suit

NEW YORK—A \$100 million settlement of Holocaust-era insurance claims proposed last week by Assicurazioni Generali S.p.A. is likely to put pressure on other major European insurers to settle the lawsuit.

Trieste, Italy-based Generali's proposed settlement, which calls for paying \$10 million immediately and \$90 million after court approval, is the first reached among the 16 insurers named in the March 1997 class-action lawsuit filed by relatives of Holocaust victims in U.S. District Court for the Southern District of New York.

Under the proposed settlement, Generali also will open its records for a "forensic examination" by plaintiffs' lawyers and will assist them in pursuing claims against Eastern European governments and companies.

"The legal obligation to pay outstanding World War II-era insurance claims rests with the Central and Eastern European governments, whose insurance monopolies seized all of Generali's assets which were meant to pay claimants. Many of these companies are still operating in Europe," the insurer said in a statement.

Separately, Generali has pledged to help resolve the insurance claims of non-litigants by participating in a "memorandum of understanding" proposed by the National Assn. of Insurance Commissioners and Sen. Alfonse D'Amato, R-N.Y. (BI, Aug. 10). Zurich Insurance Group earlier this month became the first insurer to sign the memorandum (BI, Aug. 17).

The proposed settlement also requires Generali to use settlement monies to establish a \$15 million memorial fund on behalf of heirless claimants. Generali also will establish related committees to oversee distribution of the settlement funds through the World Jewish Restitution Organization.

Generali's action, which its board of directors will review on Aug. 28, also is subject to the approval of the court and the NAIC.

Broker regulation causing rift

LONDON—Government proposals to allow U.K. brokers to self-regulate are causing a rift among broker trade groups as they try to determine who will take on the task.

Under recent U.K. government legislative proposals, brokers would no longer be under the control of the Insurance Brokers Registration Council. Last month, the government signaled its intention to disband the IBRC and replace it with a system of self-governance as part of financial services reform legislation (BI, Aug. 3). Government sources expect Parliament to enact the bill by early 2000, though the IBRC is planning to cease operations Oct. 31, leaving a regulatory void for insurance brokers. A spokeswoman for the U.K. Treasury said officials will meet with the IBRC to discuss its decision.

The Institute of Insurance Brokers, composed mainly of small independent brokers, last week held an extraordinary general meeting, during

See Updates on page 22

Vesta posts quarterly loss, explores possible sale

By MICHAEL PRINCE

BIRMINGHAM, Ala.—Adding to its recent financial problems, Vesta Insurance Group Inc. incurred a \$13.9 million loss for the second quarter of 1998 and might be looking to sell the company, an analyst says.

The insurance company attributed the quarter's loss to high catastrophe claims, costs for fixing Year 2000 computer problems and expenses related to the 1997 acquisition of Shelby Casualty Insurance Co.

The company was five days late in releasing the



figure, a delay that President and Chief Executive Officer Norman W. Gayle III blamed on the complexity of the company's financial situation.

But the loss might also be a more accurate reflection of the insurer's financial picture, said Grace Osborne, a director with Standard & Poor's Corp. in New York. The insurer is using a new accounting method, after Alabama regulators in June questioned its previous method.

"Most likely, they are beginning to understand the ramifications of the accounting irregularities on their

See Vesta on page 23

Vermont touts reciprocals

Tax advantages for groups, onshore location draw attention

By RODD ZOLKOS

BURLINGTON, Vt.—By providing participants tax advantages coupled with an opportunity to keep insurance programs onshore, a 1997 Vermont law allowing reciprocal group captives is beginning to generate interest.

The potential savings a Vermont-domiciled reciprocal offers were cited earlier this month by key players from the state's first two reciprocals. They discussed



their reasons for forming reciprocal group captives during a panel discussion at the Vermont Captive Insurance Assn.'s annual conference in Burlington.

Meanwhile, other panelists suggested that though a soft tradi-

tional insurance market has kept down the number of group captive formations in recent years, those formations will increase if the market should turn, with the reciprocal form becoming a preferred option.

Jim Clemons, a partner with the Primmer & Piper law firm in Montpelier, Vt., explained that Vermont law defines a reciprocal as the combination of the subscribers and an attorney-in-fact.

See Reciprocal on page 19

HMO helps fund cut costs

By MICHAEL BRADFORD

SAN FRANCISCO—An alliance between California's State Compensation Insurance Fund and Kaiser Permanente is bringing down workers compensation medical costs for those participating.

A recently released study by Ernst & Young L.L.P. shows that for the first 14 months of treatment, the average medical costs per worker for lost-time injuries amounted to \$2,852 under the alliance, compared with the \$4,636 average cost for treatment of lost-time injuries outside the alliance.

Claims that did not involve temporary disability cost an average of \$319 when treated under the Kaiser alliance and \$543 if treated outside it.

The report tracks claims related to worker injuries

suffered from Jan. 1, 1996, to Dec. 31, 1996. Data on those injury claims continued to be gathered through Sept. 30, 1997.

California employers that meet certain requirements—such as having return-to-work programs in place—can choose to participate in the alliance. By doing so, they agree to send injured workers to Kaiser's occupational health facilities unless the worker pre-designates a personal physician to treat an injury, in which case the injury is not counted as part of the Kaiser-SCIF alliance.

An employer that buys coverage from the State Fund and joins the alliance will get an immediate 10% discount off its workers comp premium. Other savings may come later.

See Alliance on page 4

Adoption benefits gain popularity

Help with expenses costs little, boosts loyalty: Survey

By GEORG SZALAI

The percent of employers offering adoption benefits continues to grow, a recent survey shows.

The growth fits in with a larger trend toward providing more work/life benefits to employees, benefit consultants and managers say.

Adoption assistance is "a very low-cost but also high-morale benefit," said Aimee Chamernik, a

work/life consultant with Lincolnshire, Ill.-based Hewitt Associates L.L.C., which released the survey.

"It is cheap, because not very many people take advantage of it in any given year, but it is a huge loyalty binder," she said. Ms. Chamernik said that ensuring greater equity of benefits for employees who can have children naturally and those who must or choose to adopt also is driving the

trend.

In 1997, 26% percent of surveyed employers offered adoption reimbursement benefits, according to the survey. In 1992, 15% of employers offered adoption benefits, according to a Hewitt spokeswoman. The survey looked at benefit practices at 1,020 major U.S. employers.

The spectrum of adoption-related expenses covered by benefit

See Adoption on page 4

Inside

• The new biomaterials product liability law may help pave the way for further product liability reform, this week's editorial says. **PAGE 8**

• Medicare risk HMOs continue to be popular despite limited government rate increases. **PAGE 6**

• The bombing in Omagh, Northern Ireland, has prompted Lloyd's to review its terrorism coverage rates in the United Kingdom. **PAGE 17**

Departments

Advertiser Index 20
Ask a Benefit Actuary 11
Books & Ideas 12

Classifieds 18
Comings & Goings: Buyers 16
Commentary 21
Insurance Services Guide 16
International 17
Letters 8
Perspectives 11
Ticker 23

Business Insurance (ISSN 0007-6864) Vol. 32, No. 34, is published weekly by Crain Communications Inc., 740 N. Rush St., Chicago, Ill. 60611-2590. Periodicals postage is paid at Chicago and at additional mailing offices. POSTMASTER: Send address changes to Business Insurance, Circulation Department, 965 E. Jefferson Ave., Detroit, Mich. 48207. \$4 a copy and \$87 a year in U.S. \$105 in Canada and Mexico (includes GST). All other countries \$205 a year (includes expedited air delivery). Canadian Post International Publications Mail Product (Canadian Distribution) Sales Agreement No. 0293512, GST No. 136760444. Printed in U.S.A. Copyright 1998 by Crain Communications Inc.

Ward's 50 keep ahead with smart automation

By DAVE LENCKUS

How insurers manage their investment in information systems strongly influences their financial performance, according to a benchmarking study involving insurers identified as both the safest and most profitable.

Systems management is not the most critical indicator of financial performance, but it ranks among the leading factors, said John L. Ward, chairman of Cincinnati-based Ward Financial Group, an insurer management consulting and investment banking firm that conducted the study. And, "every day that goes by, its role is more important."

Another promising factor is call center management. Although there was not enough data to conclude definitively that call center management is a best practice, Mr. Ward said the available data suggest that is the case. Under the call center concept, an insurer develops a single center to handle calls from its policyholders nationwide (see story, page 14).

The benchmarking study determines what constitutes the best business practices by a group of 125 insurers. Among those are 27 of the 100 insurers Ward Financial has determined are the safest and most profitable in the industry.

Based on data that insurers provide state regulators, Ward Financial annually identifies the 50 property/casualty and 50 life/

health insurers that have done the best job of consistently balancing solvency and profitability over the past five years. When an insurer's solvency or profitability is measured in isolation, the result may not rank among the 50 strongest in the insurer's industry segment. The combination of sustained solvency and profitability vaults an insurer onto a Ward's 50 Benchmark Group list (see story, page 14).

Ward Financial develops various aggregate solvency and earnings measures for both benchmark groups. Then, the consultant compares each group's aggregate financial measures to those of individual companies and peer groups in that industry segment. Ward Financial publishes the comparisons in two voluminous reports—one for each industry segment—titled Ward's Results.

Although a few financial measures cannot fully illustrate the balance of safety and profitability that an insurer has achieved, they can show how the two Ward's 50 groups stand out from the rest of the industry (see story, page 15).

After identifying the 50 companies in each industry segment that

have done the best job of consistently balancing solvency and profitability, Ward Financial then compares some of those companies with other insurers to derive benchmarks and identify best practices.

One hundred property/casualty insurers and 25 life/health insurers participated in the benchmarking study. Among the property/casualty insurers, 21 qualified for the 1998 Ward's 50 list. Six of the life/health insurers in the study made the Ward's 50 list for that industry segment.

The benchmarking study found that the amount of capital property/casualty and life/health insurers invest in technology is not nearly as crucial as how insurers direct that investment. The financially strongest insurers in the study typically spent one-third less—measured as a percentage of written premiums—on their information systems, compared with other insurers in the study.

However, systems adopted by the more frugal insurers often are more effective than those the more extravagant insurers installed.

"The difference relates to mis-

takes, and it's easy to make mistakes in the technology area," Mr. Ward said. "You don't make \$100,000 mistakes in information technology," he observed. "You make \$1 million mistakes."

Several best practices helped the best-performing insurers in the study avoid costly mistakes while installing more effective systems, according to Mr. Ward. Those insurers:

- First developed a well-articulated business strategy to drive their information systems strategy. Input from end-users in the company underpinned the systems strategy.

- Were willing to experiment with advanced technology but initially made only small investments in such technology and only in non-critical areas.

- Committed to implementing a single computer system architecture companywide.

- Heavily relied on outside contractors to achieve Year 2000 computer compliance.

"There's always a lot of reasons why systems development efforts fail," Mr. Ward observed.

"No. 1, typically they're not sliced into small enough pieces,"

he said. That is done by identifying the specific steps in the process, holding individuals accountable for implementing the plan and tracking the plan's progress.

"It's a simple process, but it's seldom done right," Mr. Ward said.

In addition, insurers often do not adequately involve the operating departments—the end-users of technology—in designing systems, according to Mr. Ward. "Often the risk is that the wrong system will be developed" as a result, he said. "So, you get the cost but not the effectiveness."

To guide them, the high performers in the study have developed strategic information systems plans that take into account all of their business practices.

"The high performers are doing things to better link the thinking of the operating departments with the priorities of the data processing department," Mr. Ward said.

Insurers can link those two groups by establishing one or more steering committees, Mr. Ward said. Ward Financial has not determined, though, whether establishing a single steering committee or multiple committees is the best practice.

"Either can work, and either can blow up," Mr. Ward pointed out.

In a multiple committee scenario, high-level executives from the chief executive officer down would form one committee and meet quarterly to develop the company's strategic technology plan. A second committee of de-

See Ward's on page 15

Top insurers rely on in-house staff for most of their data processing needs.
Page 14

Gap between results of Ward's 50 and total industry narrows in some areas.
Page 15

Call centers may help insurers boost customer satisfaction and performance.
Page 14

Ward's 50 property/casualty

Alfa Insurance Group	Liberty Mutual Group
ALLIED Mutual Insurance Group	Medical Protective Co.
American Family Insurance Group	Motors Insurance Corp.
Amica Mutual Insurance Co.	Nationwide Group
Auto-Owners Insurance Group	NORCAL Mutual Insurance Co.
California State Auto Assn.	Northland Insurance Group
Canal Insurance Group	Ohio Casualty Insurance Co.
Chrysler Insurance Co.	Orion Capital Group
Chubb Insurance Group	Pekin Insurance Group
Cincinnati Insurance Group	Reliance Insurance Group
Colonial Penn Group	RLI Insurance Group
Commerce Group Inc.	SAFECO Insurance Group
Empire Fire & Marine Group	Southern Farm Bureau Casualty Insurance Co.
Erie Insurance Group	St. Paul Cos.
Foremost Insurance Co.	State Automobile Mutual Group
Frankenmuth Mutual Insurance Co.	State Farm Mutual Group
GEICO	Tennessee Farmers Mutual Insurance Co.
General Reinsurance Group	Trinity Universal Insurance Co.
GRE Insurance Group	Underwriters Reinsurance Group
Gulf Insurance Co.	United Fire & Casualty Group
Hartford Fire Group	USAA Group
Horace Mann Insurance Group	Virginia Surety Co.
Insurance Co. of the West	West Bend Mutual
Interinsurance Exchange, Automobile Club of Southern California	Western World Group
Kentucky Farm Bureau Mutual Insurance Co.	Westfield Cos.

Source: Ward's Results, 1998 Property/Casualty edition

Ward's 50 life/health

AFLAC	John Hancock Mutual Life Insurance Co.
Alfa Life Insurance Corp.	Liberty National Life Insurance Co.
Allianz Life Insurance Co. of North America	Midland National Life Insurance Co.
American General Life & Accident Insurance Co.	Minnesota Mutual Life Insurance Co.
American Life Insurance Co.	Mutual of Omaha Insurance Co.
American National Insurance Co.	New York Life Insurance Co.
Ameritas Life Insurance Corp.	Northwestern Mutual Life Insurance Co.
Bankers Life & Casualty Co.	Ohio National Life Insurance Co.
Beneficial Life Insurance Co.	Pacific Mutual Life Insurance Co.
Cincinnati Life Insurance Co.	Physicians Mutual Insurance Co.
Country Life Insurance Co.	Primerica Life Insurance Co.
Employers Health Insurance Co.	Principal Mutual Life Insurance Co.
Farm Bureau Life Insurance Co.	Provident Mutual Life Insurance Co.
Farm Bureau Life Insurance Co. of Michigan	ReliaStar Life Insurance Co.
Federated Life Insurance Co.	SAFECO Life Insurance Co.
First Colony Life Insurance Co.	Sentry Life Insurance Co.
Fortis Benefits Insurance Co.	Southern Farm Bureau Life Insurance Co.
General American Life Insurance Co.	SunAmerica Life Insurance Co.
Golden Rule Insurance Co.	Teachers Insurance & Annuity Assn. of America
Great American Life Insurance Co.	Transamerica Occidental Life Insurance Co.
Guardian Life Insurance Co. of America	Trustmark Insurance Co.
Horace Mann Life Insurance Co.	United Insurance Co. of America
IDS Life Insurance Co.	UNUM Life Insurance Co. of America
Jackson National Life Insurance Co.	USAA Life Insurance Co.
Jefferson-Pilot Life Insurance Co.	Western & Southern Life Insurance Co.

Source: Ward's Results, 1998 Life/Health edition

Adoption

Continued from page 2

programs varies. Most employers that offer the benefit help cover legal fees for adoption. Sixty-nine percent of employers offering adoption benefits paid for legal costs, according to the Hewitt survey, while 53% covered medical expenses of the birth mother and 41% provided for agency or placement fees. Twenty-three percent of employers reported no restrictions on the type of expenses covered.

However, 92% of employers reported placing dollar limits on benefits. Maximums ranged from \$750 to \$8,000, according to the Hewitt study. The average maximum was \$2,776.

Ms. Chamernik said dollar limits have risen slightly over the past few years while adoption costs have been going up, too. It is mostly employers

introducing new programs that is "raising the bar a bit," she said.

Stamford, Conn.-based Xerox Corp. has had an adoption benefits program for several years, according to Marilyn Timbers, life cycle program manager. Xerox offers \$3,000 per adoption, covering costs such as legal and medical fees and traveling expenses. An employee also gets free education and counseling on problems he or she faces before, during or after an adoption, she said.

The benefits were introduced as a reaction to employees' questions about adoption, said Ms. Timbers, who could not provide information on frequency of use.

The cost "comes back fourfold to the employer in terms of goodwill and productivity," Ms. Timbers said. The adoption benefit program "really emphasizes that the company cares for its employees and their families." In terms of productivity, she said employees anticipating

adoption must collect huge amounts of information, usually during business hours. So, "we have a direct payback in employee time" when the company helps employees get that information, Ms. Timbers said.

The Small Business Job Protection Act of 1996 allows an employer to reimburse an employee for up to \$5,000 per adoption (\$6,000 for a child with special needs) without the reimbursement being included in employee's taxable income. The reimbursements are tax-free for employees making up to \$75,000 a year; for those making between \$75,000 and \$115,000 annually, the tax breaks decrease with rising income. Employees earning more than \$115,000 a year, as well as those adopting their own stepchildren, do not get the tax break.

Ms. Timbers said the 1996 law has not triggered changes to Xerox's program, and Hewitt's Ms. Chamernik concurred that the tax

benefits so far do not seem to have a great direct impact on an employer's decision to introduce adoption assistance. "It is an added bonus," she said, and it gives the benefit more publicity, but it is nothing that would drive the upswing in popularity.

But Norma Lewis, a principal and health and welfare practice leader in the St. Louis office of Buck Consultants Inc., disagrees, saying that "the tax changes definitely had an impact." She said she had noticed a very recent upsurge in interest among her clients.

Carol McAlpine, vp and director of employee benefits at Willis Corroon's U.S. headquarters in Nashville, Tenn., said the tax breaks "played no role" in her company's decision to introduce adoption benefits this January. Willis Corroon reimburses employees up to \$5,000 for regular adoptions and \$6,000 for adoptions of children with special

needs. Six or seven people have applied for reimbursement so far, Ms. McAlpine said. The idea behind the benefit was to assure greater equity between those employees who can have children naturally and those who cannot or choose not to.

"It seemed to be the right and fair thing to do," she said.

Copies of the survey, "Work and Family Benefits Provided by Major U.S. Employers in 1997," are available for \$50 from the Publications Desk at Hewitt Associates L.L.C. at 847-295-5000.

Alliance

Continued from page 2

Claims costs are factored into experience modifiers that determine workers comp premiums, explained Linda Hoban, manager of health alliances for the State Fund. "So lower costs do translate into savings."

Costs for all types of claims—including medical, total and permanent disability, vocational rehabilitation and death benefits—averaged \$2,599 under the Kaiser-SCIF alliance. The average was \$3,299 for claims handled by non-alliance providers.

Lower costs under the Kaiser alliance are the result of "a more focused treatment of industrial injuries," said Arnis Tubelis, vp of the State Fund. "Kaiser's occupational medical centers deal exclusively with on-the-job injuries, and their emphasis is on return-to-work."

The study shows that workers with temporary disabilities who are treated by Kaiser providers are back at work sooner than those treated elsewhere. Kaiser-treated workers are off the job an average of 62.8 days, compared with an average 75.9 days of lost time for workers treated by other providers.

Dr. Doug Benner, clinical coordinator of occupational medicine for the Permanente Medical Group, said Kaiser "emphasizes taking care of the patient's educational needs" to make sure he or she returns to work sooner and avoids reinjury.

Injured workers are shown how exercise, for example, can keep injuries from happening again or to reduce the effects of injuries whose symptoms linger, Dr. Benner explained.

