NEWSPAPER

AUGUST 7, 1995

Business Insurance®

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

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Updates

Criminal investigations target risk management personnel

NEVADA CITY, Calif.—The risk manager for Nevada County, Calif., has been arrested and charged with embezzlement, grand theft and money laundering in the theft of nearly $1.2 million.

Separately, a risk management department employee for the University of California is being investigated in connection with the embezzlement of at least $500,000, though no arrests have been made yet.

These cases closely follow guilty pleas by another public entity risk manager, Abdoul

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Florida escapes big destruction

Insured Erin losses may top $350 million

By SARA MARLEY

Hurricane Erin hit Florida's coasts and threatened several major cities but ultimately did not cause widespread residential or commercial damage.

Yet, for many businesses, Erin provided a test of the disaster preparations put in place after the devastation of Hurricane Andrew in 1992.

After a pre-dawn landfall last Wednesday in Vero Beach, Fla., that caused relatively minor damage, Erin was quickly downgraded to a tropical storm. After traversing the peninsula, however, Erin gained strength over the warm waters of the Gulf of Mexico and struck Pensacola on the western edge of Florida's panhandle with renewed ferocity on Thursday morning.

Reports of downed branches and torn-off shingles in Vero Beach gave way to tales of uprooted trees and destroyed roofs in Pensacola.

The Insurance Information Institute estimated insured damage at $350 million. That figure may increase as damage in the panhandle region is assessed.

The Property Claim Services division of the American Insurance Services Group Inc. declared Hurricane Erin a catastrophe, meaning it is expected to produce at least $5 million in insured damage. PCS will issue a damage estimate this week.

The insured damage likely will be retained in the primary market.

"I would be very surprised if any of the catastrophe reinsurers had any material loss from that. The windspeeds weren't strong enough," said Neill Currie, senior vp of catastrophe reinsurer Renaissance Reinsurance Ltd. in Hamilton, Bermuda.

Businesses escaped the storm largely unscathed. Many that initially expected to be hit hard were left untouched.

In Brevard County, Fla., just north of Erin's first landfall, officials reported 37 homes destroyed, with "major" damage to an additional 81 homes and 443 having suffered minor damage.

Nationwide Mutual Insurance Co. had received 5,000 claims as of Thursday afternoon, totaling about $12 million. Nationwide projects a total of 13,000 claims, with costs exceeding $32 million. Nationwide, the fourth-largest homeowners insurer in Florida, paid out a total of $83 million after Hurricane Andrew in 1992.

Florida's largest homeowners insurer, State Farm Group, was projecting about 33,000 claims from the Atlantic coast strike alone.

The insurer could not provide a damage estimate for the Pensacola area but a spokesman said damage there appeared to be more severe. "They got the worst of it," he said.

The Florida Property/Casualty Joint Underwriting Authority, a state fund that swelled to insure 750,000 Floridians after its creation in November 1992, has about $250 million on hand to pay claims (see story page 21).

The final numbers from Erin will pale in comparison to Hurricane Andrew, the costliest natural disaster ever, which caused $16.5 billion in insured damage three years ago (*BI*, Aug. 31, 1992).

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Miami-area businesses battened down their hatches last week in anticipation of Hurricane Erin, which struck South Florida and caused damage as it moved across the state into the Gulf of Mexico.

AP/WIDE WORLD

Panel approves reforms

Senate bill would curb pre-existing condition exclusions

By JERRY GEISEL

WASHINGTON—Health care reform legislation unanimously approved by a Senate panel last week would curb pre-existing condition exclusions in health plans and make other modest changes.

The Senate Labor and Human Resources Committee's bipartisan approval of the legislation was in marked contrast to the White House's failed drive to enact comprehensive federal health care reform a year ago.

Senate Republicans and Democrats joined together to pass unanimously S. 1028, which would curb pre-existing medical condition exclusions in both insured and self-funded plans. The measure also would make a few other modest changes, including easing eligibility for expanded COBRA benefits for disabled employees and their families.

Benefit managers say that costs would increase only slightly, if at all, if pre-existing conditions were curbed. Companies would have to take on some new health care obligations, but two factors basically would wash out those increases: the increased likelihood that people with costly health problems will leave the company; and lower overall COBRA costs (*BI*, May 22.

Committee Chairwoman Nancy Kassebaum, R-Kan., said she expects the Senate to take up the bill in late fall, most likely after the Senate completes action on the budget.

The bill, introduced by Sen. Kassebaum and the ranking Democrat, Sen. Edward Kennedy, D-

See **Senate** *on page 13*

Nevada to end comp monopoly

Fund to compete with private insurers

By JUDY GREENWALD

CARSON CITY, Nev.—Nevada employers are eager to see new statutes implemented that will open up the state's workers compensation market to new competition.

Insurers also are looking forward to entering the state, which will open up in 1999.

The change represents the first time in decades that a so-called monopolistic state, in which employers can purchase workers comp insurance only through a state fund, has moved to permit private insurers to also write workers comp coverage.

The legislative package signed by Gov. Bob Miller last month also provides guidelines for associations to begin self-insuring their members' workers comp exposures immediately, though some critics question how viable these groups will be.

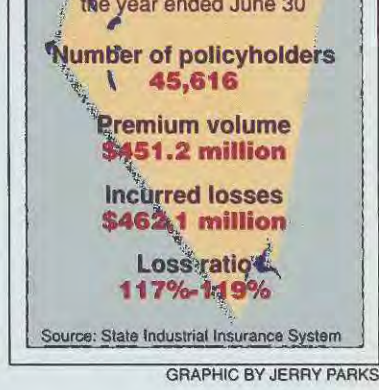
Many large Nevada employers have been self-insured since the early 1980s and currently constitute an estimated 40% of the workers comp market.

Some observers worry that the already deficit-ridden state fund won't be able to handle new competition from private insurers and self-insured programs.

Others, however, are optimistic that the State Industrial Insurance System will be a viable competitor.

They note that the fund has improved its operations in recent years and say the four-year period before the market opens up will give the SIIS adequate time to get in competitive shape.

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GRAPHIC BY JERRY PARKS

Taking aim at health plan fraud

Labor Department rules would close regulatory loopholes

By DOUGLAS McLEOD

WASHINGTON—The U.S. Department of Labor is proposing new rules to combat the growing problem of fraudulent health insurance plans operated through sham labor unions

The proposed rules, announced last week, are aimed at insurance schemes that masquerade as union benefit plans to avoid being classified as multiple employer welfare arrangements subject to state insurance regulation.

Several such plans have stalled state regulatory efforts in recent years by claiming to be exempt from state oversight under the Employee Retirement Income Security Act of 1974.

"This regulation will give federal and state governments an added weapon to protect workers' benefits from unscrupulous operators before plans are plundered of all their assets," Labor Secretary Robert B. Reich said in a statement announcing the new rules.

"It looks like a good thing," agreed Michael Diegel, a spokesman for the Coalition Against Insurance Fraud, a Washington-based insurance industry group.

"It's been remarkably easy in the past for labor unions to pass themselves off as (having) collective bargaining agreements and go out and prey on small businesses," he said.

The proposed new rules are the federal government's latest effort to deal with loopholes in ERISA that have allowed phony health insurance schemes to proliferate.

In 1983, ERISA was amended to provide that self-funded MEWAs would be subject to state regulation. That amendment was aimed at bogus insurance trusts that claimed ERISA exemption from state control.

The amendment, however, included an exception for health plans "established or maintained under. . .agreements which the Secretary (of Labor) finds to be collective bargaining agree-

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Updates

California fraud investigations

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Sesay of the Los Angeles Metropolitan Transit Authority, who was charged with taking illegal kickbacks and tax evasion (*BI*, July 31).

Scott Eric Danielson, Nevada County's risk manager for the past seven years, is charged with embezzling rebates of premiums received from the Rancho Cordova, Calif.-based CSEA Excess Insurance Authority, an excess insurance pool for California counties, said County Administrator David Brennan. Mr. Danielson also is charged with embezzling dividends from pool investments.

The district attorney's office in Nevada City is investigating whether Mr. Danielson embezzled additional funds as well, said Ron Wolfson, Nevada County assistant district attorney.

Michael Bigelow, a Sacramento attorney representing Mr. Danielson, said late last week that his client plans to plead not guilty.

Separately, police allege Diana Spaniol, who sent out settlement checks to claimants on behalf of the self-insured University of California, embezzled at least $500,000, according to papers filed in municipal court late last month. She did so by making up claims, then sending settlement checks to herself or her daughter using a variety of aliases, court papers say. The investigation is continuing and Ms. Spaniol has been placed on unpaid leave, said a university spokesman.

Meanwhile, the MTA's Mr. Sesay may receive a lighter sentence for cooperating with authorities.

According to an agreement made public at the risk manager's July 31 hearing, he had pledged "to act in an undercover capacity. . .and allow authorities to monitor and tape record conversations with persons who are believed to be engaged in criminal conduct."

Mr. Sesay admitted to accepting a total of $105,100 in illegal bribe and gratuity payments from two insurance consultants that did work for the MTA: John D. McAllister, president of McAllister Associates of New York; and Gilda A. DeSmith.

Because of his cooperation, prosecutors recommended that Mr. Sesay be given no more than 21 months in prison—far less than the maximum of 23 years suggested in the three-count criminal information outlining the charges. His sentencing is set for Nov. 6.

The criminal charges against Mr. Sesay are the first from a yearlong investigation into corruption at the Los Angeles subway project.

Minnesota pro-insurer ruling

ST. PAUL, Minn.—Minnesota policyholders will have one less weapon on their side in pollution coverage disputes under a ruling from the Minnesota Supreme Court.

Policyholders cannot preclude insurers from enforcing the absolute pollution exclusion by asserting that insurers misrepresented the intention of the exclusion to regulators when the clause was approved, the court ruled late last month.

The court rejected that "regulatory estoppel" argument, which the New Jersey Supreme Court had adopted in 1993. That court, the only one to embrace the theory, reasoned that insurers had failed to disclose their intentions to regulators and therefore they should not be allowed to enforce the standard CGL exclusion (*BI*, July 26, 1993).

By contrast, the full panel of Minnesota's highest court ruled in *Anderson vs. Minnesota Insurance Guaranty Assn.* that the exclusion was enforceable.

As a result, a Minnesota landholder ordered by the state's Pollution Control Agency in 1987 to pay for the investigation and remediation of contaminants at a Minnetonka dump site cannot tap coverage written by its insurers, including National Indemnity Co., St. Paul Fire & Marine Insurance Co., ITT Hartford Insurance Co., Employers Insurance of Wausau and the Minnesota Insurance Guaranty Assn.

Nationwide, eight state appellate courts and 10 trial courts have rejected policyholders' "regulatory estoppel" argument.

"The (Minnesota) case is of tremendous importance. This is the first state supreme court to consider the novel New Jersey regulatory estoppel theory, and it has been soundly rejected," said Laura Foggan, an attorney at Wiley, Rein & Fielding in Washington.

PBGC gets debt recovery help

WASHINGTON—The Pension Benefit Guaranty Corp. last week finalized an interim rule that allows it to collect unpaid insurance premiums and other debts owed the agency.

Under the rule, which went into effect Jan. 5 on an interim basis, the Internal Revenue Service can reduce any tax refund due an employer by debts it owes the PBGC, forwarding the offsets to the PBGC.

Before a debt is referred to the IRS, the PBGC must notify the employer that payment is overdue. The employer then has 60 days to pay it or provide evidence that the debt is not past due. If that doesn't happen, the tax refund program kicks in.

Record EEOC settlement

NEW YORK—Del Laboratories Inc. will pay almost $1.2 million to settle a 1994 lawsuit in which the U.S. Equal Employment Opportunity Commission charged that the cosmetic company's chief executive officer sexually harassed numerous female employees.

In what the EEOC said is the largest monetary settlement it has ever received on behalf of claimants, Farmingdale, N.Y.-based Del agreed to pay the money to 15 women who alleged verbal and physical harassment by CEO Daniel K. Wassong between 1990 and 1994.

Officials at Del, which had said it would "refute the charges in court" (*BI*, Aug. 22, 1994), did not return calls.

Del, which makes Sally Hansen nail care products, agreed to take steps to prevent any more harassment, the EEOC said, including sending all 1,600 of its employees to discrimination prevention courses and sending Mr. Wassong and other top officials to individual courses.

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HCFA issues guidance on Medicare disputes

Aim is to help employers, insurers resolve contested claims

By JERRY GEISEL

WASHINGTON—The Health Care Financing Administration is providing new steps for employers and insurers to follow to help them resolve disputed Medicare claims.

Those procedures, which HCFA issued last month, are a response to a 1994 federal appeals court ruling that struck down several HCFA regulations the agency developed to enforce the massive Medicare Data Match project (*BI*, March 27).

Under that project, the agency has sent out thousands of letters to employers, insurers and third-party claims administrators demanding repayment for claims—chiefly those of workers staying on the job after turning 65—that group plans, not Medicare, should have paid.

Last year, though, the U.S. Court of Appeals for the District of Columbia tossed out a key regulation that HCFA had followed in sending out demand letters seeking repayment of claims that employers, insurers and TPAs, not Medicare, should have paid. The appeals court ruled that HCFA could not demand payment in situations in which a beneficiary, such as an older worker, or a provider had not filed a claim within the plan's or insurer's deadline.

Typically, plans and insurers require a claim to be filed within a year of the time the service is performed. HCFA previously said it could seek recoveries for mistaken Medicare payments regardless of whether beneficiaries or prov.ders submitted a claim within a plan's

See **HCFA** *on page 12*

Fibreboard settlement nears

Multibillion-dollar deal would pay past and future claims

By MICHAEL SCHACHNER

TYLER, Texas—Fibreboard Corp.'s efforts to settle all asbestos-related liabilities are a step closer, after a federal judge in Texas approved an offer to settle all past and future claims.

The settlement would use insurance funds promised nearly two years ago by subsidiaries of CNA Insurance Cos. and Chubb Corp. to create a $1.54 billion trust fund to pay unsettled and future claims. An approximately equal amount would cover settlements of claims already received by Fibreboard.

While all the parties, including plaintiffs, are hopeful that the settlement proposal will survive the appellate process, the judge also approved a contingency agreement in case the settlement is overturned on appeal.

The backup plan, known as the "Insurance Settlement," was submitted for approval at the insistence of plaintiffs' attorneys and would require CNA and Chubb to give Fibreboard $2 billion to pay pending and future claims and force the insurance companies to pay off nearly $1 billion in claims that were settled prior to August 1993, when Fibreboard first settled with its insurers (*BI*, Sept. 6, 1993).

If the settlement is accepted, Fibreboard of Walnut Creek, Calif., will avoid bankruptcy and CNA and Chubb will cap their unlimited liability to Fibreboard, a move that was lauded by insur-

See **Asbestos** *on page 14*

Insurance scam alleged

Suit names insurer's owners, administrators and producers

By CHRISTINE MANY

SAN DIEGO—The court-appointed trustee and official liquidator of a Turks & Caicos Islands insurer is suing its former owners and administrators, Paine Webber Inc. and more than 180 insurance producers for their participation in an alleged multimillion-dollar insurance scam.

The suit charges that the former owner and officers of First Assurance & Casualty Co. Ltd. collected and diverted to their own use more than $20 million in premiums from 1990 to 1993 and failed to pay more than $20 million in claims.

Paine Webber, the suit alleges, facilitated the fraud by misrepresenting the value of phony stocks and touting the legitimacy of First Assurance, a property, liability and auto insurer that filed for bankruptcy protection in 1992, leaving millions of unpaid claims from the 1992 Los Angeles riots.

Janice Loyd, the trustee who filed the suit July 27 in U.S. District Court in San Diego, estimates damages in California at more than $25 million, including some from owners of property damaged in the Los Angeles riots. Ms. Loyd represents the interests of the estate, First Assurance creditors and policyholders.

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Minnesota health system challenged

By DEBORAH SHALOWITZ COWANS

MINNEAPOLIS—Employers and managed care companies in Minnesota dispute a new report that claims health care costs in the state are higher than the national average.

Minnesota has been at the forefront of health care reform efforts nationwide and is often cited as an example of how cooperation between employers and managed care companies can control health care costs.

The 97-page report, released last week by Minnesota CO-ACT (Citizens Organized ACting Together), a state consumer action group, claims that Minnesota's health care costs are 5% above the national average, probably because administrative and capital expenditures in the state are so high.

The report also claims that health care quality in Minnesota has suffered in recent years.

According to figures in the report, U.S. per capita spend-

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Business Insurance (ISSN 0007-6864) Vol. 29, No. 32, is published weekly by Crain Communications Inc., 740 N. Rush St., Chicago, Ill. 60611-2590. Second-class 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 $80 a year in U.S. $100 in Canada and Mexico (includes GST). All other countries $200 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 1995 by Crain Communications Inc.

Houston warehouse fire is target of arson probe

Blaze sparks legal wrangling over a tenant's losses

By MICHAEL BRADFORD

HOUSTON—Investigators are trying to determine if a massive Houston warehouse fire that reignited twice in recent weeks and caused millions of dollars in damages was intentionally set.

The blaze, which grew to seven alarms, engulfed the Houston Distribution Inc. facility on June 24 and flared again on July 9 and July 23. The Houston Fire Department said the second and third fires were the result of "hot spots" that reignited debris.

The Federal Bureau of Alcohol, Tobacco & Firearms has joined the Houston Fire Department in the investigation as cleanup continues.

The fire department estimated that losses to Houston Distribution's four buildings will amount to around $10 million. However, total losses are expected to climb as companies that stored products at the site tally their damages.

The fires also ignited some complicated wrangling between two law firms representing EniChem Elastomers America Inc. of Houston—which stored synthetic rubber products valued at $12 million in a 170,000-square-foot building in the warehouse complex—and attorneys for Houston Distribution.

An EniChem spokesman said its loss is covered by insurance, a portion of which is written by AIU Insurance Co., a unit of New York-based American International Group Inc.

Legal proceedings began when a lawsuit filed by the Dallas firm of Cooper & Aldous named EniChem as the plaintiff and charged that Houston Distribution failed to exercise reasonable care in operating the facility, resulting in EniChem's losses.

The suit, filed in state district court in Houston on July 20, charged Houston Distribution was "liable to EniChem for its losses" and the suit also sought a temporary restraining order to stop Houston Distribution from

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Competitive market forces won't give brokers a break

Despite pressures, most brokers' profits, revenues up

By SALLY ROBERTS

Continued competition and pressure from low property/casualty insurance rates are forcing brokers to find alternative means to bolster top and bottom lines.

In addition to tight expense controls and acquisition-fueled growth, brokers received some help from rising short-term interest rates as well as higher insurance rates internationally, during the first six months of 1995.

BROKERS RESULTS 1st Half

With the exception of continued constriction in the coastal property market and problems placing earthquake insurance in California, "business is usual. . .which is a scramble," said J. Hyatt Brown, chairman, president and chief executive officer of Poe & Brown Inc.

All seven publicly held U.S. brokerages reported bigger first-half profits in 1995, and all but one reported higher revenues. Alexander & Alexander Services Inc.'s gross revenues fell 0.9%, but excluding operations sold during the second half of 1994 and the beginning of 1995, revenues increased 7.3%.

"A&A continues to perform quite well," said Jay Cohen, an analyst with Salomon Bros. Inc. in New York. "The cost reduction initiatives had a nice impact on earnings in a relatively quick manner."

On the other hand, Mr. Cohen said, Indianapolis-based Acordia Inc. had a disappointing second quarter. Salomon downgraded its stock to "buy" from "strong buy"

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First-half broker results

(In millions of dollars)

Broker	Gross revenues	% change from 1994	Net income (loss)	% change from 1994
Marsh & McLennan	$1,898.9	8.1%	$226.6	5.0%
Rollins Hudig Hall[1]	848.9	21.1	123.8	24.0
Alexander & Alexander	652.3	(0.9)	64.4	1,075.8
Acordia	266.2	43.0	13.3	4.7
Arthur J. Gallagher	182.8	11.5	12.0	22.4
Hilb, Rogal & Hamilton[2]	76.0	2.0	8.2	7.9
Poe & Brown[2]	53.0	2.1	7.1	6.0

[1]Pretax
[2]Restated 1994 figures
Source: Company reports

GRAPHIC BY MIKE GARVEY

Captives may again consider writing third-party business

Careful underwriting could lead to profits, not ruin: Broker

By JOANNE WOJCIK

VAIL, Colo.—The practice of writing third-party-business—once frowned upon in captive insurance company circles—could be making a comeback, says an alternative market expert.

And the parents of captives that do it right this time could benefit handsomely, according to Arthur Koritzinsky, senior vp in charge of domestic captive management operations for Johnson & Higgins Services Inc. in New York.

"It really was a good idea; it was just executed poorly," he said last month during a session at the annual Colorado Assn. of Captive Entities conference in Vail, Colo.

"The business that was being transacted in Bermuda 15 years ago was just disastrous," Mr. Koritzinsky recalled. "At that time, though, it was very fashionable. Fifty percent (unrelated business) was the magic target everybody was looking for."

CACE

High interest rates at the time induced captive owners to seek unrelated business to generate more premiums to invest, he said.

"Unfortunately, not much attention was paid to what kind of business was being underwritten," Mr. Koritzinsky said.

For example, many of these markets wrote retrocessional programs on long-tail risks like environmental liability, he explained. "That's why it was called 'innocent capacity,' " he said.

But some third-party programs, such as those that involved pooling, were successful, according to Mr. Koritzinsky.

Today, the principal reason for writing third-party business is to make protection from a captive look like "true insurance" so that companies that own captives can take tax deductions for the premiums they pay to the facility.

"Tax deductions are accelerated if you can turn your captive into an insurer," he said.

But how much unrelated business must a captive write to make its owners' premiums tax deductible?

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NCOIL resolutions target NAIC reform

Solvency task force urges states to extend NAIC financial oversight

By RODD ZOLKOS

CHICAGO—The National Conference of Insurance Legislators continues to press for reform of the National Assn. of Insurance Commissioners by calling on states to pass NAIC oversight legislation and demanding financial information from the NAIC.

During NCOIL's summer meeting in Chicago July 28-30, members of the organization's Task Force on Insurer Solvency approved two resolutions calling on the NAIC to continue reforming its practices and policies, remove sanctions from its accreditation program and provide a public accounting of its finances.

The legislators also called on the solvency task force to support the establishment of a multistate legislative commission to review the NAIC's budget and its accreditation activities and an interstate compact to implement that commission's work and to provide general review of the NAIC's activities.

NCOIL's executive committee approved both resolutions.

In approving the resolutions, the state lawmakers suggested the provisions were a logical next step to the recommendations and findings of a study of the NAIC released earlier this year.

Among those recommendations were suggestions that state legislatures establish processes for conducting oversight of the NAIC and that those activities be financed by NAIC assessments and fees (*BI*, March 6).

That report also recommended that the NAIC accreditation process emphasize fundamental regulatory tools and performance rather than adherence to rigid model laws" and that a cost/benefit analysis be required for all NAIC model laws.

The NAIC has "whole teams of people who do nothing but work on model bills," said New Jersey Assemblywoman Clare Farragher, R-Monmouth County, chairwoman of NCOIL's solvency task force. "We don't have that luxury as states."

One resolution approved at NCOIL's summer meeting calls on the NAIC to "make full public account as to the sources and disbursements of all its funds by Jan. 1, 1996." It also calls on the organization to "continue efforts aimed at reform of its policies and practices, especially those found to be usurpative of constitutional guarantees."

A second resolution submitted by the Vermont delegation declares "that each state should consider enacting legislation pro-

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Insurer ratings revised by S&P

New scale based on quantitative analysis

By LEE VELKER

NEW YORK—Risk and benefit managers and brokers have a new tool in choosing a solvent insurer.

Standard & Poor's Corp. has developed a new rating scale for 810 U.S. life/health insurers, 108 of which were previously unrated by S&P but now meet its rating criteria. Similar ratings will be available for property/casualty companies within a month.

The new quantitative ratings, which replace the qualified solvency ratings that S&P has issued since 1991, give a uniform scale for those companies that are rated strictly on quantitative analysis of data submitted to state regulators and those that pay for a full claims-paying ability rating.

In the past, a company that chose not to pay for a full rating and was evaluated solely on an analysis of its financial records could receive ratings ranging from a low of Bq to a high of BBBq. S&P bases its full analysis on financial data as well as confidential company documents and discussions with managers.

Companies that paid for a complete analysis by S&P's analysts were ranked on a scale of CCC to AAA, the latter representing the highest level of financial strength and solvency.

However, the system caused some confusion, especially for those companies receiving the BBBq rating, which essentially means the company has no glaring weaknesses but does not necessarily indicate the company is strong, either.

"People were starting to accept BBBq as the highest rating these 'q companies could achieve," said Steven Dreyer, director and head of quantitative analysis at New York-based Standard & Poor's. "We started seeing it in advertisements in that way and that made us nervous."

The old rankings were designed to make purchasers aware of weak companies, he said, adding that they have been successful in that goal. Of those companies rated on April 15, 1991, 12% ranked Bq have since failed, compared with only 0.8% of those ranked BBBq.

The old system's weakness could be seen in the high end, Mr. Dreyer said. It didn't distinguish the especially strong companies from the merely adequate ones.

That was the major motivation for changing the system.

On the new scale, a "q company" can be ranked as high as AAAq, with the "q" differentiating those based solely on financial

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MEWAs

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ments."

Insurance swindlers jumped on this exception, setting up sham unions and marketing low-cost health insurance to employers that had their employees become members or "associate members" of the unions.

The latest proposed rules seek to stall these operations by more clearly defining what constitutes a valid collective bargaining agreement with an employee labor organization.

While valid union plans still would be exempt from state oversight, any entity claiming this exemption would have the burden of proving to state authorities that it meets the new requirements.

If it cannot—or refuses to provide such evidence to states—the plan would be considered a MEWA subject to state regulation.

Among other things, the proposed rules would require that:

- An employee labor organization must either be certified by the National Labor Relations Board or recognized by the employer as the exclusive bargaining representative of employees.

The union must function without "employer interference or domination." Examples of this could include an employer taking part in union functions, putting pressure on employees to join a union or favoring one competing union over another.

The union also must "operate for a substantial purpose" other than providing health insurance. Valid unions may not use insurance agents to solicit employers or participants in a health plan and may not pay commissions or fees to anyone who is not a full-time union employee for soliciting membership in the union.

According to the Labor Department, these definitions are needed to distinguish genuine labor unions from "organizations that are primarily in the business of marketing commercial insurance."

- A collective bargaining agreement must be a result of "good faith, arm's-length bargaining" between an employer and an employee labor organization that meets the definition in the new rules.

An agreement automatically would fail to meet the new requirements if it included a "no-strike" provision terminating the agreement if employees go on strike.

One allegedly bogus plan, sponsored by the now-defunct Assn. of Trust & Guarantee and an affiliated sham union, included such a no-strike clause. Lawrence D. Kenemore Jr., ATG's principal, was indicted on fraud charges earlier this year (*BI*, April 10).

- To be considered "established or maintained" pursuant to a collective bargaining agreement, a health plan must draw at least 85% of its participants from current or former employees of signatory employers, excluding supervisors and managers.

"Former employees" include those receiving workers comp or disability benefits or continuing coverage under the Consolidated Omnibus Budget Reconciliation Act of 1985, or retired employees who have met minimum service rules.

This rule aims to thwart operators who market insurance coverage by signing up unrelated employers and non-union employees as "associate members" under purported collective bargaining plans.

As an example, the Labor Department cited the welfare fund set up by Consolidated Local Union 867, a sham union created by William Loeb. Mr. Loeb was sentenced to 71 months in prison in 1993 for embezzling from the fund (*BI*, Dec. 13, 1993).

The proposed rules were published Aug. 1 in the Federal Register. Interested parties have 60 days to submit comments on the rules to the Labor Department's Pension and Welfare Benefits Administration. BI

S&P

Continued from previous page

records from those ranked on a full analysis. No companies hold this ranking at the moment, but 90 companies received either Aq or AAq.

"If we say A, we mean A. Some are based on different methods and that is why the q is there," Mr. Dreyer said. "It is just a matter of jumping different hurdles to get there."

The new quantitative ratings are based on tests and measures of liquidity, capitalization, profitability and asset quality.

S&P developed the statistical test by trying to rank the companies that receive a full investigation on their financial records alone. Analysts tested those companies to see if the financial records would produce the same rating as the more extensive investigations.

"We could do this to a statistically significant degree but could not get everyone exact. If I could do that, I could probably save our company a lot of money by getting rid of about 400 analysts," he said.

When the earlier solvency ratings were released, several companies complained that they were rated unfairly because they did not purchase an S&P investigation (*BI* April 22, 1991).

This was never accurate, Mr. Dreyer said, but added the new system helps to put that argument aside.

Several insurance buyers and brokers praised the new rankings.

"If a company does not pay but is just a stellar company, they would deserve the higher rank," said Greg Bishop, an associate at benefit consulting firm William M. Mercer Inc. "What they are doing now makes more sense than what they were previously doing."

Scott K. Lange, corporate risk manager at Microsoft Corp. of Redmond, Wash., agreed.

"In the past, a company had to pay to get the higher rating and that immediately cast suspicion. The change is going to help (S&P's) credibility," he said.

Microsoft uses rating agencies like S&P and A.M. Best Co. only as a supplemental tool in making insurer selections, said Mr. Lange, adding that he is a bit skeptical of rating agencies in general. And Microsoft chooses insurers only from the top ranks, he said.

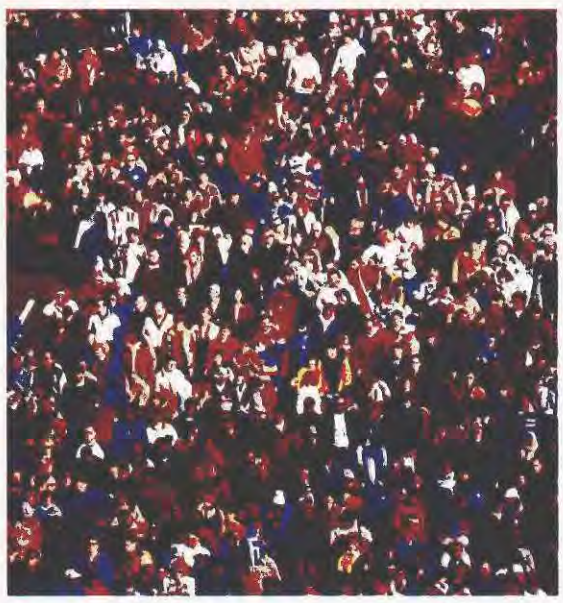
Similarly, Fred Hamacher, vp of compensation and benefits at Minneapolis-based Dayton Hudson Corp., said that because his company is mostly self-insured and only buys coverage from top-rated insurers, the change in the rating system will not greatly affect his business decisions.

The change in ratings will have some impact on brokers, however.

"We are for any developments that help us better select insurers," said Gary R. Griffith, chairman and CEO of Summit Global Partners Inc., a Dallas-based brokerage.

He said he is optimistic about the new ratings because they will provide more current and complete information. BI

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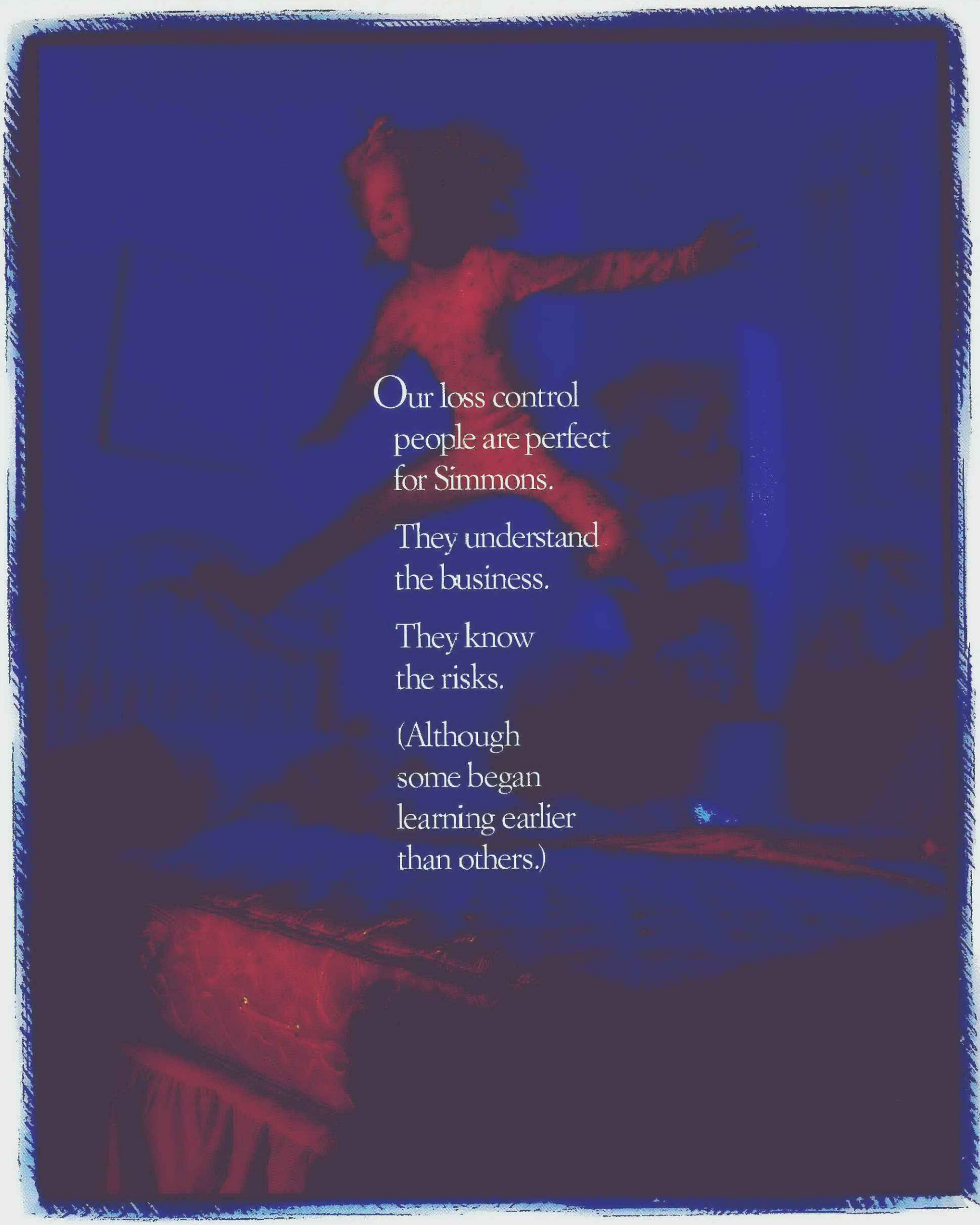
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Employers take part in depression project

WELLESLEY, Mass.—About a dozen employers will participate in a pilot project this fall in which a telephone screening service will help employees and family members determine whether they suffer from clinical depression.

The Harvard University-affiliated National Depression Screening Project expects 20 to 25 employers to sign up for its pilot, which runs from Oct. 1 to Dec. 31.

Employees, dependents and retirees of those employers will be able to call a toll-free number and answer an automated, 10-minute series of questions. Callers will not be able to speak to a live person.

No names will be requested, but callers will be asked to specify their age, sex, marital status and whether they have been treated for clinical depression in the past. The questions focus on problems in areas like sleeping, eating, weight loss, cardiac function or mood.

At the end of the call, the program will recommend further evaluation for callers who show symptoms of clinical depression. Callers then will be given information about mental health referral services, either available locally or through their employer-sponsored health plan or employee assistance program.

Each employer will have its own toll-free number that contains specific information about its own mental health referral services and providers, explained Barbara Kopans, associate director of the depression screening project.

Following the three-month pilot, the screening project will try to evaluate what portion of employees and dependents used the service and the degree of depression from which those who did use the service suffer.

The project also will determine whether the service helped capture employees or dependents that may not have been diagnosed if they had not used the toll-free service. And, the project will recommend whether the phone service should be available only during "peak depression" periods, like the fall and winter holidays, or should be offered all year.

Boston-based John Hancock Mutual Life Insurance Co. already uses the service to complement its existing EAP, said Susan Massenzio, a senior psychologist at John Hancock who coordinates the insurer's Human Resource Counseling Unit. "The 800 number provides another entry point to reach people and family members" who may not be comfortable going through Hancock's existing EAP channels, she said. "It also provides immediate feedback to people," so they can get the help they need right away, she noted.

Digital Equipment Corp. of Maynard, Mass., and Southern California Edison Co. of Rosemead, Calif., plan to participate in the pilot.

The cost of the service depends on the employer's size. Generally, employers pay $1,000 for the first 5,000 employees to use the service and $100 for each additional 1,000 employees. For example, the service would cost $3,000 for a company with 25,000 employees.

Employers interested in participating should contact Barbara Kopans at the National Depression Screening Project at 617-239-0071. The deadline to sign up for the Oct. 1 start date is Aug. 18.

—By Christine Woolsey

New Wyoming PPO

CASPER, Wyo.—A group of 83 labor unions, all AFL-CIO affiliates, will meet Aug. 12 to discuss the possibility of a statewide preferred provider organization in Wyoming.

The unions provide health care benefits to roughly 75,000 employees, dependents and retirees in Wyoming through fully insured and self-insured indemnity plans.

Benefit Beat

"We are just in the preliminary stages," said Larry Horton, business manager for Operating Engineers Local 800 in Casper, Wyo. "We want to bring each of the union's health and welfare plans together and see if they can be brought into one affiliation so we can merge all the health plans under one umbrella."

The unions want to do something to ease the strain that rising health care costs are having on employee wages. "Anything we do in health care is reflected in employees' wages. We feel it's time to sit down and figure out a different way to pay for health care," Mr. Horton said.

Hospital room rates in Casper, Wyo., increased 27% over the last three years, he noted. "There are a limited number of providers—doctors and hospitals—and they don't have any competition."

Few PPOs list Wyoming in their service areas. And currently there is only one "fledgling" health maintenance organization in the state, Mr. Horton said. However, a group of 15 hospitals in the state is trying to form an integrated system to market health care services, he noted.

The PPO would cover union and management employees enrolled in the same health plan. Management employees enrolled in a different health plan also could have access to the network.

In addition to the operating engineers union, representatives from state utility, steel, carpenters' and electricians' unions will be invited to the Aug. 12 meeting. No providers have been contacted yet.

—By Christine Woolsey

College retirement

More than one-third of the nation's colleges and universities offered older professors early retirement benefits last year, and the trend probably will continue for years, a new survey reports.

The nation's institutions of higher education are trying to turn over their faculty more quickly so they can bring in more diversity through younger professors, said Elaine El-Khawas, vp for research with the Washington-based American Council on Education.

The resulting added creativity and "tremendous mix of generations and ages" is valuable to the education process, she said.

Turnover in faculty also has "the prospects of reducing net costs," as new lower-paid staff replace highly-paid professors, Ms. El-Khawas said. However, she noted that savings may be offset by "hidden," unanticipated costs like faculty recruitment expenses.

A key factor spurring the increase in early retirement programs was that the schools in 1993 lost their exemption under the Age Discrimination in Employment Act that allowed them to impose a mandatory retirement requirement, Ms. El-Khawas said. Combined with the tremendous growth in faculty that most schools experienced during the late 1960s and early 1970s, many institutions now face aging staffs.

The council, which has 1,600 members, surveyed 500 colleges and universities this spring and received responses from 407.

The so-called "buyout plans" offered to the older professors often boost pensions by crediting them with additional years of service, she said. Other buyout plans offer the normal pension benefit and a lump sum, which in some cases equals six to 12 months of the professor's pay.

Often, professors also can negotiate other benefits, she said. Those include continued access to an institution's library, an office during a transitional period and the option to teach courses occasionally on a contract basis.

The buyout plans were most popular among the nation's research and doctoral universities. While 36% of colleges and universities overall offered the option, 68% of independent research and doctoral universities and 55% of public facilities offered the retirement incentives, the council reported.

Overall, the retirement incentives played a role in helping about 20% of the nation's colleges and universities reduce their full-time faculty. About the same percentage of schools have reported net faculty reductions since 1991.

In addition, 23% of the survey respondents expect to trim the size of the faculty over the next five years.

At the same time, 47% of the schools are beginning to rely more on part-time faculty, in part to cut benefit costs, the study found. Part-timers typically receive no health or retirement benefits, Ms. El-Khawas said.

—By Dave Lerckus

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Small firms' directors worry over D&O cover

Adequacy often questioned, poll finds

By RODD ZOLKOS

Outside directors at small companies are somewhat less satisfied with their directors and officers liability protection than their counterparts at large, publicly traded companies, a new survey says.

Seventy-eight percent of the directors of Fortune 1000 companies called their D&O coverage "very adequate," a description with which only 51% of the directors at smaller companies agreed.

Among small-company directors, another 43% said their coverage was "somewhat adequate." Among directors of the larger companies, only 17% did. About 1% of each group said the coverage was "not very adequate" and the rest did not answer.

Small companies' directors "were the most anxious group," said Tim Curry, counsel for Executive Risk Management Associates Inc., the Simsbury, Conn.-based D&O insurer that commissioned the survey of about 500 directors by Louis Harris & Associates Inc.

The largest corporations often have sophisticated risk management departments and specialized brokers, so the buying decision may be more enlightened, said Mark Rosen, an Executive Risk vp.

Another possible explanation, he said, could be the frequency of suits against start-up, high-tech companies, which might result in more expensive, less complete D&O coverage for those sorts of businesses.

A similar Executive Risk survey in 1992 found the lack of adequate D&O coverage would be the biggest obstacle to the surveyed directors' agreement to sitting on a board, with 90% of directors in this year's survey citing it as a "major barrier."

The other major barrier would be fear of suits against the company and its directors. That fear was cited by 75% of the Fortune 1000 directors and 86% of smaller-company directors, the 1995 survey found.

Fewer of those directors reported they had been sued in their capacity as a board member than had been three years ago—42% vs. 50%.

More than two-thirds of the larger companies' directors—68%—indicated they believe frivolous suits against board members are a problem, with 81% of the smaller companies' board members and 61% of directors at privately held companies expressing that belief.

"An interesting statistic and one area where we did see a change was in regard to confidence in the liability system," Mr. Rosen said. "In that general area, confidence in the liability system producing just results, I think we've seen a decrease in the level of confidence."

Three years ago, 50% of those surveyed had confidence in the liability system vs. 39% in the current poll.

"I would say that, based on the results we've seen, there is a strong feeling that there is a need for a lot of the liability reform that is being proposed and there is an expectation that something will occur," Mr. Rosen said.

Most directors questioned do have D&O coverage: 90% among those at publicly held companies and 77% among those at privately held companies.

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For more information or a copy of the 1995 or 1992 study, contact Executive Risk's Communications/Marketing Department at 800-432-3168.

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Opinions

New spirit in Congress

WHILE PERHAPS NOT recognized at the time, the collapse of President Clinton's grandiose health care reform package last year did accomplish one very important thing: Legislators now recognize that bipartisan cooperation is the only way that health care reform legislation can and should be enacted.

That bipartisan cooperation was in evidence last week when the Senate Labor and Human Resources Committee, as we report on the front page, unanimously approved legislation that would curb pre-existing medical condition exclusions in group health care plans.

That cooperation came from a congressional committee that only last year, when it was under the control of Democrats, largely rubber-stamped the Clinton administration's health care reform package. When Republicans proposed amendments, they always lost on straight party-line votes.

The folly of that partisanship and failure of Republicans and Democrats to work together to reach a compromise became clear when reform legislation reached the Senate floor.

Because no effort was made to even try to accommodate Republican concerns, the reform effort collapsed.

But the lesson of that failure, said the committee's ranking Democrat, Sen. Edward Kennedy, D-Mass., was that when it comes to health care reform, the public expects legislators to work in a bipartisan way.

And that is exactly what happened in the Senate last week.

The grandstanding and the mugging for cameras—so much in evidence last year—was absent. Instead, Democrats and Republicans joined on a simple but important piece of any serious health care reform effort: the curbing of employers' use of pre-existing medical condition exclusions.

As we have said before, there is no defense for such exclusions. What is the use of a health care policy if coverage is denied for the very treatment an employee needs?

And, from a public policy standpoint, it is in the national interest for employees not to feel trapped in their current positions because of concerns that a new employer would not cover a pre-existing medical condition.



•CREATION•

Health benefit restrictions hurt employees by keeping them from moving on to more promising opportunities and employers by keeping employees on staff who want to be elsewhere.

As to the cost impact on employers, we doubt there would be much if all companies have to abide by the same rules. In fact, the costs of any new obligations probably would be washed out by the savings from having employees with health problems leave and from lower overall COBRA costs.

Congress last week seemed to be moving in a new spirit of incrementalism and caution on health care. And this is one piece of reform legislation that benefits everyone.

We hope the spirit of bipartisan cooperation so evident in the Senate last week continues so that the pre-existing condition measure quickly becomes federal law.

Don't go flat out for flat tax

DON'T BE TOO QUICK to embrace a tax overhaul proposal introduced by Republicans in Congress.

While the measure would offer employee benefit managers an end to several complex and cumbersome benefit regulations, it also contains several pitfalls, not the least of which is the loss of benefit tax breaks (*BI*, July 31).

Under the proposal introduced by House Majority Leader Dick Armey, R-Texas, and Sen. Richard Shelby, R-Ala., pension and 401(k) plan non-discrimination tests would be eliminated. In addition, limits would be abolished on the amount employers and employees could contribute to pension and savings plans. Employers also could remove surplus assets from overfunded pensions without first terminating the plan. And employees could remove money from savings plans at any time and with no excise tax penalty.

Rep. Armey and other long-time flat tax advocates have found a new enthusiasm for their work in the Republican-controlled Congress. And some employer groups understandably welcome proposals that promise the potential for retirement plan simplification offered by those provisions.

However, we agree with some benefit experts that the changes also could lead to a decline in already low retirement savings rates.

While they pose constant administrative hassles, non-discrimination tests have the effect of forcing employers to encourage all segments of their workforce to contribute to their retirement savings plans. Without efforts to boost participation by lower-paid workers, employers probably would have to scale back contributions made by higher-paid employees.

By removing caps on the size of contributions, the bill potentially could widen the gap between the savings levels of highly paid vs. lower-paid workers.

While employers give all workers an equal opportunity to save, at least in qualified plans, lower-paid workers are less likely to take advantage of those opportunities without encouragement from their employers.

And without encouragement from Uncle Sam, annoying and costly though it can be, we fear some employers won't make that effort.

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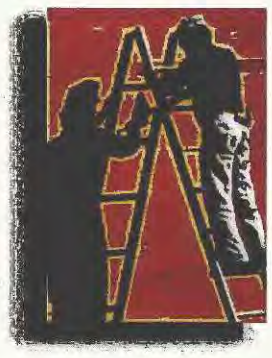
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THURSDAY, OCTOBER 12, 1995

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- DEALING WITH A CHANGING WORKFORCE: TEMPORARY/CONTRACT/AT HOME/ON THE ROAD
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- 24-HOUR PROGRAMS AND OTHER INSURANCE OPTIONS
- CASE STUDIES IN CONTROLLING WORKERS COMPENSATION COSTS
  - ▸ Ergonomic changes that have reduced repetitive stress injuries
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  - ▸ A return-to-work program that works
- RECEPTION

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- BUILDING YOUR TEAM TO ACHIEVE SUCCESSFUL CLAIMS MANAGEMENT
- ADMINISTRATIVE AND LEGAL REMEDIES TO COMBAT FRAUD
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BIWCFPS

NCOIL

Continued from page 3

viding for state legislative oversight of the NAIC and providing for states to set the type and amount of NAIC fees."

The second resolution also calls for reforming the NAIC's state insurance department accreditation program "by restoring the sovereign rights of the states, and their rights under federal law, to regulate insurance companies and risk retention groups; by ensuring that the program focuses on regulatory performance rather than formalistic model acts."

Assemblywoman Farragher stressed that NCOIL is not out to dismantle the NAIC's solvency monitoring program.

"No one said we should start repealing the laws, no one has said we should start repealing the (NAIC accreditation) program except for sanctions," said the New Jersey legislator. "No one is talking about scrapping the program. All we are saying is there should be oversight as to how the money is spent."

"It's a credibility thing," said Texas state Rep. David Counts, D-Knox City. "This is not the commissioners per se, but some of that staff up there I don't have any confidence in."

Indiana state Sen. Richard Worman, R-Leo, suggested the legislators have a natural interest in the NAIC's activities. "We have created or allowed the formation of this animal," Sen. Worman said. "The whole thing is our responsibility."

Brian Atchinson, vp of the NAIC and superintendent of Maine's Insurance Bureau, said the NCOIL resolutions are simply part of an ongoing dialogue between the legislators and the insurance commissioners.

"There are a lot of things in there that I think a lot of people would agree with," Mr. Atchinson said. "What I think is constructive is that there is a lot of recognition in the first few pages of a lot of the communication we've seen between the NAIC and state legislators so far this year."

While he said he sees "practical concerns" with creating a national oversight body to monitor the NAIC, Mr. Atchinson said the legislators essentially are looking for NAIC accountability "and I don't think that's unfair because I think that's the same thing the NAIC recognizes has to be part of our message going forward."

Texas Rep. Counts said the NAIC has responded positively to calls for reform brought by NCOIL and others. "Everyone is trying to get on the same sheet of music," he said.

But, the resolutions were a necessary step to keep the process moving forward, according to the Texas legislator.

"We've got to get some discourse going between the two organizations," he said.

And Rep. Counts was adamant about the need for state legislators to obtain financial information from the NAIC, including the salaries of the most highly paid employees.

"We're either going to know or we're not paying into it," he said. "We're not going to play anymore."

New Jersey Assemblywoman Farragher suggested that the aspects of the NAIC's finances the legislators really should be concerned with are those related to the organization's solvency monitoring activities.

"In specific terms in the bill that I introduced in New Jersey, the monies or expenditures that we want to know about are the ones related to the monitoring of solvency," she said. "We should allow the NAIC to charge no more than what it costs to monitor solvency."

The New Jersey lawmaker also suggested that perhaps the NAIC's budgeting could be made more straightforward by separating the organization's solvency monitoring operations from its other activities, such as publications. BI

HCFA

Continued from page 2

filing deadline.

In its guidance to Medicare administrators, HCFA says to take advantage of the ruling, proof will have to be provided that claims were not filed on time.

That proof will be submission of "a written statement indicating that a search of all existing systems of records has been completed and it was determined that no claim for the identified services was found that was timely under any plan (primary or supplemental) covering the individual," HCFA said in a program memorandum.

A HCFA attorney said the agency's position is that only members of the Health Insurance Assn. of America and Blue Cross & Blue Shield Assn.—the two trade groups that challenged the HCFA regulations—could avoid liability for claims that were not filed in a timely manner. But he said all entities, including self-insured employers, also should file written statements that claims were not filed on time. Non-HIAA and non BC/BS members, the attorney said, should file this information for two reasons: the agency could re-evaluate its position; and the agency could lose its argument—now pending in federal court—that the appeals court decision that threw out the HCFA regulation—only applies to HIAA and BC/BS members.

In that memorandum, HCFA also laid out the steps TPAs must follow to benefit from a part of the appeals court ruling that HCFA could not demand payments from TPAs that only administer an employer's health care plans.

If an administration firm that only administers a health care plan receives a demand letter, it should submit to HCFA a copy of its contract with the employer, group health plan or other entity that bears ultimate financial liability for payment.

HCFA also is instructing its contractors not to seek Medicare Data Match recoveries from employers, insurance companies or TPAs for claims less than $1,000; The agency earlier sought repayments for claims that were as little as $50.

"The government feels it must have a certain bang for the buck" for recovery efforts to be worth its while, said Bob Roth, a former HCFA attorney and now a partner at Dechert, Price & Rhoads in Washington. BI

Nevada

Continued from page 1

In addition to permitting private insurers to write workers comp insurance as of July 1, 1999, the package of laws will:

- Impose a 3.5% insurance premium tax on all private workers comp insurers as well as the SIIS, which will be used to reduce SIIS' unfunded liability, effective July 1, 1999.

If the insurance commissioner later determines the tax is no longer needed to insure the SIIS' solvency, the premium tax revenues will be deposited in the state general fund.

- Assess a solvency surcharge on each employer in the state, including self-insured employers, if the insurance commissioner decides the SIIS is insolvent.
- Require that associations that create groups to self-insure their comp exposures be at least 5 years old and have at least five members. In addition, each member must have a tangible net worth of at least $500,000 or have paid at least $15,000 in workers comp premiums the previous year.
- Increase the fines for violating workers comp statutes.

In 1993, the Nevada Legislature approved legislation designed to help eliminate a workers comp system deficit then estimated at more than $2.2 billion (*BI*, May 17, 1993). Among other reforms, the bill introduced managed care into the Nevada workers comp system.

Steve Millikan, vp at the Alliance of American Insurers in Schaumburg, Ill., said the last previous monopolistic state to change to the so-called "three-way" system of a state fund, self-insurance and private insurance was Oregon in 1965.

Mr. Millikan said that after "some interesting times in the 1980s," the Oregon workers comp market is "probably one of the premier workers comp environments in the country right now."

He said the entry of private workers comp insurers will "certainly improve the competitive dynamics in the state and in my personal opinion improves the responsiveness of a state fund to the market."

The remaining monopolistic state funds are in North Dakota, Ohio, Washington, West Virginia and Wyoming.

North Dakota could be the next one to seriously consider a change, predicted Mr. Millikan.

More common in recent years has been a move by some states to create competitive state funds that vie with private insurers already in the market. Kentucky launched such a fund last year (*BI*, April 18, 1994).