He said Kaiser's philosophy is to "get patients into our occupational health centers early and provide prompt care."

That philosophy has an added benefit, Dr. Benner pointed out: "Taking care of the patient quickly and satisfactorily lowers the litigation rate."

"Litigation definitely drives up costs," he said, and the study shows that the Kaiser-State Fund alliance has reduced litigation.

Of the claims studied, 6.6% under the alliance were litigated, compared with 10.6% of the claims handled outside the Kaiser alliance. When only temporary disability claims are considered, 16.7% of those handled under the alliance were litigated, while 24% of those claims handled outside the alliance reached litigation.

Average medical costs on temporary disability claims that went to litigation amounted to \$8,355 under the Kaiser-state fund alliance. Those costs were \$10,476 for litigated claims treated outside the alliance.

Average medical costs for injury claims that were litigated and did not involve temporary disability were slightly higher under the alliance, reaching \$2,419. When treatment was provided elsewhere, those costs averaged \$2,059.

Free copies of the study are available from Linda Hoban, manager of health alliances at the State Fund, 213-266-5132; e-mail: lhoban@scif.com.

"Where there
is an open mind,
there will always
be a frontier."

Charles F. Kettering
U.S. Engineer and Inventor
Profile of America

In today's global new world, opportunity is limited only by imagination. That's why ERC® specializes in creating individual approaches to custom reinsurance programs. Unique solutions to help you pioneer new business adventures anytime, anywhere, anyway.
It's a world of risks. Be prepared.



ERC.



**It
begins
with 2 people.**

THEIR BUSINESS TAKES OFF, A
FACTORY IS BUILT. SOON A SECOND,
THEN A THIRD. DEMAND SPREADS, GLOBAL
GROWTH OPPORTUNITIES ARE SEEN. BUSINESS
ALLIANCES ARE FORMED, NEW FACILITIES CONSTRUCTED. TO
ARRANGE PROPERTY AND CASUALTY COVERAGES, LOSS CONTROL, FIRE
ENGINEERING, EMPLOYEE BENEFITS, AND TO COORDINATE CLAIM HANDLING
AND UNDERWRITING, THIS BUSINESS RELIES ON AN EXPERT, WAUSAU INSURANCE.

The business insurance experts.



HMOs still attracted to Medicare market

By JERRY GEISEL

Employers and retirees can expect higher premiums, skimpier benefits and fewer Medicare risk HMOs in certain markets as managed care plans face higher medical and drug costs and only slight increases in government payment rates.

But even with cutbacks, Medicare risk HMOs are likely to grow, because retirees who opt into the

plans still enjoy richer benefits than under the traditional Medicare program.

That is good news for employers that have encouraged retirees to leave the traditional Medicare program and opt for Medicare risk HMOs. As a result of such a migration, employers will have much smaller numbers of retirees to cover and pay for in their own health care plans that supplement Medicare.

In recent weeks, the Medicare risk HMO market has been buffeted by reports that some of the largest players are curtailing operations, cutting benefits and raising rates.

For example, Foundation Health Systems of Woodland Hills, Calif., will exit the Medicare market in 10 rural counties in Northern California and intends to cut benefits in Medicare risk HMOs in the Northeast, where it has been experiencing higher-than-expected losses.

In addition, United HealthCare Corp. of Minnetonka, Minn., is curtailing Medicare risk HMO startup efforts in some markets, while PacificCare HealthCare Systems is getting out of the Medicare market in Utah, southern Oregon and parts of Washington state.

Medicare risk HMOs in Massachusetts—risking a fight with state regulators—intend to slash prescription drug benefits for retirees next January (see story, page 1).

Medicare risk HMOs across the country “are eliminating zero premium plans, cutting benefits and increasing premiums,” said Nancy Dapper, director of Medicare Programs for Kaiser/Group Health Northwest, an HMO in Seattle.

But these cutbacks are not a sign that the Medicare risk HMO market is unraveling, experts say.

Retirees, at the rate of roughly 80,000 a month, have been opting into Medicare risk HMOs from the traditional Medicare program. Enrollment in Medicare risk HMOs has swelled to more than 5.8 million, up from 4.8 million a year ago.

And even while complaining about inadequate increases in government payment rates, far more HMOs want to enter the Medicare market than exit it. The number of plans entering in the market now stands at 347, up from 287 last

July, with more than five dozen applications from HMOs to the Health Care Financing Administration, which administers the program.

“This still is a growing market,” said Edward Susank, a consultant with William M. Mercer Inc. in Washington.

“Some HMOs are pulling out of small markets. Overall, I think

said.

Even if reports about problems in the Medicare market have been overstated, HMOs warn that a continuation of what they call inadequate government payment rates will likely mean deep cutbacks down the road.

Currently, HCFA pays a flat fee to Medicare risk HMOs for each Medicare eligible-retiree they cov-

‘Some HMOs are pulling out of small markets. Overall, I think there is a correction, not a wholesale pullout. The overall impact is minor,’ says Michael Winter.

there is a correction, not a wholesale pullout. The overall impact is minor,” said Michael Winter, a consultant with Watson Wyatt Worldwide in Dallas.

“In some markets, there will be fewer choices, but there still will be choices,” added Tom Beauregard, a consultant with Hewitt Associates L.L.C. in Rowayton, Conn.

While rate hikes and benefit cutbacks have made headlines, those premium increases and benefit cutbacks generally have been modest.

For example, benefit consultant Towers Perrin said the premiums charged to employers it works with that directly negotiate with Medicare risk HMOs to provide enhanced benefits generally are going up only a few dollars a month next year.

“That is the story that is not being told,” said Joseph Martingale, a Towers Perrin principal in New York.

HMOs themselves say they are committed to the Medicare market and emphasize that withdrawals and benefit cutbacks are modest.

“There will be some belt-tightening and fine-tuning, but nothing dramatic. And in many states, we still are a zero premium plan,” said a spokeswoman for PacificCare, the nation’s largest risk HMO with about 1 million enrollees.

Some HMOs, in fact, are expanding their programs. Wauwatosa, Wis.-based PrimeCare Health Plan Inc., which until recently has sold Medicare risk HMO coverage only to individual retirees, now is targeting the employer market.

“This is too big a market to ignore,” said Kevin Meyers, director of PrimeCare’s Medicare insurance sales and marketing.

Similarly, Kaiser Permanente, which holds 11% of the Medicare risk HMO market with more than 670,000 enrollees, intends to step up marketing efforts to employers, said Nick Richardson, national director for its Medicare program in Oakland, Calif.

“We have a very strong commitment to the employer market,” he

er. These fees, which are based on Medicare’s traditional costs by geographic region, range from a minimum of \$367 a month to more than \$700 a month.

But provisions in a 1997 budget law limited increases of those payments this year to less than 2% for HMOs in many parts of the country. And while 1999 payment rates have not been finalized, those also are not expected to rise more than 2%.

With their own costs going up substantially more than that, Medicare risk HMOs say they can’t maintain current benefit levels with such small increases in government payment rates.

“With costs going up 5% to 6%, a 2% increase in rates is not realistic. Everyone is hurt by a rate update that is not realistic,” said Deborah Glass, vp-government programs at Blue Cross & Blue Shield of Minnesota in St. Paul.

“A 1.5% increase is not keeping up with inflation and isn’t enough to sustain the current level of benefits,” said Charles Scott, the over-65 market segment champion with Blue Cross & Blue Shield of Florida in Jacksonville, which has more than 100,000 enrollees in its Medicare risk HMO.

Stingy government rate increases aren’t the only problem facing Medicare risk HMOs. In addition, risk HMOs are finding it difficult to offer profitable plans in rural areas, where there is less competition among hospitals and doctors.

“It is a lot harder to complete competitive contracts with providers when there is only one hospital in town or one physician group,” said Mr. Richardson of Kaiser Permanente.

Another problem bedeviling Medicare risk HMOs is that while government payment rates are based on where enrollees live, many enrollees, such as those residing in suburban or rural areas, receive services in more expensive urban facilities, said Rich Stover, a principal with Buck Consultants Inc. in Secaucus, N.J. **BI**

ARKWRIGHT keeps you connected...

to the Internet’s most advanced risk management resources



Guess who just got smarter? Arkwright’s award-winning website!

SmartSite for Managing Risk is an online community for risk managers and business professionals to:

- Learn more about key risk management issues
- Collect tips on loss prevention & crisis planning
- Stay abreast of major industry products & services



Explore Arkwright’s redesigned SmartSite for Managing Risk

www.arkwright.com

Carvill

Reinsurance Intermediary

INDEPENDENCE
INTEGRITY
SERVICE

CONSISTENT PHILOSOPHY & PERFORMANCE

SINCE 1977

Atlanta Bermuda Chicago London Stamford

ARTICLE ARCHIVE

Order Your Access Now! Business Insurance’s Article Archive provides easy access to a database containing the industry’s most comprehensive information on news and trends in risk management, employee benefits, commercial insurance and managed health care. The archive is a useful source of information for market research, data gathering, speech writing, competitive analysis and legal inquiries.

The Article Archive, located on Business Insurance’s home page at www.businessinsurance.com is available for a one-year archive access fee of \$80 for subscribers to BI magazine and \$120 for non-subscribers. Go to BI’s site at www.businessinsurance.com to order this service online, or call 312-649-5398 for more information.

Business Insurance
www.businessinsurance.com

THE NASDAQ STOCK MARKET



THE MANAGEMENT RISK PROTECTION PROGRAM FROM AIG. IT'S ANOTHER WAY NASDAQ® HELPS ITS LISTED COMPANIES BUILD VALUE.

There's no doubt about it. As you grow and become more successful, you are increasingly a target for securities class actions, employment practices liability, corporate crime and ERISA-related claims. To name but a few. Recognizing these exposures facing its issuers, Nasdaq selected the AIG companies to design an affinity program for management liability insurance to help protect against them. The result is the Management Risk Protection Program. Launched late last year, it has proven very successful. It's an important way AIG helps growing companies today, tomorrow, and as Nasdaq likes to say, for the next hundred years. For more information, have your broker call us at 1-800-471-7324 or visit our web-site at www.aigmrpp.com



WORLD LEADERS IN INSURANCE AND FINANCIAL SERVICES
American International Companies, 70 Pine St., Dept. A, New York, NY 10270

Opinions

Law moves reform forward

PRESIDENT CLINTON's signature on a biomaterials product liability reform bill earlier this month gives supporters of product law reform another excellent chance to prove their case for broader federal legislation.

Making opponents of the biomaterials bill—an example of targeted, incremental product liability reform—appear like Chicken Little shouldn't be all that difficult. After all, that's what happened after President Clinton signed another narrowly drawn product liability reform bill in 1994 aimed at reviving the general aviation aircraft industry. Opponents of that earlier bill predicted all kinds of dire events, stopping just short of hinting that the sky itself would fall if light aircraft manufacturers enjoyed even modest product liability relief.

Well, the sky didn't fall, small aircraft haven't become flying coffins and thousands of Americans who might otherwise be unemployed now have jobs in a once-threatened industry.

The biomaterials product liability law also is likely to bring broad benefits. The law targets a particular industry: manufacturers of the raw materials that go into making medical devices. It gives the manufacturers some new legal protections but stops short of providing those companies with blanket immunity from product liability suits. If they're at fault, they still can be sued. Victims of faulty products won't be left without redress, contrary to opponents' claims.

The law helps assure that these biomaterials remain available by protecting manufacturers against lawsuits for which they should bear no responsibility. If the law works out as its proponents say it will, foes of product liability reform will once again look like alarmists.

It's worth noting that some of the law's most vocal proponents are not big business but the very people who likely would have a reason to sue: those whose lives or loved ones depend upon devices containing biomaterials. If the law works as planned, those people won't have to worry that their lifelines literally will be choked off.

That is additional evidence that the beneficiaries of product liability reform are, contrary to what some high-profile foes say, not only business but also consumers.

With the positive examples of the general aviation and biomaterials laws to draw from, Congress will be,



no doubt, much more receptive to the next industry that calls for relief from unfair liability exposures.

In fact, given the current situation in Washington, industry-by-industry reform may be the most realistic short-term strategy. After all, this Congress has less than two months to go, and broad-based reform of anything isn't high on anyone's agenda as November elections loom.

President Clinton, who vetoed a modest yet comprehensive reform bill in 1996, would gain little political capital by embracing broad reform in the last two years of his administration.

His would-be successors on both sides of the aisle will be jockeying for position during the remainder of his term. Given that comprehensive product liability reform requires bipartisan consensus, its chances before 2001 are probably dimmer than they were two years ago.

That gives the biomaterials law a chance to prove itself, and—along with the success of the general aviation law—helps pave the way for further industry-specific reform. Eventually, we predict, those incremental successes will lead to broader legal protections for all industry—while assuring the supply of goods that consumers demand.

Letters

Investigation of Y2K conflicts lacking

To the editor: I am writing in reference to the article "Co-author rejects AIG D&O report" by Gavin Souter (BI, Aug. 3) I, for one, agree with attorney Dan A. Bailey's comment that "Year 2000 claims generally will be covered under an insurer's standard D&O policy to the same extent as other types of similar claims."

Other things being equal, I would expect that many experienced directors and officers liability insurance brokers, underwriters, etc., would also agree. Perhaps the conflicts of interest that suddenly concern the insurance community have led many to refrain from commenting, lest they annoy valued clients or jeopardize their relationships with

insurers holding contrary positions.

Business Insurance should be investigating these conflicts and not merely be passing along the comments of the insurance community. Apparently, investigative reporting is unknown to this publication.

Dirk A. Dominick
Yorktown Heights, N.Y.

Mandel's safety article commended

To the editor: The July 13 "Ask a Risk Manager" Perspective, written by Christopher E. Mandel, was excellent!

This short, well-written article accurately portrays the benefits of a good safety and loss prevention program. These

benefits have been identified in several peer-reviewed studies as valid and reliable.

The important elements of a good safety and loss prevention program outlined in the article are supported by the current

philosophy within the safety profession. Again, well done!

Robert F. DeSiervo
Director, Safety & Security
FOJP Service Corp.
New York

Letters to the editor

Business Insurance welcomes letters to the editor. We reserve the right to edit letters for clarity or space. We will not publish unsigned letters. Send letters to Letters to the Editor, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611; fax: 312-280-3174; e-mail: pwinston@crain.com

Online forum

Visit BI's Online Forum, which offers an unmoderated discussion area for readers to exchange ideas or information on risk management, employee benefits insurance and miscellaneous other topics. The Online Forum is located at: <http://www.businessinsurance.com/forum/index.html/>

Business Insurance

Reporting weekly on corporate risk,
employee benefit and managed health care news

Vice President/
Publisher/Editorial Director: Kathryn J. McIntyre, AIA (Chicago)

Associate Publisher/Advertising Director: Martin J. Ross III (New York)

Editor: Paul D. Winston (Chicago)

Editor-at-Large: Jerry Geisel (Washington)

Managing Editor: Regis J. Coccia (Chicago)

Senior Editors: Meg Fletcher, AIA (Chicago)

Judy Greenwald (San Jose)

Dave Lenckus (Tucson)

Douglas McLeod (New York)

Roseanne White (Washington)

Joanne Wojcik (Los Angeles)

Mark A. Hofmann (Washington)

Todd J. Behme (Chicago)

Sarah Goddard (London)

Gavin Souter (New York)

Assistant Managing Editor: Todd J. Behme (Chicago)

Graphics Editor: Kathy L. Barnes (Chicago)

Copy Editor: Mary B. Nick (Chicago)

Assistant Copy Editor: Richard Trout (Chicago)

Associate Editors: Michael Bradford (New Orleans)

Roberto Ceniceros (Los Angeles)

Robert Kazel (Chicago)

Matthew MacDermott (London)

Michael Prince (New York)

Sally Roberts (Denver)

Edwin Unsworth (London)

Rodd Zalkos (Chicago)

Sandra L. Budde (Chicago)

Matt Scroggins (Chicago)

Amanda L. Milligan (Chicago)

Amy R. Kepka (Chicago)

Karen Brown Tucker (Chicago)

Roger Schillerstrom (Chicago)

National Sales Manager: Steve Akins (New York)

Midwest Advertising Manager: Robert L. Niesse (Chicago)

District Managers: Blake Delany (New York)

Roger Lynch (New York)

Elizabeth McGahren (New York)

Deborah D. Neale (Chicago)

Classified Advertising Manager: Irais Amleshi (Chicago)

Sales Assistant: Lori Lieberman (Los Angeles)

Production Manager: Elmer Kerstowski (Chicago)

Director of Communications: Ronnie I. Drachman (New York)

Promotion Manager: Barbara O'Brien (New York)

EDITORIAL: Chicago: 312-649-5398

Denver: 303-698-7601

London: 171-457-1400

Los Angeles: 213-651-3710

New Orleans: 504-269-9988

New York: 212-210-0100

San Jose: 408-774-1500

Tucson: 520-579-1937

Washington: 202-662-7200

ADVERTISING: Chicago: 312-649-5276

New York: 212-210-0228

Los Angeles: 213-651-3710

COMMUNICATIONS: New York: 212-210-0132

SUBSCRIPTIONS: Detroit: 888-446-1422

Business Insurance is published by Crain Communications Inc.

Keith E. Crain

Chairman

Merrilee Crain

Secretary

Rance Crain

President

Mary Kay Crain

Treasurer

William A. Morrow

Executive Vice President/Operations

Robert C. Adams

Vice President/Production

Peter Johnson

Vice President/Circulation

G.D. Crain Jr.

Founder (1885-1973)

Mrs. G.D. Crain Jr.

Chairman (1911-1996)

S.R. Bernstein

Chairman-executive committee (1907-1993)

Published weekly at 740 Rush St., Chicago, Ill. 60611-2590, Fax 312-280-3174, E-mail: biweb@crain.com, Offices: 220 E. 42nd St., New York, N.Y. 10017-5806, Fax 212-210-0704, CRAIN COM NYK; 2726 Pyramonia, #6, New Orleans, La. 70130, Fax 504-269-0858; Suite 814, National Press Building, Washington, D.C. 20045-1801, Fax 202-638-3155; 6500 Wilshire Blvd., Suite 2300 Los Angeles, Calif. 90048-4947, Fax 213-655-8157; 967 Bermuda Court, Sunnyvale, Calif. 94086-6750, Fax 408-774-1155; New Garden House, 78 Hutton Garden, London EC1N 8JQ England, Fax 171-457-1440; 8157 N. Torrey Way, Tucson, Ariz. 85743, Fax 520-579-3476; 777 E. Speer Blvd., Denver, Colo. 80203-4214; Fax 303-733-2244. \$4 a copy and \$87 a year in U.S. \$105 in Canada and Mexico (includes GST). All other countries \$205 a year (includes expedited air delivery). DON MERENDINO, circulation manager. Four weeks' notice required for change of address. Send subscription correspondence to Circulation Department, Business Insurance, 965 E. Jefferson Ave., Detroit, Mich., 48207-3185, or phone 888-446-1422 or 313-446-0450, Fax 313-446-6777. Microfilm copies are available from University Microfilms, 300 Zeeb Road, Ann Arbor, Mich. 48103. Microfiche copies available: Bell & Howell, Micro Photo Division, Old Mansfield Road, Wooster, Ohio 44691. Portions of the editorial content of this issue are available for reprint or reproduction in other media. For information and rates to reproduce in general circulation media, contact: JOSEPH P. HANLEY, Crain News Service, 220 E. 42nd St., New York, N.Y. 10017-5806, 212-254-0890. For reprints or reprint permission contact: KAREN BROWN TUCKER, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611-2590, 312-649-5319, Fax 312-280-3174.



www.businessinsurance.com



TO SUBSCRIBE CALL 800-678-9595 • 313-446-0450 outside of the United States

Fund

Continued from previous page

market through the safety group is possible through aggressive loss control and claims management and the return of profit-derived dividends to program participants. The safety group approach allows a sponsoring association that lacks the initial capital or resources to convert to a captive arrangement the ability to continue offering a competitive insurance program to its members.