Insurers are eager to enter the Nevada market.

"We look on it as a very positive move and are looking forward to entering the market" when the law permits, said Michael Crall, president of Menlo Park, Calif.-based Argonaut Insurance Co.

'We're being very, very careful in how we're setting up our group,' says Dallas Coonrod. 'We're doing everything we can to watch how our risk is handled.'

Nevada is particularly attractive to Argonaut because "it's so closely connected with California, and a lot of companies operating in California have facilities in Nevada and vice versa," he said.

Wausau Insurance Cos. and Liberty Mutual Insurance Co. also are evaluating the new market, spokesmen for the insurers said.

Mike Swan, director in the Hartford Insurance Group's casualty product management unit, said perhaps 10 or 15 years ago, the Hartford would have had a "ho-hum attitude" toward the state because of its economic concentration in gambling and mining. But the state's economy has diversified so much today that "we're looking forward to entering the market."

"You're getting a lot more light manufacturing," agreed John Diem, vp-alternative markets division for Travelers Corp., who sees opportunity as an insurer as well as helping service new self-insured groups.

Several self-insured groups in fact are already being formed or are being seriously considered by associations in the state, including the Nevada Manufacturers Assn., the Las Vegas Associated General Contractors, the Nevada chapter of Associated General Contractors, the Nevada Franchised Auto Dealers Assn. and the Nevada Motor Transport Assn., a truckers' group, among others.

Officials of these groups say their members are unlikely to be interested in going to the private market once their group programs get started.

"I don't expect that there'll be a big exodus to insured programs," said Daryl Capurro, executive director of both the auto dealers' association and the motor transport association, both of which are now awaiting certification by the insurance commissioner. With a self-funded plan, "you have much more control over how the program's run."

Given the limited number of associations in the state qualified to form self-insurance programs, they alone are unlikely to form a significant threat to the fund.

Douglas Dirks, general manager of the SIIS, based in Carson City, said it is unknown at this point how much premium could be lost to self-insured groups. The SIIS will write about $450 million to $455 million in gross premiums this year, he said.

Early estimates indicated the new self-insured groups could account for $25 million in premium, but those did not take competition from private insurance into consideration.

Mr. Dirks said he is concerned, however, about the potential viability of these new self-insured groups. They pose "some very serious risks to the employers in Nevada" and there is a "great likelihood" some will fail due to poor loss ratios, he said.

Representatives of the groups, however, indicated they are optimistic.

"We're being very, very careful in how we're setting up our group," said Dallas Coonrod, executive vp of the Las Vegas Associated General Contractors. He noted there will be joint and several liability for group members. "We're doing everything we can to watch how our risk is handled," he said.

"I think that they've made it extremely difficult for these groups to be formed and to operate with issues like joint and several liability," and no more than a handful are likely to be created, said Bob Ostrovsky, vp of human resources for Bally's Grand Inc.

Meanwhile, insurers must wait four years before they can enter the market.

"If we were to go three-way today, I think the system would have a very difficult time competing. That's why when the legislation was being considered we indicated our desire to have a delayed implementation until 1999," said Mr. Dirks.

Over the next 3½ years, however, with the implementation of new policyholder and underwriting systems and a greatly enhanced claims management system, SIIS will become more competitive, said Mr. Dirks. "When 1999 comes, we'll be able to retain a substantial part of the market."

As of June 30, 1994, the system had a $2.05 billion deficit, Mr. Dirks said.

While an updated 1995 audit was begun last week, preliminary numbers suggest the deficit now has dropped to $1.73 billion. Actual figures will be known in September.

Ray Bacon, executive director of the Nevada Manufacturers Assn. in Carson City, said he believes the SIIS is on its way to largely eliminating its unfunded liability early next century.

Pam Miller, government affairs director for the Nevada chapter of Associated General Contractors in Reno, said she believes SIIS will survive even with private insurance.

Small "mom and pop" operations "may still find that SIIS is their best opportunity to just pay the premiums and not have to be that involved with the whole process," she said.

Mr. Coonrod said there has been some discussion about having some of the private insurers assume some of the bad risks left with the SIIS. "The legislators have two more legislative sessions to go ahead and tweak and fine-tune that one."

Bally's Mr. Ostrovsky, whose company is self-insured, also pointed to the SIIS' four-year grace period. That will give the Legislature the opportunity to get a good look at the impact of the changes made and modify them, he said. Mr. Ostrovsky serves as chairman of the governor's advisory board to the Department of Industrial Relations, which oversees workers compensation.

He noted also that in light of the potential solvency charge if the SIIS fails, self-insurers have "a strong interest in maintaining solvency of the system."

Meanwhile, Steven Horsford, an administrative assistant to the Smith Group, a consultant to the Nevada chapter of the National Federation of Independent Business in Carson City, said while the workers comp market reforms move "in the right direction," they are prolonged.

"Our members will continue to pay higher premiums for the next four years until three-way is opened up. Our members will still have to deal with SIIS," said Mr. Horsford, who noted his association's members are generally too small to create a group self-insurance program.

"But we are optimistic that with the reforms and three-way and opening the market by 1999 that a lot of our business at that time will be able to go private, and we hope that'll save the members a lot of money." BI

Agent/Broker Topics

A monthly editorial section sent exclusively to agents and brokers

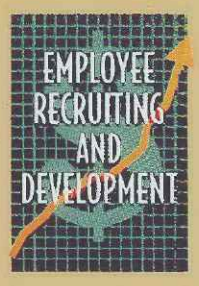
Good producers must meet a 'hire' standard to gain jobs at most agencies, brokers

While recruiting philosophies differ, most agree that qualified candidates need ego, talent and desire to succeed

By SALLY ROBERTS

Hiring new producers is an expensive and risky venture for all agents and brokers, but whether for perpetuation or to beef up revenues, hiring new salespeople is an integral part of doing business and ensuring the continued health of the firm.

Methods and means of recruiting successful producers, though, tend to vary depending on the size of the agency or broker.



Smaller agencies typically focus their efforts on finding people with a high aptitude for selling and often don't require that recruits have an insurance background, while larger brokers more often look to find people with proven track records who work well in groups and might bring profitable business to their new employer.

While recruiting methods may differ, agents and brokers agree that psychological testing is a must to determine if a new producer has the aptitude for the job.

"All too often in the past, agents and brokers have hired from within the industry, without testing if the person has the skills necessary to be a successful sales person," said R.C. Riley, president and chief executive officer of Peel & Holland Inc., a 35-employee insurance agency in Benton, Ky. "You can't afford not to utilize personality profile testing."

"Even more important than testing, though, is an indication of prior success," whether in sales or a previous job or in school, contends Bobby Reagan, president and CEO of Atlanta consulting firm Reagan & Associates Inc.

In the past, agents tended to generally hire new producers from the underwriting operations of different insurance companies. However, this "left them with producers that were more like account executives. . .people who could service accounts but had no natural aptitude to initiate new relationships or new business," he said.

As a result, "there is more of a willingness today among agents to go outside the industry" to find a successful salesperson and teach them insurance later, Mr. Reagan said.

This is the philosophy Richard M. Womack, former chairman of McGriff, Seibels & Williams Inc., takes to heart. During the 17 years he spent at the Birmingham, Ala.-based agency, its revenues rose to $26 million from $800,000. The agency ranked as the 17th largest broker of U.S. business this year with nearly $50 million in 1994 U.S. revenues (*BI*, July 17).

Mr. Womack helped build the agency by hiring recent college graduates who had no insurance background but did possess what he calls the five E's—ego, empathy, economic drive, energy and ethics.

"If (potential producers) lack in one of the five, they will fail," said Mr. Womack who has been an independent insurance consultant in Birmingham for the past 6½ years.

But if a 22-year-old has the five E's, after six months of training and proof of their potential during a validation period, that person "can make you rich," he said.

While many agents and brokers "can't believe that a young person with no experience can, after six months of training, go out and sell insurance, I can prove it," Mr. Womack said.

He believes one of the reasons there are still some 40,000 independent agencies in the United States today is larger brokers have yet to capitalize on McGriff, Seibels & Williams' philosophy. Instead, many of the larger brokers will buy up other brokers, bringing along with them all the "poor pitiful Pauls," Mr. Womack said, referring to non-productive producers who slow down new sales production.



Sales criteria established by Future Force, an Independent Insurance Agents of America Inc. program designed to help agents recruit quality young people, is similar to Mr. Womack's. Future Force suggests that potential sales candidates be:

- Ego-driven, with an inner need to persuade others as a means of gaining personal gratification.
- Empathetic, with the ability to accurately sense the reactions of another person.
- Ego-strong, with the resilience to bounce back from rejection and be even more motivated in the next attempt to sell.
- Service-motivated, with a need to be approved of, to be well-perceived and liked.
- Detail-oriented, with the ability to deal patiently and effectively with activities that are routine or repetitive in nature.

"The problem with insurance is you can't walk into it and become totally proficient," he said. While these producers may be able to sell, if they are not technically proficient, the agency's retention level will drop.

To hire producers, Peel & Holland recruits from direct writers.

'There is more of a willingness today among agents to go outside the industry' to find a successful salesperson and teach them insurance later, says Bobby Reagan.

Not all agents believe that aptitude is everything.

Mr. Riley of Peel & Holland agrees that aptitude is important, but he says successful producers also must be technically competent.

"Many agents are unhappy in the captive agency system and want to move over because there is more freedom and selection with the independent agency system," Mr. Riley said.

See **Hires** *on next page*

Hires

Continued from previous page

While smaller brokers may emphasize a sales mentality in recruits, larger brokers are looking for producers who know insurance and can work with a team to solve risk management issues.

This coincides with a brokerage industry trend of moving away from the traditional insurance sales role toward broader risk management consulting.

As a result, larger brokers are recruiting producers with proven track records, mainly from other regional brokers or competitors.

For Indianapolis-based Acordia Inc., "the most successful producers have insurance backgrounds," said Jack O'Connor, vp-executive development.

While each of the 32 local Acordia companies varies in recruiting practices, most of Acordia's new producers come from strategic acquisitions, he said.

Acordia also recruits from college campuses with risk management and insurance departments and from competitors, he said.

At Sedgwick North America Inc., the prime source of new producers is other local agencies and competitors, said Ian Robb, director of human resources in Memphis, Tenn.

Sedgwick specifically looks for producers who can bring along a profitable book of business, despite potential conflicts with non-compete agreements, he said. "We're prepared to take it on as an expense of doing business," he said, referring to non-compete agreements.

While smaller brokers seek a sales mentality in recruits, larger brokers look for producers who know insurance and can work on a team to solve risk management issues.

Occasionally brokers have come under fire for hiring employees away from competitors. Most notably, Willis Corroon Group sued Rollins Hudig Hall Group Inc. last year for hiring away its construction team (*BI*, June 27, 1994). And Marsh & McLennan Cos. Inc. sued Minet Inc. for the defection of four employees who allegedly took confidential information about M&M and key clients (*BI*, Oct. 31, 1994).

Willis Corroon settled its complaint with RHH, while M&M ultimately withdrew its suit against Minet.

One recruiting method that few agents and brokers use is the local headhunter.

Only about 20% of all agents and brokers have a true relationship with a headhunter, according to Richard Shoemaker, president of IR Group Cos., a Citrus Heights, Calif.-based insurance consulting firm.

While Acordia will use headhunters in a few instances, Sedgwick's Mr. Robb said it is rare for his firm to use such recruiters. "I can't think of the last time we did that," he said.

Mr. Riley of Peel & Holland does not use headhunters to recruit producers, either.

"I want to be part of the recruitment process. . .to learn more about the people instead of asking the headhunter to bring me a head," he said.



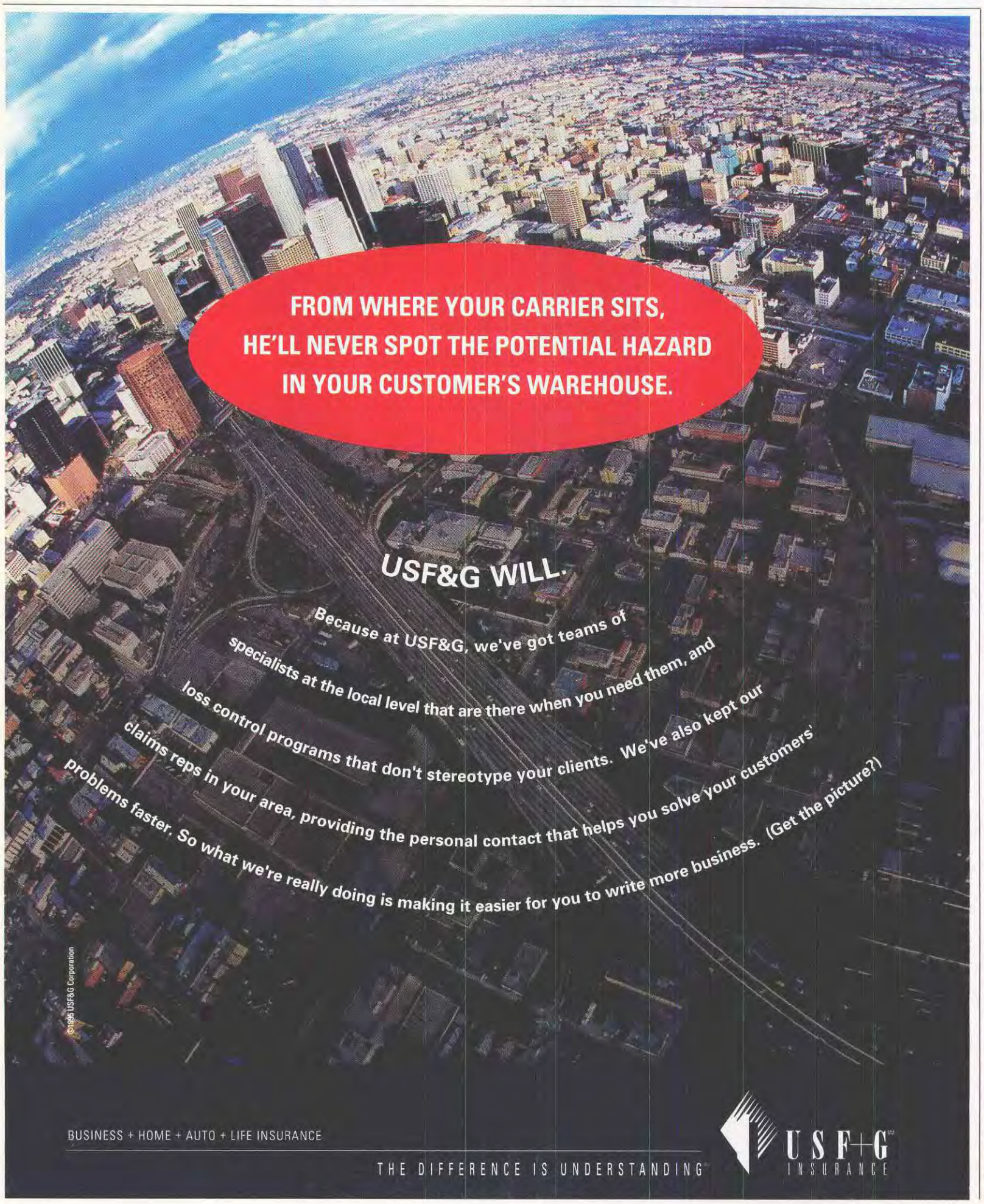
GRAPHIC BY JOHN HALL

For agencies that are considering changing their recruiting methods, the IIAA's Best Practices guide—which annually compiles data from the most successful agencies to establish benchmarks against which agents can measure their own performance—could serve as a resource.

The top five key recruiting practices among agencies with revenues of more than $5 million include: offering attractive compensation and benefit packages, developing an employee referral program using professional testing services, attracting potential hires with solid reputations and conducting multiple interviews with prospective employees.

For agencies with revenues between $2.5 million and $5 million, the key practices include: using professional testing services, conducting multiple interviews with prospective employees, checking references, building a reputation for treating employees fairly and offering attractive compensation and benefit packages.

For agencies with revenues between $1.25 million and $2.5 million, the key recruiting practices include: using professional testing services, using a recruiting firm, offering attractive compensation and benefit packages, conducting multiple interviews with prospective employees, and networking through associations and other avenues. BI



Video instruction has benefits for producers at smaller firms

Larger brokerages, though, prefer things up close and personal

By ROBERTO CENICEROS

Producer training that gets up close and personal is the most valuable kind to many producers at large brokerages.

"Distance learning," though, gets a thumbs up from agents like those in Southwest Virginia, where some rural producers previously had to drive two or three hours to continuing education classes in a neighboring community.

The Professional Insurance Agents Assn. of Virginia & the District of Columbia has shortened that distance by broadcasting educational courses to high schools and community colleges around the state via satellite and fiber-optic cable systems. These broadcast sites are generally much closer to their members' homes than are traditional classes.

EMPLOYEE RECRUITING AND DEVELOPMENT

"It made them very happy they didn't have to travel two hours," said Barbara Lamb, director of member services for the Richmond, Va.-based agent association. "They said the quality of the instruction is very good. They felt like they were there with the instructor."

"Distance learning" is a catch phrase that describes education that is broadcast to students from a remote site. Using video equipment, an instructor's lessons can be taped for later viewing or broadcast directly to students watching video monitors in multiple locations.

However, some critics give it the thumbs down when it comes to training agents in the interpersonal skills that producers or account executives need to turn prospects into customers.

Many executives at the large brokerages say that producers can more easily learn such skills in live training sessions and meetings, where there is plenty of give and take, allowing people to more easily ask questions, pose solutions, get feedback and judge reactions.

Most of these brokerage firms rely instead on in-house training programs and more traditional insurance education programs, such as courses offered by The College of Insurance, the American Institute for Chartered Property Casualty Underwriters and various other educational institutions.

Although current broadcasting technology allows interactive communication between students and a teacher at a remote site, this method still lacks the interpersonal quality required for producer training, contends Ian Robb, director of human resources for Sedgwick North America Inc. in Memphis, Tenn.

In addition, interactive systems really bog down when an instructor's lecture is beamed to several sites at one time, Mr. Robb said. Time delays in broadcasting result in what he calls "information dumps," which prevent meaningful discussions.

"It's supposed to be interactive but it's not as interactive (especially) if you are using more than one site," Mr. Robb said. "When you hook in four or five centers, that time delay becomes magnified."

Mr. Robb said he believes such systems do not nurture the discussion and listening skills needed in negotiations. They also fail to develop the "human approach" inherent in providing consultation services.

Interactive training is essential to hone those skills.

"You cannot be as freewheeling (via cameras and a television monitor) as a bunch of folks sitting around a conference table," Mr. Robb said.

Sedgwick, however, does use "single-purpose" videos for in-house management training. The videos can teach managers about topics like time management and how to conduct an investigation when allegations of sexual harassment arise.

Like many brokerages, Sedgwick also uses video telecommunications for conferences between employees located in different cities. "I have to say it saves a lot of money in terms of flying people around the country," Mr. Robb said.

Marsh & McLennan Inc. of New York also does not use distance learning, according to a company spokesman. Sales is a "person to person" activity with "too many dimensions" that cannot be taught simply by watching an instructor on a monitor, said a spokes-

See **Training** *on next page*



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Training

Continued from previous page

man for London-based broker Minet Group.

So how do the big brokers train their producers?

Indianapolis-based Acordia Inc. has screened 50 or so sales training companies. Then, in its typical decentralized fashion, the parent company recommended nine of those trainers from which its operating companies may choose. Or, the local operating company can make a pitch for selecting its own sales training advisers.

Acordia Northwest Inc. in Seattle uses a more formal training program. Each year, college graduates with 4.0 grade averages are selected to participate in the company's training program

Most good salespeople have a strong ego 'to overcome the rejection,' says Frederick Long, president and CEO of Acordia Northwest. 'You get a lot of that out there.'

once a testing service determines they have a healthy ego.

"Most good salesmen have that in order to overcome the rejection," said Frederick Long, president and chief executive officer of Acordia Northwest. "You get a lot of that out there."

After three months of office work, new employees attend The College of Insurance for nine months and then spend a summer working with a producer before traveling to Europe for a month spent learning the London markets.

Then the new hires return to Acordia Northwest to work alongside a peer producer.

"They run with them for a few years and then they build their own book," Mr. Long said.

Interpersonal skills are honed while watching how the peer works.

The new producers also attend a monthly, 7:30 a.m. sales seminar taught year round and in-person by one of the office's top senior staff. There are also evening classes and coursework for the Chartered Property & Casualty Underwriter designation.

"It's a constant requirement in this company that you continue your education and continue to grow," Mr. Long said. He estimates that his company spends $150,000 in training producers before they become profitable after two or three years.

None of that training involves distance learning.

Acordia of Central Florida Inc. in Clearwater relies on a somewhat similar training program to that provided in Seattle but with the operating company's own variation. Acordia of Central Florida sends its recruits to a producer school taught by CNA Insurance Cos. in Chicago. There are also Dale Carnegie courses, plenty of work alongside mentors, sales meetings and refresher courses where "strategic sales plans" for each prospect are designed and reviewed.

Before all of that, however, the new producers must complete a six-month stint in the telemarketing department making more than 100 telephone calls a day. They work at learning all they can about prospective clients, including the prospect's current insurance agent, their policy renewal date and more.

The telemarketing stint is good for experiencing the tough side of the job that can't be absorbed through distance learning.

"If you can deal with that much rejection in six months, you can deal with anything," said James Harper, president and CEO of Acordia of Central Florida.

Like many brokers, Mr. Harper is a strong believer that working with a mentor is an effective way for producers to hone the interpersonal skills they need.

At Poe & Brown Inc. in Daytona Beach, Fla., producers sharpen their sales interaction skills with Dale Carnegie courses that are brought in-house.

"We have people that swear by Dale Carnegie," said a Poe & Brown spokesman in Tampa Fla. "We have others who have gotten involved with Toastmasters and say that is the way to go."

In addition to skills that can be learned by outside training, there are the broker's "street smarts," says Terry Hennen, director of training and communications for Arthur J. Gallagher & Co. in Itasca, Ill. Some of that should come naturally, he said.

"If they (sales prospects) are the fast-talking type, then you may want to do the same thing," Mr. Hennen said. "You pace yourself with them. You mirror their behavior."

Yet Gallagher doesn't use distance learning to reinforce those street smarts or for other producer training. The broker prefers to hire experienced producers and rely on training courses from institutions like colleges and the CPCU Society.

But several brokers say the day may come when they do embrace distance learning, especially if technological improvements come along to improve the interactivity of the process.

"There is a strong likelihood we will use it if that happens," said Sedgwick's Mr. Robb. BI

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Chubb hopes new training center will help develop China market

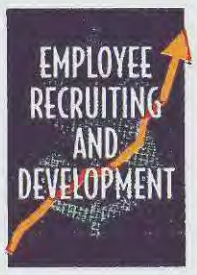
Insurance courses to be offered through Shanghai University

By LEE VELKER

A project by Chubb Corp. and the Shanghai University of Finance and Economics will help to promote insurance education in China as well as help international insurers and brokers tap into the market.

Announced in June, the Chubb School of Insurance plans to offer courses and training on several aspects of insurance in China, including: risk management, marketing management of specialized areas of underwriting, claims and catastrophe management and solvency.

For both Chubb and international brokers, the school comes at nearly the same time as a new Insurance Law of the People's Republic of China that became effective on June 30. Under the insurance law, China aims, among other things, to license at least 10 new insurance companies, some of which are expected to be foreign firms (*BI*, July 31).



The school will be located at SUFE and will offer two or three classes this year beginning in October.

"It will provide a better understanding to what probably in 10 years' time will be the largest insurance market besides the U.S.," said Ian Lancaster, a Chubb vp and regional manager-Greater China, who is based in Shanghai.

The school aims to benefit four groups: international brokers, domestic insurers, Chinese insurance regulators and Chubb itself.

For Warren, N.J.-based Chubb, the biggest advantage to the school is the development of a more sophisticated insurance market in China and increased understanding of China by the insurer's employees. The insurer can operate more effectively in a sophisticated market, he said.

The school will provide an open door for international brokers trying to expand into the Chinese market. Brokers will have the opportunity to learn more about the specifics of the Chinese market and also forge ties with Chinese officials.

"With its population, China has the potential to be a very large market that we are interested in," said Claude Gallello, chairman of the International Committee of the National Assn. of Insurance Brokers and managing director of Willis Corroon International/Americas in New York.

"As for what Chubb is doing, I applaud it. Chubb has been very good there. They are strong on the education end and I think the school could only enhance our ability to conduct business there," Mr. Gallello said.

China's domestic insurers will gain knowledge of Western insurance practices and acquire tips for further development and increased production, Mr. Lancaster said.

To assist Chinese officials, the school aims to help insurance regulators develop a more consistent system for the whole country. Currently, the license acquisition process is not uniform across the country.

Mr. Lancaster said he has received numerous inquiries about the school from Chinese agents, brokers and insurance company employees, as well as Chinese officials.

"The Chinese people have shown a tremendous amount of interest," he said.

While the goals are clearly defined, a definite plan for achieving them is not. The set-up and beginning of courses will be a slow learning process, he said.

"The worst thing to do in China is to rush in and think you know the answers before you go in," he said. "The biggest challenge is overcoming the different approach to training."

The Western system involves much free thinking and participation, elements that are not common in the "old-school method" of training in China, which emphasizes lectures, note-taking and little student participation. The school will work toward a blend of both methods for a comfortable learning environment. Classes will take place for one to two weeks, with the first of three this year focusing on loss control and risk management.

Chubb aims to conduct eight to 12 classes next year, with a goal of 20 to 25 classes for the following years.

Instructors will come from dif-

See **China** *on next page*

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Agent/Broker Topics

Polishing producers' sales skills for rapidly changing insurance field

Continuing education's strength lies in strong links to insurance industry

Andrew T. Nappi is an Illinois State University professor and director of its Katie Insurance School in Normal, Ill. In addition to teaching more than 400 undergraduates during the past academic year, Katie Insurance School professors also conducted a one-week Basic Insurance School in conjunction with the Professional Independent Insurance Agents of Illinois. The school also sponsored sales seminars attended by about 300 agents last year.



Mr. Nappi recently discussed how the crowded field of continuing education can best serve producers' needs in the rapidly changing insurance marketplace with Associate Editor Sara Marley.

Can an insurance professor teach an old dog—that is, a veteran agent—new tricks?

Definitely yes—assuming there are veteran producers and brokers who are really open to new ideas and who don't feel complacent and think that they know everything.

There is that attitude, but people who are knowledgeable about the industry and all the changes that are taking place in the industry today realize that you have to be informed on coverages to explain them to your clients and to help your customers achieve their goals. Courts are constantly interpreting and making rulings, and companies are constantly changing their policies.

In your experience, what skills are most important for insurance agents to learn or to brush up on?

Go through coverages and changes in coverages. That's what the producers want when they come to the seminar. They want to be able to go back and help and advise their clients. They have to know their coverages.