Fronted captives provide the same risk retention merits as self-insurance, along with the "disguised" advantages of a fully insured program. Basically, a self-insured retention is replaced by a comparable quota share layer that is assumed by the fund—now referred to as a captive. An insurer issues "first dollar" policies in front of the captive's retained risk layer. Due to capitalization and management cost requirements, the formation of a single-parent captive is usually not a feasible option for a self-insured fund.

Association captives with multiple owners that can share start-up and operational costs are becoming more common. Rent-a-captives are the most viable route in most cases. The most common rent-a-captives are owned and managed by insurers that, for a captive management fee, allow entities such as self-insured groups to join. Rent-a-captives are already capitalized and operational, and they provide turn-key management functions for accounting, banking, asset management, and so on.

Some level of collateralization relative to the amount of retained risk will be required for participation in a fronted rent-a-captive. This is due to the inherent exposure assumed by the insurer for providing first-dollar policies while collecting only a relatively small portion of the risk premium.

Assumption of a quota-share layer allows program participants to share in the underwriting profitability and investment return achieved by the rent-a captive. The quota-share participation can be structured in a variety of ways, depending on whether the program's appetite for risk assumption is higher, lower, or the same as that of the self-insured fund.

The amount of potential risk reward is ultimately much greater than self-insurance through the captive arrangement, largely due to the ability to realize greater return on investment income of asset funds. State

jurisdiction, with regard to self-insurance, normally restricts the way in which fund assets can be invested. Investments are usually limited to very conservative investments, such as treasury bills, government bonds, money markets, and the like, which in turn, limit return.

Since fronted captives "disguise" a quota-share risk retention program as fully insured coverage, state self-insurance regulations pertaining to asset investments are not applicable. This allows asset managers to use more aggressive investment vehicles, while still exercising prudence. Higher investment return equates with better dividend return to the participants of the captive.

There are also several tax advantages that can be obtained by using an offshore domiciled captive. Derived investment income held outside the United States is not taxable until it returns to this country in the form of shareholder dividends. This allows for greater accumulation and accrual of investment income.

The loss portfolio transfer allows the self-insured fund's existing losses, including those that have been incurred but not reported, to be "bought out" by and transferred to an insurer or reinsurer. The losses are thus totally removed as a liability of the self-insurance fund. Typically, if an insurer determines that a self-insured fund's expected losses have been appropriately reserved, the self-insured fund can negotiate a transfer of the loss portfolio to an insurer based on a "premium" amount, which is relative to the amount of the initial loss portfolio. Consideration is given toward the net present value of the initial loss portfolio in order to discount the cost of the resulting "transfer premium."

Insurers typically assume a loss portfolio for a set dollar amount. They then try to "manage" and "close out" all claims for an amount less than the transfer premium paid plus accrued investment income.

Once the loss portfolio has been transferred, all retrospective joint and several liability is eliminated. For a safety group conversion, ongoing joint and several liability is non-existent, since the group is now fully insured. A fronted captive continues to have ongoing joint and several liability due to its quota-share layer. This liability, however, can be eliminated by negotiating a prospective or "rolling" loss portfolio transfer. Once a loss portfolio transfer has been executed, it is common for state jurisdictions to release any collateralized funds posted by the self-insured fund, as all retrospective and prospective claim liabilities have been eliminated.

When considering what funds may be candidates for

conversion, the philosophy surrounding the initial formation of the group should be considered, as well as its desire to remain operational.

If the fund's creation was solely for the purpose of escaping the hard standard market, the fund may be comfortable disbanding when its primary reason for existence has been mitigated. Conversely, if the fund was created to provide the additional "member benefit" of an association, the group will probably wish to continue offering a competitive workers compensation program to its membership. These funds, as part of a larger parent association, will most likely be the best conversion candidates. Stability of membership and an ongoing commitment from the parent association to market and promote the program to its members are necessary to maintain the growth and success of the program.

It is apparent in many cases that conversion of a self-insurance fund to either a fully insured safety group or a fronted captive can be quite advantageous. The lack of a rating as an insurer, the inability to provide multistate coverage, and joint and several liability are typically cited as the most problematic issues confronting self-insured groups in today's soft market. By taking advantage of the ability to combine the best aspects of fully insured plans with those of self-insurance, these issues can be mitigated, if not totally eliminated.

The use of a capable program manager and third-party administrator will also contribute toward heightened effectiveness. The converted program will realize a higher, more personal level of service than is typical of the normal standard market insurer. The added potential to achieve higher returns based on participation in and investment through a captive can result in a workers compensation program that should perform better, have a lower ultimate cost, and significantly outperform the standard market.

BI



Phillip C. Giles is assistant vp and national sales manager for LDG Underwriters in Wakefield, Mass.

Kidnapping story holds readers captive

"Ransom: The Untold Story of International Kidnapping"

By Ann Hagedorn Auerbach

Published by Henry Holt & Co. Inc., 115 W. 18th St., New York, N.Y., 10011
\$25

By Kevin M. Quinley

THINKING ABOUT TRAVELING abroad, either for business or pleasure? Do any of your company's employees live, work or travel abroad?

If so, risk managers should read and get a hair-raising wake-up call in "Ransom: The Untold Story of International Kidnapping" by Ann Hagedorn Auerbach. In "Ransom," Ms. Auerbach—a former Wall Street Journal reporter—spotlights two years in the seamy but high-stakes world of international kidnapping, starting on July 4, 1995, when terrorists seized an American couple relaxing on the banks of the Kashmir River. Thousands of kidnappings—many unreported—occur every year on virtually every continent.

Seamlessly moving between this narrative and other threads, Ms. Auerbach provides risk managers an authentic inside look at the highly secretive world of private industry kidnap negotiators, insurers, the little-known international role of the FBI and the explosive controversies over ransoms and negotiations.

Revealing many never-before-reported facts culled from interviews worldwide, Auerbach shows how events in the post-Cold War era have compelled criminals,

Books & Ideas

terrorists, former rebels and even former soldiers to turn to kidnapping to earn a living. She discloses one detail after another, showing the ubiquity of the crime and revealing trends that dramatically affect every businessperson and tourist venturing abroad. Perhaps more memorable, though, are the heroic contemporary sagas of those who have endured captivity, escaped from jungle and mountain hideouts, or fought for the freedom of their loved ones.

Increasingly, corporate executives who travel abroad have kidnap and ransom insurance policies through their employers. One asset of any organization is represented by its employees and its executive talent. Loss of such talent due to kidnapping is one—increasingly insurable—peril that proactive risk managers must address.

Anyone interested in the arcane and secretive world of kidnap and ransom insurance will be interested in Ms. Auerbach's work. She provides, for instance, a fascinating profile of Control Risks Group, a firm that advises companies and governments on political risks and even negotiates release of hostages. Underwriters such as Lloyd's of London provide K&R insurance. If you have employees who live or travel abroad, this coverage may need to be an essential addition to your insurance portfolio.

A curious but understandable condition is that of confidentiality: If it becomes known that an individual or a company has K&R insurance, the policy coverage automatically becomes void. This is an interesting twist

on the belief held by many that "having insurance only encourages claims."

Uninsured for K&R exposures? Not to worry. CRG can—for a fee—negotiate for an individual's release and devise funding mechanisms to pay a ransom.

Why is there an increase in international kidnapping? One interesting theory Ms. Auerbach sketches is that the end of the Cold War has produced a large pool of uneducated but highly trained soldiers into mercenary work. Some kidnappings are motivated by profit in an era where demilitarization slashes military budgets.

Risk managers and others reading the 352-page "Ransom" will find it alternatively entertaining, informative and disturbing. What Richard Preston's "Hot Zone" was to the threat of global viruses, "Ransom" is to the looming menace of global kidnapping and terrorism. Ms. Auerbach's compelling story is a real eye-opener. After reading it, you may be tempted to cancel your international travel plans or check the market for K&R coverage!



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

the Spirit of Life



Heidi Hutter

1998 AWARD DINNER

Honoring Heidi Hutter

Chairman, President & CEO

Swiss Re America

PROCEEDS DEDICATED

TO BREAST CANCER RESEARCH

NOVEMBER 5, 1998

THE FAIRMONT HOTEL, CHICAGO

Sponsored by

THE INSURANCE INDUSTRY COUNCIL
FOR CITY OF HOPE

Proceeds from this gala event will fund breast cancer research at the City of Hope Medical Center and Beckman Research Institute. Since 1960, breast cancer has claimed twice the number of American lives lost in World War II, Korea, Vietnam and the Gulf War combined, and has become one of the most serious public health threats affecting women today.

Please join others in the insurance industry supporting the City of Hope's critical efforts to conquer this disease. To make your reservations for this gala event or for advertising in the tribute journal, please contact City of Hope by calling (800) 779-5893, or send your contribution to:



City of Hope

1998 "Spirit of Life" Campaign
5215 Old Orchard Road, Suite 800
Skokie, Illinois 60077

THE INSURANCE INDUSTRY CELEBRATING "THE SPIRIT OF LIFE"

Quick insurer call response boosts satisfaction

By DAVE LENCKUS

Any property/casualty insurer investigating the increasingly popular concept of a single call center to respond to all policyholder questions could learn from the costly mistakes of other insurers.

The blunders, which largely relate to bouncing callers among too many call handlers, can make the initially expensive call center management projects totally inefficient, said John L. Ward, chairman of Ward Financial Group in Cincinnati.

The call center concept is a "red hot" customer satisfaction issue for insurers, according to Mr. Ward.

The concept first took off about two or three years ago, when technological advancements made such centers more feasible, he said.

Ward Financial does not have enough data through its benchmarking project with 125 insurers to conclude definitively that having such a center is a best practice in maintaining high customer satisfaction. However, Mr. Ward said the available data suggest that is the case.

The benchmarking project consists of a total of 100 property/casualty and 25 life/health insurers, all of which pay a fee to participate. The participants include 21 property/casualty insurers and six life/health insurers that

Ward Financial has identified as the top performers in their respective industry segments at balancing solvency and profitability.

Among the property/casualty insurers in the benchmarking study, few have installed the centers. But about half of the property/casualty companies plan to do so. Ward Financial did not have enough information on life/health insurers' current use of or plans for call centers to reach any meaningful conclusions.

A call center that works right is far more efficient for policyholders than calling their local agents or insurer claims offices, according to Mr. Ward. Ideally, a single call handler at a center can address all the questions a policyholder may have, he said.

With a sophisticated call center system, an automated operator can explain the system to callers while searching for their files after identifying the callers' phone numbers. The system then displays a caller's policy file on a call handler's computer screen just before the caller is connected to a live operator. That way, the handler knows immediately who the caller is and the details of the account.

"That's phenomenal customer service," Mr. Ward said.

The price tag for a system capable of achieving such goodwill is several hundred thousand dollars in equipment plus the cost of staffing the cen-

ter, he said.

Insurers can see a payback, though, Mr. Ward said. That will happen if call handlers in at least 85% of cases can resolve all of their callers' questions without bouncing the caller somewhere else, he said.

"We see a high correlation between the first-call resolution rate and customer satisfaction," Mr. Ward explained.

But, some insurers have not set up their centers properly, he said. At those centers, call handlers bounce callers to one or even two more operators, Mr. Ward said. "That does nothing to improve the efficiency of the company."

The top-performing companies in Ward Financial's benchmarking study have achieved that 85% rate. Others in the study report a 55% first-call resolution rate.

In one extreme case, Mr. Ward said an insurer invested heavily in establishing a call center but could not get its computers to pull up callers' files quickly. The call handlers had to take messages and call customers back after the computers eventually retrieved the files. That call center "was completely inefficient," said Mr. Ward.

"Until companies have the tools in place to better leverage their call center investment, they're better off not making that investment," he said.

Some handoffs may not be terribly detrimental when insurers first bring

the centers online, Mr. Ward said. But he advised insurers to eliminate those handoffs within the first year the center is in operation.

Another best practice for call centers is answering a call within 15 seconds after the automated system switches a call to a live call handler.

The top performers in the benchmarking study achieved that response time. Others in the study reported a 25-second response time.

The top performers in the study reported that only 2%—a best practice rate—of customers abandoned their calls before reaching live call handlers. Other study participants reported a 5% abandonment rate.

Numerous factors distinguish Ward's 50

By DAVE LENCKUS

The property/casualty and life/health insurers that have best balanced profitability and solvency over the past five years comprise the Ward's 50 Benchmark Groups.

When either profitability or solvency for a Ward's 50 insurer is analyzed in isolation, the result may not rank the insurer among the 50 best in the property/casualty or life/health industry.

The combination of sustained solvency and performance over five years sets a Ward's 50 insurer apart from other insurers.

Each year, Ward Financial Group, a Cincinnati-based insurer management consulting and investment banking firm, identifies the leading companies for its benchmark groups and develops numerous aggregate financial measures for each group of 50 insurers. Risk and employee benefit managers then can compare the strength and performance of their insurers to the benchmark groups using the two statistics-packed Ward's Results volumes the consulting firm produces annually.

The reports compare the Ward's 50 companies with other insurers and peer groups that are categorized by product mix, premium level, location and type of ownership. Ward Financial identifies 41 peer groups for property/casualty insurers and 27 peer groups for life/health insurers.

Ward Financial's evaluation is based solely on data insurers provide in statutory financial results filed with state insurance regulators. Rating agencies, by comparison, develop their rates by also factoring in qualitative assessments of insurer management.

In the latest editions of Ward's Results, 2,698 property/casualty and 1,433 life/health insurers licensed in the United States are analyzed in full. The reports also provide limited analysis on 1,458 additional property/casualty insurers that reported less than \$10 million of earned premium in 1997 and 303 additional life/health insurers with less than \$5 million of assets last year.

Each Ward's 50 insurer is tested for the safety and the consistency of its financial performance. Failing one of those tests eliminates the company from further consideration. To pass this phase, insurers must:

- Have been in operation for at least the past five years.
- Have written at least \$50 million of net premiums annually on average over that period and have at least \$50 million of surplus.
- Have reported net income in four

Busy signals and unanswered lines after numerous rings typically prompt callers to abandon their efforts, Mr. Ward explained.

The abandonment rate underscores the importance of having the right number of call handlers on duty. "Or you have the cost of the system and frustrated customers," he observed.

Mr. Ward also recommended surveying customers to determine how well the call centers are performing. About half of the study's top-performing insurers with call centers have implemented customer satisfaction techniques such as survey call-backs and mailings.

BI

Technical tasks kept in-house

By DAVE LENCKUS

Despite the shortage of computer programmers, few commercial property/casualty insurers are turning to outside programmers for additional help, findings from an insurer benchmarking study show.

Meanwhile, many insurers are evaluating whether to outsource certain data processing functions, the study found. But insurers should outsource functions only under some specific circumstances, said John L. Ward, chairman of the insurer management consultant and investment banking firm that conducted the study.

The firm, Cincinnati-based Ward Financial Group, conducts the benchmarking study to determine which business practices constitute the best practices among a group of 125 insurers. Among that group are 27 of the 100 property/casualty and life/health insurers Ward Financial has determined are the safest and most profitable in the industry.

The following findings are based on the business practices of the 100 property/casualty insurers involved in the study.

Even with growing information technology demands and a shortage of IT talent, fewer than one-third of the commercial insurers commit at least 10% of their IT budget to obtaining services from outside contractors, the study found.

Unlike personal lines insurers, management at commercial insurers want to keep that work in-house, even if that means taking longer to complete a project, Mr. Ward said.

When commercial insurers use outside contractors, usually it's for developing new systems. Those insurers rarely use outside contractors for systems maintenance. The

trend is just the opposite among personal lines insurers.

But few commercial insurers use non-U.S. contractors, which are more popular with personal lines insurers, the study found.

Many non-U.S. software service companies have sprung up in recent years, particularly in India and Ireland. Those contractors have generated much interest throughout corporate America, because they offer 24-hour programming resources at extremely low billing rates of around \$25 per hour, Mr. Ward said.

Many companies use them for Year 2000 programming. Some also use the contractors to develop new systems based on personal computer client/server technology.

Mr. Ward expects that more commercial insurers will turn to those non-U.S. contractors as a stopgap in the next year.

Application systems are among the systems that some of the commercial—and personal lines—insurers in the study prefer to develop in-house. Those software systems provide the computerization rules for a specific activity or function, such as claims handling or underwriting.

But a purchased system usually would be cheaper and function at least as well and probably better than one developed in-house, Mr. Ward said. He puts little stock in arguments from individual insurers that their methods of running their business functions are like no others, forcing the insurers to develop their own systems. "They're really not that unique," he said.

Mr. Ward said many insurers now at least are considering purchasing application systems as the need for new systems arise. In some cases, integrating a purchased system with others built in-house could be difficult, "but it can be done," he said.

For basic processing systems, more commercial and personal

lines insurers rely on purchased systems, the study found. But those insurers generally do not contract with the system vendors for system upgrades. Instead, the insurers develop their own upgrades to modify systems according to their specific needs.

Insurers have had "good success" with that approach, Mr. Ward said. "That's close to a best practice." Purchasing a basic system gives insurers a much better jump-start on system architecture and eliminates their development risks, Mr. Ward said.

Few commercial or personal lines insurers are evaluating the merits of outsourcing their entire data processing function, the study found. But many are considering outsourcing specific data processing components such as telecommunications or help desks.

Outsourcing some functions rather than all data processing is more logical, Mr. Ward said. Noting that most functions can be outsourced, Mr. Ward said the trend is a healthy one for business. "I'm not a big fan of outsourcing," he said, but "it puts pressure on managers to be at their best."

Insurer management should not make outsourcing decisions lightly, Mr. Ward advised. Many companies outsource because they have a problematic department. "They think by turning it over to a third party, those problems would be magically fixed. They seldom are," he said.

He advised outsourcing a function only when management is certain that doing so costs less than managing the function internally.

In addition, the insurer has to be able to bring the function in-house again. "If it's a big and important department to an insurance company, it may not want to give up control for the long term," he said.

But, Mr. Ward warned, many outsourcing vendor contracts make reclaiming a function difficult.

of the past five years. A lone annual loss may not have exceeded 10% of surplus.

But Ward Financial adjusts the net income figures it uses to reflect some operational items that normally are recorded directly to surplus. Those items more truly reflect operating performance, explained Chairman John L. Ward.

For example, for all insurers, Ward Financial figures into net income unrealized capital gains or losses, changes in non-admitted assets and changes in provisions or liabilities for reinsurance they have purchased.

For mutual life/health insurers, up to 1% of surplus is apportioned to net income, though no adjustment exceeds an actual policyholder dividend. Without that adjustment, life/health stock companies would have an unfair advantage over life/health mutual insurers in this part of the analysis, Mr. Ward explained. That's because under standard accounting practices, 100% of a mutual insurer's dividend is treated as an income-reducing expense, whereas stock companies' dividends reduce their surplus.

Ward Financial uses the 1% figure because that is the typical portion of a stock insurer's dividend that represents a return of capital, Mr. Ward said. The same adjustment is not made to net income for mutual property/casualty insurers because they rarely pay dividends.

• Have achieved a minimum risk-based capital ratio, which Ward Financial derives by using a formula similar to the one state regulators use. The minimum is 100% for property/casualty insurers and 150% for life/health insurers. The difference in the ratios makes a comparable number of insurers in each industry segment eligible for the analysis.

• Not have a fluctuation in net written premiums exceeding either a 40% compound annual increase or a 10% annual compound decrease.

Insurers that survive those tests then are analyzed for returns on average equity and average assets and for total revenue. The top 50 insurers in each market segment comprise the Ward's 50 Benchmark Groups.

Ward Financial does not rank how each Ward's 50 insurer fared against others in its industry group. Instead, the results of all 50 insurers in each group are used as benchmarks for other insurers in that industry segment.

Not every insurer in the two Ward's 50 groups is identified by its full legal name. That is because in some cases, the listed insurance entity consists of two or more affiliated companies that form a group within a larger insurance holding company.