I have to keep in mind that the producer is a counselor, an adviser, and satisfying the needs of the client or the customer is the primary focus. Obviously you have to have a lot of different skills. You have to be a very good communicator in addition to having the technical knowledge. I've run into producers who lack the communication skills. They have tremendous technical knowledge, but they can't really explain much, can't really advise.



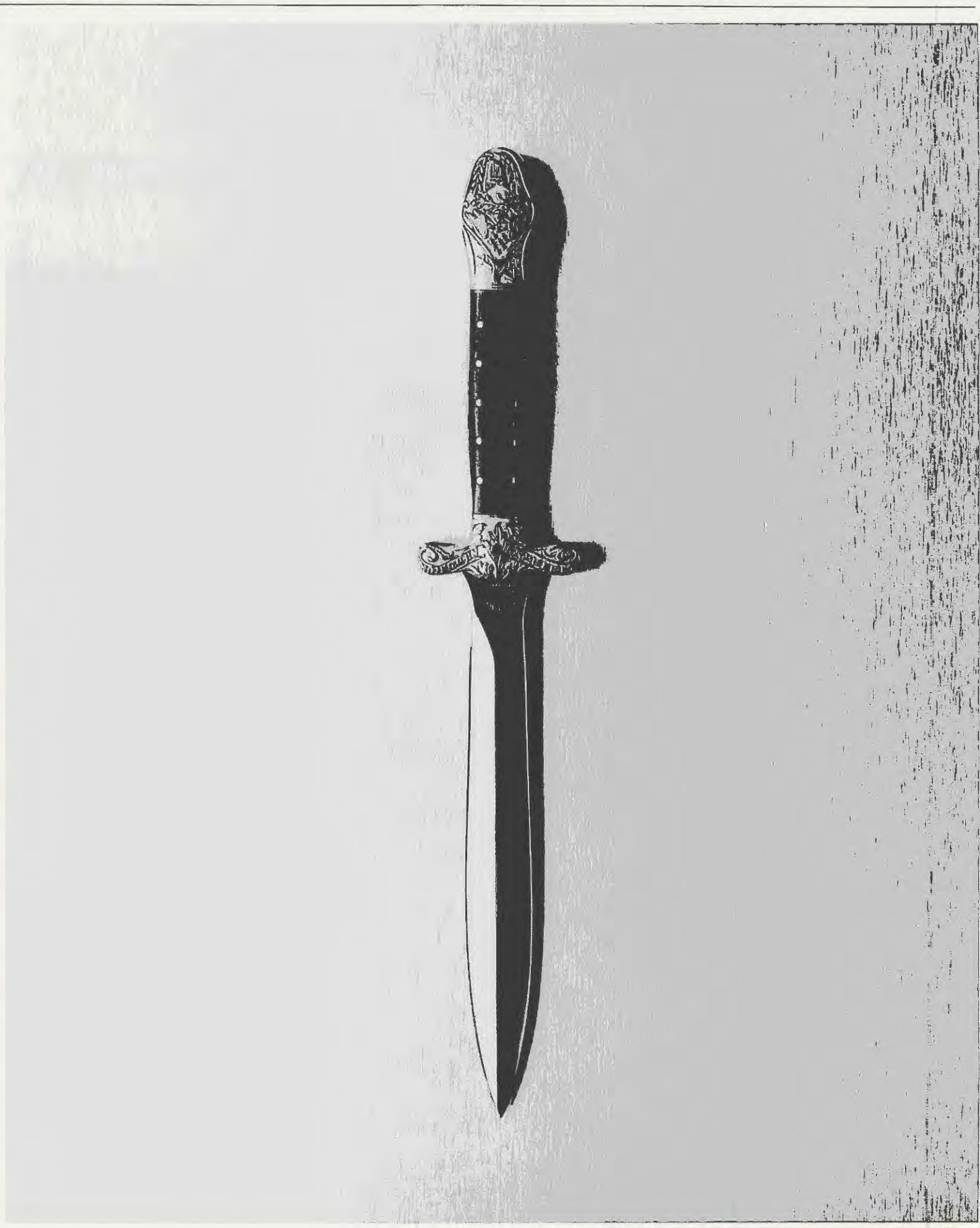
How has producer demand influenced the curricula offered by the Katie Insurance School and other institutions?

Sales seminars are very popular. They would like us to do more. There's always interest in new techniques and getting their batteries recharged.

When we have sales seminars, we have a lot of experienced producers attending to hear very basic selling techniques. There's always a need to go back to the basics. People need to be reminded about the strategies that made them successful as agents or brokers in the first place.

We're also looking at relationship marketing. That's a different

See **Nappi** *on next page*



China

Continued from previous page

ferent areas, including Chubb's main office, Chinese officials and representatives of Chinese companies.

"The Chubb School of Insurance is a collaborative effort which will benefit both organizations, our students and China's insurance industry," said Tang Yunwei, president of SUFE.

Chubb has committed to funding the school for five years, at a total estimated cost of $1 million.

"The Chinese are recognizing Chubb has a long-term commitment," Mr. Lancaster said.

The school is only one part of Chubb's insurance awareness program in China. For the past three months, Chubb has sponsored a five-minute China insurance update on China International Radio and a weekly newspaper column, which provide news from the Chinese insurance industry.

All the programs aim to develop a sophisticated understanding of insurance for both foreign and domestic insurance professionals interested in China.

"It is really a very good example of how you can work in China in a way where it has uses for both sides," Mr. Lancaster said. BI

Nappi

Continued from previous page
kind of approach than motivational selling. It's a different way of looking at the customer and how to satisfy customer needs.

How did the Katie Insurance School develop its continuing education curriculum?

When we started, the industry came in and said, "Before you jump into continuing education, you'd better decide what your mission is, what you want to do, who you want to serve."

We brought in representatives from large companies and small companies to talk to us about their needs. We got as many different responses as there were representatives from the companies on whether we should run programs that were very general and generic, management-type issues, or should we be very industry-specific and cover insurance topics and data.


Mr. Nappi

That's how we developed this program: a joint partnership with industry. In the long run, we will have greater success if we interact closely with the industry and take our direction and guidance from industry professionals rather than develop programs in a vacuum that may appear to be good from an academic perspective but not really meet the needs of the industry. That's why we have an advisory board.

What are the school's goals in providing continuing education?

There are so many providers out there today that I think we have to have a specialty niche in the market. I think the Basic Insurance School and our work with the PIIAI is really our place right now, teaching the very basics of insurance and risk management mostly aimed at the inexperienced or beginner who is coming into the industry.

We're not trying to duplicate what others are doing. We don't offer the CPCU or CLU review courses. We've been asked to do that. There are so many organizations involved in offering courses like that that lead to a designation. We don't try to compete. We feel like we've got a market niche.

What do you think of professional designations as vehicles for continuing education?

I like to see more flexibility in the range of offerings that are available instead of everyone taking the same prescribed curriculum. I'm not sure that the 10 courses in the CPCU program are going to benefit everyone who's involved in property/casualty insurance in the same way. I like to see a wide variety of approaches available to people.

People have different educational needs and experiences, different knowledge gaps and there needs to be a variety of educational opportunities to further a person's knowledge and understanding and enable that person to grow professionally.

We have insurance courses that we offer in the MBA program that I think are better continuing education for some people, especially for people who aspire to be managers.

Is there enough variety in the courses and academic programs offered now for insurance producers?

A producer told me there are plenty of programs out there that will meet the needs of just about any producer, but there is just not the motivation to take advantage of these opportunities.

Maybe there is a lot of confusion on how to spend the dollars. Things are happening so fast, most of these agencies I would bet do not have a strategic plan. Planning is becoming more and more important and I don't think there's enough planning going on. Maybe the easiest thing is to take a set curriculum because that cuts down on the confusion, but I suspect that's probably an easy out instead of really addressing the big issues of what are our objectives and goals, what markets do we want to serve, what expertise is needed, what kind of people do we need.

Do state licensing requirements primarily drive producers' decisions to continue their education?

The fact that we have licensing requirements and continuing education requirements is an incentive. A lot of the professional organizations involved in providing those types of programs will use that as an opportunity to increase membership by offering these courses as services. It might be a way to attract new members into their organizations.

The quality of insurance education today is a lot further along than it was 10 years ago. There's more of a recognition on the part of producers that staying on top of these issues and gaining new knowledge is important for survival and to be successful in the future. There's less and less of the attitude, "I know it all and I don't need any more help."

Are producers boning up more on personal lines or commercial lines?

There is an even balance. It just depends on where you're writing

See **Nappi** *on next page*

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Agent/Broker Topics

Nappi

Continued from previous page

your business or what direction you want to move in, where your gaps are. We get as many signing up for commercial lines as we do for the personal lines.

Of the insurance students enrolled at the Katie Insurance School, what percentage of them are interested in careers as agents or brokers? Are those organizations recruiting on campus?

It's still not enough, maybe one in 20. This is still an industry that has an image problem and an industry that's still misunderstood.

The professional selling program is a very strong program in the Department of Marketing. Because of our location and company representatives coming to campus, because of job opportunities, internships and scholarships, the professional selling students hear about this and decide to minor in insurance. More and more of those students are taking a look at insurance as a professional career.

The independent agents until recently have not really come to campus to recruit college students. Now they are coming to campus, they're looking for students to do internships and to look at them as potential sales employees. We really haven't had that segment of the industry actively looking for graduates with these skills. Now we're starting to see that happen.

Where do you see insurance education programs heading in the future?

Financial planning, the legal environment of insurance, changes in social insurance, what's going to happen with health care, Medicare, international insurance, employee benefits, environmental.

We will have to rely more and more on specialists in the continuing education field to provide the technical knowledge. Organizations are going to have to find ways of bringing the technical expertise into their agencies and into their companies. Maybe continuing education won't be like we know it today. Maybe we'll use the Internet. BI

Building long-term agency growth by attracting all-star producers

Success requires engineering your agency to support key players

By Richard Shoemaker

The agency manager who creates a synergistic environment to enhance sales and attract top producers is likely to be successful at building long-term growth in the agency.

We all know that producers are the lifeblood of a progressive agency/brokerage. While certain attributes of producers are universally agreed upon, production style and interaction inside the agency/brokerage can vary significantly.

A manager's hiring decisions, therefore, can determine the success (or failure) in building an organization that can sustain growth.



Many owner/managers dream of that "lucky hire" who is self-motivated, needs few resources, and whose only desire is to generate market share, profits and increased net worth for the owners. To realize this dream, it may be necessary to interview large numbers of potential candidates, hire a few who don't work out, be frustrated, yet prepared to rejoice if that magic hire occurs.

While you'd never reject that lucky hire if it happens, having that as your recruiting plan is like playing the slot machines. But not every casino jackpot winner lives happily ever after. Similarly, agency managers sometimes discover that the self-sufficient producer doesn't stick around for the long-term to build the organization.

Agency managers who are most successful at recruiting producers use a strategic approach. They first study the marketplace and develop a vision of untapped opportunity, then study their own organization and its positioning to exploit those opportunities. Next, they implement a game plan to fully exploit those opportunities for which they are positioned, but have not fully penetrated. The managers will devote time and capital toward positioning for those opportunities which they think are feasible but which they haven't currently accomplished. Only then do they consider the recruiting process and what type of person will best help them.

Agency managers sometimes discover that their 'lucky hire'—the self-sufficient producer—doesn't stick around for the long-term to build the organization.

In that context, a producer might be defined as someone who believes in the business plan, recognizes the strengths of the organization, is capable of leveraging those strengths, and is willing to exercise the dedication necessary to translate opportunity into results.

Constructing a recruiting plan around that definition allows the manager to weigh the value of the organization's contribution in exploiting various sales opportunities vs. the experience and closing ability for the envisioned producer.

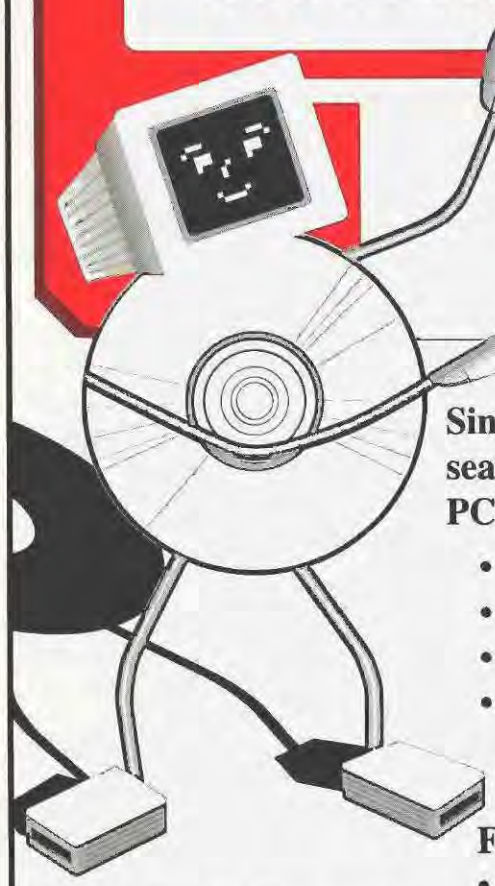
As an example, let's assume that the "opportunity" offered by the organization is simply one of having competitive general markets. While that is better than having average markets, it doesn't add much to enhance producer recruiting efforts. It still will take a technically competent, proven producer to exploit that opportunity, and it will be necessary to give that producer a sizable cut of the fees or commissions.

Furthermore, that isn't a sufficient enhancement of opportunity to create solid dependency on the organization. Thus, the organization is still fairly vulnerable to losing the producer in the future.

An agency manager needs to

Continued on next page

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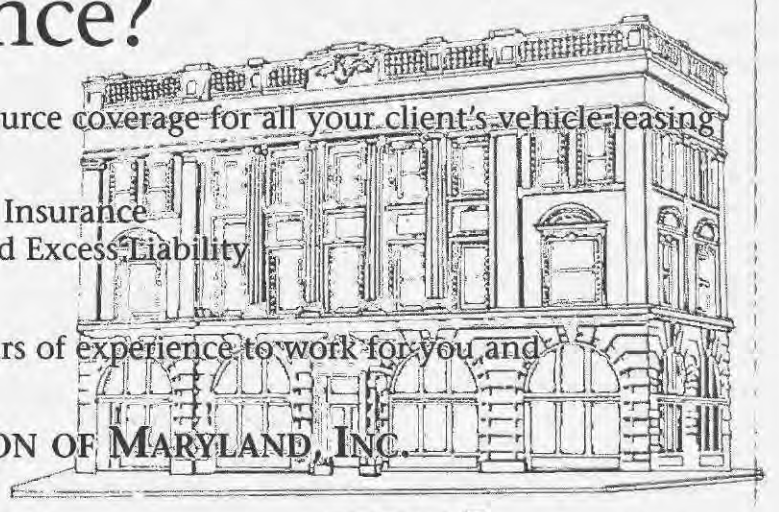
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Continued from previous page
go further than just good markets and reasonable compensation if initial recruiting success is to translate into long-term prosperity and producer retention.

A plan to create opportunity for proven producers should concentrate on packaging the organization to attract the experienced producers—those who have already demonstrated the ability to compete in the major leagues.

The key to recruiting proven producers is to show an enhanced environment that can help them go from everyday players to All-Stars, or from All-Stars to MVPs.

The key to recruiting these people is to show them an enhanced environment that can help them go from an everyday player to an All-Star, or from an All-Star to MVP.

By offering enhanced opportunity, the agency manager need not try to outbid the producers' current firms. It is simple mathematics that 30% of a $300,000 book isn't as much as 22% of a $600,000 book. If you can convince potential recruits that their books will grow significantly in your environment, then you win.

In some cases, an agency manager already may have an environment that enhances opportunity, but isn't packaging it properly to attract producers. In other cases, additional investment may be necessary.

The following is a list of enhancements that can either be added or need to be part of the packaging of the organization to the potential recruit.

• **Computer Techies.** Most systems today have tremendous spreadsheet and graphic capabilities.

However, many agencies underutilize these systems because they lack personnel who understand more than just the surface uses.

A "computer techie" has a natural compulsion to constantly push the edge. A computer techie dedicated to manufacturing multiscenario proposals with eye-catching graphics can add significantly to the closing ratio of producers. The techie should be limited to a certain size account so that he or she will have time to work on computer innovations.

The techie also can turn out "quickie" brochures targeting particular risk classes that are too small for highly detailed proposals but important enough for enhanced attention.

The improvement in closing ratios and the firm's image as a winner can be used to attract proven producers.

• **Specialized Marketing.** In the mid-market and larger account arena, many risks have some type of coverage that may not generate large premiums but may be critical in structuring a comprehensive program. Coverages like cargo, foreign credit insurance, environmental impairment liability, errors and omissions, directors and officers, or specialized bonds are examples. If an agency/brokerage doesn't have centralized marketing, these coverages are marketed as ancillary issues, drawing a disproportionate amount of the team's time.

A marketing guru for one or more of these coverages can increase producer effectiveness and decrease producer frustration, while also making the producer more dependent on the organization's resources.

• **Specific Problem Solving Capabilities.** Certain coverages like workers compensation and health insurance are undergoing dynamic change in risk management approaches and claims cost control. Unlike the specialty coverages previously mentioned, these items affect every risk and are generally a major percentage of the risk management budget. In some states, the innovation for both insured plans and alternate risk funding methods is changing so rapidly that it is dif-

See **Recruit** *on next page*

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Agent/Broker Topics

Recruit

Continued from previous page
ficult for a generalist to remain current.

An agency/brokerage with specialized problem solving capabilities in these areas should track those cases where those capabilities were the driving force in obtaining the new account.

The producer that lost the account should be added to the recruitment target list.

• **Claims Advocates.** There is nothing new or particularly unique about an agency/brokerage having claims personnel.

However, that function is too often viewed as just a servicing/retention function. Those who maximize this function create a culture of "claims advocacy" and create promotional material to be used in the sales process.

The results can build an image that says "our agency/brokerage sets the standards."

• **Industry Facilitators.** During the past couple of decades, the largest of the alphabet houses have hired executives from various industries as rainmakers focused on those industries.

They also have hired risk managers from various industries to provide increased technical knowledge and to add credibility.

That is not feasible for many national or regional brokers. However, we live in an age where "re-engineering" or downsizing has created a surplus of chief operating officers and chief financial officers from numerous industries. Many have opened struggling consulting practices.

Claims advocacy creates an image of a firm that sets the standards for the industry.

Agencies and brokers now have a wonderful opportunity to use those individuals on a cost-effective basis. Most will offer very reasonable prices while they are trying to build their practices. They can be brought in to provide greater insight on what drives those industries and how to research and approach them. Above all, they can help your people understand how to identify the "survivor" risks. Fairly inexpensive seminars for support staff can be arranged.

The higher level of competence gained could be used in presenting cases to underwriters. In addition to gaining an edge in prospecting and making proposals, a broader geographic territory could be exploited. If the "consultant" was active in industry associations, a certain amount of door opening is possible.

• **Exceptional Support Staff.** This is an overused claim, and its effectiveness has been diluted when it comes to using it as a recruiting tool.

There are many reasons why an organization should strive to have exceptional support staff. Not all of the benefits derived to the organization, however, become tools for recruiting producers. Consequently, a manager needs to rethink how this aspect of an agency can be used for recruitment.

The manager needs to address how the organization's support staff has increased the success of its producers.

Be prepared to tell a prospective producer how the support staff has made a difference in closing ratios and retention levels. What ongoing education program does management sponsor? How does your staff rank in professional designations for support staff? What incentive programs does management offer to the support staff to share in production success? Is there any type of "excellence" recognition program? The agency manager who packages this information properly can use it as a powerful recruiting tool.

In summary, an agency manager can make his or her agency a "Talent Magnet" by build an organization that is known to provide the winning edge to its producers. Once the organization offers these synergistic sales opportunities, build a plan around them that treats producer recruitment the same as a sales plan. In other words, don't target all producers and hope for a lucky hire; instead, specifically target those experienced producers who would benefit most from the agency's environment. BI



Richard Shoemaker is president of IR Group Cos., an insurance consulting firm in Citrus Heights, Calif. In 1977, he founded IR Unit Insurance Resources Consultants to provide strategic planning and other programs.

Pledge boosts scholarship

NORMAL, Ill.—An endowed scholarship at Illinois State University's Katie Insurance School got a boost earlier this year when the man for whom the scholarship is named pledged to match it personally.

At the beginning of this year, the Chicago-area chapters of the CPCU Society created a $35,000 scholarship in honor of Gerald E. Myers, a past CPCU Society president.

Mr. Myers said in March that he would match that amount and asked CPCU chapters for continued support of $10,000 a year.

The first Gerald E. Myers Endowed Scholarship for Insurance Excellence will be awarded in 1996 to an Illinois State insurance student from Cook, DuPage, Kane, Lake, McHenry or Will counties.

For more information on the Gerald E. Myers Endowed Scholarship for Insurance Excellence, contact the Katie Insurance School, Illinois State University, 401 Hovey Hall, Campus Box 3250, Normal, Ill. 61790-3250; 309-438-3021.

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Tom Moore (l) and "Barney" Runcie at the 19th Hole at Southward Ho Country Club

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Principal's sales seminar package guides producers in gaining clients

Insurer's soft sell approach targets baby boomers' financial security

By REGIS COCCIA

Presenting effective sales seminars to prospective clients can be a challenging task for many agents and brokers.

To help commercial and personal lines producers strengthen their presentations and tap baby boomers' growing interest in insurance and other products, The Principal Financial Group offers agents and brokers for its Principal Mutual Life Insurance Co. unit a package of slides, videotapes and other materials.

The approximately 76 million Americans born during the so-called baby boom—between 1946 and 1964—represent an enormous target market. And as more baby boomers near retirement, they are realizing the importance of planning for the future.

Called "Dreams and Priorities," the seminar package outlines all the steps agents must take week by week to assemble an audience, present an effective seminar and obtain new clients, from the first planning stage to follow-up calls.

Included in the package are scripts, accompanying slides and a workbook. A videotape of an actual presentation shows how the presentations work, though the company designed the materials to be flexible so that producers can deliver the message in their own style and improvise to meet special needs.

Although "insurers generally have left marketing and consumer outreach to agents in the field, this seminar package is a tool that will pull consumers to the insurer," said Pam Kennedy, second vp-personal markets at Principal in Des Moines, Iowa. "The presentation doesn't wow people with the hottest financial products. It educates them about needs and options."

The seminar isn't a hard sell. Principal chose a soft, educational approach because it is more likely to work with baby boomers. "Baby boomers are skeptical. They want an opportunity to learn. It's a better approach for them than some traditional approaches," she said.

Producers can use the package materials to present either the full two-hour seminar or a 45-minute overview.

The full version typically is conducted in two parts, said Ms. Kennedy. The first half addresses personal issues like aging and the need to plan for cyclical changes in life and work. That part of the session includes role-playing and audience interaction. In the second half, producers present financial concepts and show audience members how to form a strategy to ensure financial security.

Principal developed the seminar with Age Wave Inc., an Emeryville, Calif.-based consulting firm.

The insurer tried the seminar package as a yearlong pilot program in about half a dozen locations before releasing it nationwide in April, Ms. Kennedy said.

One advocate of the sales seminar approach is Roger Howell, president of Howell Benefit Services Inc., a Wilkes-Barre, Pa., brokerage specializing in benefits products.

"For basic education, I think the seminar approach is good," said Mr. Howell, whose firm sells some Principal products.

The Principal program is "very well done" and is a great idea for independent producers. "It's a good first step," he said. "Regardless of income, people at any age don't plan very well. Employees in general don't save enough."

Two crucial parts of organizing a seminar, which Principal's package outlines for the producer, are building an audience and following up after the presentation.

The seminar is designed for a group of 20 to 50 people—ideally couples, though the seminar also works for individuals or groups of employees, Ms. Kennedy said. A group limited to that size is large enough to permit audience interaction but small enough so that producers can build relationships with the participants.

Under the insurer's program, laying the groundwork for a seminar begins about nine weeks before the producer wants to present it. The package guides the agent or broker through the steps leading up to the actual presentation and provides a timetable for completing them.

Producers will have the best luck in setting up seminars where they already have "warm relationships," said Ms. Kennedy. Many of those relationships are with employers, and agents and brokers do pitch the idea of onsite seminars to benefit managers as a way to educate employees.

It's also best for agents and brokers to develop a seminar goal.

"The goal should be twofold: to get a face-to-face appointment with someone whom you probably couldn't reach any other way; and to increase your business," Ms. Kennedy said. BI

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Software systems fall short of hopes

More than half of surveyed agencies say they are less than totally satisfied

By SALLY ROBERTS

Nearly all agencies agree that automation benefits their business, but a survey by ACORD has found that less than half are totally satisfied with their systems.

The Pearl River, N.Y.-based non-profit insurance industry association, which promotes increased efficiency in the independent agency system, surveyed 700 independent insurance agencies to examine trends in agency automation between 1987 and 1994.

Forty-three percent of the agencies that were surveyed said they are only somewhat satisfied and 11% said they are disappointed with their current agency system relative to their expectations. Only 46% said they are very satisfied.

Asked about their satisfaction with their systems relative to their present needs, 47% said they are only somewhat satisfied and 19% are disappointed with their systems. The remaining 34% said they are very satisfied.

In its 1994 Automation and Interface Survey Report, ACORD said the level of dissatisfaction could be attributed to system underutilization, inadequate system capabilities, expensive maintenance of paper files and poor systems training.

Customer service and marketing functions such as customer profiling, application generation, claims processing and schedules are less frequently automated due to system incapability or underutilization of those functions, ACORD found.

In addition, most agencies still maintain both a paper system and an electronic file cabinet. The survey found that 81% of the agencies still maintain paper files, while 19% do not.

While 81% of agencies utilized initial training from the system vendor, only 19% of those agencies using training purchased additional training from the vendor, the survey said. Eighteen percent of the agencies did not receive any training.

Customer service representatives received an average of 3.3 hours of training in the past year, while principals received 2.5 hours and producers 1.5 hours.

Principals and producers received less than one hour of additional training over the past year from an outside source and CSRs received an average of 1.1 hours of additional training.

One way to help alleviate some of these problems is to use an operations manager who exclusively manages the automation function at the agency, according to ACORD. However, only 44% of the agencies surveyed had an operations manager.

Among other survey findings:

• Sixty-eight percent of agencies used the most current software, while 32% did not. But, the percentage using the current version is down compared to 1992, when 79% of the agencies were using the current version.

• Eighty-nine percent of the surveyed agencies were automated, compared with 75% in 1987. Of those automated, 65% of the agencies' systems were more than 4 years old; 11% were between 3 and 4 years; 6% were between 2 and 3 years; 9% were between 1 and 2 years; and 9% were under a year old.

• Of the 89% of agencies that are automated, only 57% have a system that is designed for insurance agencies. The remainder are equipped with such software as spreadsheets, accounting packages and work processing but have no agency systems.

• Thirty-six percent of the agencies currently are downloading, compared with only 14% in 1992. And, 87% of the agencies are aware of downloading, up from 75% in 1992.

Of those agencies currently downloading: 23% are downloading with three or more insurers, compared with only 6% in 1992; 29% are downloading with two insurers, compared with 12% in 1992; and 48% download with one insurer vs. 82% two years earlier.

• Agencies say the top three automation benefits include handling more business, providing better service and being more productive.

Seventy-one percent of the agencies are aware of CD-ROMs, but only 5% currently use them. CD-ROMs, which can store enormous amounts of information on a single compact disc, are considered valuable by 50% of the agencies not currently using them. Twenty-eight percent do not consider CD-ROMs valuable, and 22% do not know.



Why are agencies dissatisfied? ACORD attributes it to underutilized and inadequate systems, poor training and the need to keep paper files anyway.

According to the survey, 69% of the responding agencies completely agreed that automation enabled them to handle more business with their existing staff; 25% agreed somewhat, and the remaining 6% do not agree.

Sixty-six percent of the agencies completely agreed that automation helped them provide better service; 32% agreed somewhat, and the remaining 2% did not agree.

Sixty percent completely agreed that automation made their staff more productive, while 37% agreed somewhat and the remainder did not agree.

• Overall, a majority of the responding agencies are aware of newer technology, including imaging, local area networks, compact disc read-only memory and voice mail.

While 83% of the agencies are aware of imaging—the computerized capability to create an electronic snapshot of a document, save it, display it and print it on demand—only 4% of the agencies are using it.

However, 57% of the agencies not using imaging consider it a valuable technology, while 30% do not. The remaining 13% are unsure. At the same time, 70% of the agencies are aware of LANs, but only 22% of the agencies are taking advantage of the technology—which ties a series of computers together by one file server. Fifty-two percent of the agencies not using LANs consider it valuable, 36% do not and the remaining 12% do not know.

While 96% of the agencies are aware of voice mail, only 10% of them are using the technology. Of those not taking advantage of voice mail only 35% consider it valuable, while a majority—59%—do not. The remaining 5% do not know.

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Copies of ACORD's 1994 Automation and Interface Survey Report can be obtained by calling 1-800-444-3341, ext. 506. Copies are $11 for ACORD members and $17 for others.



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Datebook

AUG. 14-15. Best Business Practices for Pharmacy Directors conference in Cambridge, Mass., sponsored by the Institute for International Research Inc.; $1,295. Institute for International Research, 708 Third Ave. 4th Floor, New York, N.Y. 10017-4103; 800-345-8016.

AUG. 14-15. Joint Ventures, Alliance & Integration Strategies for Managed Care conference in Boston, sponsored by the Institute for International Research Inc.; $1,295. Institute for International Research, 708 Third Ave., 4th Floor, New York, N.Y. 10017-4103; 800-345-8016.

AUG. 14-15. The Next Generation of Health Promotion—Sharing Power with the Patient conference in San Francisco, sponsored by the Institute for International Research Inc.; $1,295. **Also Sept. 18-19** in Boston. Institute for International Research, 708 Third Ave., 4th Floor, New York, N.Y. 10017-4103; 800-345-8016.

AUG. 14-16. Health Care Cost Management conference in Boston, sponsored by the International Foundation of Employee Benefit Plans; $715 for IFEBP members, $775 for non-members. International Foundation of Employee Benefit Plans, Registrations Department, P.O. Box 69, Brookfield, Wis. 53008-0069; 414-786-6710 ext. 257.

AUG. 14-16. Fundamentals of Health Care Cost Management conference in Boston, sponsored by the International Foundation of Employee Benefit Plans; $1,175 for IFEBP members, $1,325 for non-members. International Foundation of Employee Benefit Plans, Registrations Department, P.O. Box 69, Brookfield, Wis. 53008-0069; 414-786-6710 ext. 257.

AUG. 14-17. Fundamentals of Public Sector Benefits Management conference in Brookfield, Wis., sponsored by the International Foundation of Employee Benefit Plans; $940 for IFEBP members, $1,060 for non-members. International Foundation of Employee Benefit Plans, Registrations Department, P.O. Box 69, Brookfield, Wis. 53008-0069; 414-786-6710 ext. 257.

AUG. 21-23. Electric and Magnetic Field Health Research: State of the Science conference in Boston, sponsored by the Harvard School of Public Health; $695. Harvard School of Public Health, Office of Continuing Education, 677 Huntington Ave., LL-23, Dept. B, Boston, Mass. 02115-6023; 617-432-1171.

AUG. 21-23. Construction Industry Benefits Conference in Carlsbad, Calif., sponsored by the International Foundation of Employee Benefit Plans; $685 for IFEBP members, $775 for non-members. International Foundation of Employee Benefit Plans, Registrations Department, P.O. Box 69, Brookfield, Wis. 53008-0069; 414-786-6710 ext. 257.

AUG. 23-24. SIIA 1995 UR/Managed Care Forum in San Antonio, sponsored by the Self-Insurance Institute of America Inc.; $495 for SIIA members, $995 for non-members. SIIA P.O. Box 15466, Santa Ana, Calif. 92735; 714-261-2553.

AUG. 24-25. Advanced Pension Seminar in Lake Tahoe, Nev., sponsored by Corbel; $495. **Also Sept. 7-8** in Chicago. Educational Services, Corbel, P.O. Box 47720, Jacksonville, Fla. 32247; 800-326-7235.

AUG. 28-31. Introduction to International Employee Benefits seminar in Chicago, sponsored by the International Benefits Information Service; $950. IBIS, 250 S. Wacker Drive, Suite 600, Chicago, Ill. 60606; 312-993-7900.

AUG. 30-SEPT. 1. Reinsurance Law in London, sponsored by the Chartered Insurance Institute College of Insurance; £720 ($1,157). The CII College of Insurance, London Training Centre, 19-21 Billiter St., London EC3M 2RY, England; 171-702-9997.

SEPTEMBER

SEPT. 7. Solving the Additional Insured Issues seminar in Charlotte, N.C., sponsored by the CPCU Society and the Independent Insurance Agents of North Carolina; $95 for CPCU Society or IIANC members, $105 for non-members. CPCU Society, 720 Providence Road, P.O. Box 3009, Malvern, Pa. 19355-0709; 610-251-2728.

SEPT. 7-8. How to Profit from Insurance Mergers, Acquisitions and Consolidations conference in New York, sponsored by the Strategic Research Institute; $1,295. SRI, 500 Fifth Ave., 11th Floor, New York, N.Y. 10110-0192; 800-599-4950.

SEPT. 7-NOV. 30. Marine Insurance (Hull and P&I) course in New York, sponsored by the World Trade Institute; $350. WTI, 1 World Trade Center, Suite 55W, New York, N.Y. 10048-0682; 212-435-2627.

SEPT. 11-12. Preventing Back Injuries—A Comprehensive Program course in Long Grove, Ill., sponsored by the National Loss Control Services Corp.; $400. NATLSCO, K-4, 1 Kemper Drive, Long Grove, Ill., 60049-0075; 708-320-4091.

SEPT. 11-12. Workers Compensation & Disability in Managed Care conference in Philadelphia, sponsored by the Institute for International Research Inc.; $1,295. Institute for International Research Inc., 708 Third Ave., 4th Floor, New York, N.Y. 10017; 800-345-8016.

SEPT. 11-13. Safety for Industrial Hygienists seminar in Baltimore, sponsored by the American Industrial Hygiene Assn.; $895 for AIHA members, $995 for non-members. AIHA, Continuing Education Department, 2700 Prosperity Ave., Suite 250, Fairfax, Va. 22031; 703-849-8888.

SEPT. 11-14. Security's Hot New Rhythms: ASIS 41st Annual Seminar in New Orleans, sponsored by the American Society for Industrial Security; $500 for ASIS members, $630 for non-members. American Society for Industrial Security, 1655 N. Fort Myer Drive, Suite 1200, Arlington, Va. 22209; 703-522-5800.

SEPT. 11-15. Fundamentals of IH Monitoring course in Long Grove, Ill., sponsored by the National Loss Control Services Corp.; $850. NATLSCO, K-4, 1 Kemper Drive, Long Grove, Ill., 60049-0075; 708-320-4091.

SEPT. 11-15. Fundamentals of Money Management workshop in Philadelphia, sponsored by the International Foundation of Employee Benefit Plans; $1,910 for IFEBP members, $2,060 for non-members. International Foundation of Employee Benefit Plans, 18700 W. Bluemound Road, P.O. Box 69, Brookfield, Wis. 53008-0069; 414-786-6700.

SEPT. 11-JAN. 1. Marine Insurance (Cargo) course in New York, sponsored by the World Trade Institute; $350. WTI, 1 World Trade Center, Suite 55W, New York, N.Y. 10048-0682; 212-435-2627.

SEPT. 12. OSHA Compliance for the Ergonomics Standard—Office Setting course in Long Grove, Ill., sponsored by the National Loss Control Services Corp.; $195. NATLSCO, K-4, 1 Kemper Drive, Long Grove, Ill., 60049-0075; 708-320-4091.

SEPT. 12-13. The 24th Annual Institute on Employment Law in New York, sponsored by the Practising Law Institute; $695. **Also Oct. 10-11** in Chicago; **Oct. 17-18** in San Francisco. PLI, 810 Seventh Ave., New York, N.Y. 10019; 800-260-4754.

SEPT. 13-14. OSHA Compliance for the Ergonomics Standard—Industrial Setting course in Long Grove, Ill., sponsored by the National Loss Control Services Corp.; $400. NATLSCO, K-4, 1 Kemper Drive, Long Grove, Ill., 60049-0075; 708-320-4091.

SEPT. 13-15. Linking Outcomes to Quality Management conference in Washington, sponsored by Global Business Research Ltd.; $1,195. Global Business Research Ltd., 151 W. 19th St., 8th Floor, New York, N.Y. 10011; 212-645-4226.

SEPT. 14-15. ERISA, Life, Health and Disability Claims Litigation Seminar in Chicago, sponsored by the Defense Research Institute Inc.; $445 for DRI members, $495 for non-members. DRI, 750 N. Lake Shore Drive, Suite 500, Chicago, Ill. 60611; 312-944-0575.

SEPT. 14-15. The Alternative Market seminar in Hartford, Conn., sponsored by the Risk Management Section of the CPCU Society and the Connecticut CPCU Chapter; $198 for CPCU Society members, $218 for non-members. CPCU Society, 720 Providence Road, P.O. Box 3009, Malvern, Pa. 19355-0709; 610-251-2728.

SEPT. 15. Tuberculosis in the Workplace—Control Guidelines course in Long Grove, Ill., sponsored by the National Loss Control Services Corp.; $195. NATLSCO, K-4, 1 Kemper Drive, Long Grove, Ill., 60049-0075; 708-320-4091.

SEPT. 15-16. Impairment and Dis/Ability Evaluations course in New Orleans, sponsored by the American College of Occupational and Environmental Medicine; $425 for ACOEM members, $595 for non-members. **Also Oct. 28-29** in Seattle. ACOEM, 55 W. Seegers Road, Arlington Heights, Ill. 60005-3919; 708-228-6850.

SEPT. 18-19. U.S. Non-Marine Insurance and Reinsurance in London, sponsored by the Chartered Insurance Institute College of Insurance; £470 ($755). The CII College of Insurance, London Training Centre, 19-21 Billiter St., London EC3M 2RY, England; 171-702-9997.

SEPT. 18-19. 1995 Casualty Loss Reserve Seminar in Chicago, sponsored by the American Academy of Actuaries, the Casualty Actuarial Society and the Conference of Consulting Actuaries; $545 for members of sponsoring organizations and students, $595 for non-members. American Academy of Actuaries, 1100 Seventh St. N.W., Washington, D.C. 20036; 202-223-8196.

SEPT. 18-19. Managed Vision and Eye Care Congress in Chicago, sponsored by the Institute for International Research Inc.; $1,595. Institute for International Research Inc., 708 Third Ave., 4th Floor, New York, N.Y. 10017-4103; 800-345-8016.

SEPT. 18-19. The Alternative Market seminar in Minneapolis, sponsored by the Risk Management Section of the CPCU Society and the Minnesota CPCU Chapter; $198 for CPCU Society members, $218 for non-members. CPCU Society, 720 Providence Road, P.O. Box 3009, Malvern, Pa. 19355-0709; 610-251-2728.

SEPT. 18-20. The National Human Resources Information Technology Exposition & Conference in San Jose, Calif., sponsored by HRMS/EXPO; $825. HRMS/EXPO 95, 444 Castro St., Mountain View, Calif. 94041; 800-232-3976.

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Fire

Continued from page 3

disturbing debris at the site so as not to destroy evidence that could prove the origin of the fire.

The injunction was granted and cleanup briefly was stopped at part of the site. However, the injunction was lifted after attorneys for Houston Distribution complained that the defendant had not been notified of the order.

"The petition was granted without notice to Houston Distribution" and was dismissed the next day, said Larry R. Jones, an independent Houston attorney representing Houston Distribution.

Shortly after the suit against the warehouse owner was filed, the firm of Mayer, Brown & Platt in Houston indicated in a letter that Cooper & Aldous had no authority to file the action on behalf of EniChem.

The letter, signed by Catherine Hoeg, indicated that Mayer, Brown & Platt was "outraged that the suit was filed," said Timothy McCloskey, an attorney with the Houston firm of Chandler & McCloskey, representing Houston Distribution.

As a result, the lawsuit was dropped on July 27 and parties to the case are puzzling over who was actually behind the original legal action.

William Allred, an attorney for Cooper & Aldous who filed the lawsuit, would not comment on the suit.

The EniChem spokesman said Mr. Allred may represent AIU Insurance Co. in legal matters, but does not represent EniChem.

"The court has ordered him to show proof that he works for AIU; he hasn't done that yet," the spokesman said last week. "We believe he represents AIU."

American International Group would not comment on the lawsuit or on whether Mr. Allred represents the insurance company in legal matters.

Ms. Hoeg of Mayer, Brown & Platt did not return telephone calls seeking information on the suit. BI

Senate

Continued from page 1

Mass., is a far cry from the sweeping proposals of the last congressional session, such as President Clinton's plan to ensure comprehensive and universal coverage in part by requiring employers to pay for employees' premiums.

While Sen. Kennedy said he still backs universal coverage legislation, he acknowledged that there are practical limits to what can be passed.

"It is important we deal in the real world. Americans want us to take action in a bipartisan way," Sen. Kennedy said.

Indeed, following the collapse of broad reform efforts in 1994, lower expectations seem to be the rule in Congress.

"There has been a complete change from last year. Legislators are taking the smallest elements of reform. They have come to recognize that you can't reform 14% of the economy in one fell swoop," said Henry Saveth, a principal with A. Foster Higgins & Co. Inc. in New York.

"Last year, incremental was a bad word. This year, comprehensive reform is taboo," said Frank McArdle, a consultant with Hewitt Associates L.L.C. in Washington.

While modest compared with proposals advanced last year by Senate and House Democratic leaders, the Kassebaum-Kennedy measure would help to eliminate "job lock," a condition in which employees can't afford to leave a job because a new employer would not provide coverage for existing medical problems.

Many corporate plans do restrict such coverage. A 1993 survey by the U.S. Bureau of Labor Statistics found that 57% of employees working for companies with at least 100 employees were enrolled in indemnity plans with pre-existing medical condition provisions.

The Kassebaum-Kennedy bill would curb, though not entirely eliminate, medical condition exclusions.

Group plans generally would be allowed to exclude coverage for pre-existing conditions for up to 12 months. A pre-existing condition is defined as one that is treated within six months of an individual joining a health care plan.

However, the 12-month period in which pre-existing medical conditions were excluded would be offset by the amount of time a new employee was covered under previous health plans.

For example, if an individual changing jobs had been covered under a previous group plan for six months, the new employer could not deny coverage for that condition for more than six months.

The bill, though, doesn't make clear how the crediting of prior coverage towards a pre-existing medical condition exclusion period would be affected if an employee let his or her coverage lapse, such as by not electing COBRA coverage after terminating employment.

Some benefit experts say the intent of the legislation is not to offset a pre-existing medical condition exclusion against prior coverage if individuals let coverage lapse for more than 30 days.

In some cases, though, pre-existing medical conditions would have to be covered regardless of the length of time an individual was covered under a previous plan.

No pre-existing medical condition exclusions could be imposed on a child within the child's first 12 months of life. In addition, pre-existing medical condition exclusions would not be allowed for pregnancy.

Employers and insurers would be required—after plan participants no longer are eligible for coverage—to provide a statement to employees indicating the dates when the participants were covered under the plan and the benefits and cost-sharing arrangements that were available to employees.

This statement would enable individuals to prove to their new employers the length of coverage they had from their previous employers.

Other changes in the bill include:

• Employers would have to provide to employees the name of the entity responsible for "financing claims." That provision is aimed at companies that self-fund their plans and only provide the name of the third-party claims administrator on plan booklets.

The current practice may cause employees to believe erroneously that the TPA is the plan's insurer, said Sen. James Jeffords, R-Vt.

• Disabled employees and their dependents would have new rights to COBRA benefits.

Under current law, employees who are disabled at the time they are eligible for COBRA can receive COBRA coverage for 29 months. For the first 18 months of coverage, the employer can charge a premium of up to 102% of the group plan's rate, and for the next 11 months of coverage, the employer can charge a premium of up to 150% of the group rate.

However, employees who become disabled while collecting COBRA benefits currently are not eligible for the additional 11 months of COBRA coverage. The Kassebaum-Kennedy measure would make this additional 11 months of coverage available to employees who become disabled while on COBRA.

In addition, dependents of disabled beneficiaries also would be able to receive COBRA coverage for the additional 11 months. BI

Brokers

Continued from page 3

due to the impact of its Indiana Acordia company consolidations, impending lower contingent commissions due to lower profits on health insurance business, and continued price declines in California workers compensation coverage.

Acordia's gross revenues for the first half increased 43%—the largest among the seven brokers—to $266.2 million from $186.1 million in 1994. Only about 5% of the increase, though, was attributable to internal growth.

As pricing remains competitive, fiduciary investment income is helping to offset some of the effects. Marsh & McLennan Cos. Inc., A&A and Acordia reported increases of 42.9%, 38.7% and 49.4%, respectively, in investment income in the first half.

The rise in interest rates during 1994 continues to help, but the rate decline since November "will likely put downward pressure" on investment income, Mr. Cohen said. It will not "be quite as good in the second half of 1995," he speculates.

Competition among brokers is heating up, especially in the United States, said Mr. Cohen. That makes it difficult to achieve growth and will eventually spur further industry consolidation, he said.

Executives at the publicly traded brokerages agree.

"Competition is heating up, especially on the good business and the casualty lines," said Michael J. Cloherty, vp-finance for Itasca, Ill.-based Arthur J. Gallagher & Co.

"If anything, the market is more competitive," agreed Mr. Brown of Poe & Brown. In particular, rates on the best directors and officers liability business are down 15% to 30%, he said.

Individual results of the publicly held brokers follow:

Marsh & McLennan

Gross revenues for the world's largest broker rose 8.1% to nearly $1.9 billion in the first half of 1995 from about $1.76 billion in 1994. Net income rose 5% to $226.6 million from $215.9 million.

Improved short-term interest rates helped boost first-half investment income 42.9% to $50.3 million from $35.2 million in 1994.

The soft property/casualty insurance market continued to hamper retail brokerage revenues, which increased a modest 3.7% over the first six months to $1.03 billion from $993 million in first-half 1994.

However, some bright spots in insurance services include new business development in global aviation and strong international business, said J. Michael Bischoff, vp-corporate development for the New York-based broker.

M&M's results also were influenced by strong performances in its investment management and consulting units, added Mr. Bischoff.

Revenues from The Putnam Cos., M&M's Boston-based investment management subsidiary, rose 13.3% during the first six months of this year to $345.2 million from $304.8 million in 1994. Likewise, consulting revenues, including those from benefit consulting unit William M. Mercer Cos. Inc., rose 13.8% to $515.5 million from $452.9 million in 1994.

Rollins Hudig Hall

Gross revenues at Rollins Hudig Hall Group Inc. increased 21.1% in the first half to $848.9 million from $701.1 million in 1994. Pretax profits rose 24% to $123.8 million from $99.8 million in 1994.

"We feel very good about the first six months," commented Patrick G. Ryan, chairman and CEO of the Chicago-based broker.

Mr. Ryan attributes the growth to strong international business and to an interdependent philosophy among RHH's five units.

Broken down by segment, retail brokerage revenues increased 13.9% to $236.4 million from $207.6 million. Reinsurance and wholesale brokerage revenues rose 25.9% to $111.4 million from $88.5 million and consulting revenues increased 23% to $64.8 million from $52.7 million in first-half 1994.

Late last month, Michael D. O'Halleran, chairman of Aon Risk Services Inc., took on the additional post of president of RHH Group, succeeding Mr. Ryan, who remains chairman and CEO.

Alexander & Alexander

Revenues at A&A, the world's fourth-largest broker, remained essentially flat during the first six month of the year, declining less than 1% to $652.3 million from $658.1 million in the comparable period of 1994. Conversely, A&A reported a profit of $64.4 million in the first half of 1995, compared with a $6.6 million loss the previous year.

However, excluding revenues from operations sold earlier this year—namely the sale of its third-party administration unit and its personal lines business—gross revenues increased 7.3%, said Alan Kershaw, vp and treasurer.

In addition to new business growth in its U.S. retail operations and a 12.5% growth in revenue for its wholesale and reinsurance brokerage operations, A&A's expenses were down 10.5% to $571.4 million from $638.3 million. A&A also received a boost from improved fiduciary investment income, which rose 38.7% to $32.6 million from $23.5 million last year.

Increasing competition among brokers makes it difficult to achieve growth and eventually will spur further consolidation, says Jay Cohen of Salomon Bros.

Revenues from A&A's consulting unit, The Alexander Consulting Group Inc., declined slightly to $104.4 million from $104.7 million in 1994, a change Mr. Kershaw attributes to a 10% cut in workforce and a change in accounting practices.

Acordia

Gross revenues rose 43% to $266.2 million from $186.1 million reported in first-half 1994. Net income increased 4.7% to $13.3 million from $12.7 million.

About 12% of the revenue increase is attributable to the January acquisition of Bain Hogg Robinson Inc., said Robert S. Schneider, senior vp and controller.

An additional 20% of the growth came from marketing and administering Southeastern Group Inc.'s two health maintenance organizations and indemnity health plan business, which Acordia took on during the second half of 1994.

Internal growth of only about 5% was slightly below expectations, Mr. Schneider said.

Growth in the top and bottom line was impeded in part following the consolidation of six Acordia companies in Indiana into three (*BI*, July 17), which "took a toll in new business sales," especially during the January health care renewal period, explained Mr. Schneider.

"We did not anticipate the magnitude of the impact (from the consolidation), but strategically, we think it was the right thing to do," added Thomas E. Vanneman, vp and treasurer, who described Acordia's first six months in 1995 as "a transition period." The consolidation is complete and the companies are focusing efforts on new business.

In addition, Acordia's expenses were up 48% in the first six months to $242 million from $163.5 million in 1994. Mr. Schneider said expenses rose in part due to an increase in medical claim frequency, which affected its claims administration business.

Last month, Acordia announced plans to acquire three new companies: The Moore-Peterson Co. Inc., a Youngstown, Ohio-based property/casualty brokerage with nearly $5 million in annualized revenues; AdminaStar Solutions Inc., a managed care administrator that is based in Indianapolis and which has about $8 million in revenues; and The Rudy E. Facciani Co. Insurance Marketing Inc., a managing general agency and claims administrator which is based in Fresno, Calif., and which has about $7 million in revenues.

Arthur J. Gallagher

Revenues for the Itasca, Ill.-based broker increased 11.5% to $182.8 million during the first half of 1995 from $163.9 million in 1994. Profits also improved, increasing 22.4% to $12 million in first-half 1995.

There was "no magic" to the first-half success, Mr. Cloherty said. Instead, Gallagher continues to focus on client retention, strong new business and expense controls.

Revenues from fees and commissions rose 10% during the first half of 1995. Likewise, total expenses rose 10.6% to $164.2 million from $148.5 million in 1994.

Also during the second quarter, Gallagher entered new territory by acquiring Minneapolis-based BHK&R Inc., a property/casualty broker with 45 employees.

Mr. Cloherty added that Gallagher's newly formed alternative risk financing units—Gallagher Captive Services and London-based Risk Management Partners Ltd.—contributed to the broker's results, albeit only slightly.

Hilb, Rogal & Hamilton

First-half revenues for the Glen Allen, Va.-based broker increased a modest 2% in 1995 to $76 million from $74.5 in 1994. Net income rose 7.9% to $8.2 million from $7.6 million in 1994.

Chairman and CEO Robert H. Hilb said results so far in 1995 are "right on budget" and "very acceptable."

During the second quarter, HRH sold substantially all of the operating assets of its Greer. Bay, Wis., office to Vincent, Urban, Walker & Associates. Terms of the deal were not disclosed.

Terms also were not disclosed in the two mergers and two acquisitions HRH completed in the second quarter. HRH Co. of Denver merged with Reichart-Silversmith Life Inc.; and HRH Insurance Services of Northern California Inc. merged with San Francisco-based R.E. Lipman Insurance Brokers Inc. The combined San Francisco office additionally acquired substantially all of the operating assets of Lund Associates Insurance Services. HRH also acquired substantially all of the operating assets of Jack Spence & Associates Inc., which will operate in conjunction with HRH Co. of Houston.

Poe & Brown

Gross revenues at the Tampa, Fla.-based broker increased 2.1% in the first half of 1995 to $53 million from $51.9 million in 1994. Net income also rose, by 6%, to $7.1 million from $6.7 million.

"We're very pleased and we're right on plan," commented Mr. Brown. New business sales are running 25% higher than last year.

At the same time, total expenses for the first six months were up a marginal 2.7% to $42.2 million from $41.1 million in first-half 1994.

Last month, Poe & Brown of Pennsylvania Inc. merged with Robert Scott Gordon Insurance Agency, a Newtown Square, Pa.-based full-service agency. Additionally, MacDuff Pinellas Underwriters Inc., a wholly owned subsidiary of Poe & Brown, merged with Roehrig, Flood & Associates Inc., an excess and surplus lines insurance broker and wholesaler which is based in St. Petersburg, Fla. BI

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Asbestos

Continued from page 2

ance industry observers in 1993.

The agreement, approved July 28 by U.S. District Judge Robert M. Parker, ultimately calls for all of Fibreboard's asbestos personal injury liabilities to be paid off with about $3 billion from CNA and Chubb.

The settlement involves a court-supervised trust, which will receive $1.54 billion to respond to about 200,000 claims filed after Aug. 27, 1993, the date CNA and Chubb pledged to back Fibreboard. CNA and Chubb will finance all but $10 million of that trust, with CNA responsible for about two thirds.