BI

Ward's

Continued from page 3

partment heads would meet monthly to make decisions about how to use information technology resources, Mr. Ward said.

The disadvantage of multiple committees is that "they have to act in tandem, so there's a bigger communication challenge," Mr. Ward said.

A single steering committee would consist of high-level executives and department heads. The committee usually would meet monthly.

The disadvantage of a single committee is that department heads often feel intimidated in the presence of their CEO. That stifles effective communication, Mr. Ward said.

Many insurers mistakenly measure their level of automation by the size of their technology investment, Mr. Ward said. The benchmarking study found, however, that insurers with less effective systems on average spent 9% of written premiums on technology, while companies with more effective systems spent 6%, or one-third less of their premiums.

"It all comes down to where you spend it and how you manage it," Mr. Ward said.

Insurers with more lavish but less effective systems often have committed additional capital to advanced technology.

Those insurers did not err by experimenting with new technology, Mr. Ward noted. Indeed, the benchmarking study showed that such tests are best practices. However, another equally important best practice is limiting those tests to a non-critical function in the company.

"Make it work, then roll it out" companywide, Mr. Ward advised.

Digital imaging is an example of advanced technology that many insurance companies heavily invested in before testing it, according to Mr. Ward. The technology allows users to load their computer systems with data from printed material, such as claims forms or coverage applications, by passing the material through a scanner.

But the expensive technology is difficult to use, according to Mr. Ward. "A lot of people have tried it, but few have made it work where it helps them improve their performance."

The top-performing insurers in the benchmarking study expect to realize additional cost savings and run more efficient systems by implementing a single information system architecture in their respective organizations.

Ward Financial has determined that implementing a single information system standard is a best

practice. Insurers will spend less by purchasing, training on and maintaining a single system than multiple systems, Mr. Ward said.

For example, many top-performing insurers in the study recently have committed to using only the Windows NT operating system for personal computer client/server platforms.

While the selection of that operating system is not a best practice per se, committing to a single operating system is, Mr. Ward explained.

Although the trend among best performers is toward fewer systems, Mr. Ward said, many insurers currently use three distinct types of computer systems: a mainframe computer, a personal computer client/server platform, and some

form of midrange platform in between the mainframe and PC.

Insurers got into that situation by allowing each department to

Ward said.

Maintaining several systems is more expensive than maintaining one, he said.

Digital imaging is an example of advanced technology that many insurance companies heavily invested in before testing it, says John L. Ward.

make its own systems purchasing decision, Mr. Ward said.

Insurers also could eliminate multiple database management systems on their mainframes, Mr.

Ward Financial has determined the best practice for funding Year 2000 compliance programs, but Mr. Ward said that how insurers handle this effort has more leeway

than other technology-related projects.

Most commercial property/casualty insurers that Ward Financial has studied have deferred investment in other projects to focus capital on the Y2K problem. However, the best practice is to increase the information technology budget incrementally and not delay other important projects, Mr. Ward said.

Ward Financial's recommendation to a particular insurer, though, would depend on the size of the incremental increases and the importance of the projects that might have to be deferred to fund Y2K compliance efforts.

In any case, the top-performing insurers rely on outside contractors for achieving year 2000 compliance. **B1**

Stats show what sets Ward's 50 apart

By DAVE LENCKUS

Some of the numerous measures used in developing the Ward's 50 groups of the safest and most profitable property/casualty and life/health insurers illustrate how the groups differ from the remainder of the industry.

However, in several areas, the total industry is faring much better than it has in recent years compared with the Ward's 50 groups.

Ward Financial Group, a Cincinnati-based insurer management consulting and investment banking firm, identifies the Ward's 50 Benchmark groups of property/casualty and life/health insurers that have done the best job of balancing solvency and profitability over the past five years. The latest period was from 1993 through 1997.

In the latest comparison of property/casualty insurers, the Ward's 50 continues to report a lower combined ratio, a healthier return on average equity, a stronger risk-based capital ratio and more surplus as a percentage of assets.

But, in some measures, the total industry has significantly narrowed the gap.

The risk-based capital ratio is one example. That ratio measures surplus adequacy by comparing an insurer's capital and surplus against the amount the insurer should have based on the risk profile of its business. Ward has set 150% as the minimum ratio a

property/casualty insurer must achieve to qualify for the Ward's 50 group.

For the latest five-year period, the risk-based capital ratio was 202.2% for the Ward's 50 and a slightly weaker, though still strong, 195.6% for the total industry segment.

In previous years, the gap between the ratios for the two groups was much wider, often exceeding 50 percentage points.

The gap closed this year be-

cause three large insurer groups with lower—though still strong—ratios made the Ward's 50 list, explained John L. Ward, chairman of Ward Financial. Those insurer groups are Liberty Mutual Group, Nationwide Group and State Farm Mutual Group.

In the life/health segment, the Ward's 50 group beat out the total industry in, among other things:

- Return on average equity.
- Insurers' performance in relation to their capital base "is the ultimate indicator" of their profitability, Mr. Ward said.
- Total stocks to invested assets.

The Ward's 50 reports a better combined ratio, return on average equity, risk-based capital ratio and surplus as a percentage of assets than the total industry.

total market, Mr. Ward said. The life products' profit margins are far greater than the margins on annuity products, he explained.

• General expenses as a percentage of premiums.

This was the first time the Ward's 50 group has beaten the industry in this measure, which "is very important for financial performance," Mr. Ward noted.

• The life lapse ratio, or the percentage of business lost at renewal.

Insurers have to keep business on the books a long time to earn a payback on it, Mr. Ward said.

• Growth in surplus.

However, the total life/health industry performed better than

the Ward's 50 group in several solvency measures.

For example, the total industry's 254.3% risk-based capital ratio was slightly stronger than the Ward's 50 group's 253.2% ratio for the 1993-1997 period.

In addition, surplus as a percentage of assets was stronger for the total industry—11.3%—than it was for the Ward's 50—10.5%.

Mr. Ward said the risk-based capital ratio is a more insightful measure of solvency than surplus as a percentage of assets. He noted the risk-based capital ratios for the industry and the Ward's 50 are strong and have been improving in recent years.

Insurers have been improving that ratio largely by increasing their profitability as well as disposing of problem assets, according to Mr. Ward.

The total industry has been disposing of high-risk mortgage loans and real estate more quickly than the Ward's 50 has, but the total industry has had a bigger problem in that area. For the total industry, those high-risk assets accounted for 2.3% of invested assets for the latest five-year period, compared with 2.7% for the prior five-year period.

The Ward's 50 reported 2.1% of high-risk assets, down slightly from 2.2%.

"But, if all a company does is accumulate capital and sits on it, their performance starts to suffer," Mr. Ward said. He pointed out that the Ward's 50 has "done a better job of managing their strong capital base," which their higher return on equity shows.

Life/health benchmarks

1993-1997

Benchmark category	Ward's 50	Total industry
Return on average equity	17.7%	14.4%
Risk-based capital ratio	253.2%	254.3%
High-risk mortgage loans and real estate as a percent of invested assets	2.1%	2.3%
Total stocks to invested assets	6.8%	5.8%
Individual life premiums as a percent of total premiums	25.9%	22%
Individual annuity premiums as a percent of total premiums	19.9%	22.4%
General expense as a percent of total premiums	10.8%	11.3%
Life lapse ratio	8.6%	8.9%
Growth in surplus	14.1%	12%

Source: Ward's Results 1998 Life/Health edition

Property/casualty benchmarks

1993-1997

Benchmark category	Ward's 50	Total industry
Combined ratio	104%	105.4%
Return on average equity	17.8%	15.2%
Premiums to surplus	1.2%	1.1%
Risk-based capital ratio	202.2%	195.6%
Surplus to assets	33.6%	31.8%
Loss ratio	65.9%	65%
Loss adjustment and expense ratio	12.9%	12.6%
Underwriting expense ratio	23.6%	26.3%
Total stocks to invested assets	27.2%	22%
Invested assets to total assets	89.2%	86%

Source: Ward's Results 1998 Property/Casualty edition

How to order Ward's Results

The 1998 property/casualty and life/health editions of Ward's Results are available from Ward Financial Group for \$525 apiece. The two Ward's reports can be obtained together or individually by contacting Ward Financial in writing at 8805 Governor's Hill Drive, Suite 410, Cincinnati, Ohio 45249-3312; by phone at 513-791-0303; by fax at 513-985-3442; or can be ordered on the Internet at <http://www.wardinc.com>.

HMOs

Continued from page 1

let these benefits be cut," Massachusetts Gov. Paul Cellucci said in a statement. Gov. Cellucci said he is seeking the help of Sen. Edward Kennedy, D-Mass., for assistance in maintaining the drug benefit mandate.

The resolution of the controversy could have an impact beyond health maintenance organizations in Massachusetts and their enrollees.

If the HMOs prevail, the victory will give them and other health care plans the ability to offer benefits that they say would best meet retirees' needs for the premium paid.

"This is an important issue. Plans want to provide benefit programs that best meet consumer needs. Unlimited prescription drug benefits is a very expensive benefit. Some plans want to offer a more limited benefit that more people can afford," said William Graham, staff counsel for the Massachusetts Assn. of HMOs in Boston.

"We want to offer choice and affordability," said a spokeswoman for Blue Cross & Blue Shield of Massachusetts, which wants to offer a \$1,200-a-year prescription

drug benefit in its Medicare risk HMO and charge a monthly premium of \$60.

"We are looking for the right balance between premium costs and out-of-pocket costs for members," said Alan Raymond, vp-public affairs at Harvard Pilgrim Health Care, an HMO in Brookline, Mass. Next year, Harvard

L.L.C. in Rowayton, Conn.

The Massachusetts controversy currently only affects individual policies that HMOs offer to retired employees who have opted out of the traditional Medicare program and receive coverage through so-called Medicare risk HMOs.

Massachusetts regulators have

If Massachusetts regulators prevail, it could be a green light to other states to mandate benefits for HMOs and other plans that cover retired workers opting out of Medicare.

Pilgrim wants to offer retirees in eastern Massachusetts a zero-premium Medicare risk plan with an \$800 annual cap on prescription drugs.

But if Massachusetts regulators prevail in this battle, it could be a green light to other states to mandate benefits—at substantially higher cost—for HMOs and other health care plans that cover retired workers opting out of Medicare and into their own programs.

"Other states are going to keep an eye on this," said John Piro, a consultant with Hewitt Associates

not tried to order Medicare risk HMOs to comply with the prescription drug benefit mandate for coverage negotiated by employers for their retired employees.

But employers would be likely to feel the impact of state benefit mandates on risk HMOs and other plans by the end of next year when a 1997 federal law giving retirees new private market alternatives to Medicare fully goes into effect.

With a plethora of private market alternatives to the traditional Medicare program almost certain to develop, more employers are likely to drop their own plans and

reimburse retirees for all or a portion of those plans' premiums.

"If there are a lot of choices out there, employers may say: 'We don't need to be in the retiree health care plan business. Maybe we will be in the plan premium subsidy business,'" said Mary Case, a principal with PwC Kwasha in Fort Lee, N.J.

But if Medicare alternative plans are loaded down with expensive state mandates, their appeal to retirees could be limited.

"The question is not today, but what happens two or three years down the road," said Jim Winkler, a Hewitt Associates consultant in Rowayton, Conn.

Mandates like those in Massachusetts can make plans "unaffordable for individuals and, ultimately, employers," said Karin Landry, a consultant with Watson Wyatt Worldwide in Wellesley Hills, Mass.

The Massachusetts controversy involves the interaction of both state and federal laws and regulations.

Under a Massachusetts 1994 law and later regulations, HMOs and other health insurers must provide either unlimited or no prescription drug coverage in plans they offer retirees eligible for Medicare.

But HMOs say the 1997 federal Balanced Budget Act pre-empts state laws affecting private plans—known as Medicare +

Choice plans—that contract with HCFA to provide coverage to retirees opting out of the traditional Medicare program.

HMOs note that HCFA regulations issued in June stipulate that for Medicare + Choice plans, "the specific pre-emption of state laws" would prevent the application of mandated benefit laws, such as the Massachusetts prescription drug mandate.

"The federal law is very clear and explicit and pre-empts state mandates, including the Massachusetts mandate," said Mr. Raymond of Harvard Pilgrim Health Plan.

But Massachusetts regulators view the federal law and regulations differently.

"Absent a judicial determination that any state law is pre-empted, state law will continue to apply to insured plans. . . . The Division also notes that HCFA's interim final rule does not appear to contain any prohibition which would prevent carriers from complying with all applicable state laws," Massachusetts Insurance Commissioner Linda Ruthardt said in a bulletin to insurers and HMOs.

Many HMOs want to cut back prescription drug benefits at a time when HMOs say drug costs are rising at a rate of 15% to 20%, one reason HMOs and insurers are boosting rates after several years of rate stability. **BI**

Services Guide

TRANSPORTATION BONDS

S.K. Goodrich & Co.

Ask about our special program with American Bankers Insurance

Company of Florida

ICC Property Broker Bonds

Fuel & Road Tax Bonds

Turnpike and Toll Bonds and

Other Misc. Transportation Bonds

Earn Extra Commission

Call Christine at

(602) 935-2190 Fax (602) 935-0553

PO Box 1086, Litchfield Park, AZ 85340

CPCU® and IIA candidates

I guarantee you will learn more in less time with The Burnham System — or your money back

Ray Burnham, CPCU, CLU, ARM

19 Everett Street, Southbridge, MA 01550

Call 1-800-GET-CPCU Now!

FOR 1998 RATES AND EDITORIAL CALENDAR

CALL 312-649-5340

Business Insurance's



1998 Tapes Are Available

Three original daily programs include news segments; risk management and employee benefits features; highlights from major conference sessions; interviews with leading corporate and industry executives, RIMS staff, attendees and exhibitors; plus coverage of conference events.

TO ORDER: Dial Rachelle Letersky at BI: 212-210-0229

While supplies last.

\$50 for a set of three programs. \$25 for any single day.

Cost includes standard shipping. Pre-payment required. Make checks payable to Business Insurance or charge to Visa, Mastercard, or American Express. Write to Business Insurance, TV'98, 220 E. 42nd Street, New York, NY 10017. Fax your order to Rachelle Letersky, TV'98, at 212-210-0704.

For advertising information contact: Irais Amleshi, Classified & Services Guide Advertising, 740 North Rush Street, Chicago, Illinois 60611. Telephone (312) 649-5340 • Fax (312) 649-7937

Kelly's duties expanded

Comings & Goings: Buyers

William J. Kelly, managing director at J.P. Morgan & Co. Inc. in New York, has expanded responsibilities.

Mr. Kelly, who has been with the banking company for 13 years, manages the company's insurance and risk management programs and is responsible for several other departments. He recently also was placed in charge of travel, contracts, purchasing, printing, in-house restaurants, mailing and vendor relationship management.

His areas of responsibility already covered tellers, translation, micrographics, corporate policy, signing authorities and corporate records management.

Mr. Kelly said his duties have increased as "the firm realized that managing corporate insurance is a lot like vendor management" of other corporate service areas.

"A lot of corporate services are now provided externally," he explained, and managing those areas involves many of the same techniques as managing an insurance and risk management department.

Mr. Kelly heads a staff of about 200 employees.

Jill Kanin-Lovers has been named senior vp-human resources at Avon Products Inc. in New York.

Ms. Kanin-Lovers, 46, will join Avon Sept. 1. She will be responsible for the company's global benefits and compensation programs. She replaces Marcia Worthing, senior vp-human resources and corporate affairs, who will retire Oct. 1.

Previously, Ms. Kanin-Lovers was vp-global human resources operations for International Business Machines Corp. in Tarrytown, N.Y.

She will report to Charles Perrin, who is Avon's chief execu-

tive officer.

Ms. Kanin-Lovers has a bachelor of arts degree from the State University of New York in Albany and a master of arts degree in economics from the University of Pennsylvania in Philadelphia. She also holds a master of business administration degree from the Wharton School at the University of Pennsylvania.

Marc Nathan has been appointed vp-compensation and benefits in the human resources department at WellPoint Health Networks Inc., a managed care company in Woodland Hills, Calif.

Mr. Nathan, 45, joins WellPoint from Service Merchandise Co. where he was vp-compensation and benefits for the Brentwood, Tenn., retailer.

At WellPoint, Mr. Nathan is

responsible for executive compensation package design, employee incentive programs and salary administration. He oversees the planning, development and implementation of job evaluation and salary management programs.

Mr. Nathan's position replaces that of director of compensation in a restructuring at the company. He reports to Thomas Van Berkem, senior vp-human resources.

Mr. Nathan earned a bachelor of science degree in economics from the Wharton School at the

University of Pennsylvania and a master of industrial and labor relations from the New York State School of Industrial and Labor Relations at Cornell University in Ithaca, N.Y.

Hanh V. Tran has been appointed director of risk management at Consolidated Freightways Corp. of Menlo Park, Calif.

Mr. Tran, 49, is based at the company's subsidiary, Leland James Service Corp., in Portland, Ore. He comes to the newly created position with 20 years' experience in risk management, most recently as corporate risk manager for Pacific Telecom Inc. in Vancouver, Wash.

Mr. Tran is responsible for Consolidated's risk management program; insurance and claims activities related to general, cargo and vehicular liability; and workers compensation risks.

He reports to Sunil Bhardwaj, vp-planning and treasury services at Consolidated.

Mr. Tran earned a bachelor's degree in business from the University of South Hue in Vietnam and graduated from the U.S. Naval Officer Candidate School in Newport, R.I. He is a member of the Risk & Insurance Management Society Inc. and the National Fire Protection Assn.

We'd like to report on staff changes in your company's risk management, safety and employee benefit departments. Contact Michael Bradford, Associate Editor, Business Insurance, 2726 Prytania #6, New Orleans, La. 70130; 504-269-9988; fax: 504-269-0858; e-mail: mbradfor@crain.com. Please send a photograph, too.

INTERNATIONAL

Global Briefs

Former Lloyd's of London members agent Anthony Gooda was declared bankrupt in the High Court last week as he is unable to pay Lloyd's claim for £490,000 (\$799,435) that Mr. Gooda owes as his premium to close pre-1993 underwriting liabilities into Equitas Ltd. Mr. Gooda, who with Derek Walker ran the infamous Gooda Walker agencies that collapsed in 1991, with losses of more than £500 million (\$815.8 million), also owes Lloyd's £1.2 million (\$2 million) for debts covered by the central fund, said a Lloyd's spokesman. . . Lloyd's of London has paid an additional £66 million (\$107 million) to Equitas Ltd., the runoff reinsurer set up two years ago to take over Lloyd's pre-1993 liabilities. As part of the Equitas deal, Lloyd's said it would pay up to £100 million (\$163 million) in 2002, based on interest rate levels in both the United Kingdom and United States up to 2001. Instead, both Lloyd's and Equitas have agreed to accelerate the payment to remove "the continuing uncertainty and consequent risk" surrounding it. . . In a bid to finalize the liabilities of troubled syndicate 657, Archer Managing Agents Ltd., underwriter Keith Davies will move to the syndicate after he retires as active underwriter for syndicate 463 at the end of September. Syndicate 657 faces losses up to 98.9% of its £43 million (\$67.3 million) stamp for the 1994 underwriting year, which remains open because total losses can't be closely enough calculated. The syndicate, specializing in U.K. liability, including employers liability and professional indemnity business, stopped writing in 1996. Mr. Davies will try to get an "acceptable quotation" to close the syndicate's open years, "taking into account market conditions and the best interest of capital providers," according to a statement issued by Archer. Archer is owned by U.S. insurer Chartwell Re Corp. . . The U.K. Policyholders Protection Board has paid out £12.3 million (\$20.1 million) in its past financial year to policyholders of London United Investments Group P.L.C., parent of the so-called KWELM companies, which collapsed in London in the late 1980s. In the 12 months ending March 31, the PPB paid out a total of £26.6 million (\$43.4 million) to policyholders of failed U.K. insurance companies, compared with £33 million (\$53.8 million) the previous year. Payments through the 12 months ending March 31 totaling £26.3 million (\$42.9 million) went to clients of 17 general business insurers. . . Net calls and premiums at The Standard Steamship Owners' Protection & Indemnity Assn. (Bermuda) Ltd. fell 14% to \$67 million for the year ending Feb. 20, 1998. This was mainly because the club canceled a supplementary call for the 1996-1997 policy year. At the same time, investment income rose 11% to \$31 million and the contingency fund increased 2.7% to \$150 million. . . French insurer AXA Group has signaled its intention to expand its Japanese insurance operations following further deregulation of the market last month. It plans to set up a new unit for both personal lines and commercial business next year, according to a statement made by the company. . . Lloyd's syndicate 861 has written the first Lloyd's risk through the WINconnect service. Placed by broker Sedgwick Ltd., the syndicate, managed by Brockbank Syndicate Management Ltd., wrote the property risk for a real estate investment company through the World Insurance Network and has signed the WIN Interchange Agreement. This means electronically transmitted data is controlled and the business is bound legally. . . More than £180 billion (\$297 billion) in trade was supported by British trade credit insurers last year, according to the Assn. of British Insurers' credit insurance committee. This was 15% higher than in 1996, though premium income was up only 4% to just over £315 million (\$520 million).