In addition, CNA and Chubb will honor all settlements reached prior to August 1993 and will pay all claims that were filed prior to August 1993, but have not yet been settled.

That amount, according to studies, is approximately $1.5 billion to $1.7 billion, with Chubb not responsible for more than $635 million of pending claims.

While the deal itself has been in the works for years, the backup fund represents a new twist.

Lawyers at Ness, Motley, Loadholt, Richardson & Poole in Charleston, S.C., which represent claimants in the mandatory, no opt-out settlement, insisted that there be a mechanism that would compensate claimants with a similar amount of money should the settlement fail.

If approved, the trust will pay claims on a first-come, first-served basis. However, those claimants with the most serious ailments will receive priority.

ASK A BENEFIT ACTUARY

PBGC regulations require plan participant notice

Q **What is the new PBGC participant notice requirement?**

A A client called recently inquiring about the new PBGC participant notice requirement and whether their plans would be affected by it. A new participant notice requirement was added to ERISA by the General Agreement on Tariffs & Trade, and the PBGC issued regulations implementing the notice requirement in late June. It seems that the PBGC (which originated most of the pension provisions in the GATT legislation) is seeking to embarrass sponsors of underfunded pension plans into funding them. The overly complex changes to the minimum funding rules made by GATT apparently aren't enough.

The intent of the notice provisions is to provide more information to pension plan participants and to encourage employers to improve their plans' funding.

The PBGC's intent is seen in some of the items that are required to be in the notice to participants. Among the items that Congress required by law are:

- The funded percentage. This is the ratio of plan assets to current liability and typically will be less than 100% for plans issuing this notice. (The current liability is a measure of the value of benefits earned to date.) One favorable provision for plan sponsors is they can choose to show either the funded percentage for the current plan year or for the prior plan year, offering the sponsor an opportunity to put the plan in the best light.
- An indication that the employer, by law, must pay all pension benefits, but benefits may be at risk if the employer faces a severe financial crisis or is in bankruptcy.
- An explanation that if a plan terminates before all benefits are fully funded, the PBGC pays most people all pension benefits, but some people may lose certain benefits that are not guaranteed.
- Identification of any late minimum funding contribution and the date it was actually paid.
- Identification of any quarterly contribution that was more than 60 days late and the date it was paid.

In general, a plan is subject to this notice requirement for a plan year if the plan paid a PBGC variable rate premium for the plan year, and the plan had its minimum funding requirement based on the deficit reduction contribution for the current plan year or the prior plan year. (The deficit reduction contribution is a part of the calculation of a plan's minimum funding requirement and is intended to accelerate the funding of underfunded pension plans.) A plan may have a deficit reduction contribution if the plan's assets are less than 80% to 90% of current liability.

Plan sponsors should note that if they are subject to the deficit reduction contribution in a plan year, they most likely will have to issue this participant notice for both the current plan year and the next plan year. There are some exceptions to this general rule for small pension plans and some special rules for determining whether a plan was subject to the deficit reduction contribution for the 1994 plan year.

If a plan is subject to this notice requirement for a plan year, the notice must be sent to all plan participants, including current employees, terminated employees with a vested benefit, retirees, beneficiaries of a deceased participant and alternate payees under a Qualified Domestic Relation Order.

The plan administrator is to determine who is a participant on a particular date that occurs during the period beginning on the last day of the previous plan year and ends on the day when the notice for the plan year is due. Alternatively, the plan administrator can send the notice to a union that represents a group of participants for collective bargaining purposes.

The notice for a particular plan year must be sent no later than two months following the due date, including extensions, for the plan's Form 5500 for the prior plan year. For a plan with a calendar plan year and which extends the due date of the 1994 Form 5500 to Oct. 15, 1994, the participant notice would not need to be issued until Dec. 15, 1995.

If the plan administrator failed to issue the notice within the specific time limits or omits material information, the PBGC may assess a penalty of up to $1,000 per day for each day that the failure continues.

The rules contained in the new PBGC regulation are effective for plan years beginning on or after Jan. 1, 1995. BI

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

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



Mr. Miner

This month's column on actuarial issues in the benefits field is written by William J. Miner, an actuary with Watson Wyatt Worldwide in Chicago. Richard E. Sherman, president of Richard E. Sherman & Associates Inc. in Ashland, Ore., answers actuarial questions in the casualty field. Susan M. Werner, director of risk management at Hardee's Food Systems Inc. in Rocky Mount, N.C., answers risk management questions. Dennis J. Nirtaut, managing director of compensation and benefits for Arthur Andersen & Co. S.C. in Chicago, answers questions on employee benefit plans.

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

Approaching the problem of workplace violence

"Violence at Work: How to Make Your Company Safer for Employees & Customers"
By Joseph A. Kinney
Published by Prentice Hall, Englewood Cliffs, N.J., 07632; 800-288-4745
$24.95

By Mark A. Hofmann

Books & Ideas

The numbers speak for those who can't: In 1993 alone, there were 1,063 homicides in U.S. workplaces. The businesses ranged from one-person operations to corporate giants.

How can an employer deal with this exposure?

Joseph A. Kinney, executive director of the National Safe Workplace Institute, provides more than a few valuable answers in his new book, "Violence at Work: How to Make Your Company Safer for Employees & Customers."

After examining the causes of surging workplace violence—causes that include changes in employment security, increased job stress and the emergence of "sick workplaces"—Mr. Kinney lists a variety of approaches to the problem. For example, he offers a six-point "model for identifying and curbing workplace violence." The points are: identifying vulnerabilities; developing early intervention systems; preparing a threat protocol; establishing a method for assessing threats; organizing to manage complex threats; and developing feedback mechanisms to assess performance.

Mr. Kinney then explains how these techniques work, such as spelling out a series of early intervention mechanisms, which can be used for identifying workplace violence, ranging from job applicant selection to paper-and-pencil behavioral observation programs.

He also dwells on the need for establishing teams to deal with threats. According to Mr. Kinney, such a team should be centered on a coordinator who takes information on threats, investigates them and ultimately determines when to convene the team. Other members should come from both inside and outside the organization and should include a safety and health specialist, a security officer and an attorney, among others.

Turning to another aspect of management, Mr. Kinney gives advice on what supervisors should do in the effort to prevent violence. Being consistent in the employers' treatment of employees tops the list, followed by: intervening immediately when threats occur; reporting threats to management; knowing what options are available; and realizing that some employees "will test boundaries."

On the other hand, Mr. Kinney holds that supervisors: should not psychoanalyze employees; should not meet with dangerous employees alone; and should not make threats of their own, such as, "You'll go to jail if you don't cooperate."

Of course, no corporation exists in a legal vacuum. The book outlines the legal issues facing employers as they attempt to prevent workplace violence.

Although Mr. Kinney warns "this chapter is not a substitute for legal analysis and interpretation," he raises many of the serious issues that are confronting employers in an ever-changing employment landscape, a landscape that is fraught with legal land mines.

Readers of this book may disagree with some of Mr. Kinney's conclusions, such as his deduction that the Occupational Safety and Health Administration must regulate security in the retail convenience industry—such as gas stations, fast food outlets and convenience stores—because of the nature of that industry's violence exposure. But it should be hard for anyone to disagree with Mr. Kinney's assessment that because people are any organization's most valuable asset, "companies cannot enhance the value of that asset if people feel threatened, abused or frightened.

"Violence prevention ultimately can be thought of as an insurance policy that most organizations cannot afford to be without, one designed to protect this most important resource. If current trends hold, this will be even more true in the future." BI



Mark A. Hofmann is an associate editor in the Washington bureau of Business Insurance. *He covers property/casualty insurance, Washington political and legislative action and product liability reform.*

Captives

Continued from page 3

In a 1991 ruling, the U.S. Tax Court allowed Sears Roebuck & Co. to take deductions for premiums it paid to its Allstate Insurance Co. unit. Some 99.75% of Allstate's business was unrelated to Sears.

And, in a ruling released at the same time, the Tax Court allowed Harper Group to take a deduction for premiums paid to its Hong Kong captive, Rampart Insurance Co. Ltd. Only 30% of Rampart's business was unrelated to its owner (*BI*, Feb. 4, 1991).

Today much attention is focused on that 30% threshold.

"There's nothing magical about Harper," said Mr. Koritzinsky. "But that's what Harper happened to be. In fact, there's a footnote in that case that suggests that the magic number might be some number greater than 0% and less than 30%."

It's not just captive owners that may realize direct tax benefits in captive arrangements.

A 1989, a 6th U.S. Circuit Court of Appeals ruling involving Humana Inc. established the principle that subsidiaries of a company are allowed to deduct premiums paid to their parent's captive (*BI*, Aug. 7, 1989).

Extending that principle, the Tax Court ruled in 1993 in a case involving Malone & Hyde Inc. that unaffiliated companies that paid premiums to a thinly capitalized offshore insurer owned by their parent still were entitled to the deduction (*BI*, April 18, 1994).

Besides generating tax deductions, there is one other reason to use a captive to write third-party business: to make a profit.

Typically, profit-making third-party programs are designed by captive owners. They decide what coverage to offer, what prices to charge, and what services to offer. Most work with a fronting company, then reinsure a piece of the risks and buy reinsurance to cover the rest, Mr. Koritzinsky explained.

To decide what coverage to write, he suggested captive owners look for opportunities within their companies and with outside clients. For example:

• Retailers may consider writing credit life insurance.

"Why do I focus on credit life? Because credit life is where the money is. If you read your junk mail, at least once a month there's a solicitation. Why is it sold so aggressively? Because it's so profitable," Mr. Koritzinsky pointed out.

• Credit card enhancement coverages.

"You may be able to sell CDW (collision damage waiver) coverage or AD&D (accidental death and disability)," he said.

• Mainframe and minicomputer companies can sell disaster recovery programs as insurance instead of offering their clients a service contract.

• Retailers can turn extended warranties and service contracts into insurance.

"Look for opportunities to turn service contracts into insurance. But make sure you don't incur additional costs or that they don't turn into first-party contracts" by indemnifying the manufacturer rather than the consumer, Mr. Koritzinsky said.

• Cellular telephone companies can sell coverage guaranteeing service.

"This is usually underwritten by insurers with the cellular phone companies getting a commission," Mr. Koritzinsky pointed out.

When the employee benefits issue is sorted out, almost every major captive owner will run their employee benefit business through their captive, says Arthur Koritzinsky.

• It may be worthwhile to sponsor an insurance program for component manufacturers since many manufacturers today are nothing more than assemblers.

"This can reduce their cost to you," he said.

• Large multinational companies may consider using their captives to underwrite joint venture insurance programs.

"If you're responsible for providing risk management for the entire entity, there may be opportunities to bring in these joint venture parties," Mr. Koritzinsky observed.

• Hospitals can use their captives to write medical malpractice coverages for the doctors who practice there.

"This encourages them to bring more patients to that hospital," he said.

• Group captives can insure the employee benefit risks of co-owners.

Captive owners, though, could only insure benefit programs through a captive that has a significant volume of independent or outside business. The Labor Department has long taken the position that 50% unrelated business was the relevant threshold for a captive to write benefits in order to ensure that the benefit plans would get arm's length transaction terms from the captive. The department reinforced that position in a 1994 opinion involving CSX Corp. (*BI*, April 4, 1994).

But "when the employee benefits issue is sorted out, I think we're going to see almost every major captive owner running their employee benefit business through their captive," said Mr. Koritzinsky, because "it's a no-brainer way of getting unrelated business." BI

Preparing for future contingencies

Risk financing demands holistic view: Beer

By JOANNE WOJCIK

VAIL, Colo.—Risk managers of the future will need to take a more "holistic" approach to risk financing, predicts an expert on the alternative market.

Besides handling their immediate exposures, risk managers also will need to be aware of the impact that environmental issues, natural catastrophes, health care delivery and the capital markets collectively will have on their future risk financing decisions, according to Al Beer, senior vp at American Re-Insurance Co. of Princeton, N.J.

For example, risk managers at companies that cover their workers compensation exposures through a captive will need to become more familiar with the health care delivery system, while those at companies that self-insure their property exposures will need to be aware of the impact of natural catastrophes on their workers comp and other liability programs, Mr. Beer said.

And while environmental issues may seem to be an old theme, both insurers and policyholders still have significant pollution exposures, Mr. Beer told captive insurance company owners and service providers last month at the annual Colorado Assn. of Captive Entities conference in Vail, Colo.

Environmental cleanups probably will have the most significant impact on future risk financing decisions, according to Mr. Beer.

In addition to dealing with current cleanup orders, many companies soon could face application of retroactive liability for sites not yet on the Superfund priority list if the Environmental Protection Agency is given broader enforcement powers, he said.

The Washington-based American Insurance Assn. estimates it will take $250 billion to clean up the 37,000 sites on the EPA's priority list, but the current surplus of the insurance industry is only $190 billion, Mr. Beer pointed out.

"Even though this will be paid out over 30 years, even if you cut it in half, it's a major amount. And this doesn't include state costs or non-Superfund pollution liabilities, such as asbestos and lead paint," he said.

"Today, most people are not terribly concerned about asbestos," he observed. "Although we may have gotten over the hump relative to the asbestos problem, what's the next asbestos issue? Is it EMF (electromagnetic fields)? Is it lead paint? Carpal tunnel syndrome? We have to anticipate the next environmental/mass tort issue," he said.

"The industry needs to recognize that there are prospective issues that will come up. It's naive to think that there will not be another asbestos," he added. "And your risk financing partners need to understand that."

Natural catastrophes also will play a significant role in how risks are financed in the future, Mr. Beer predicts.

"What's interesting is the size of the catastrophes that have occurred," he pointed out.

"Since the October 1989 Loma Prieta quake, which resulted in nearly $1 billion in insured losses, there have been six other catastrophes with more than $1 billion in insured damages," he noted.

Topping the list is Hurricane Andrew, which in 1992 caused an estimated $16.5 billion in insured damage, followed by: the 1994 Northridge, Calif., earthquake, $12.5 billion; Hurricane Hugo in 1989, $4.2 billion; the March 1993 blizzards, $1.8 billion; the 1991 Oakland Hills fires, $1.7 billion; Hurricane Iniki in 1992, $1.6 billion; and Loma Prieta, $960 million.

Indeed, the nine most costly insured U.S. catastrophes have been natural disasters over the past six years, according to the Property Claim Services division of the American Insurance Services Group Inc.

"Why has the severity of these losses increased so much since 1989?" Mr. Beer asked. Because of demographic shifts in recent years, he explained, noting that 50% of the U.S. population currently lives within 50 miles of a coastline.

This increased population density also has resulted in significant commercial development near the coasts, he said.

"An Andrew 40 years ago would have had nowhere near the impact that it did in 1992," he added.

And with insurers for the first time interested in truly underwriting catastrophe risks—and charging an appropriate price for that risk—many commercial risks with sizable exposures will be forced to turn to the alternative market for coverage, Mr. Beer predicted.

"Some companies today are saying they've got to get into the casualty business because the property market is 'too volatile,'" he quipped.

As a result, Mr. Beer predicted that industry consolidation will continue.

Changes in the health care delivery system that have been occurring despite President Clinton's failure to reform the nation's delivery system also will affect future risk financing decisions, Mr. Beer said.

"Health care affects many lines of business," he pointed out. For example, 20% to 25% of the losses that run through a property/casualty risk funding program go through the health care delivery system, Mr. Beer estimated.

"Clinton was more of a barometer than a catalyst" for health reform, he commented.

And the reforms in the health care market now are affecting the cost of health care delivered under property/casualty systems.

"As human resources people have implemented managed care, costs have increased on the work comp side," Mr. Beer said.

And while the concept of "24-hour coverage"—single programs that cover injuries and illnesses whether or not they are work-related—is being bandied about, it is unlikely to be the universal solution, Mr. Beer said.

The answer, instead, will be provider assumption of risk through capitation, he predicts.

But he warned against using a benefits-driven managed care system on workers compensation.

"The presumption that you can superimpose benefits-driven managed care program on workers compensation is erroneous," he said. "It will increase lost time."

"Make sure your providers understand the concept of light duty," he suggested, because in workers comp, it's not just the medical side where costs can be controlled, but also the indemnity side.

The capital markets will influence future corporate risk financing decisions because the insurance industry doesn't have enough capital, according to Mr. Beer. "The risk in today's society is much greater than it ever was."

Instead of industry capital, "there may be some form of global pooling," he suggested, since it's unlikely that a catastrophe will hit more than one country at a time.

Other risk financing sources likely will include futures and options trading, which the Chicago Board of Trade already conducts.

Unfortunately, "there's not too many players outside insurance industry" that are interested, he said.

"It's all predicated on the issue of whether people understand the risk they're assuming." BI

CACE members vote to hold meeting annually

VAIL, Colo.—Seventy captive insurance industry enthusiasts attended the fifth annual Colorado Assn. of Captive Entities conference at the prestigious Sonnenalp Resort in the picturesque Rocky Mountain town of Vail, Colo.

After a survey conducted by CACE President Don Pasmore found that 74% of registrants preferred an annual meeting, the organization decided to schedule the event again next year. It likely will be at the same location, he said.

For information about the event or CACE, contact Conference Chairman Michael Murphy at RiskCap, 1571 Race St., Denver, Colo. 80206; 303-388-5585.

Wal-Mart to appeal verdict in sexual harassment suit

JEFFERSON CITY, Mo.—A federal district court jury awarded more than $50 million in punitive and compensatory damages to a former Wal-Mart Stores Inc. employee who sued the Bentonville, Ark.-based retailer in a sexual harassment case.

Wal-Mart Stores will appeal the June 28 verdict, in which the jury for the U.S. District Court in Jefferson City, Mo., also awarded $35,000 in damages for humiliation and mental anguish, and $1 for lost wages to Peggy Kimzey, of Warsaw, Mo.

"The evidence does not support a finding of sexual harassment. In addition, we are shocked at the damages awarded. We will vigorously appeal," Wal-Mart Stores said in a statement.

The sexual harassment suit stems from Ms. Kimzey's allegations that a supervisor used abusive language and made comments about female anatomy, and that she was unable to get her employer to do anything about her situation, said Ronald R. McMillin, of Jefferson City law firm Carson & Coil P.C., who represented Ms. Kimzey.

"(Ms. Kimzey's) satisfaction came by the jury listening to her and hearing them say Wal-Mart was wrong," said Mr. McMillin. He added that he hoped the punitive damages awarded to Ms. Kimzey in the suit were large enough to have an impact on Wal-Mart Stores.

A Wal-Mart Stores spokesman would not comment on whether any insurance coverage is available.

—By Christine Woolsey

INTERNATIONAL

London brokers may see more consolidation

Steel Burrill Jones in merger talks but declines to name potential suitor

By MARIA KIELMAS

LONDON—Steel Burrill Jones Group P.L.C. is in preliminary talks with an unidentified suitor.

Finance Director Christopher Burrill said that the talks may or may not lead to an actual offer for the London-based brokerage.

Observers speculate that the bidder is a larger London or European broker, rather than a U.S. broker looking to expand into the London market, said Tony Silverman, insurance analyst at NatWest Securities Ltd. in London.

Expecting a consolidation among U.K. brokerages, he and other analysts said a bid for Steel Burrill Jones would come as no surprise.

Press reports have centered on Alexander Howden Group Ltd., a unit of New York-based Alexander & Alexander Services Inc., as the potential bidder.

Neither Howden nor A&A would say whether they were in talks to buy Steel Burrill Jones.

Frank G. Zarb, chairman, president and chief executive officer of A&A previously has said that the brokerage is in acquisition mode.

"The fact is we're talking with a number of companies," an A&A spokesman said.

Only when discussions on any deal become serious will the broker comment further. "We don't discuss market rumors," the spokesman said.

Market speculation also suggested London brokerage Lowndes Lambert Group Holdings P.L.C. as a possible bidder.

But Lowndes Lambert Managing Director David Margrett said his company is not involved in the bidding for Steel Burrill Jones, though Lowndes Lambert remains interested in growth through acquisition.

Steel Burrill Jones' share price rose from 85 pence to 96 pence on rumors of a bid, climbing to 110 pence on July 31, when the company confirmed that talks were under way. However, the price still is languishing, down from a 1992 level of 340 pence, before a slump in the London marine market and several acquisi-

See SBJ deal on next page

Iraqi, Kuwaiti airlines at war over liability for seized jets

U.K. court says Iraqi Airways can be held liable for planes

By SARAH GODDARD

LONDON—Iraqi Airways Co. may yet have to reimburse Kuwait Airways Corp. for the seizure of 10 aircraft during the Gulf War, following a landmark decision in the House of Lords.

Just days before the fifth anniversary of the Iraqi invasion of Kuwait, the highest court in England and Wales overturned the Court of Appeal's 1993 decision that Iraqi Airways was immune from prosecution because its actions were closely associated with Iraq's invasion of Kuwait. The U.K. courts are hearing the case because Kuwait's writ was originally filed against Iraqi Air offices in London.

After Sept. 17, 1990, when the Revolutionary Command Council of Iraq passed Resolution 369 dissolving Kuwait Airways and transferring its assets to Iraqi Airways, Iraqi Airways was not acting in conjunction with the state of Iraq and therefore was not entitled to sovereign immunity, said the House of Lords.

Once that resolution was passed, Iraqi Airways changed its attitude toward the planes and took responsibility for them, the House of Lords found.

"Until then. . .it had made no use of the K.A.C. aircraft. Thereafter, however, I.A.C. treated the aircraft as its own, incorporating them into its fleet and making such use of them as it could in the prevailing circumstances, although such use was very limited because of the almost complete cessation of international flights to and from Iraq," said Lord Goff of Chieveley in the published judgment of the Lords of Appeal.

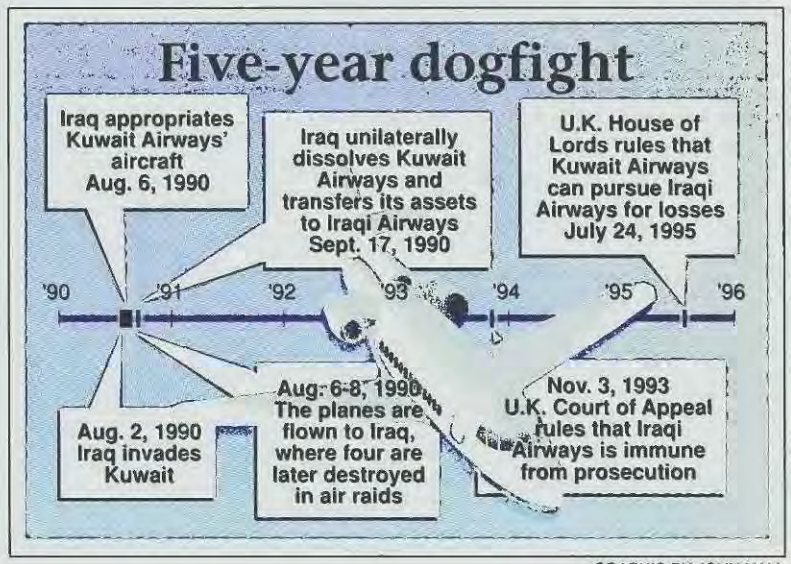
The House of Lords' decision allows Kuwait Airways to pursue Iraqi Airways for compensation for the loss of use and spare parts claims in commercial court.

According to Christopher Gooding, a partner at London law firm Clyde & Co., who represented Kuwait Airways, the case should be heard in the commercial court next year.

Mr. Gooding said the case sets an international precedent.

"Internationally, no one has ever won such a landmark point," he said. The action is meant to deny I.A.C. any access to international airways until Kuwait Airways has been compensated for its

See Kuwait on next page



GRAPHIC BY JOHN HALL

Uniform regulation not in big demand

Little gain seen in common insurance rules

By RODD ZOLKOS

CHICAGO—There may be some good reasons for harmonizing the way countries regulate international insurers, but overall that sort of consistency seems unwarranted.

What's more, the impetus for harmonization should come from market demands rather than from government regulators, said panelists discussing regulation of international insurers at a conference last month sponsored by the American Enterprise Institute for Public Policy Research and the Federal Reserve Bank of Chicago.

"Regulatory harmonization is an idea, in my judgment, whose time has not yet arrived," said Harold D. Skipper Jr., holder of the C.V. Starr Chair of International Insurance at Georgia State University in Atlanta.

Brant Free, director of international external affairs for the Chubb Corp. in Warren, N.J., said he doesn't think broadly written regulatory harmonization is possible or desirable. Regulatory reform, however, should be pursued in many countries, he said, citing Asian countries as an example of markets needing more liberal regulations.

"What we need is the ability to introduce a new product and to compete on the basis of price," Mr. Free said. "Unfortunately, in many places in the world you can't do that.

"If you can't. . .compete on the basis of price and product, you're never going to have market share," he said. "Simply getting into the market is not good enough."

Harmonization of different countries' regulations may be justified where regulatory diversity impedes liberalization or where it can reduce transaction costs, Mr. Skipper said.

Regulatory consistency could prevent situations in which foreign insurers can avoid regulations designed to protect consumers against unfair marketing practices and products, he said. It could also help avoid a regulatory "race to the bottom" among jurisdictions, as insurers locate in or move to locations with less intrusive and less costly regulations.

Regulatory harmonization might also avert problems in cross-border insurer insolvencies, in which the policyholder and insurer are in different jurisdictions.

Mr. Skipper noted that there are no internationally accepted rules for

See Regulation on page 19

British invasion

Foreign insurers are coming to dominate London market

By SARAH GODDARD

LONDON—Foreign insurers are increasingly dominating the London insurance market.

More than half of the marine, aviation and transport insurance and reinsurance gross premiums written in the London company market are controlled by foreign-owned insurers, says a new report by the Assn. of British Insurers, the Institute of London Underwriters and the London Insurance and Reinsurance Market Assn.

And insurers with foreign backers write 28% of the total of all insurance coverage written in the London insurance market—including Lloyd's of London, where foreign capital has been coming in through corporate vehicles.

Of the 467 insurers authorized to transact new general insurance business in Britain at the end of 1993, 227 were foreign or foreign-owned.

But London remains the world's leading international insurance and reinsurance market. Although trade restrictions have reduced the volume of direct business placed across national borders in recent years, 40% of the world's marine, aviation and transport business was placed in London in 1992, the report said.

In 1993, insurance and reinsurance of overseas policyholders accounted for almost one half of the U.K. industry's premium volume. Only Swiss insurers generate a greater portion of their business from abroad.

Premium volumes for international reinsurance for all classes of non-life business have grown at a slower rate for the London market than the average for the rest of the world. One of the contributing factors is the size of U.K. insurers, the report asserted. "Though Lloyd's 1993 net premium income placed it fourth among the world's largest reinsurance groups, Britain's largest reinsurance company ranked only 11th among the specialist reinsurance groups," the report said.

What's more, the second-largest British-owned company ranked 86th, behind several London units of foreign companies, the report said.

The emergence of tax havens like Bermuda, Guernsey and Ireland has taken business from London insurers.

Also, the emergence of tax havens like Bermuda, Guernsey and Ireland has taken business not just from London insurers, but from American and other European businesses.

"There is an increasing trend toward the formation by developing countries of offshore financial centers, such as in Singapore," warned the report. "The tax havens have attracted not only captive insurance companies, some of which write unrelated reinsurance business, but also new reinsurance companies, many being subsidiaries of major international insurers."

Today, Bermuda-based reinsurers have taken over from U.K. companies as the largest suppliers of reinsurance to American corporations.

On the direct insurance front, though, the newer domiciles do not fare as well. "Between 1987 and 1993, premiums for U.S. primary (i.e., direct) insurance paid annually to Bermuda insurers have averaged just over half of those paid to U.K. insurers, the annual figures ranging from 44% to 59%," the report said.

The single European market created more opportunities than problems for London market insurers, said the report.

By the end of 1993, Lloyd's of London, 105 London market insurance companies and 12 P&I Clubs had been certified by the U.K. Department of Trade and Industry to supply non-life insurance products to other member states of the European Union.

The deregulation of premiums and coverage is bringing the rest of the E.U. into line with the United Kingdom.

The London insurance market had been particularly hurt by the U.K. recession, with approximately 70 companies withdrawing from business between 1989 and 1993. But there are clear signs that the market is now strengthening.

"The process has now been reversed, with several U.K. and foreign-owned companies having en-

See London on page 19

INTERNATIONAL

SBJ deal

Continued from previous page

tions hindered performance.

The broker posted a profit of £13.3 million ($20.1 million) in 1992 but recorded a loss of £500,000 ($739,750) in 1993.

Earnings recovered in 1994 to a profit of £7.5 million ($11.7 million), and are expected to be similar in 1995.

Over that same period, gross revenues, in dollar terms, fell to $75.4 million in 1994 from $97.3 million in 1992.

In 1993, *Business Insurance* ranked SBJ the world's 20th-largest broker.

SBJs' troubles mounted when it bought broker Regis Low Holdings in 1992, an acquisition that resulted in considerable loss of business.

The 1992 acquisition of racing horse broker Nelson Steavenson Bloodstock was more successful, Mr. Silverman said.

•

Sally Roberts contributed to this report.

Kuwait

Continued from previous page

loss of aircraft. Until that compensation is received, any I.A.C. planes that fly internationally would be seized, Mr. Gooding said.

The action was brought jointly by Kuwait Airways and its war risk underwriters, who continue to await the court's decision on a case heard last October and November over coverage for the lost aircraft (*BI*, July 25, 1994).

Stephen Tricks, another partner at Clyde & Co. in London who is representing the insurers and reinsurers of Kuwait Airways aviation war risks, said he hoped that Justice Rix would hand down his decision on the coverage issues before the end of this year.

War risks insurers paid Kuwait Airways $300 million—the policy limit per occurrence per location—at the end of 1990 on the basis that the invasion of Kuwait and the taking of the airport was one occurrence (*BI*, Sept. 24. 1990).

But Kuwait Airways argued that the loss of the aircraft spare parts was due to an act of expropriation rather than a war loss, making each loss a separate occurrence.

Kuwait Airways is seeking an additional $660 million, including $250 million for loss of spares, from its insurers.

The primary insurance coverage is placed in the Kuwaiti local market. It is reinsured internationally, led by former Lloyd's of London underwriter Stephen Merrett. BI

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INTERNATIONAL

Allianz upbeat about progress

By DON LEWIS KIRK

MUNICH, Germany—Allianz A.G. Holding is forecasting an improvement in its underwriting results with very moderate premium growth this year.

Cost reduction measures coupled with "better worldwide services" will make Europe's largest insurer "faster, more flexible, leaner," Allianz Chairman Henning Schulte-Noelle predicted in a speech at the time the results were released.

Citing fewer claims, higher premiums and stricter risk selection, Mr. Schulte-Noelle said the Munich, Germany-based insurer's underwriting results improved to a loss of 348 million DM ($224.6 million) in 1994 from a loss of 1.2 billion DM ($691.1 million) in 1993.

But the insurer's net income slid to 1.34 billion DM ($864.7 million) last year from 1.46 billion DM ($840.8 million) the year before. Two reasons for the decline were that the 1993 figures included some exceptional tax credits and that investment income fell to 2.6 billion DM ($1.67 billion) from 3.2 billion DM ($1.84 billion).

Premium volume was relatively flat at 66.1 billion DM ($42.65 billion) for 1994, up from 65.6 billion DM ($37.78 billion) in 1993.

Forecasts for 1995 are dimmed only by uncertainty over catastrophes, Mr. Schulte-Noelle said. With the U.S. hurricane season under way, any improvement in results could be tempered by claims related to natural catastrophes.

However, Allianz this year does plan to increase several activities, including selling global insurance programs to international corporations.

Since 1990, Allianz has followed a strategy of targeting Fortune 500 companies. In the last four years, it has gained 100 of the 199 companies it targeted and has become a leading insurer for U.S. multinationals.

Mr. Schulte-Noelle also hopes Asian countries will open their markets more to Western companies. A restrictive policy in many fast-growing Asian markets is keeping foreign insurers from assuming risk in key industrial and ecological sectors, he said.

A "partnership with local insurers and local industry" and Western insurers would permit Asian countries to form valuable links with Western industry, said Mr. Schulte-Noelle. The Allianz chairman pinpointed several countries for insurance growth, including Indonesia, Malaysia and Thailand, and in the longer term, China and Vietnam. BI

Canada's CompCorp expands role

By MICHAEL SCHACHNER

TORONTO—The Canadian life and health insurance guaranty fund will play a more active role in dealing with distressed insurers under four bylaws approved recently by its member companies.

Under heavy government pressure, the fund in June approved four specific measures that the federal government proposed in the wake of the 1994 failure of Confederation Life Insurance Co. (*BI*, Nov. 28, 1994).

Once the changes were approved, Doug Peters, Canada's secretary of state of international financial institutions, agreed not to introduce legislation that would have created a federally run policyholder protection board for life and health insurers. Such a board effectively would have rendered Toronto-based CompCorp powerless.

The four bylaws, approved with the votes of about 90% of the guaranty fund's roughly 200 insurer members, would:

• Require CompCorp to become involved in the restructuring of financially troubled companies and in the planning of future operations.

Previously, CompCorp could take no active role in monitoring a company's solvency and did not step in to help companies in distress, either financially or with counseling. The only role the agency had was to provide payment to policyholders once a company was taken over by regulators and placed into liquidation.

Under the new bylaw, CompCorp must "share information, discuss options and negotiate with companies and regulators in order to help insurers avoid liquidation," said a CompCorp spokesman.

CompCorp can now assist insurers in selling distressed books of business before liquidation if necessary, he said, but any involvement by CompCorp still would have to be for the sole purpose of protecting policyholders.

• Increase the fund's assessment powers.

CompCorp now assesses members at a rate of about $100 million Canadian ($73.64 million) per year, and under the bylaw will be able to assess another $70 million Canadian ($51.48 million) per year, if needed. The assessments fund payments to policyholders of failed insurers.

• Increase the fund's ability to borrow.

CompCorp now can borrow as much as $600 million Canadian ($441.84 million) per year from its members, up from $200 million Canadian ($147.28 million), in order to pay back assessments. "The assessments, and thus the borrowed funds, are only for policyholder payments," the CompCorp spokesman said.

• Set up an independent board of directors. CompCorp recently appointed that board, which consists of nine individuals unaffiliated with any life and health insurer.

Mark Daniels, president of the Toronto-based Canadian Life & Health Insurance Assn., of which CompCorp is a division, said the moves were positive for Canadian insurers. "These are extremely important developments and they put the industry in an excellent position to address a whole range of issues in the future." BI

Regulation

Continued from page 17

dealing with cross-border insolvencies of financial service firms, and with the exception of the European Union, there are no multilateral and few bilateral agreements pertaining to such insolvencies.

An additional benefit of regulatory harmonization could come in reducing the costs insurance companies face in doing business in different countries, where differing policy language, financial statement or claim settlement standards increase operational costs and consequently prices.

But, "arguments against harmonization of regulation of insurance also seem strong," Mr. Skipper said. The central argument against harmonization may be that it could stifle competition by hindering regulatory innovation.

"If one country's approach to addressing a particular market failure proves superior to other countries' approaches, other countries have no choice but to adopt the superior approach," he said. "If multiple approaches to addressing the particular problem seem equally effective, the countries may comfortably continue their efforts."

Meanwhile, the pro-harmonization argument of a regulatory "race to the bottom" can be countered by the fact that "insurers and especially reinsurers have natural motivations to locate in strong regulatory jurisdictions," Mr. Skipper said. "Insurers sell security."

One major problem with government-driven rather than market-driven regulatory harmonization is that governments may harmonize the wrong elements or harmonize at the wrong levels, Mr. Skipper said.

And, even if governments "got it right" in harmonizing their insurance regulations, there's no guarantee such consistency would increase efficiency. Simply harmonizing various governments' insurance regulations doesn't ensure that all those jurisdictions will enforce or interpret them the same way.

"The right way to get out of this box that I think we are in is to get back to basics," said Zvi Bodie, professor of finance at the Boston University School of Management. "These things ought to be market-driven." BI

London

Continued from page 17

tered the market since end-1993, including newly established U.K. subsidiaries of major European and American insurers and reinsurers," stated the report. This is an indicator of the trend toward a smaller number of more highly capitalized companies in London.

Membership in the ILU—the trade association for insurance companies writing marine, aviation and transport business—dropped to 65 at the beginning of this year from a high of 118 in 1990.

However, underwriting activity hasn't fallen at the same rate.

"Only a few of the companies that have withdrawn from the market were of any significant size, while the remaining larger underwriting units have tended to increase the amount of business written," said the report.

Last year, the premium volume of ILU members totaled £2.08 billion ($3.2 billion), compared with £1.68 billion ($3.2 billion) in 1990.

LIRMA, which represents international insurance and reinsurance companies writing primarily nonmarine and reinsurance business in the London market, has seen a similar drop in membership numbers—from a peak of 136 "ordinary" members in 1991 to 97 this year. Earlier this summer, the group announced plans to open its membership to non-U.K. underwriters, possible as soon as later this year (*BI*, July 17).

Net written premiums in 1994 were £2.88 billion ($4.38 billion), compared with £2.39 billion ($4.46 billion) in 1991. BI

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Plumbing litigation nears end

Shell Oil, Hoechst settlement offer wins preliminary approval

UNION CITY, Tenn.—Shell Oil Co. and Hoechst Celanese Corp. may be close to settling class-action litigation related to faulty home plumbing products, after a Tennessee state court judge last week gave preliminary approval to the most recent settlement attempt.

In a quick turn of events, Judge Michael Maloan of the Chancery Court for Obion County, Tenn., approved a minimum $850 million settlement that would be made available to as many as 6 million homeowners who installed polybutylene pipes made from resins supplied by the two chemical companies. The lawsuit was filed June 13 and the class action was certified the same day.

If approved, it would be the largest class-action property damage settlement in U.S. history.

The settlement offer, which will be appealed by homeowners dissatisfied with the proposal, marks the second time in less than a year that Shell and Hoechst have attempted to settle a mountain of property damage claims arising from the leak-prone pipes.

In October 1994, the two companies along with E.I. du Pont de Nemours & Co. Inc. offered to settle a nationwide class action in Texas state court for $750 million. That offer was rejected by a judge who said the Texas state court system was not the proper jurisdiction for such a class-action settlement (*BI*, Feb. 27; Oct. 24, 1994).

DuPont is not a participant in the new settlement offer. The Wilmington, Del.-based chemical maker instead has agreed to settle for $120 million its share of a competing polybutylene pipe class-action suit pending in state court in Alabama (*BI*, June 5). Shell and Hoechst have not offered to settle that case.

Meanwhile, in Tennessee, Shell and Hoechst have agreed to pay at least $750 million for the replumbing of homes that contain polybutylene piping, as well as approximately $75 million for property damage and some $30 million to notify potential claimants. If these funds are inadequate to cover all claimants, the defendant companies can contribute more money to the settlement or they can walk away and face renewed claims.

Shell and Hoechst have not determined how much each company will be responsible for in the settlement. Neither firm would comment on what role insurance proceeds will play.

Both companies remain in litigation with numerous liability insurers.

Hoechst, however, has settled with some of its insurers, including various American International Group Inc. companies, CIGNA Corp. and Aetna Casualty & Surety Co. It also won a judgment in March of this year from the Delaware Supreme Court allowing it to tap excess insurance policies written by London insurers (*BI*, April 10).

—By Michael Schachner

California mulls birth law

SACRAMENTO, Calif.—Health insurers and health maintenance organizations in California would have to offer at least 48 hours of inpatient hospital coverage for the mother and infant following a natural birth and 96 hours after a Caesarean section under legislation introduced in the state Assembly.

The measure, A.B. 1841, introduced by Rep. Liz Figueroa, D-Fremont, is modeled after new laws in Maryland and New Jersey.

In addition, a bill that would set these same minimum coverage periods for all health plans, including those offered by self-funded employers, also has been introduced in the U.S. House and Senate (*BI*, July 10).

The proposals are a backlash against the efforts of health insurers and HMOs to cut back on the length of hospital stays for childbirth.

—By Jerry Geisel

RICO

Continued from page 2

Operators of First Assurance who have been named in the suit include:

- Frontier Administrators Inc., a Scottsdale, Ariz., firm that helped manage First Assurance and managed International Casualty & Surety Co. of New Zealand, a First Assurance successor entity.
- Jesse J. Maynard, the president and owner of First Assurance, who also has served as chairman of Frontier, director of IC&S, and president of Impact III, First Assurance's Enid, Okla.-based manager.
- Samuel B. Love, the president of Frontier.
- Vikash Jain, a director of Frontier and former director of IC&S.
- A. Dean Cheatham, an officer of Frontier.
- The estate of Richard Jones, the deceased former CEO of Frontier.
- Clara J. Jones, the treasurer of Frontier.
- Marvin Lewis, an attorney who handled claims for First Assurance.

In the course of running First Assurance, the suit alleges, the defendants violated the federal Racketeer Influenced and Corrupt Organizations Act; federal mail and wire fraud statutes; and various insurance regulations of California and other states.

Also charged with RICO violations are Paine Webber and Craig Aalseth, an account executive in its San Diego office. The suit claims that they aided, abetted and facilitated the operators of an illegal enterprise.

According to the suit, Paine Webber and Mr. Aalseth took possession of phony securities, held them in a First Assurance claims reserve account, and gave them a value per share that was unsupported by any market price or financial evaluation.

Mr. Aalseth knowingly misrepresented the value of the securities to surplus lines brokers and other insurance producers, accountants performing audits of First Assurance and regulators investigating the legitimacy of the company, the suit charges.

Paine Webber is also charged with negligence in hiring, training and supervision.

The liquidator's suit also alleges negligence and professional malpractice against more than 160 agents and 22 surplus line brokers who sold, marketed or facilitated the illegal placement of the unlicensed insurance.

Among the insurance producers named is Bestland Insurance of Brea, Calif. In a separate action, Bestland's owner, Lawrence D. Kenemore Jr., was indicted earlier this year on charges of fraud, conspiracy and money laundering in connection with a health insurance fraud scheme (*BI*, April 10).

The surplus lines brokers charged with negligence include Warwick Feldman and FTC Management Ltd., both in Los Angeles.

An original IC&S director, Mr. Feldman was also head of Re/International Ltd., a Bermuda-based manager of reinsurance pools that shut down in 1982 after generating tens of millions of dollars in losses for members.

The liquidator's suit charges several law and accounting firms that provided services for First Assurance.

Among them are: Aguilar & Sebastinelli, a San Francisco law firm which has represented several allegedly fraudulent offshore insurers, and Jim Ray and Ray & Associates of Dallas, which audited First Assurance's financial statements.

None of the defendants has yet answered the complaint.

Mr. Love, the Frontier president, said he not aware that the suit had been filed and denied any involvement in the scheme.

"I never was an owner, officer, nor director of First Assurance," he said. His involvement with the company was limited to administration through Frontier Administrators, which has since changed its name to Premier Administrators.

Frontier Administrators helped First Assurance with billing and policy issuance from January 1993 to October 1993, but "did not handle any claims," said Mr. Love. "Everything I knew about them was legitimate."

Paine Webber said it had not been served with the suit and could not comment. Mr. Aalseth no longer works for the company and could not be reached.

Mr. Maynard and Mr. Lewis could not be reached for comment.

According to the suit, the operations of First Assurance remained the same throughout its existence. It charges that the operators:

- Sold insurance with no intent to pay claims and maintained control of the money by regularly diverting premiums to offshore accounts or affiliated entities in the United States.
- Organized a network of insurance producers to market the fraudulent insurance policies.
- Created false financial statements and misrepresented the value of worthless securities.

"Clearly, the insurance was spread by the belief that actual value was behind the insurance policies," said Timothy Cohelan of Cohelan & Khoury in San Diego, one of two lawyers representing the trustee in the First Assurance suit. The other is Robert L. Brace of Hollister & Brace in Santa Barbara, Calif.

The two also worked together in lawsuits against the operators of an alleged national health insurance fraud scheme, in which dozens of insurers, including First Assurance, and their operators allegedly defrauded some 8,000 people who had bought coverage through a union. The suit was ultimately settled by errors and omissions insurers for dozens of agents (*BI*, Oct. 3, 1994).

The operators of First Assurance tried to maintain the premium flow for as long as possible by paying only small claims and claims of people who complained, as well as by changing the names and locality of claims and premium administrators, according to the liquidator's suit.

In addition, the suit alleges, they tried to perpetuate the fraud by transferring premiums and billing invoice rosters to First Assurance's successor entities, including IC&S (*BI*, March 7, 1994).

Californians first became aware of the First Assurance scheme when hundreds of victims of the Los Angeles area riots in 1992 found that their property insurance was worthless.

The California Department of Insurance issued a cease and desist order against First Assurance in April 1993 after finding unacceptable assets in its financial statements (*BI*, Aug. 16, 1993). Its license was suspended by Turks & Caicos regulators in May 1993.

Soon after, Mr. Maynard filed a Chapter 11 bankruptcy petition in U.S. Bankruptcy Court in Oklahoma City. A federal bankruptcy judge appointed Ms. Loyd as trustee of the estate after policyholders argued that, despite the bankruptcy filing, Mr. Maynard was still siphoning money out of the company.

Ms. Loyd estimates the value of First Assurance's miscellaneous assets at $350,000. She expects the claims figure of $25 million to rise, as new claims come in on a daily basis.

"The full impact of this won't be realized for some time," Ms. Loyd said. BI

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Erin

Continued from page 1

Most Florida businesses and residents took the hurricane warnings seriously. Erin drove hundreds inland into shelters and the space shuttle Endeavour into a hangar.

"After Andrew, awareness is very high," said John Fareed, regional manager of Rockwell International in Melbourne, Fla. "Most businesses took precautions."

Rockwell's facilities near Cape Canaveral suffered no damage, so employees and their families became the primary concern, Mr. Fareed said.

About half of Rockwell's employees went home early Thursday when additional heavy rains were predicted.

Erin's erratic path made some hurricane preparations difficult.

It was originally predicted to hit the southern tip of Florida, prompting businesses in Miami to close and batten down the hatches.

But Miami was left untouched, and warnings were later extended about 100 miles north.

The Dade County Aviation Department did not have its own risk manager until after Hurricane Andrew, when Robert Anderson joined as risk management coordinator.

When Erin was scheduled to hit southern Florida, Miami International Airport implemented its disaster plan, according to Mr. Anderson.

The airport was closed for several hours and a construction site had to be secured.

A coordinator conveys the latest weather reports to a hurricane disaster team via electronic mail. As the storm escalates, the maintenance department will secure debris on the property.

'Andrew taught us a lesson,' says Robert Anderson of Dade County Aviation. 'Our preparations were more detailed. We got all airport employees involved.'

At another stage, team members are instructed to pick up automobiles, fill them with gasoline and move them to higher ground.

"Andrew taught us a lesson," Mr. Anderson said. "Our preparations were more detailed. We got all airport employees involved."

After Andrew, a detailed videotape of the airport property was made for insurance purposes, he said. Arrangements were made for shelter, food and supplies for airport staff and stranded travelers at a nearby hotel.

Once in the Gulf, Erin paralleled the panhandle coast for miles before striking land at Pensacola, which had not experienced a direct hurricane hit in nearly 70 years.

More than 175,000 customers of Gulf Power Co. remained without electricity Friday morning.

The Florida panhandle power company suffered "major damage" to substations and transmission lines, said a spokeswoman said, who could not provide additional details.

Mississippi Power Co. in Gulfport activated its disaster plan several days before the storm entered the Gulf, according to a spokesman. The company suffered no major transmission problems as a result of the storm, and in fact was able to send crews to help its sister power company, Gulf Power Co.

Florida Power & Light Co. on Friday was working to restore power to 33,800 central Florida customers. About 250,000 FP&L customers suffered outages immediately after the storm.

The company suffered only minor damage to transmission and distribution lines that likely will fall below the company's deductible, a source said.

Mobile, Ala., Gulfport, Miss., and New Orleans also braced for a possible hit but were untouched by the storm.

A Shell Oil Co. spokeswoman in Houston said that although it had to shut down its offshore operations in the Gulf temporarily Wednesday night and Thursday because of the storm, the offshore facilities were not damaged and production was expected to return to capacity by Saturday. She could not provide details of the oil giant's insurance program that might come into play to cover the brief interruption.

Oil giants Exxon Corp. of Irving, Texas, and Mobil Corp. of Fairfax, Va., White Plains, N.Y.-based Texaco Inc. and Los Angeles-based Unocal Corp. reported that their operations in the Gulf shut down temporarily but sustained no damage as of late last week. Exxon, Mobil and Texaco are self-insured for production losses.

Mississippi sustained very little wind damage, though officials initially had been concerned about possible tornadoes as the storm moved inland. The greatest damage came in two southeastern counties, Wayne and Clarke, which are only lightly populated and contain few businesses. Even that damage was confined largely to downed power lines and fallen trees.

A spokesman for the Mississippi Department of Insurance said the department did not set up any special insurance hot lines or other emergency measures in the aftermath of the storm.

Erin is blamed for two deaths, and five people remained missing at sea days after the storm hit.

Three of the missing are crew members of the Club Royale, a casino ship that sank 90 miles northeast of Cape Canaveral. Seven other crew members were rescued.

The ship had been put out to sea Monday to ride out the storm—a common shipping industry practice.

Erin also sank a 115-foot tugboat pulling a barge off St. Simons Island, about 70 miles east of Brunswick, Ga., in swells up to 30 feet. The U.S. Coast Guard rescued all five crew members in a raft a few miles from the barge.

After slamming Florida's panhandle, Erin moved northwest into lightly populated portions of Mississippi and was again downgraded to a tropical storm.

Erin proved to be a good test of the lessons learned since Hurricane Andrew. The 1992 hurricane ushered in a string of catastrophes—including the World Trade Center bombing, severe winter storms and the Northridge earthquake—that underscored the need for disaster contingency planning.

"We were a heck of a lot more focused," said Jim Presmanes, risk manager for Haverty Furniture Cos. in Atlanta. "We didn't get hit by Andrew, but it got everybody's attention."

Haverty, a furniture retailer, has locations in Fort Pierce, Melbourne and Tampa that came through Erin unscathed. A boarded-up plate glass window shattered at a Pensacola location.

In the days before Erin struck, Mr. Presmanes received preparation tips from Haverty's property insurance company, Waltham, Mass.-based Arkwright Mutual Insurance Co.

"They faxed out hurricane warnings that work hand in hand with our disaster plan," Mr. Presmanes said. "They give you a checklist to prepare and last-minute things you can do.

"In situations of impending disaster, you may tend to forget the details. It's hard to ignore when it's in black and white in front of your face."

Hurricane Erin was the first real-life test of Arkwright's new Nat Cat communication system. The network accesses up-to-date weather information from the Internet. When it detects a severe weather threat to a customer facility, it automatically issues a fax warning to the facility manager, giving tips for mitigating loss.

Among Arkwright's pre-Erin recommendations:

- Get goods off the floor or ship them out of the facility.
- Cover computers, machinery and stock with waterproof tarps.
- Inspect fire protection equipment.
- Fill the fuel tanks of generators, fire pumps and all company-owned vehicles.
- Anchor or relocate anything that might blow away or blow into a facility and cause damage.

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Judy Greenwald, Mark A. Hofmann, Christine Many and Lee Velker contributed to this report.



GRAPHIC BY JOHN HALL

That was then, this is now

How Andrew changed storm coverage

What a difference 1,073 days make.

When Hurricane Andrew struck on Aug. 24, 1992, most Floridians' homeowners insurance came from Allstate, State Farm and Nationwide.

When Hurricane Erin struck on Aug. 2, 1995, three-quarters of a million homeowners in the state were insured by the Florida Property/Casualty Joint Underwriting Authority. The state created the JUA in November 1992, after hurricane-shy insurers did not renew policies, hit residents with mammoth rate increases or pulled out of the market altogether.

Since Hurricane Andrew, the Florida property insurance market has been subjected to numerous decrees and administrative and legislative changes, ranging from a moratorium on non-renewals to a recently signed bill that offers insurers a bounty for taking policyholders out of the JUA.

That "market stabilization bill," signed into law only a few weeks ago, seeks to depopulate the JUA, which does not have sufficient funds to cover claims from a storm as severe as Andrew.

The state fund has about $250 million on hand for immediate claims and expects to complete arrangements on a $1.5 billion line of credit with J.P. Morgan & Co. Inc. later this month. The JUA also is considering purchasing catastrophe reinsurance.

If claims wipe out both the cash and credit, though, homeowners insurers in the state will be assessed for the additional losses.

Florida's hurricane catastrophe fund—another post-Andrew creation—kicks in when losses reach about $3 billion.

That fund has about $640 million in cash and its bond issuance capacity is expected to be up to $4 billion depending on market conditions, said its chief operating officer, Jack Nicholson of the state Board of Administration. Cash on hand is expected to approach $1 billion by year end.

"We should be able to handle an $8 billion storm in residential damages," said Sam Miller, vp of the Florida Insurance Council. About $10 billion of Andrew's $16.5 billion in insured losses was in homeowners claims.

Hurricane Andrew spawned a new industry, too. Eight catastrophe reinsurance companies were formed in Bermuda within a year of the storm, representing more than $4 billion in capital.

—By Sara Marley

For the Record

Insurers challenge Kentucky reforms

COVINGTON, Ky.—Eight health insurers, together with the Health Insurance Assn. of America, are suing the Kentucky Health Policy Board and the Kentucky insurance commissioner seeking relief from the state's new health reform act.

HIAA and the insurers allege the Kentucky Health Care Reform Act, which went into effect July 15, is unconstitutional and would cause irreparable harm, according to the complaint filed earlier this month in the U.S. District Court for the Eastern District of Kentucky in Covington.