Terrorism rates under review

Northern Ireland bombing prompts underwriters to examine U.K. risks

By MARIA KIELMAS

LONDON—The deadly bombing this month in Omagh, Northern Ireland, has caused Lloyd's underwriters to reassess terrorism insurance rates in the United Kingdom.

In Northern Ireland, a U.K. government program provides terrorism coverage, and Lloyd's of London provides coverage for the difference between commercial property risks' declared values in the U.K. program and their market value at the time of the loss.

Pool Reinsurance Co. Ltd., an insurance company pool, writes terrorism insurance in England, Scotland and Wales.

"Obviously we need to ascertain how far the (terrorist) network in Northern Ireland operates over here (on the mainland)," said Ben Garston, senior underwriter respon-

sible for terrorism at Lloyd's of London's Wellington Underwriting Agencies Ltd.

The bombing in Omagh killed 28 people and injured more than 100. There is no estimate to date of total property damage in Omagh.

The Real IRA, a dissident faction of the Irish Republican Army, claimed responsibility last week for the 500-pound car bomb. Security experts believe the Real IRA has about 100 members. It opposes the Good Friday peace agreement signed by the British and Irish governments and the main armed groups in Northern Ireland.

Pool Re is in the midst of its annual rate review, which it conducts with participating companies and the U.K. government. But as the company writes coverage only for England, Scotland and Wales—not

See Bombing on page 19



PHOTO: AP PHOTOS

The recent fatal bombing in Omagh, Northern Ireland, is prompting underwriters to assess U.K. terrorism insurance rates.

Latin America luring brokers

J&H Marsh & McLennan Inc. is expanding its presence in Colombia with the purchase of a majority stake in Companias DeLima S.A. for an undisclosed sum.

Bogota, Colombia-based DeLima has nine offices in Colombia and was the correspondent of the former Marsh & McLennan Inc. for 41 years.

DeLima will be combined with the existing operations of J&H Marsh & McLennan in Colombia, which were owned by the former Johnson & Higgins.

The purchase is subject to regulatory approval.

Also, Willis Corroon Group P.L.C. is expanding its presence in Latin America following several recent transactions.

In an recent interview, Executive Chairman John Reeve stated that the London-based broker intends to be among the top three brokers in each market where it does business (BI, July 20).

As part of that strategy, Willis Corroon has agreed to acquire a 50% stake in a large Mexican independent broker, Bouchier, Marquard, Zepeda

Agente de Seguros y de Fianzas S.A. de C.V.

The Mexico City-based broker, to be renamed BMZ Willis Corroon, is estimated to be the country's third-largest broker. Willis Corroon already has a Mexico City branch for its reinsurance intermediary unit, Willis Faber & Dumas. BMZ also has offices in Guadalajara, Ciudad Juarez, Tijuana and Monterrey, Mexico.

In a separate move that is expected to make Willis the top reinsurance broker in Venezuela, Willis also completed merging Corsa Corretaje de Reaseguros S.A. with its Caracas-based reinsurance operations, Willis Faber Corretaje de Reaseguros S.A., to form Willis Faber Corsa S.A.

At the same time, Willis Corroon has set up a strategic agreement with Venezuelan retail broker Ronto Aralca & Asociados S.A. in Caracas to serve clients in Latin America.

Financial details were not available and Willis officials were unable to comment on the deals.

—By Sarah Goddard and Gavin Souter

E.U. employers get new burdens

By CAROLYN ALDRED

LONDON—European Union employers are beginning to face a host of new and potentially costly regulations, employment lawyers say.

Legislation that would curb working hours, extend parental time off and make it easier for employees to claim unfair dismissal are a few examples of proposed laws prompted by recent European Commission directives.

The new regulations are expected to keep employers and employment lawyers busy for the next several years. "There's a lot of legislation coming through which will be a big issue for employers," said Stephen Levinson, head of the employment department of London-based law firm Paisner & Co.

The new regulations contain "a lot of requirements for (employers) to keep records," he said, also noting that the legislation is "enforced by criminal sanctions which could mean directors finding themselves in the dock."

Later this year, the United Kingdom plans to implement the E.C.'s Working Time Directive, which limits the hours most employees can work per week to 48 hours averaged over a specified period. For example, an employee

whose job may require 36 hours in one week and 60 the next could still meet the 48-hour maximum. The E.C. directive also requires employers to provide a 20-minute break after six hours of work and three weeks of vacation after three months of employment, which will increase to four weeks in 1999. Employers must maintain adequate records and the directive can be enforced by industrial tribunals, health and safety authorities and local authorities.

The U.K. Department of Trade and Industry said last month that the working time regulations will be implemented in October.

The Trades Union Congress, which represents the United Kingdom's labor unions, immediately welcomed the news.

Other E.C. directives likely to be implemented by 2000 include:

- The Part-Time Work Directive, which will give part-time workers benefits similar to those of full-time employees, such as paid holidays and sick days.

- The Parental Leave Directive, which will extend unpaid time off to working parents. Parental leave varies throughout Europe. U.K. employers currently are not required to offer leave to working fathers.

See Employers on page 19

Tough times forecast for insurers

Competitive European market will reduce non-life premium volume: Survey

By EDWIN UNSWORTH

European insurers and reinsurers are in for tough times, according to two studies published last week.

The greater sophistication of corporate risk managers is leading to a decline in the amount of business being placed with the European commercial non-life insurance market, according to one study, "European Commercial General Insurance: Opportunities and Threats in a Declining Market."

This study, by strategic management consultant Datamonitor in London, indicates that total premiums in the European commercial non-life market will fall 8.3% to

\$132 billion in 2003 from \$144 billion now.

But Datamonitor's report says that despite the expected fall in the level of premiums, the amount of cross-border premiums underwritten within Europe will more than double to \$20.5 billion by 2003 from \$9.4 billion in 1996.

Datamonitor attributes this to the introduction of a single European currency, which will facilitate the comparison of cross-border insurance business. Another reason is the implementation of life and non-life insurance directives in the European Union, which mean an insurer authorized to write in one E.U. country may conduct business in any other E.U. country.

Datamonitor's study says commercial customers' increasing ability to manage and control risks is reducing their need to buy insurance. It says demand for insurance also is falling because manufacturing industries, traditionally the biggest commercial buyers of insurance, are decreasing in size and economic importance relative to the service sector, which has less need for insurance.

It predicts this will lead to increased competition in a declining market and will erode underwriting margins and reduce profitability. Combined with an increase in cross-border business, these trends will fuel

See Europe on next page

Europe

Continued from previous page
further consolidation within the European insurance market, according to Datamonitor.

"Traditional generalist underwriters are the most vulnerable, as they lack the capital resources to aggressively differentiate themselves from the competition. . . . Underwriters most likely to succeed are those with value to add; companies with recognized specialties or other key sources of differentiation, such as financial strength or expertise in a particular channel," said Datamonitor.

Meanwhile, in its 1998 Global Reinsurance Outlook Series for the U.K. and European markets, Moody's Investors Service says deregulation of the E.U. insurance market will put pressure on reinsurers' earnings. The Moody's report says liberalization of the European Union insurance market will lead to tighter margins and greater earnings volatility for reinsurers.

The increased competition among insurers that will result from deregulation will cause them to raise their retention levels, which in Europe have traditionally been low over the past 50 years, and reduce the amount of business they place with reinsurers.

Large proportional cessions to reinsurers, averaging 72% of primary insurers' premiums in Germany, no longer make sense, given that most insurers don't have the same capital restraints they had after World War II, Datamonitor said. Roger Harvey, the Datamonitor report's author, said this change will take place gradually over the next five to 10 years.

Mr. Harvey said E.U. deregulation will challenge the non-life reinsurance sector the most because it is non-life primary insurers that will be the most affected. The report says primary insurers

Demographic changes are creating 'significant' growth prospects in Europe's life and health reinsurance market.

are likely to demand far greater risk management service and innovation from reinsurers. This will favor those top-tier and midsize reinsurers that have strong technical expertise in specific products and capacity.

Moody's also says that demand for non-proportional and facultative reinsurance will increase at the expense of proportional reinsurance.

Mr. Harvey says this is both because shareholders are now becoming more demanding and because the market has become less volatile, leading companies to ask if quota-share arrangements are sensible any longer.

However, the report says "significant" growth prospects exist in Europe's life and health reinsurance market. It attributes this to demographic changes in countries such as Germany, France and Italy, which are likely to pressure governments to amend their social welfare systems, leading to a shift away from state provision of benefits toward private provision.

"The winners will be those reinsurers that can develop new products that meet the demands of the local market," says Moody's.

ucts that meet the demands of the local market," says Moody's.

However, Moody's adds that it is uncertain whether these strong growth prospects will translate into profitability, given the considerable amount of capital that is expected to chase this business.

Copies of the report, "European Commercial General Insurance: Opportunities and Threats in a Declining Market," are available by contacting Datamonitor Europe, 106 Baker St., London W1M 1LA, U.K.; 44-171-625-8548, fax: 44-171-625-5080. The cost is £1,995 or \$2,995.

Moody's Investors Service's 1998 Global Reinsurance Outlook Series is available only to subscribers. However, highlights of the report are available by visiting Moody's site on the World Wide Web: www.moody.com/insurance

The Professional Marketplace

RATES AND CLOSING TIME:

Rates: Display classified is \$171.00 per column inch, minimum of one inch. Straight classified is \$15.50 per line, minimum of 5 lines. Count 34 characters per line (include each space and punctuation as a character). Additional \$25.00 charge for all blind box ads. Only those responses which fit into a business size envelope will be forwarded. Responses are forwarded daily.

Closing: Published every Monday. Copy must be in typewritten form by 5:00 Tuesday, 6 days preceding publishing date. No verbal phone copy accepted. Most major credit cards accepted. Mail ads to, Irais Amleshi, Classified Advertising, 740 N. Rush St., Chicago, IL 60611. For more information call 312-649-5340, FAX 312-649-7937, or e-mail iamleshi@crain.com

SEEKING CARRIERS

"SEEKING CARRIERS"

Large Midwest non-standard auto insurance agency wants to represent your non-standard auto insurance company. We have been in business for 10 years, our current 12 months of applied for premiums are \$40,000,000.00. We will welcome MGA discussion. Please respond to Business Insurance, Box 3084, 740 North Rush Street, Chicago, IL 60611-2590.

We're on the Web

Business Insurance Online!

www.businessinsurance.com

HELP WANTED

HELP WANTED

INSURANCE...

SWIFT TRANSPORTATION
Commercial/Transportation Experience Is Preferred, Must Be A Self Starter, & Have Exc. Inves., Eval. Neg., & Comm. Skills.

CASUALTY ADJUSTOR
• Requiring 5+ Years of Complex Liability, Bodily Injury, & Litigation Experience.

PROPERTY DAMAGE ADJUSTOR
• Requiring 6 Mo. to 1 Yr. Of Auto or Transportation Liability Experience.

(eoe-m/f) Swift Offers A Competitive Compensation Package. Inc.: Paid Med., Life Ins. 401K & Stock Purch. Plan. Please Fax Resume, Salary Requirements To:

Swift Transportation
Fax: (602)907-7342
Attn: Mike Baracco

HELP WANTED

HELP WANTED



U.S. RE Corporation
Reinsurance Brokers and Consultants

U.S. RE IS SEEKING DYNAMIC PEOPLE

U.S. RE is seeking motivated people for senior and junior level positions in domestic and international reinsurance brokering, actuarial and legal.

Positions open in the New York Head Office.

If you would like to associate with one of the fastest growing independent groups operating on a global basis send your resume in strictest confidence to Richard Davies, Senior Vice President at 99 Park Avenue, New York, NY 10016 or call (212) 808-5500.

HELP WANTED

Insurance Underwriting/Marketing Officer/Metro NYC

Strong regional carrier seeks Insurance professional to direct marketing/underwriting operations. Marketing/Underwriting experience in commercial lines a must along with strong management/people skills and computer literacy.

Attractive package including defined incentive compensation formula.

New Business Production Underwriter-Metro NYC

Seeking Commercial lines underwriter with Metro NYC experience and following for the generation of new production sources along with new business from present and potential programs.

Attractive package.

Reply in confidence to Business Insurance, Box 3082, 740 North Rush Street, Chicago, IL 60611-2590.

HELP WANTED

SENIOR INSURANCE ANALYST

Progressive institutional investment consulting firm in W. Los Angeles advising \$160 billion seeks experienced insurance statutory, GAAP acct w/knowledge of invested assets. Duties include financial analysis of insurers; building pro forma financial models; maintaining current knowledge of regulatory matters; interpret exposure drafts & FASB releases for investment strategy implications; and wide range of research projects related to insurers. Competitive salary, commensurate with experience, exclnt benefit and work environment. Qualifications: Acctg. degree, CPA, 2-5 yrs major accounting firm exper., insurance exposure, statutory accounting expertise (prefer tax), superior knowledge of financial models and software (Excel), excellent writing skills. MBA, CPCU, CFA a plus. See Website: www.assetstrategy.com. No calls. Resume, salary history, cover letter: Ms. E. Sitton. Fax: (310)479-6499 or esitton@assetstrategy.com.

REQUEST FOR PROPOSALS

REQUEST FOR PROPOSALS

INSURANCE BROKERS
REQUEST FOR PROPOSAL (RFP) NO. 98048

The Chicago Housing Authority (CHA) Invites Qualified Businesses To Submit Sealed Proposals For:

The delivery of insurance brokerage and risk management consulting services.

RFP documents describing specific requirements of the Authority will be available: 8/24/98

DATE

FROM: ARLENE SHORTER
BUYERS NAME

Purchasing and Contracts Department • Chicago Housing Authority
626 West Jackson Boulevard • Second Floor • Chicago, IL 60661-5601

(312)791-8500, Extension: 4147

Tour Date/Time: Pre-Proposal Conf. Date/Time: Proposal Due Date/Time

Thursday, September 4, 1998 @ 10:00 a.m. CST Friday, October 2, 1998 @ 4:00 p.m. CST

PROPOSALS ARE NOT PUBLICLY OPENED

The subsequent contract shall be subject to the applicable compliance standards and procedures of Executive Order No. 11246, as amended, Equal Opportunity and other provisions as specifically set forth in the Specification.

The Authority encourages participation by joint ventures and qualified minority and women owned businesses.

Looking for a candidate to fill the job?

The most talented men and women in the insurance industry know where to turn when they want to make their moves.

Business Insurance

Call: Irais Amleshi at 312-649-5340 for advertising details.

INSURANCE



National Account Executive & Casualty Claims Manager

An aggressive Indianapolis-based truck insurance broker (associated with a Fortune 50 Insurance Company) with national accounts has openings for two positions.

An experienced Account Executive with a Bachelors degree and five years of work experience, preferably in trucking insurance. We deal with motor carriers generating insurance premiums averaging mid six figures. Travel is required. This position offers the opportunity for substantial financial success for the aggressive salesperson.

We are also seeking a Casualty Claims Manager for nationwide losses. The position requires at least a Bachelors degree and five years of heavy truck claims experience with insurer, trucking firm or TPA. Some travel. Large claims and heavy client contact require excellent communication skills.

Great working conditions, opportunity to exercise professional judgment and participate in the success of the company.

Please send resumes to:

Richard Nelson
Motor Transport Underwriters, Inc.
8555 N. River Road, Ste. 190
Indianapolis, IN 46240
Equal Opportunity Employer

Sales Account Executive Property Casualty or Employee Benefits

KENNETH JAMES', Executive Search & Recruitment Services, has been retained by leading insurance brokers/consultants with sales oriented cultures specializing in insurance brokering, risk management, benefit consulting, and claims services. We need to identify Sales Account Executives in both Property Casualty and Employee Benefits nationwide.

Candidates need a proven record of initiating and developing business relationships and sales with corporate clients. The candidate should expect monthly evaluation and collaboration with senior leadership discussing client needs, sales assessment, activity and progress towards revenue goals. Candidates should be or have 5 to 10 years' sales experience, strong interpersonal skills, trainable, a disciplined self starter, persistent, assertive, competitive, quality interviewing/listening skills, networking skills, business acumen, a strong team player, ability to sell value added and consultative sales skills. BA/BS preferred.

Send resume to: KENNETH JAMES, Inc., P.O. Box 498, Carmel, IN 46082-0498. We will contact you as directed.

KENNETH JAMES
EXECUTIVE SEARCH & TRAINING
"Business Solutions - Quality Talent"



Indiana State University

The Gongaware Center for Insurance Management Development

EXECUTIVE DIRECTOR

Executive Director to assume leadership in January 1999 for the operation and success of the Center and its programs, including promoting Indiana State University and its insurance program to the industry, and designing, implementing, promoting and administering University and industry service programs.

Qualifications: Proven leader with extensive industry experience who has a history of success in positions of increasing responsibility and entrepreneurial achievement.

Other beneficial attributes: industry designation(s) or graduate degree(s); experience with or knowledge of higher educational institutions; and experience in the development, implementation, or teaching of educational or training programs.

Send nominations and applications, including resume with references, statement of philosophy regarding need for academic preparation and continuing education for the industry, and brief statement of accomplishments to:

Dr. Mary Ann Boose, CLU, CPCU, chair, Gongaware Center Executive Director Search Committee, Office of the Vice President for Academic Affairs, Indiana State University, Terre Haute, IN 47809.

AA/EOE

Business Insurance

Circulation Breakdown Commercial Consumers

Administrative:

CEO's, Presidents, and Owners, ...2,710
Vice Presidents, General Managers and
Other Administrative Personnel 5,122

Financial:

Chief Financial Officers and Vice Presidents
of Finance 5,429
Secretaries, Treasurers, controllers and
other Financial Personnel 4,145

Risk/Employee Benefits:

Vice Presidents, Directors, Managers, and other
related department personnel of: insurance, risk,
employee benefits, personnel, compensation,
pension, safety, security, industrial relations,
human resources and employee/
labor relations 14,748

Sub-total 32,154

Associations 286
Government, Unions and
Educational Institutions 1,019

Commercial Consumers

Sub-total 33,459

Insurance Agents and Brokers 8,083
Insurance Companies 6,933
Accountants, Actuaries,
Attorneys & Consultants 2,705
Adjusters, Appraisers, TPA's, Captive Managers
& Health Care Providers 1,578
Others Allied to the Field 757
Total Qualified 53,525
Non-qualified/Paid Subscriptions 14
Single Copy Sales 27

TOTAL CIRCULATION 53,556

★ Source Business/Occupational
breakdown of qualified circulation,
November 24, 1997 Issue, as
submitted to BPA for December 1997
BPA Publisher's Statement

INTERNATIONAL

Employers

Continued from page 17

• A directive on European Works Councils, which will require large companies with operations in more than one European country to create panels of employees to negotiate with management on benefits and workplace policies. Such councils already exist in Germany and France but are not common in other E.U. states.

• A directive that shifts the burden of proof to the employer in employment discrimination. This legislation could make it easier for workers to sue their employer for gender bias, age bias and unfair dismissal.

Several of these issues were included in the United Kingdom's white paper, "Fairness at Work," published this summer, which outlines the DTI's proposals for employment legislation.

Prime Minister Tony Blair said in a foreword to the publication, "The white paper steers a way between the absences of minimum standards of protection at the workplace, and a return to the laws of the past." U.K. employees should have "rights to claim unfair dismissal, rights against discrimination for making a free choice of being a union member, rights to unpaid parental leave, that are a matter of course elsewhere."

The paper's proposals include:

• Reducing the qualifying period

for protection against unfair dismissal to one year from two years.

• Abolishing the £12,000 (\$19,500) limit on awards for unfair dismissal.

• Allowing formation of trade unions at employers when a majority of the workforce requests it.

• Granting employees extended maternity absence and to parental leave after one year of employment.

The Institute of Personnel & Development, which represents U.K. human resource and employee benefit directors, supports many of the proposals, noting "a sense of fairness at work" helps improve worker performance. The IPD is consulting members before issuing a formal response.

The TUC, meanwhile, sent its re-

sponse to the DTI late last month, welcoming the plan to abolish the cap on awards for unfair dismissal. But the TUC said the "white paper will still leave the U.K. with the most lightly regulated labor market of any leading economy in the world."

The Confederation of British Industry sent its response to newly appointed Trade and Industry Secretary Peter Mandelson on July 31.

"We have serious concerns about some of the new individual employment rights being proposed, as well as some aspects of the trade union recognition procedure," said CBI Director-General Adair Turner.

In particular, the CBI opposes removing the cap on unfair dismissal awards, claiming it would "add con-

siderably to the number, cost and duration of tribunal cases." Instead, the CBI proposes raising its cap on awards from £12,000 to about £40,000 (\$19,500 to \$65,000).

Meanwhile, other legislation aside from the white paper's proposals will change companies' employment policies in the near future.

Among these is the Employment Rights (Dispute Resolution) Act 1998, which takes effect later this year. This act will rename industrial tribunals as employment tribunals, and will permit arbitration of alleged of unfair-dismissal cases as an alternative to tribunal hearings. Employers may prefer arbitration as a way to avoid litigation and negative publicity over high-profile cases. **BI**

Bombing

Continued from page 17

Northern Ireland—the Omagh bombing will have no direct effect, said Leslie Lucas, Pool Re managing director. "We are still going through the rate review process and looking at claims experience."

Pool Re's last losses were in 1996, when IRA terrorists bombed Canary Wharf, a development in London's Docklands area in February and downtown Manchester in June of that year (*BI*, Feb. 19, 1996; June 24, 1996). Mr. Leslie said the Docklands bombing caused claims of £105 million (\$169.7 million), while the Manchester event brought £285

million (\$460.7 million) in claims.

Commercial demand for terrorism insurance in England, Scotland and Wales has remained steady prior to the Omagh bomb and despite this year's peace agreement.

Also, terrorism has not abated. There have been killings and bombings in Northern Ireland since the peace agreement was signed.

Lloyd's underwriters are offering coverage at rates between 10% and 20% lower than Pool Re. Wellington set up the first facility as an alternative to Pool Re in 1994. Pool Re began to discount premiums in 1995, introducing a deposit premium, under which policyholders paid 60% of the total premium and paid the remaining 40% only if total claims

against the pool exceeded £54 million (\$80.8 million), Mr. Lucas said.

In 1996, Pool Re offered a 20% discount on the up-front payment requirement of 60% of premium, while the threshold for claims that would trigger payment of the remainder was raised to £75 million (\$121.2 million). After the Docklands and Manchester bombings in 1996, Pool Re's 1997 premiums were required to be paid in full.

For this year, Pool Re offered discounts of 20% in its so-called A and B zones of highest risks, such as urban downtown areas, while discounts of 40% were offered for the country at large. The 1999 premiums will be decided by late October this year, Mr. Lucas said.

Reciprocal

Continued from page 3

While a reciprocal is similar to a corporation in many ways, including the ability to sue and be sued, there are no corporate filings, he said; ultimately, a reciprocal is more like a partnership than a corporation, Mr. Clemons suggested.

Arthur G. Koritzinsky, senior vp at J&H Marsh & McLennan Inc. in New York, noted that Vermont's reciprocal law levels the playing field with offshore captive domiciles that allow the reciprocal structure.

The reciprocal form offers significant potential tax advantages for group captives, he said. For for-profit entities, it eliminates double taxation, while for not-for-profits it eliminates taxation altogether.

Those advantages come by virtue of the manner in which any revenue generated by the reciprocal captive is distributed to its member entities, Mr. Koritzinsky explained. "What the reciprocal does is allow that revenue (from the captive) to pass directly to the shareholders without having to pay tax."

In addition to the potential tax advantages, another advantage reciprocals offer is flexibility of governance, because they do not have a defined corporate structure to follow as do traditional captives.

While reciprocals allow pooling of capital, pooling of risk and limited exposure for participants, they don't involve the filing of corporate charters like traditional captives.

"This is one of the more exciting opportunities for group formations that's come along in quite a while," said Mr. Clemons.

Forming a Vermont-domiciled reciprocal involves the same steps and requirements involved in forming any other captive in the state, plus identifying the attorney-in-fact and the reciprocal's original subscribers.

The ability to avoid double-taxation "was probably one of the strongest reasons for the formation of our reciprocal form," said Daniel Dubreuil, executive vp for Manchester, N.H.-based Mathes Associates Inc., attorney-in-fact for the New

England Mortgage Insurance Exchange, one of Vermont's first two reciprocals.

NEMIE was organized to reinsure private mortgage reinsurance coverage originated through the lenders making up NEMIE's membership. Many of the country's largest mortgage lenders have been forming single-parent captives in Vermont in recent years to reinsure private mortgage insurance on their loans.

Because NEMIE's members are financial institutions in the Northeast, geographic considerations were one reason the group chose Vermont as a domicile.

But the state's genuine interest in NEMIE locating there and its base of captive professional expertise were other key considerations, Mr. Dubreuil said.

Keith Blum, accounting manager for San Diego-based Premier Inc., a strategic alliance of 216 non-profit U.S. health care facilities, said that for members of the Premier alliance, the advantages of a Vermont-domiciled reciprocal include the ability to manage insurance programs domestically.

Other key considerations were the elimination of federal excise tax that would be owed if premium were being ceded offshore, a reduction in federal income taxes and a reduction in administrative expenses, Mr. Blum said.

He said total annual savings will be more than \$1 million on the excess liability program placed in the Premier group's American Excess Insurance Exchange Risk Retention Group reciprocal, and the hospital professional liability and directors and officers program to be placed in a second reciprocal the group is forming, Premier Insurance Exchange Risk Retention Group.

Mr. Koritzinsky suggested that a turn in the traditional insurance market should prompt considerably more interest in reciprocal formations.

"When the market changes and pricing becomes more firm... I think we'll see more reciprocals," Mr. Koritzinsky said. "Reciprocals will be the form of choice for organizing group captives in the future."

ven had archived for subscribers' use. Several said the archives were their intellectual property, not InsWeb's property.

InsWeb is "hoping" to make the archives available, the spokesman said. But that will depend on the company's ability to sort out legal issues involving privacy and copyrights, he said.

Some subscribers envisioned little trouble there. They said they would not oppose InsWeb releasing material that identified them and their e-mail addresses. And, Mr. Parker noted, RISKWeb never allowed subscribers to post copyrighted material. **BI**

RISKWeb

Continued from page 1

ment issues, many risk managers turned to the mailing list that the Public Risk Management Assn. opened up to all risk managers for the next month or so. Risk managers can subscribe to PRIMA's mailing list by sending an e-mail with the message "subscribe PRIMA-Talk" to majordomo@atlantech.net.

Some observers questioned the wisdom of permanently linking the forum with any industry-related commercial enterprise. An educational institution would be a better alternative, they contend, because such a sponsor likely would not be tempted to promote products and services.

At least one school, the University of Arizona in Tucson, is exploring the feasibility of sponsoring the e-mail forum, confirmed Steve Holland, director of risk management and safety at the university.

Meanwhile, a group of risk managers, financial officers and academicians in Europe are planning a forum for professionals involved in operational and financial risk and public policy, according to H. Felix Kloman. The group has asked Mr. Kloman, a former Tillinghast consultant and now the Lyme, Conn.-based editor of the Risk Management Reports newsletter, to help set up and run the forum. Mr. Kloman said he hopes it will be online within two months.

However the situation shakes out, risk managers are committed to keeping their forum alive, several subscribers said.

The new forum, though, will not be known as RISKWeb. InsWeb will retain its right to that name, an InsWeb spokesman said.

InsWeb shut off RISKWeb 11 days ago without notice, after deciding over the past few months that it did not fit into the company's business plan. InsWeb is an online comparison shopping service for buyers of personal lines coverage.

The spokesman would not discuss

whether the free service was a money-losing operation.

Several risk managers said they would pay a reasonable fee to keep the mailing list service alive. Paid subscriptions, though, could chase away those who float in and out of the forum, said Dave Parker, director of risk management for Pima County, Ariz.

Privately held InsWeb purchased RISKWeb in March 1996, when InsWeb was less than a year old. That same year, InsWeb hired the forum's creator, James R. Garven.

Asked why InsWeb purchased the service, the spokesman said only that the company sharpened its business focus on the consumer market about

Several of RISKWeb's subscribers said they are indebted to Mr. Garven for creating the risk management tool.

11 months after the purchase.

Mr. Garven would not discuss in detail the circumstances surrounding RISKWeb's sale. However, he said InsWeb supported the service's continued development and management while he was the company's vp of economic analysis and product research from 1996 until earlier this year.

Mr. Garven created the forum while he was a professor at the University of Texas in Austin. He moderated the forum from its inception, when it was called RISKNet, until it went dark. Mr. Garven now is a professor in the finance department at Louisiana State University in Baton Rouge.

RISKWeb's subscriber list grew from a couple hundred people in the service's early days to 2,300 worldwide in November 1997. More recent figures were unavailable.

Several of RISKWeb's subscribers said they are indebted to Mr. Garven for creating the risk management

communication tool. They said it quickly became indispensable because of the quality and immediacy of information it provided. Rather than spending hours researching problems, subscribers could send e-mails asking questions relating specifically to their organizations and move onto other work while awaiting responses. Within hours, risk management experts worldwide would reply, addressing many sides of the issues.

"That's why I was so heartsick when I heard the thing was going off the air," said Kevin M. Quinley, senior vp-risk services for MEDMARC Mutual Insurance Co. of Fairfax, Va.

"It's the staff that's never gone," observed Heidi M. Vulcano, director of risk management for New York-based Alper Holdings USA Inc., a privately held holding company that has, among other things, ink manufacturing and real estate development holdings.

Risk managers said they understood InsWeb's business decision to drop the service.

But, they did not understand why they were not warned. "It only would have taken three minutes to do an e-mail," said Mr. Quinley, noting the irony of the situation.

"It seems not only irresponsible but also a bit cruel," said Janna S. Maxey, risk manager for the Baptist Foundation of Arizona in Phoenix, a non-profit organization with several for-profit subsidiaries.

"We apologize for any inconvenience it may have caused people," the InsWeb spokesman said.

After receiving numerous calls and e-mails from RISKWeb subscribers, InsWeb said it would revive the forum temporarily, beginning last Friday, so subscribers would have a meeting place to develop an alternative forum.

But, for "legal reasons," InsWeb will not release or sell the service's subscription list, the spokesman said.

Some risk managers said that will hurt their chances for notifying all subscribers about a new forum if many subscribers do not learn about RISKWeb's temporary revival.

Vermont poised to host rent-a-captives

By RODD ZOLKOS

BURLINGTON, Vt.—With Vermont legislators expected to craft a rent-a-captive law next year, the captive domicile appears set to jump into the expanding rent-a-captive niche.

Speaking as part of a panel on rent-a-captives at the Vermont Captive Insurance Assn.'s annual conference this month in Burlington, Vt., rent-a-captive manager Phillip J. Stevens emphasized the growing interest in rent-a-captives.

They are "clearly a middle-market strategy," said Mr. Stevens, vp of Aon Re Worldwide in Greenwich, Conn. He markets and manages Aon's Bermuda-domiciled Gateway Insurance Co. Ltd. rent-a-captive facility.

But in that middle-market niche, "There is... quite a bit of market demand," Mr. Stevens said. "From my perspective you have to have one if you're going to compete in this niche of business, the middle market."

Typical rent-a-captive clients are in the \$750,000 to \$2 million annual premium range, he said. An organization that pays more than \$2 million in premium is

usually large enough to form a single-parent captive.

But another panelist, John P. Yonkunas, a principal with Till-Ingkust-Towers Perrin in Weatogue, Conn., suggested that larger policyholders could be interested in rent-a-captive vehicles, as well.

"We've heard a lot of talk over the years about employee benefits, and we've used rent-a-captive facilities to provide quasi-employee benefits to corporates," Mr. Yonkunas commented, explaining that he's seen some programs placing some post-retirement benefits in rent-a-captive structures.

"We've also seen rent-a-captives used to take advantage of underutilized assets on the balance sheet," Mr. Yonkunas said, adding that he's also seen them used to fund unusual risks.

Larger corporate clients with sophisticated risk management programs also can find ways to take advantage of rent-a-captives, he said.

Thomas W. Kozal, a senior vp at Altrisc Services Inc. in Stamford, Conn., noted that there are four distinct types of rent-a-captives in the market:

- Corporate rent-a-captives, in which an individual policyholder or group elects to take risk.

- MGA rent-a-captives, in which a managing general agent



takes a risk on the book it handles and "the insureds are not cognizant that there is an alternative risk vehicle behind their program."

- Agency rent-a-captives, in which a retail agent takes on the risk.

- Custom rent-a-captives, which are used to provide some sort of unique business benefit.

In the typical corporate rent-a-captive program, the policyholder funds its expected losses in cash, Mr. Kozal said.

"Right now the market for this type of business... is about as dead as a doorknob," he said. That lack of activity is largely the result of a soft traditional market and the development of other

types of rent-a-captives, Mr. Kozal said.

While corporate rent-a-captive activity might be slow, there is considerable activity these days in the MGA or agency rent-a-captive categories, Mr. Kozal said. In these structures, the policyholder gets coverage through an agent, who subsequently places it into a rent-a-captive program.

Custom programs, meanwhile, include rent-a-captive vehicles dedicated to a specific purpose, perhaps to facilitate risk swaps or securitizations for the policyholder. There is considerable activity in the custom program area as well, Mr. Kozal said.

Among the reasons policyholders might consider rent-a-captives include that they can: be an alternative to a high self-insured retention program or a retrospectively rated plan; be a pre-loss funding technique; test whether a captive makes sense; create a profit center; or facilitate reinsurance and program business opportunities, Mr. Stevens said.

Potential benefits to policyholders, he said, include: the opportunity to reap underwriting profits and investment income; the greater emphasis on risk manage-

ment that can result from a captive approach; the possibility of a profit-sharing mechanism with agents and managing general agents; and the fact that a captive approach can address unique insurance issues.

From the rent-a-captive owners' perspective, benefits of offering rent-a-captives include: the ability to provide clients a value-added service; a tool for generating new business and retaining existing business; a mechanism for facilitating the ceding or assumption of reinsurance; and an opportunity for additional revenue, said Mr. Stevens.

"And I know it's a dirty subject," he said, "but at least to the owner, there is a revenue stream in terms of captive management fees."

In a session earlier in the conference, Leonard D. Crouse, Vermont's director of captive insurance, said the state is "definitely looking into some kind of rent-a-captive bill this coming legislative session."

"I think it's time that we look at rent-a-captives," Mr. Crouse said. "I think they're going to stick around. If the market stays the way it is, they will." **B1**

Mergers require speedy due diligence

By RODD ZOLKOS

BURLINGTON, Vt.—Risk managers faced with mergers or spinoffs of their companies need to act quickly and decisively in addressing the risk management issues those transactions pose.

But, according to panelists discussing the impact of "merger mania" at the Vermont Captive Insurance Assn.'s annual meeting earlier this month in Burlington, Vt., they often must overcome considerable obstacles to address those issues effectively.

Discussing Bell Atlantic Corp.'s merger with NYNEX Corp., which began in April 1996 and was finally completed 16 months later in August 1997, Sheila Small, director of risk management for Bell Atlantic in New York, outlined a merger and acquisition due diligence checklist for risk managers.

Such a checklist should include listing policies, gathering loss data, assembling payroll information, examining contracts and as-

sessing outstanding liabilities. That said, "This whole merger wasn't done this way," Ms. Small said.

Among other things, she noted, that in a "merger of equals" like Bell Atlantic-NYNEX, often there is very little due diligence done because there tends to be a lot of "trust" between the two companies.

Just the same, bringing together the two large companies required merging two large insurance programs, Ms. Small noted.

"The most critical issue was the programs that were determined by the merger agreement. And those were the runoff policies," she said.

Claims reporting procedures were another sticky issue. "The claims reporting procedure was very difficult in the two companies," Ms. Small said. "We tried to get all the old claims out of the way before the merger happened. I can't say we were very successful."

In addition to the "hard issues," such as insurance program details, there also are numerous



"soft" issues that need to be considered in a merger as well, such as philosophical differences between the merging organizations, power struggles, the new organizational structure, relationships, cultural differences between the two companies and differences in work operations, the Bell Atlantic risk manager said.

"Being a merger of equals, there was a tremendous amount of power struggle at least until they determined who the risk manager was going to be of the new organization," she said.

"Then you have the personnel issues," Ms. Small said. "People who don't want to work for you."

The effects of uncertainty, stress and distractions on workers during a merger are another hurdle to be cleared. "You lose half the productivity of your people during

this period of time," Ms. Small said. "There's no way around it. It's just human nature."

However, it's nature that fight through those obstacles if a merger is to be successful, said Susan J. Albrecht, senior vp at St. Paul Fire & Marine Insurance Co. in St. Paul, Minn. She described some of the issues raised by The St. Paul Cos. Inc.'s merger with USF&G Corp.

"Day one, the whining starts. And day one, we're all looking for why we shouldn't have done it, including management," Ms. Albrecht said. "You can't let the whiners win."

"Seventy percent of mergers and acquisitions never meet their (financial) goals," she said. "And the No. 1 reason is culture."

Because two cultures can't be merged, management must determine which culture the merged company will have and implement it, Ms. Albrecht said.

"This 'Let the best system win' is baloney," she said. "You're going to be doing that for 18 or 24 months. Pick one and go with it."

The longer mergers drag on be-

fore they're completed, the less likely they are to succeed, Ms. Albrecht said.

"The better said is not going to win. You'd better become a hare. As fast as it is, do it faster," she said. "You've got to integrate quickly, deal with the issues and move on."

"Fast is better. You don't want to prolong this," agreed Mary C. Gardner, director of risk finance, insurance and claims at MediaOne Group Inc. in Englewood, Colo.

The experiences Ms. Gardner discussed were based on a different sort of experience, however: a corporate split of one company into two new entities.

In her company's case, that split took about four months, she said. "But what that meant was there was a whole lot of work that had to be done in a very short period of time."

"The very first thing you need to know is why did the split happen?" she said, adding that the stock market's reaction to the move will be significant in terms of its potential impact on the company's directors and officers insurance program.

Ms. Gardner advised risk managers involved in a corporate split to rank the various insurance and reinsurance issues they face in order of importance. "The D&O and fiduciary (liability) is probably your A-1 issue," she said.

And in identifying the new entities' risks and exposures, "Don't presume everything stays the same," Ms. Gardner cautioned.

It's also important to anticipate potential issues that emerge after the deal closes, Ms. Gardner said. "Make sure that you've got a method and a means to negotiate through these," she said.

In terms of what might happen to a captive after such a split, Ms. Gardner noted that a risk manager may be dealing with a new group of people who don't understand what the captive was all about. "But use it as an opportunity," she said, suggesting that such a situation can be a chance to revitalize the captive and push new ways of using it. **B1**

Pensions & Investments DEFINED CONTRIBUTION/ 401(k) CONFERENCE West Coast

CONFERENCE CHAIRMAN:
BRENT HARTMAN
Benefits Finance Manager
Hewlett-Packard Company

KEYNOTE SPEAKER:
WILLIAM F. SHARPE
STANCO 25
Professor of Finance
Stanford University and
Chairman, Financial Engines, Inc.
Stanford University

September 16 & 17, 1998
ANA Hotel
San Francisco

WHO SHOULD ATTEND

Plan sponsors, 401(k) specialists, managers of investments, employee benefits and human resource managers, treasurers, chief financial officers, insurance company executives and consultants.

WHAT YOU'LL DISCUSS

- 401(k) Plans: Decisions, Outcomes and Investments
- Powerful Communication and Effective Relationship Building
- Regulatory and Legislative Change Affecting Defined Contribution Plans
- Crossing the Line: How Participant Advice is Changing Your Role in the DC Industry
- Getting at the Truth: Designing an Effective Risk Assessment System
- Growing Liability for Plan Sponsors of Defined Contribution Plans
- How and Why Sponsors are Changing Managers and Fund Options They Offer
- Secrets for Choosing Best DC Fund Managers

For exhibits opportunities contact Julie Tarsi at ext. 14.
For sponsoring opportunities contact Jill Adler at ext. 16.



CALL
**IBF • INTERNATIONAL
BUSINESS FORUM**
(516) 594-3000
FAX: (516) 594-5979

ADVERTISER INDEX

Issue of August 24

ADVERTISER	PAGE #
AIG Corporate	7
Arkwright Mutual Insurance	6
Burnham Systems	16
Business Insurance	9
Carvill America	6
City of Hope	13
Delta Dental Insurance Plan	9R
Employers Reinsurance Corp.	4
International Business Forum	10
Liberty Mutual	24
Wausau Insurance Co.	5

Family tort trip a class action

Jump forward five years.

It's August 2003 and I'm planning for the spring vacation trip we'll take in 2004 when my 11- and 8-year-old are released from Horace Mann Elementary School for a week of freedom. Knowing the weather in Chicago after the longest El Nino on record will be dicey at best, and Florida is out thanks to Hurricane Kenny, I consider a family trip someplace more temperate, like Greenland or Alaska.

I've got a handful of brochures and am reviewing them when one in particular catches my eye.

The Museum of American Tort Law in Winsted, Conn., is offering a competitively priced family package with free passes to the museum and lodging at a nearby Motel 7 (renamed a few years back after the Y2K booking fiasco).

The museum, now in its third year of operation, has quickly displaced Las Vegas, Dollywood and Disneyworld I and II as the most popular family educational and entertainment attraction in North America.

Browsing through the brochure, it's easy to see why.

What started out in 1998 as a gleam in consumer activist Ralph Nader's eye (Editor's note: no kidding) has rapidly grown from a humble collection of consumer goods notable for the riches they brought to players in the U.S. legal system into an educational adventure for the whole family.

Many people scoffed at the concept when it was first unveiled, but they just saw it as a boring and tasteless reminder of property damage, bodily injury and the excesses of a runaway legal system. The museum today, in 2003, has expanded into a theme park, informally known as TortLand, that dazzles tens of millions of visitors annually with a combination of down-home fun and high-technology thrill rides.

Of course, the collection still displays such artifacts as a Ford Pinto, Dr. Gore's famous BMW, flammable sleepwear, lead paint, asbestos, latex gloves, silicone breast implants, unfiltered cigarettes and a diorama of the Love Canal waste site, among other original attractions.

But thanks to the wonders of technology, the museum has branched out into interactive exhibits.

Everyone will want to get in line again and again for "Virtual Reality Road," where you can take your turn trying to rear-end a car to make it explode, flip a sport utility vehicle or navigate a sedan that is accelerating out of control. Those who succeed win prizes from the park's many Judges and Juries, which are colorfully costumed cartoon characters. The prizes are playfully referred to as "punitive damages."

Another favorite attraction is "I'll See You in Court," where contestants are equipped with special laser guns and try to tag as many computer-animated targets as possible. Score big points for nailing doctors, major retailers, manufacturers and other targets. Big points earn punitive damages.

You will shake, rattle and roll in the "Hall of Slips and Falls." Here, the object is to be the first to successfully cross a giant slippery floor that shakes, spins and undulates to claim punitive damages on the other side.

But it's not all slick high-tech wizardry. There are plenty of home-spun activities for the family, too.

Children young and old will want to test their mettle in a foot race against plaintiffs attorneys in "Ambulance Chase." First one to reach the ambulance after it picks up an accident victim wins huge punitive damages.

Like other parents, I'm sure I will beam with pride when my kids play "Beat the Comp." Played in a giant maze on the grounds of TortLand, the object of the game is to get out of the system by finding one of several Magic Loopholes or Slick Attorneys.

And don't miss "Whiplash—the Ride." It may resemble old-fashioned bumper cars, but the object is to be the first to drive a Corvair replica to TortLand Court after being bumped by another contestant. The first to reach the goal wins punitive damages. All players receive a fake souvenir neck brace!

It's breathtaking. The only problem, though, will be persuading my family to go to a museum and theme park devoted to the tort system, when deep down I know their hearts are set on going back to ERISA World.

Editor Paul D. Winston and Publisher and Editorial Director Kathryn J. McIntyre publish columns on alternate weeks.



Paul D. Winston

Soft market not death knell

Captives still can help create most effective programs: Speaker

By RODD ZOLKOS

BURLINGTON, Vt.—One of the keys to the survival of captives in a soft market is the role they can play in crafting the most effective risk management program, an alternative risk transfer expert says.

Speaking on a panel on "Captive Survival Techniques in a Soft Market" earlier this month at the Vermont Captive Insurance Assn.'s annual conference in Burlington, Vt., James W. Hutchin noted that in today's market, one can make a case that the traditional reasons for forming captives no longer apply.

Among those traditional reasons were access to reinsurance markets, pre-funding uninsurable exposures, as a risk management allocation tool, or to reduce frictional costs by getting more efficient access to insurance capacity, said Mr. Hutchin, managing partner at IRMG Risk Advisory & Captive Management Services in Fort Lee, N.J.

But, though in today's market a case could be made for why any of those reasons no longer hold true, Mr. Hutchin emphasized, "The real beauty of the captive solution is the ability for client-specific solutions."

What's more, using a captive can create a more efficient risk management program. "When you put a captive in place in your organization you fundamentally change the corporate view of risk in your organization," Mr. Hutchin said.

The "profit and loss" approach that comes with a captive garners much more respect in an organization than the "cost center" approach that can develop around a risk management program without one, Mr. Hutchin suggested.

Richard H. Hamilton, president and general manager of CSX Insurance Co. in Burlington, noted that despite a soft market, captive owners are continuing to look for ways to optimize the financial

benefits captives can provide.

At the same time, Mr. Hamilton said, captive owners also are interested in preserving the "qualitative" benefits captives can offer, such as the improved loss forecasting and safety focus a captive can bring an organization, consistent retentions across business units, and coordinated claims adjusting services.

It's that sort of sentiment that's



driving captive owners' efforts to find new ways to use them, Mr. Hutchin said. "There's tremendous buyer pressure," he said.

New captive uses could include life insurance captives, special purpose vehicles, such as those being used to facilitate risk securitization, or captives formed as a "holding tank" for a holistic risk management approach that deals with managing risks across an organization's entire spectrum of exposures, Mr. Hutchin said.

In that latter case, a captive provides a good framework in which an organization can assess how much risk it can retain, how much it should retain and how it can lay off the risk it doesn't want.

"We like to think that captive ownership facilitates this view of risk, and it facilitates implementation of the associated solutions," Mr. Hutchin said.

Using a captive to implement such holistic risk management strategies is one way to optimize captives' financial benefits, Mr. Hamilton said. Others could include using captives to facilitate risk securitization, insuring significant vendor risks into a captive or to reduce federal excise tax liabilities by placing coverage that otherwise would be ceded to Bermuda or European markets into the domestic captive, Mr.

Hamilton said.

Even if a company has a captive, he noted, "Analysis of commercial options is very important," with the results of that analysis offering an additional way to optimize a captive's financial benefits.

On the qualitative benefit side, a captive "really facilitates focusing senior management attention on your losses and therefore on your safety program," Mr. Hamilton said.

New insurance programs and coverages in the market that can work in conjunction with a captive provide other ways to increase the chances of captive survivability in a soft market, said Patricia T. Jodry, vp at CIGNA Risk Solutions in New York.

Integrated risk programs are one such approach, Ms. Jodry said, adding that approximately 30% of these customized risk programs crafted to date have involved a captive.

Such integrated approaches can incorporate non-event risks, such as foreign exchange risk, or "hot covers," such as employment practices liability, workplace violence or products recall, into an overall program that includes more traditional risks.

"I think in the future there's going to be more of that, because I think more people are going to see the benefit of using these programs behind a captive," Ms. Jodry said.

Such programs must stem from a focused risk management strategy, however, Ms. Jodry cautioned. "These programs work only because they fit a need that you have," she said.

And Mr. Hamilton suggested that however effective an organization's insurance program might be, it's always necessary to look at other possibilities.

"We should look very closely at our current options vs. the alternatives that are available," he said. "It never makes sense to stand still." **BI**

Meeting draws more than 800

BURLINGTON, Vt.—The Vermont Captive Insurance Assn.'s 13th annual conference drew more than 800 attendees to the Sheraton Burlington Hotel & Conference Center in Burlington, Vt.

In addition to seminars on various topics related to captives and their use, the conference was the occasion for the VCIA's presentation of two annual awards.

W. Scott Frazier, executive director North America/Asia for



Aon Insurance Managers in Burlington, received the VCIA's Captive Crusader Award, presented by the VCIA staff to a person who has demonstrated exceptional service to the organization.

George A. Chaffee, president

of Skandia International Risk Management (Vermont) Inc. in Burlington, was presented the VCIA's Industry Service Award for his contributions to the Vermont captive industry and his role in promoting the state's passage of its captive law while he was insurance commissioner.

The VCIA's 14th annual conference is scheduled for Aug. 17-20, 1999, in Burlington. For information on next year's conference, call the VCIA at 802-658-8242.

Colorado forms Y2K council

DENVER—A new Colorado council made up of members of the public and private sectors is coordinating strategies to address and prepare for the so-called Year 2000 computer problem.

Gov. Roy Romer earlier this month announced the creation of the Colorado Year 2000 Council, which consists of 10 appointed members representing such service sectors as communications,

energy, water, finance, government, health, public safety and transportation.

"Computer problems related to the year 2000 could lead to significant disruption in all kinds of services that the public takes for granted, from traffic signals and electric power to banking and other financial transactions, and even computer chips in the family car," Gov. Romer said in a state-

ment.

"It is critical that we bring the public and the private sectors together to make sure we have the least possible interruption of services to citizens in Colorado," the statement continued.

The council in Colorado will work closely with President Clinton's Council on Year 2000 Conversion.

— By Sally Roberts

Ruling

Continued from page 1

"We're slowly chewing and swallowing and, unfortunately, it's sitting badly in our stomachs," Ms. Broyles said of the ruling. "It's a bad decision for employers. It's a big, big shift."

The Chamber of Commerce filed amicus briefs to the Supreme Court and the appellate court that heard the case earlier. After the appellate court rendered findings unfavorable to employers, the Chamber sought countering legislation.

But the Chamber delayed its lobbying effort in the Legislature, expecting the state Supreme Court to rule differently, Ms. Broyles said. Now the legislative battle will be renewed.

Under the workers comp system, compensation for attorneys representing employees is limited to 8% to 12% of awards, Ms. Broyles said. But in civil court, they can collect 30% of awards, in addition to being able to bill by the hour for costs.

Plaintiffs' attorneys "are dancing in the streets over this one. This is big-time money for them," Ms. Broyles said.

"The answer is, don't discriminate," said Maury Mills Jr., a Ventura, Calif., attorney who represented plaintiff Theresa L. Dillon in the case.

Even before the California high court's decision, workers sued for similar claims in federal court under the Americans With Disabilities Act, Mr. Mills said. But he acknowledged that the ADA sets award caps.

The caps are set on a sliding scale, depending on the number of employees in a company. For example, under the ADA, there is a \$300,000 cap on awards for emotional distress.

Under California's FEHA, plaintiffs can collect unlimited damages.

There are other advantages for California plaintiffs, as well. For

example, under FEHA, a plaintiff has a year to file a complaint from the day of the alleged discrimination, compared with 300 days under the ADA.

"Certainly, there is the possibility of a substantially greater settlement in a jury trial under the Fair Employment and Housing Act than under the ADA," Mr. Mills said. "But, by and large, that remedy (ADA) has always been there. It has just opened up a state court cause of action."

Some employers agree they may not face additional problems if they are already complying with ADA rules.

The court ruling could open employers up to more litigation, said Gregory Vach, director of workers compensation for Interstate Brands Corp. in San Diego. But employers have a defense similar to that under the ADA. For exam-

mental public policy," Justice Chin wrote.

No responsible employer means the decision because their right to discriminate has been taken away, said Pamela Hemminger, a partner who represents management in labor and employment matters in the Los Angeles office of Gibson Dunn & Crutcher.

"However, employers are now exposed to substantial liability for making wrong judgment calls and from an increase in frivolous lawsuits," she said. Gray areas will also lead to increased exposure. But Ms. Hemminger does not expect a flood of new suits, Ms. Hemminger said.

State court proceedings favor plaintiffs, more so than the federal arena, Ms. Hemminger added. "From a defense perspective, we remove cases to federal court whenever we can," she said.

The *Moorpark* case arose when the plaintiff, Ms. Dillon, claimed she was denied her job as an administrative secretary for the city of Moorpark after she was out

on disability for a work-related knee injury that resulted in surgery, court records show. City officials claimed she could no longer perform certain necessary functions, such as kneeling and climbing stairs. She sued in 1995 for disability discrimination and wrongful discharge.

The city argued before Ventura Superior Court that Ms. Dillon could not sue because, as an injured employee, her remedy was limited to workers compensation benefits. But the trial court overruled the city, as did the 2nd District Court of Appeal in Los Angeles. The state Supreme Court then became involved because the appellate decision in *Moorpark* conflicted with previous appellate court decisions. The case will now return to the trial court.

City of Moorpark et al. vs. The Superior Court of Ventura County, Calif., California Supreme Court; No. S057121.

'We're slowly chewing and swallowing and, unfortunately, it's sitting badly in our stomachs,' Julianne Broyles says of the court's ruling. 'It's a bad decision for employers.'

ple, if the employer does not have a job available for the disabled worker, then the worker doesn't have to be offered a job, Mr. Vach said.

The high court's decision does appear to give employers some wiggle room.

"Disability sometimes impacts a person's ability to perform a specific job, in which case the employer may treat a disabled employee differently," Justice Ming W. Chin wrote.

But discrimination is another matter, the court held.

"Nevertheless, if disabled employees can prove that they can perform the job duties as effectively as non-disabled employees, taking into consideration the possibility, if any, that their condition will change, as well as the employer's short- and long-term needs, then we think discrimination based on disability, like sex and age discrimination, violates a substantial and funda-

Chubb Re

Continued from page 1

the capital of Chubb Corp. and it will not have to establish a large infrastructure. Warren, N.J.-based Chubb's total assets as of June 30 stood at \$20.12 billion.

Mr. Berger helped Paul Ingrey set up a similar entity when F&G Re was established as part of USF&G Corp. in 1983.

"One of the beauties of being set up as a management company is that you can do a good job and you don't have to do much business to justify the expenses," he said.

Chubb is expecting the reinsurer to write about \$100 million in premiums by the end of 1999, according to a spokesman for the company.

Creating a reinsurance unit will allow Chubb to make more efficient use of its capital, Dean O'Hare, chairman and CEO of Chubb, said in a statement.

"Chubb Re will be a low-cost, value-added reinsurer that can respond quickly to market opportunities. It will operate on a global basis and, as with all Chubb operations, its primary goal will be to generate an underwriting profit," he said.

The establishment of a new reinsurer comes amid continued consolidation in the insurance and reinsurance markets.

Many large reinsurance deals have taken place over the past year, including the purchase of USF&G by St. Paul Insurance Cos., both of which have significant reinsurance operations.

In recent weeks, EXEL Ltd. bought Mid Ocean Ltd.; Berkshire

Chubb is expecting its new reinsurance unit to write about \$100 million in premiums by the end of 1999.

Hathaway announced plans to buy General Reinsurance Corp.; and GE Capital Corp. unveiled plans to buy Kemper Reinsurance Co.

Despite the consolidation, reinsurance buyers still have access to plentiful capacity and low rates, brokers say.

But Chubb Re could still succeed in this environment, brokers say, particularly if it is run along the same lines as F&G Re.

"F&G Re was always a well-run, smart, intelligent and creative group," said Mr. Bolland.

Chubb is a well-respected primary insurer, and if the reinsurance arm underwrites carefully in the soft market, it should be able to cash in on other opportunities when the market turns, said John N. Gilbert Jr., president of Holborn Corp., a reinsurance intermediary in New York.

"There is never a right time to enter the business, so if they have the right people and the right business plan, now could be as good a time as any," he said.

Currently, only Mr. Berger has committed to joining Chubb Re, but several other people are lined up to join, Mr. Berger said.

The combination of Mr. Berger and his well-established business relationships, with the long-term commitment of Chubb, could enable Chubb Re to prosper despite current market conditions, said Peter Pruitt, chairman and CEO of Willis Faber North America in New York.

Launches of new reinsurers by other companies and individuals from reinsurers that have been purchased, however, are unlikely, he added.

"It is really a unique opportunity for them," Mr. Pruitt said. **BI**

Updates

Broker regulation causing rift

Continued from page 2

which its members voted to extend its services to include broker regulation from the date the IBRC is wound down.

The move puts the IIB in conflict with the British Insurance & Investment Brokers Assn., whose members include large brokerage firms. BII-BA has been working in a consortium with the Lloyd's Insurance Brokers Committee, the Assn. of British Insurers, the London International Insurance & Reinsurance Market Assn., the Institute of London Underwriters, Chartered Insurance Institute and Lloyd's of London to draft a framework for a new self-regulatory body. BII-BA widened its membership criteria at the end of last month to include IBRC-registered brokers.

Anthony Howland-Jackson, chairman of the LIBC, criticized the IIB's move to set itself up as a regulator.

By competing with BII-BA as the interim regulator, the IIB is harming the brokerage industry's image in the eyes of government, which "wants to see the industry responding as one," he said.

Insurers win cleanup ruling

SAN FRANCISCO—Policyholders must prove pollution was "sudden and accidental" to obtain coverage for cleanup costs in California, the state Supreme Court has ruled.

The pro-insurer decision in *Aydin Corp. vs. First State Insurance Co.* released last week will make it harder for policyholders to overcome the pollution exclusion, according to Thomas W. Brunner, a partner in the Washington law firm of Wiley, Rein & Fielding, which serves as counsel to the Insurance Environmental Litigation Assn. "This decision demonstrates, contrary to policyholder predictions, that the California Supreme Court will enforce policy provisions as written and will not expand coverage beyond a policy's plain meaning."

He added that "the court's decision to shift the burden of proof to the policyholder makes sense because the policyholder is in possession of the facts about its activities, and therefore is in the better position to demonstrate what happened."

Aydin Corp. sued its insurers after it refused to pay for a state-ordered cleanup of the company's Palo Alto, Calif.-based research and manufacturing complex. Aydin fabricated, assembled and repaired electrical transformers from 1969 until 1984, using a variety of noxious chemicals, oils, solvents and waste materials.

A jury had ordered Aydin's insurers to pay the cleanup costs, but an appellate court overturned the award. In affirming the appellate court decision, the Supreme Court said all five state high courts that so far have ruled on the issue have placed the burden of proof on the policyholder.

Court disallows random sampling

NEW ORLEANS—A federal appeals court ruling in an asbestos case strikes down another attempt by plaintiffs attorneys to use random sampling to extrapolate damages for a class.

The 5th U.S. Circuit Court of Appeals in New Orleans last week ruled invalid the plan that would have allowed lawyers to determine damages for thousands of personal injury and wrongful death claimants against asbestos-products makers based on the claims of a sampling of plaintiffs.

"The vast majority of the 2,000 cases are remanded back to the trial court" in the so-called Cimino case, said attorney Rikard Bridges of the Athens, Ga., law firm Blasingame, Burch, Garrard, Bryant & Ashley. The firm represented defendant Pittsburgh Corning Corp.

The case is a consolidation of personal injury and wrongful death claims filed on behalf of Claude Cimino and a class of insulation and construction workers, their survivors and others against asbestos-products manufacturers and some of their suppliers.

Mr. Bridges said while it was unusual that the sampling method for determining damages was authorized by a trial judge, the appeals court decision is similar to other recent decisions. "It's significant in that the appellate court said what we thought all along: that it's simply not permitted."

CNA exiting some business

CHICAGO—CNA Financial Corp. is ending its operations in the traditional health care indemnity and administrative-services-only business for employers with fewer than 500 lives in their group plans.

Jae Wittlich, president and chief operating officer of CNA Group Operations in Chicago, said the company is concentrating its health care focus on larger employers. CNA will continue to sell stop-loss insurance to smaller employers, however.

Insured and ASO business for small employers generated about \$575 million in premiums and premium equivalents. Options under consideration include selling off the business, Mr. Wittlich said.

Briefly noted

New York-based insurance holding company **PennCorp Financial Group Inc.** said last week that talks with an investor group led by Risk Capital Holdings Inc. and Securitas L.L.C. about the sale of up to \$75 million in newly issued common shares had ended. PennCorp explained in a release that it had received two proposals to buy offers for its career sales division. Keith Maib, PennCorp's chief operating officer, said the corporation was committed to selling all non-core assets. He also said PennCorp would close its offices in New York and Bethesda, Md., and consolidate management operations in Dallas. . . . The California Workers Compensation Insurance Rating Bureau has recommended a 3.6% increase in pure premium rates next year. While the recommendation is advisory only, the suggested hike may be a sign that rates are firming after more than three years of declines since open rating began in 1995. . . . The U.S. Chamber of Commerce will not publish this year its annual survey of employers' benefit costs as the trade association revamps the survey. The next survey will be released in late 1999, said Martin Lefkowitz, the Chamber's director of special projects.

Vesta

Continued from page 2

operations, and perhaps the results are an indicator," she said.

Vesta also announced it has hired Morgan Stanley Dean Witter as a financial adviser "to explore strategic alternatives to enhance shareholder value."

This means a sale is a "distinct possibility," Ms. Osborne said.

The company's financial woes first came to light in June, when "accounting irregularities" were discovered during an investigation by the Alabama Insurance Department.

The company reported that the irregularities could have a sizable impact on fourth-quarter 1997 and first-quarter 1998 earnings; it also reported that CEO Robert Y. Huffman had resigned (BI, June 8). Following those announcements, the company's stock price plunged and stockholders piled on lawsuits. Several weeks later, the company restated its earnings for the past five years, reducing them by an aggregate of \$72.4 million (BI, July 6).

In addition to announcing its results, Vesta last week also announced that it had elected Mr. Gayle as president and CEO and a member of the company's board. He served as acting president and CEO since Mr. Huffman's resignation.

Vesta is a holding company for several property/casualty insurance and reinsurance units, including Vesta Fire Insurance Co., Shelby Casualty Insurance Co. and Vesta County Mutual Insurance Co. **BI**

Cendant makes ABIG filing

PARSIPPANY, N.J.—Cendant Corp. may use more cash and less stock to pay for its planned \$3.1 billion acquisition of American Bankers Insurance Group Inc., according to a recent Securities and Exchange Commission filing.

In the Aug. 17 filing, Cendant said it "may modify the mix of consideration to increase the cash position depending on the value of the company's common stock pricing" among other conditions.

A Cendant spokesman, however, said no decision on changes in the agreement had been reached yet, nor had Cendant set any date for a decision as of last Wednesday.

Under the terms of an agreement reached in March, Cendant—a travel, real estate and marketing conglomerate—is to pay \$67 per ABIG share: 51% in cash and 49% in Cendant stock.

But with Cendant's stock price having fallen steeply in recent months, investors have called on the company to change the terms of the acquisition, which must be approved by the Florida Insurance Department.

Cendant could use revenues generated by sales of business units if it decided to increase the cash portion of the ABIG transaction. Earlier this month, the company announced it would divest its interest in its

Cendant Software Corp. and Hebdo Mag International Inc. subsidiaries. Cendant also said that it had entered into a definitive agreement to sell Hebdo to its former 50% owners for \$7.1 million in stock and about \$410 million in cash.

A Florida Insurance Department spokeswoman said Cendant would have to notify the department of changes in the acquisition terms and that as of Aug. 19 it had received no such notification.

A. Michael Frinquelli, a partner and insurance analyst at Renaissance Fund Advisers in New York, said Cendant's experience with a falling stock price might cause more companies to put more cash into acquisition deals, especially in the insurance industry.

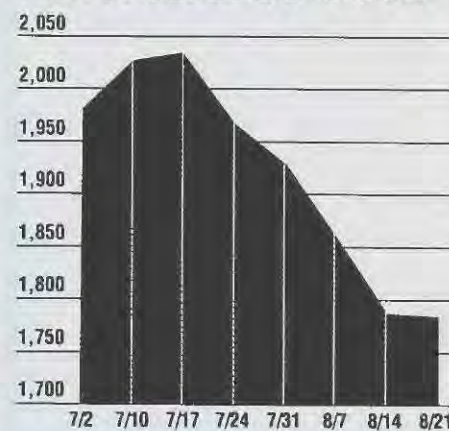
"It would not be an unhealthy development," he said. Especially "in the insurance industry, where you have a long lag time (on deals), you run that kind of risk that your stock will go down."

American International Group Inc., which held a merger agreement with ABIG before losing a bidding war to Cendant, probably would not get involved in any further bidding, Mr. Frinquelli said. AIG might get back in only if Cendant dropped out completely, he said.

AIG had no comment.

—By Georg Szalai

BI Insurance Index



Base=100 on Dec. 29, 1978

Source: Nordby International Inc. (nordby.com) Boulder, Colo.

PCS catastrophe options

As of Aug. 21	Call spread	Price bid/ask	Call spread	Price bid/ask
National Annual 1998			California Annual 1998	
60/80	3.0/12.0		150C	0.6/—
100/120	2.0/6.0		Western Annual 1998	
120/140	0.8/—		40/60	1.4/—
Southeastern September 1998			80/100	1.0/2.0
40/60	1.8/—		150C	0.8/—
Northeastern September 1998			Eastern September 1998	
100/150	0.8/—		20/40	2.5/—
			40/60	2.0/3.5

Florida September 1998

40/60 1.0/2.4

Total volume: 6 Total open interest: 19,599

For information on PCS cat options, call the Chicago Board of Trade at 312-435-3674.

Source: Chicago Board of Trade

Insurance educator Williams dies at 74

MINNEAPOLIS—C. Arthur Williams Jr., a longtime insurance and risk management educator, died Aug. 16 at age 74.

For 40 years, Mr. Williams served as a teacher of insurance and risk management at several universities in the United States and abroad. He is best known for his association with the University of Minnesota in Minneapolis, where he was associate dean and later dean of the College of Business Administration as well as chairman of the finance and insurance department.

The college's Industry Chair of Insurance was renamed the C. Arthur Williams Jr. Insurance Industry Chair upon his retirement in 1992.

"Professor Williams left such a legacy," said Denise G. Kapler, risk manager of Ramsey County in St. Paul, Minn., and president of the Minnesota chapter of the Risk & Insurance Management Society Inc.

Ms. Kapler, who was a student of Mr. Williams, applauded his skill as a teacher.

"He was a good mentor. He had so much experience, instead of a lot of theories, and made concepts sound so real," she said.

"If it wasn't for his personality and approach, he wouldn't have come as far as he did or win the respect of so many," Ms. Kapler added.

Mr. Williams was the author of 124 publications, including textbooks, technical articles and research studies. "An International Comparison of Workers Compensation Systems," published in 1991, is regarded

ed as a landmark work in the field of workers compensation.

Besides his academic experience, Mr. Williams also served on the boards of directors of The St. Paul Cos. Inc. and American Hardware Mutual Insurance Co.

Mr. Williams in 1993 was inducted into The Insurance Hall of Fame, which is administered by the International Insurance Society. He also received the Elizur Wright Award from the American Assn. of Risk Management. He was an honorary deputy member of the Minnesota chapter of RIMS.

Mr. Williams served as a judge in 1984 and 1985 for the Business Insurance Risk Manager of the Year competition.

Mr. Williams was born in Blakely, Pa., and attended Columbia University in New York; he received his doctorate in 1952 from Columbia. He is survived by his wife and two sons. **BI**



Mr. Williams

BI Industry Stock Report AUG. 17, 1998, THROUGH AUG. 21, 1998

BROKERS																																		
		Price	Weekly % change	Year to date % change	52-week High	52-week Low	Vol.(000)			Price	Weekly % change	Year to date % change	52-week High	52-week Low	Vol.(000)			Price	Weekly % change	Year to date % change	52-week High	52-week Low	Vol.(000)			Price	Weekly % change	Year to date % change	52-week High	52-week Low	Vol.(000)			
Aon Corp.	NYS	67.31	1.41	14.82	75.56	50.00	1363	EMC Insurance Group Inc.	NDO	13.38	2.88	0.94	15.88	12.25	48	RenaissanceRe Holdings Ltd.	NYS	44.25	-3.54	0.28	50.75	38.19	149											
E.W. Blanch Holdings Inc.	NYS	35.69	-2.89	3.63	38.75	28.69	173	ESG Re Limited	NDO	19.75	-5.95	-15.96	28.88	19.75	206	Risk Capital Holdings	NDO	23.00	-8.00	3.37	25.50	19.75	100											
Gallagher Arthur J. & Co.	NYS	38.06	-0.33	10.53	46.56	33.56	84	Enhance Financial Services	NYS	29.13	-4.31	-2.10	37.56	22.88	318	RLI Corp.	NYS	38.06	-5.43	-4.49	45.63	29.44	42											
Hib, Rogal & Hamilton	NYS	18.25	1.74	-5.50	19.63	15.38	44	Everest Reinsurance	NYS	42.94	10.45	4.09	45.25	33.00	1014	St. Paul Companies	NYS	33.94	-2.34	-17.29	47.19	33.63	2935											
Kaye Group Inc.	NDO	6.84	-1.35	3.30	9.00	6.13	42	Executive Risk Inc.	NYS	45.88	0.69	-34.29	75.75	41.38	543	SCOR	NYS	63.63	-4.68	33.25	72.75	39.25	24											
Marsh & McLennan	NYS	56.25	-1.10	13.16	64.31	44.00	1961	EXEL Ltd.	NYS	74.31	-6.16	17.26	83.25	74.31	1187	SAFECO Corp.	NDO	45.13	-2.04	-7.44	56.00	40.75	4323											
Poe & Brown	NYS	39.06	-0.48	31.30	42.50	23.88	19	Fremont General Corp.	NYS	50.00	-3.85	-8.68	62.13	37.50	180	SCPIE Holdings Inc.	NYS	30.56	-0.41	5.62	38.38	26.50	NA											
Sedgwick Group PLC	NYS	12.25	-2.00	-0.51	14.44	9.63	122	Frontier Insurance Group	NYS	16.69	-2.91	-27.05	35.69	15.88	531	Seibels Bruce Group	NDO	4.50	-7.69	-40.00	8.94	4.44	21											
Willis Corroon Corp.	NYS	15.94	0.39	29.44	16.88	9.75	471	Gainco Inc.	NYS	7.38	0.00	-13.24	10.19	5.75	332	Selective Ins. Group	NDO	19.56	2.96	-27.55	29.25	18.25	260											
BROKERS AVERAGE																																		
INSURERS/REINSURERS																																		
ACE Ltd.	NYS	33.94	-0.73	5.51	43.00	27.44	1763	Gryphon Holdings	NDO	13.00	-11.86	-22.39	19.36	13.00	95	TIG Holdings	NYS	16.38	-7.09	-50.66	36.56	16.31	1130											
Acceptance Insurance Cos.	NYS	22.63	1.12	-6.46	28.63	21.38	101	Harleysville Group	NDO	24.75	-8.33	3.13	28.50	19.00	199	Tokio Marine & Fire	NDO	45.00	-0.28	-22.08	62.50	41.25	83											
AEGON N.V.	NYS	92.63	6.77	106.69	111.31	36.63	366	Hartford Steam Boiler	NYS	47.50	-1.30	29.11	59.56	33.25	296	Torchmark Corp.	NYS	39.31	-0.47	-6.81	49.81	34.94	1889											
Aetna Life & Casualty	NYS	68.06	0.83	-3.54	106.94	65.00	2972	HCC Insurance Holdings	NYS	20.56	-1.50	-3.24	29.38	15.63	258	Transatlantic Holdings	NYS	80.50	-11.48	12.59	94.50	67.44	947											
AFLAC Inc.	NYS	30.19	-1.43	18.09	38.25	22.13	1539	ING Groep N.V.	NYS	65.50	-0.57	54.80	76.75	38.88	338	Travelers Property Casualty	NYS	37.31	-3.71	-15.20	46.06	34.88	878											
Allied Group Inc.	NYS	47.25	0.27	65.07	47.56	25.00	211	IPC Holdings Ltd.	NDO	26.44	-2.98	-17.86	33.25	25.88	329	Travelers Corp.	NYS	54.44	-2.79	1.04	73.50	42.00	27041											
Allstate Corp.	NYS	42.88	1.63	-5.25	52.38	35.44	9134	Hardford Financial Services	NYS	51.56	3.64	10.22	60.00	39.25	2930	Trenwick Group Inc.	NDO	34.00	-2.51	-9.63	41.75	33.38	457											
AMBAC Indemnity Corp.	NYS	53.69	-1.60	16.71	65.94	38.94	931	LaSalle Re Holdings Ltd.	NYS	30.19	-5.29	-14.66	42.94	30.19	93	Unico American Corp.	NDO	11.63	-3.13	-5.10	18.13	11.00	112											
American Bankers Ins.	NDO	58.81	-1.26	28.03	66.06	32.38	538	Life Re Corp.	NYS	90.94	-0.68	39.50	92.94	49.75	566	United Fire & Casualty	NDO	36.00	-3.68	-18.64	47.00	36.00	6											
American Financial Group	NYS	36.25	-2.36	-10.08	46.75	34.56	804	Lincoln National	NYS	91.63	-0.14	17.28	98.88	64.63	2079	Unitrin	NDO	60.75	-2.51	-6.00	74.13	57.75	178											
American General	NYS	66.94	0.85	23.82	75.69	46.56	2139	MAIC Holdings Inc.	NYS	25.25	-2.88	-5.73	30.38	22.69	36	UNUM Corp.	NYS	48.00	2.13	-11.72	59.63	40.88	3336											
American Heritage Life Ins.	NYS	22.44	0.56	24.65	26.06	17.06	28	Market Corp.	NYS	160.00	0.63	2.48	187.00	138.00	11	Vesta Insurance Co.	NYS	13.38	-14.40	-77.47	64.75	12.25	688											
American Indemnity/Fin'l	NDO	13.00	-2.80	-6.31	15.50	9.50	6	MBA Insurance Group	NYS	65.00	1.46	-2.71	80.94	56.50	1507	Zenith National Ins.	NYS	25.63	-1.44	-0.49	30.50	24.50	17											
American International	NYS	87.63	-0.78	20.86	102.38	62.50	21047	Meadowbrook Insur. Group	NYS	27.88	-1.55	6.95	35.00	21.88	19	INSURERS/REINSURERS AVERAGE																		
American Safety Insurance	NDO	10.88	-3.33	-11.66	15.06	10.00	115	MMI Cos. Inc.	NYS	18.06	0.00	-28.11	27.06	18.06	20																			
Argonaut Group	NDO	27.19	-7.84	-19.74	38.13	27.19	71	Mutual Risk Mgmt. Ltd.	NYS	34.00	-5.56	13.57	39.94	22.63	232																			
AXA-UAP Group	NYS	63.81	0.79	63.62	71.25	31.69	223	NAC Re Corp.	NYS	48.81	-3.46	0.00	55.88	43.50	222																			
Baldwin & Lyons Inc.	NDO	21.59	-2.12	-10.49	28.75	18.50	5	Navigators Group	NDO	17.88	-0.69	-4.83	22.50	17.00	13																			
Berkley W.R. Corp.	NDO	33.00	-5.38	-24.79	49.88	33.00	326	Nobel Insurance Ltd.	NDO	0.84	28.57	-93.57	1.00	0.40	22																			
Berkshire Hathaway Inc.	NYS	69300.00	-0.59	50.65	84000.00	41300.00	1	NYMagic Inc.	NYS	24.00	-4.48	-12.93	34.25	23.63	12																			
Capital RE Corporation	NYS	28.94	-9.04	-6.75	38.69	24.94	387	Ohio Casualty Corp.	NDO	39.00	-4.88	-12.61	51.75	37.50	261																			
Capital Transamerica Corp.	NAS	20.00	-3.03	-6.16	28.13	19.00	18	Old Republic Int'l	NYS	25.44	8.24	2.61	32.25	22.38	1389																			
Centris Group Inc.	NYS	10.44	-1.76	-6.44	14.81	9.69	126	Orion Capital Corp.	NYS	42.31	7.12	-8.88	59.25	38.00	655																			
Chartwell Re	NYS	28.25	-0.22	-16.30	36.25	27.81	27	Partner Re Ltd.	NYS	43.25	1.02	-6.74	52.50	39.44	493																			
Chubb Corp.	NYS	70.94	0.71	-6.20	88.81	63.50	2540	Penn-America Group Inc.	NYS	12.25	-4.39	-40.24	23.00	12.25	33																			
CIGNA Corp.	NYS	66.31	6.96	15.41	74.50	45.63	2393	Pennsylvania Manufacturer's Co	NDO	20.00	0.63	19.40	23.75	16.25	47																			
CNA Financial Corp.	NYS	40.50	1.73	-4.89	53.25	36.63	515	Philadelphia Cons. Holding	NDO	19.75	-1.86	11.27	24.38	15.50	185																			
CNA Surety	NYS	13.75	-2.65	-10.93	16.75	12.75	104	PXRE Corp.	NYS	28.94	-1.91	-12.81	35.25	26.44	93																			
								Reliance Group Holdings	NYS	15.38	-0.40	8.85	19.81	11.63	788																			
								Reliastar Financial Corp.	NYS	48.50	3.74	17.75	52.44	33.63	993																			

Risk manager Theresa Baer was not only impressed by how we reduced her insurance cost by 15%, but by how we gave her the courage to take another risk. A two-week vacation.



© 1997 Liberty Mutual Group

Liberty Mutual has a history of helping our customers reduce their cost of risk, saving over \$1 billion in medical costs alone since 1993. We start with Liberty Paragon™, our comprehensive risk management process audit. Then we apply the hundreds of ways we have to reduce your overall cost of risk, including integrating our loss prevention, claims and managed care programs. And with RISKTRAC®, you'll have direct access to claims information so you can watch your costs go down. And just like Theresa, you'll watch your level of confidence go up.

➤ *There's more information we'd like to share. So please call John Ryan at (617) 574-5842 or visit our website at <http://www.libertymutual.com>*

**LIBERTY
MUTUAL.**
The freedom of Liberty