Under the act, the health policy board designed four standard health benefit plans that all Kentucky insurers must issue on the next renewal date after July 14. The insurers allege this will cause financial loss, loss of potential profits and loss of opportunity, because they will be forced to not renew all their existing policies. Additionally, they allege policyholders "will be involuntarily without insurance, thrown back into the marketplace and denied their choice of insurance," according to the complaint.

Earlier this month, a judge denied the insurance companies and the HIAA an injunction because nearly all of the of the insurers' policies won't be affected until the Jan. 1, 1996, renewal period.

Prior to that date, a decision will be made on a similar case involving Golden Rule Insurance Co. and the new health act. The outcome of that case is expected to influence the HIAA's case.

The eight health insurers involved are: Time Insurance Co.; State Farm Mutual Automobile Insurance Co.; Pioneer Life Insurance Co.; Fortis Benefits Insurance Co.; Mutual of Omaha Insurance Co.; Continental General Insurance Co.; Mega Life & Health Insurance Co.; and Continental Life & Accident Insurance Co.

Workers comp costs fall under reforms

U.S. manufacturers are saving an average of 4% this year on workers compensation insurance costs under system reforms in most states, a new study says.

Manufacturers' net cost in the 44 states surveyed fell to $5.39 per $100 of payroll as of Jan. 1 from $5.62 a year earlier, according to the fourth annual study by Actuarial & Technical Solutions Inc., a consulting firm in Bohemia, N.Y.

The states with the lowest workers comp insurance costs, in order, are: Virginia, Indiana, South Carolina, Maryland and Iowa. Maryland and Iowa moved into the lowest-cost category this year. States with the highest net insurance costs are: Maine, New York, Louisiana, Rhode Island and Hawaii. Hawaii moved into the highest-cost category this year.

The states with the lowest wage-replacement benefits, which are one of the chief components of workers comp costs, are: South Dakota, North Dakota, Oregon, Arkansas and New Jersey. States with the highest benefits are: Michigan, Nevada, Louisiana, Washington and Rhode Island. BI

New consultant may indicate a trend

By CHRISTINE MANY

NEW YORK—A new risk management consulting firm that will blend new insurance tools with capital markets and banking strategies may be an indication of where risk management is headed.

The New York-based company, called Capital Risk Strategies, which formed about six months ago, focuses on helping clients design and implement strategies to deal with complex financial risks that are difficult to place in the traditional insurance market, said President Andrew Potash, who left his job as president of brokerage Frank Crystal & Co. to form the new consulting firm.

Capital Risk Strategies employs people not typically found at a traditional insurance brokerage, including investment bankers and stockbrokers. In addition, the firm has created strategic alliances with Ernst & Young L.L.P., Salomon Bros. Inc. and other insurers, banks, accounting firms, investment banks and law firms to help Capital Risk clients implement strategies and solutions.

"The combination of people and expertise allows us to solve complex risk management problems by blending new insurance tools with capital markets, bank and tax solutions not historically used in the insurance field," said Mr. Potash. "You need to have access to these smarter, newer thinkers in the insurance industry."

Capital Risk will focus on large potential exposures for companies and government institutions, such as property and environmental risks, product liability, errors and omissions, malpractice, and credit and political risks.

The company plans to use tools such as finite risk insurance, which Mr. Potash says is an "underutilized alternative" to traditional insurance or self-insurance.

"It gives you all the risk transfer and financing benefits of traditional insurance, along with the added flexibility of broad coverage of multiple risks and stable pricing," he said.

Other signs of the convergence of insurance and the capital markets lately include plans by Guy Carpenter & Co. Inc. to offer specialized bonds and other financial tools to insurance companies looking to finance catastrophe exposures; the Chicago Board of Trade expanding its insurance catastrophe options trading; and the creation of Catastrophe Risk Exchange Inc., which is designed to help insurers bundle up risks and exchange them.

One difference between Mr. Potash's venture and other alternatives to traditional insurance is that Capital Risk will provide independent, objective analysis to corporate and government entities and help them get access to those solutions.

"Right now, we're the only ones who are focusing on the end users of these solutions," he said. "We start from the point of view of the customer. We sit down with them, find out what the problem is and come up with a solution." BI

Minnesota

Continued from page 2

ing on hospitals and physician services in 1991 was $1,878. In Minnesota, per capita spending on hospitals and physician services that year was $1,976, a difference of about 5.2%.

Minnesota's average HMO expenditure on health care per member per month was $30.11 in 1980, while administrative costs per member per month amounted to $3.14, or 9.4% of the total per member per month cost. In 1991, the monthly HMO health care expenditure was $106.73, while the administrative cost was $15.78, or 12.9% of the total per member monthly cost.

Minnesota COACT has 40,000 individual members who support the organization through donations. For several years, the group has endorsed a single-payer health care system.

Health care in the Twin Cities area is dominated by four "mega" networks—three health maintenance organizations and one preferred provider organization—each of which has achieved a hefty market share through mergers and consolidations among regional health care providers.

This system is often referred to as managed competition.

Minnesota COACT, however, calls the system an "oligopoly." "Evidence is beginning to appear that Minnesota's new health care oligopoly has crippled or destroyed competition," the group states.

"I find it highly ironic that a group that...advocates a single-payer system...would continue to complain about a system with several major players," responded Phil Griffin, vp of public policy for PreferredOne, a PPO network with approximately 450,000 members, 90% of whom live in Minnesota.

There is a major difference between the big health care companies, he pointed out. "We're a very different animal" from the HMOs, he said.

"The drawing of any conclusions about the competitiveness of the health care market in Minnesota is at the very least premature," stated George Morrow, an independent consultant with his own firm, Health Ventures Ltd. in Minneapolis. "I don't see that (the four health care companies) have even really begun the process of integrating the delivery of service."

However, the report charges that because of Minnesota's managed competition system, health care costs in the state are 5% higher than elsewhere in the nation. The report based its conclusion on two studies of health care expenditures in the state—one conducted by the federal Health Care Financing Administration and one by the federal Physician Payment Review Commission.

However, employers and managed care companies question the validity of the report's conclusion.

"We certainly disagree that this is a high-cost state," said Steve Wetzell, executive director of the Business Health Care Action Group, a group of 22 large self-insured employers in the state.

"I've never seen their data in total, but I would be willing to stack our costs up against any other place in the country," stated Roger Krantz, health plans administrator for the self-insured and self-administered Minnesota Power & Light Co. in Duluth.

Mr. Krantz said that when he compares claims costs for employees and retirees living in Minnesota with those for retirees that live in other parts of the country, health care costs in Minnesota definitely are lower. "My numbers that I'm looking at justify that our costs are lower than other parts of the country," he said. "I see it every day."

"It's factually incorrect to say that (health care) costs are high" in Minnesota, stated Jan Malcolm, chairwoman of the HMO Council, a trade association representing the 10 HMOs licensed in the state. "The study is using estimates of costs rather than actual costs."

Furthermore, the COACT report measures total health care spending in the state, which is bound to be higher than elsewhere in the country because more people in Minnesota are insured than on average in the nation, and Medicaid benefits, which are richer than in most other states, Ms. Malcolm said.

But the COACT report claims that the reason health care costs are higher in Minnesota than elsewhere is administrative costs and capital expenditures by the four big health care companies are unusually high.

"Health plan company administrative costs which appear to account for the rapid growth in total administrative costs include the cost of managing providers (including research), marketing costs, management salaries and the cost of influencing public policy," Minnesota COACT's report stated.

"I could easily refute that point," a spokesman for Blue Cross & Blue Shield of Minnesota said. "Our administrative costs have been 10% across the board" for at least the last seven years.

The average administrative costs for HMOs is 9.5%, according to figures supplied by HMOs to the state, added Ms. Malcolm, who also is system vp for public affairs for Allina Health System. Furthermore, administrative costs have been dropping for the past several years, she added.

The HMOs "play games with their administrative costs," countered Kip Sullivan, COACT research director and author of the report. "Anybody who swallows those numbers whole is being gullible."

The report also alleges that the quality of health care is suffering as a result of the state's managed competition system.

"Anecdotal evidence supports the conclusion that the new system has damaged quality," the report states.

Critics of the report agreed that without statistical evidence to back up this assertion, it should not be accepted.

"Even the report admits its (allegations are based on) anecdotal" evidence, commented Ms. Malcolm.

While many critics assailed the report's methodology and many of its conclusions, the group does call for some health care changes that others have already endorsed.

For example, the report commends the BHCAG's recent decision to contract directly with providers for some health care services (*BI*, Feb. 13).

And, the report's critics seem to agree that it raises several good questions about the delivery of health care in the state.

"COACT raises the right questions," Ms. Malcolm commented. "I just think their conclusions are way off base."

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The report, "Strangled Competition—A Critique of Minnesota's Experiment with Managed Competition," is available for $10 per copy, plus $3 for shipping, from Minnesota COACT, 2233 University Ave. W., Suite 300, St. Paul, Minn. 55114; 612-645-3733.

Updates

Superfund suit settlement

HOUSTON—Monsanto Co. will pay $41.1 million to settle an International Technology Corp. lawsuit involving a Superfund site cleanup dispute. The settlement, announced last Tuesday, ends litigation pending in U.S. District Court in Houston since 1991.

In its suit against St. Louis-based Monsanto, International Technology, a Torrance, Calif.-based environmental management company, charged that the chemical manufacturer had understated the problems at a disposal site in La Marque, Texas, that Monsanto had hired the company to clean up in 1988. International Technology filed the suit after walking off the job.

"We are pleased to amicably resolve this matter with Monsanto without further litigation," said Robert B. Sheh, International Technology's president and chief executive officer.

Monsanto officials could not be reached for comment.

Firm settles Pine Top suit

SPRINGFIELD, Ill.—Deloitte & Touche L.L.P. will pay an undisclosed amount to settle a 1988 negligence and malpractice suit over a predecessor firm's work for Pine Top Insurance Co., which was put into liquidation in 1987 and is insolvent by an estimated $190 million.

Proceeds from the settlement, which is still subject to state court approval, and other funds recovered from the estate soon will be used to pay in full all direct claims, said the Illinois Insurance Department, which oversees the liquidation. Partial distributions to direct policyholders began this year. Other claims are being evaluated for payment.

In addition to suing Touche & Ross Co., the regulators also sued 15 former Pine Top officers and directors in 1988, seeking damages of more than $100 million (*BI*, July 4, 1988). In 1993, Pine Top's parent, Dial Corp. of Phoenix, and 12 former Pine Top directors or officers paid an undisclosed amount to settle that suit and related federal litigation. All the defendants denied liability.

Pine Top—which wrote excess and surplus lines coverage and reinsurance—is a Schaumburg, Ill.-based unit of Dial, which was formerly the Greyhound Corp.

The latest settlement resolves most of the Pine Top litigation, "which has resulted in the recovery from various parties of over $27 million in cash together with additional, non-cash consideration having an estimated value to Pine Top creditors in excess of $50 million," said Illinois Insurance Director Mark Boozell.

Deloitte & Touche would not comment.

Briefly noted

The full 9th U.S. Circuit Court of Appeals has upheld the closely watched directors and officers liability insurance allocation victory for **Nordstrom Inc.** and several of its executives. A three-judge panel in April ruled that a Chubb Corp. unit could not apportion any part of a $7.5 million claim against the executives to the uninsured corporation, because the loss would not have been smaller if the corporation had not borne any liability (*BI*, April 24)... **Doyle Stephens**, 61, president and chief executive officer of Oil Insurance Ltd., Oil Casualty Insurance Ltd. and TOPS Insurance Ltd. in Bermuda, will retire in 1996. A replacement has not been selected... Dutch reinsurer Nederlandse Reassurantie Groep Holding N.V. has **dropped a lawsuit against Swiss Bank Corp.**, in which it alleged negligence, breach of contract and breach of professional duty in connection with the bank's advice on NRG's 1990 purchase of Victory Reinsurance Group (*BI*, Jan. 30). NRG is continuing the action against its other advisers on the acquisition, Bacon & Woodrow and Ernst & Young... An appropriations bill approved by the House of Representatives last week would specifically prohibit the Occupational Safety and Health Administration from developing **an ergonomics standard**... Lloyd's names on syndicate 334, which is managed by Pulbrook Underwriting Management Ltd., have been awarded an interim payment of £14 million ($22.5 million) in a suit alleging that the agents were negligent in a specific reinsurance contract. The **Syndicate 334 (1985) Names Assn.** estimates that the total damages could be more than £80 million ($128.5 million)... **James W. Schacht**, the Illinois Insurance Department's chief deputy director, will move later this month to Coopers & Lybrand L.L.P. in Chicago as director of insurance regulatory services... **CIGNA Corp.** is taking a $75 million charge in the third quarter as part of costs in cutting the workforce at its property/casualty units. Another charge is expected to be made to pay for job cuts at its health care unit. A spokesman denied reports that CIGNA plans to lay off 1,800 employees... Federal prosecutors last week said they will not seek perjury charges against **Ira Magaziner** for allegedly lying about the makeup of President Clinton's health care task force, which the senior White House aide directed... The Federal Trade Commission has given final approval to Eli Lilly & Co.'s **$4 billion purchase of PCS Health Systems Inc.** (*BI*, Oct. 31, 1994). The FTC's consent decree does place restrictions on the deal, however, including forbidding the drug benefit management firm from providing Indianapolis-based Lilly competitors' price information... Prudential Insurance Co. of America and Blue Cross & Blue Shield of Arkansas filed separate but similar suits in U.S. District Court in Fayetteville and Little Rock seeking to prevent enforcement of an **any willing provider** provision in state's Patient Protection Act of 1995... The Blue Cross & Blue Shield Assn. is forming a **Medicare managed care network**, to be coordinated by its HMO-USA group, that will participate in The National Medicare HMO Initiative launched by Towers Perrin and a group of more than 50 employers in June (*BI*, June 19)... **Southern New England Telecommunications Corp.** will have about 40% fewer union workers after 2,660 employees accepted an early retirement offer that increased their pension benefits by 35% to 45%. The New Haven, Conn.-based firm made the early retirement offer to 6,400 employees last month, hoping to cut operating costs. It took a $355 million charge against fourth-quarter 1993 earnings in anticipation of the cuts.

Ticker

Changes in reinsurance market

Buyers still moving to bigger, stronger reinsurance companies

By MYRON M. PICOULT

Special to *Business Insurance*

DURING THE PAST DECADE, the property/casualty reinsurance business in the United States has been going through a period of consolidation. The consolidation has reflected many factors, including a distinct flight to quality within the domestic marketplace as buyers have sought out stronger, well-capitalized companies. Part of the shift also has been dictated by the constraints placed on the limited capacity of many small to medium-size reinsurers as a result of the collapse of the retrocessional market.

Additional problems with uncollectible reinsurance recoverables—an oxymoron—as well as slow-paying recoverables, with the concomitant statutory blank penalties, have added impetus. Notwithstanding the trends to date, we believe that the pace of consolidation is likely to increase and manifest itself in a pick-up in merger and acquisition activity and "strategic alliances" among the various industry participants. This should enhance the growth prospects for the better-capitalized and better-focused domestic reinsurers.

The continuing dynamics of change involve many factors.

Retention levels, or the amount of reinsurance purchased by primary insurers, are on the rise again after peaking a few years ago, for several reasons. Part of the change relates to the current migratory primary property/casualty cycle. As business shifts to the stronger primary insurers, at least initially, there is a tendency for them to make greater use of reinsurance until they feel more comfortable with the new relationships and/or lines of business being written.

On the flip side, the insurers losing the business are seeking to protect their existing underwriting profits, which we believe are more theoretical than real, going forward as they recognize the decline in quality of their remaining book.

Finally, the rating agencies are applying intense pressure to various insurers to deleverage their operations.

Part of the rising demand factor also could be structural in nature as business shifts from large national agency companies to regional insurers. In addition, growth opportunities are coming from the alternative market, dislocations in the London market, environmental and restructuring write-offs by some U.S.-based primary companies and by various other global opportunities.

As one peruses data from the Reinsurance Assn. of America and other industry sources, it is clear that reinsurance buyers have become increasingly sophisticated in seeking out reinsurance relationships that provide a value-added factor in terms of products and services. Put another way, it appears that specialized underwriting expertise is rewarded in terms of pricing vs. the more commodity-oriented capacity markets.

Several terms are used to describe it, but approximately 45% of the domestic casualty market is now in the alternative market. "Alternative market" is a term used to describe various pools, associations and captive insurance facilities that provide insurance coverage for a multitude of large and small buyers that see this as a more cost-effective way of securing their insurance needs. These entities typically need reinsurance, further enhancing the growth prospects for those reinsurers that choose to operate in that marketplace.

Another factor is what can best be referred to as "London Market Phenomena." Earlier, we alluded to the collapse of the retrocessional market that has made it very difficult for small reinsurers to compete because they cannot offer large gross lines. The ongoing turmoil at Lloyd's seems to be resulting in a migration of business back to U.S. insurers. In many instances, this was business that was initially written by U.S. insurers that Lloyd's took away many years ago. "Restructuring" has become a buzzword in the arcane primary property/casualty world.

It is basically an admission by the affected company that it overstated its earnings in prior periods and did not effectively keep up with the changing environment.

The point of all this is that numerous insurance groups and companies are going to have to take various restructuring charges for environmental reserve deficiencies and charges to downsize their factories. These charges are likely to reduce the statutory capital bases of the affected companies since most do not have the luxury of excessive stock or bond market gains in their portfolios to offset the charges.

In addition, the old industry adage of "growing your way out of a problem" is not achieved as easily in the 1990s as was the case in prior years. All this should create additional reinsurance demand either directly or indirectly via more growth in the alternative market.

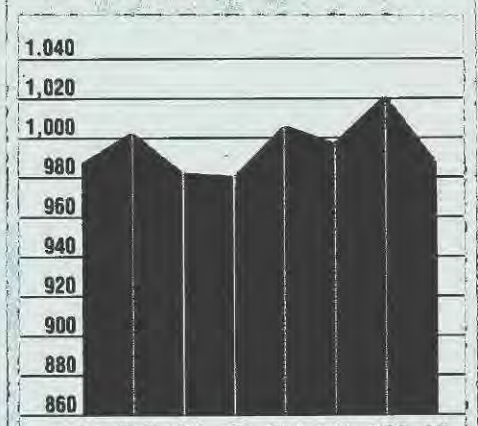
Last but not least is the globalization of the reinsurance market. While it has always been a global market, General Reinsurance Corp.'s foray into the foreign market via its acquisition of Cologne Reinsurance Co. has set a new tone to the industry's drumbeat. Indeed, Employers Reinsurance Corp. picked up on the tenor and recently purchased Aachen Reinsurance Co., another German reinsurer, to expand its foothold in Europe and acquired a majority stake in Munich-based Frankona Re from its parent, Gerling Konzern A.G.

The international consolidation has similar roots to the U.S. consolidation—collectibility concerns and a rising need for value-added products and service. The aforementioned seem to indicate that there are above-average top- and bottom-line growth opportunities for a relatively small group of well-capitalized, well-positioned and focused reinsurers. BI



Myron M. Picoult is an analyst specializing in insurance and reinsurance stocks. He is the past president of the Assn. of Insurance & Financial Analysts and a member of the New York Society of Security Analysts.

BI Insurance Index



Base=100 on Dec. 29, 1978
Source: Nordby International Inc.

Catastrophe insurance option call spreads

As of Aug. 4

Call spread	Price bid/ask	Rate on line %	Call spread	Price bid/ask	Rate on line %
Eastern September 1995			Western Annual 1995		
45/65	5.5/7	27.5/35	20/30	—/1.3	—/13
50/70	5.7/6.3	28.5/29.5	30/40	—/—	—/—
60/80	—/5.7	—/28.5	30/50	—/—	—/—
100c	—/—	—/—	50/70	—/—	—/—
150c	—/5	—/10	60/80	—/—	—/—

Total volume: 65 Total open interest: 2,019

For quotes, call the CBOT trading floor at 312-341-3342. For general information, call 312-435-3674

Source: Chicago Board of Trade

British Issues

Aug. 3 Companies	Price pence	P/E	Div. pence	Yield %	1 week high—low
Comml Union	625	12.5	33.0	5.3	625—609
Genl Accident	627	9.2	36.3	5.8	62?—604
Gdn Royal Exch	224	N/M	10.3	4.6	22?—214
Independent	307	8.5	11.9	3.9	30?—305
Royal	332	6.3	15.0	4.5	33?—324
Sun Alliance	364	12.3	19.7	5.4	36?—344
Brokers					
Bradstock	57	6.4	7.?	12.4	5?—55
Fenchurch	144	10.1	10.0	6.9	145—144
CE Health	214	13.5	20.0	9.3	216—205
JIB Group	124	10.3	9.?	7.6	125—124
Lloyd Thmpson	169	11.7	9.8	5.8	169—159
Lowndes Lmbrt	184	10.3	10.3	5.6	184—171
Nelson Hurst	142	11.0	8.?	5.6	142—138
PWS Holdings	16	N/M	0.8	5.0	16—16
Sedgwick Grp	138	12.5	8.?	5.9	143—135
Steel Brl Jones	112	13.2	11.3	10.	112—110
Willis Corroon	144	N/M	8.?	5.6	146—141

Source: Philip Olsen, London

BI Industry Stock Report JULY 31, 1995, THROUGH AUG. 4, 1995

BROKERS		Price	Weekly % change	Year to date % change	Annual High	Annual Low	Vol.(000)	$ Div.	% Yield	P/E	Book value	Mkt./Bk. value
Acordia Inc.	NYS	28.88	3.59	-13.81	34.50	25.50	46	0.72	2.49	14	13.24	2.18
Alexander & Alexander	NYS	23.25	0.00	25.68	26.44	18.50	202	0.10	0.43	-15	6.08	3.82
E.W. Blanch Holdings Inc.	NYS	16.50	-2.94	-20.00	23.00	16.50	224	0.40	2.42	13	4.55	3.63
Gallagher Arthur J. & Co.	NYS	36.88	-2.32	15.23	38.00	29.63	25	1.00	2.71	16	6.48	5.69
Hilb, Rogal & Hamilton	NYS	12.50	1.01	3.09	13.13	10.50	276	0.56	4.48	15	4.72	2.65
Marsh & McLennan	NYS	79.75	0.16	0.63	86.25	71.25	644	2.90	3.64	15	19.40	4.11
Poe & Brown	NDQ	24.25	0.00	11.49	24.50	19.50	11	0.48	1.98	15	4.49	5.40
BROKERS	AVERAGE		-0.1	3.2					2.6	10		
INSURERS/REINSURERS												
ACE Ltd.	NYS	29.38	-1.26	25.67	31.38	20.75	208	0.56	1.91	7	22.45	1.31
Acceptance Insurance Cos.	NYS	15.63	3.31	4.17	18.00	12.63	77	0.00	0.00	9	9.83	1.59
AEGON N.V.	NYS	35.63	-2.73	40.26	37.25	22.09	96	3.60	10.11	14	43.84	0.81
Aetna Life & Casualty	NYS	62.88	0.80	33.42	64.88	42.25	2611	2.76	4.39	46	57.21	1.10
AFLAC Inc.	NYS	41.38	-2.65	29.30	44.75	31.63	2255	0.52	1.26	13	57.21	0.72
Allied Group Inc.	NDQ	28.75	-1.71	16.16	31.00	22.00	205	0.68	2.37	6	23.43	1.23
Allmerica Prop. & Casualty	NYS	22.88	-1.08	35.56	23.38	14.63	96	0.16	0.70	9	19.45	1.18
Allstate Corp.	NYS	30.63	-2.00	28.95	33.38	22.63	8480	0.78	2.55	10	19.60	1.56
American Financial Group	NYS	25.75	-0.48	22.62	27.63	21.63	387	1.00	3.88	12	36.30	0.71
American General	NYS	34.88	-3.13	23.45	36.88	25.63	1420	1.24	3.56	13	20.39	1.71
American Heritage Life Ins.	NYS	20.00	-1.84	5.26	21.50	16.25	20	0.72	3.60	11	12.42	1.61
American Indemnity/Fin'l	NDQ	9.06	-7.05	-10.49	12.75	9.00	38	0.28	3.09	6	15.92	0.57
American International	NYS	74.38	-1.16	-24.11	79.66	58.41	4563	0.34	0.46	15	49.75	1.49
American Re Corp.	NYS	38.13	3.39	18.22	39.88	25.25	162	0.32	0.84	15	16.85	2.26
Aon Corp.	NYS	37.63	-0.99	17.58	39.00	29.25	617	1.36	3.61	11	21.96	1.71
Argonaut Group	NDQ	30.50	0.00	7.96	32.50	27.50	10	1.32	4.33	11	29.80	1.02
AVEMCO Corp.	NYS	16.38	-0.76	6.50	18.25	13.38	11	0.44	2.69	14	6.30	2.60
Baldwin & Lyons Inc.	NDQ	15.00	-4.76	1.69	17.63	14.50	229	0.32	2.13	12	13.56	1.11
Berkley W.R. Corp.	NDQ	39.88	2.57	6.33	39.88	32.50	307	0.48	1.20	19	36.47	1.09
Berkshire Hathaway Inc.	NYS	24350.00	0.62	19.36	24350.00	1474.00	1	0.00	0.00	-99	9157.79	2.66
Capital RE Corporation	NYS	27.13	2.36	-0.91	27.38	20.50	32	0.20	0.74	10	21.48	1.26
Capsure Holdings Corp.	NYS	14.75	2.61	0.85	14.88	12.13	16	0.00	0.00	14	13.72	1.08
Chubb Corp.	NYS	84.88	2.11	9.69	85.38	68.63	934	1.96	2.31	12	48.40	1.75
CIGNA Corp.	NYS	90.00	9.76	41.45	90.13	59.00	2248	3.04	3.38	8	80.98	1.11
CNA Financial Corp.	NYS	91.25	1.81	40.66	94.00	60.00	196	0.00	0.00	10	73.83	1.24
EMC Insurance Group Inc.	NDQ	12.75	8.51	34.21	13.00	8.63	21	0.52	4.08	8	10.77	N.A.
Emphesys Financial Gr. Inc.	NYS	27.00	-6.49	-14.96	39.50	22.63	325	0.60	2.22	8	N.A.	N.A.
EXEL Ltd.	NYS	52.38	-1.41	32.59	53.75	36.88	239	1.32	2.52	14	31.62	1.66
Fremont General Corp.	NYS	27.38	1.39	17.11	27.38	17.16	89	0.80	2.92	8	22.90	1.20
Frontier Insurance Group	NYS	28.00	3.70	28.00	35.00	16.75	31	0.48	1.71	21	14.94	1.87
Gainsco Inc.	ASE	9.13	1.39	10.61	11.00	7.38	422	0.04	0.44	12	3.79	2.41
General RE Corp.	NYS	132.00	-1.22	6.88	138.38	104.50	780	1.96	1.48	15	57.17	2.31
Guaranty National Corp.	NYS	16.50	-1.49	-10.20	19.00	15.13	155	0.48	2.91	9	11.84	1.39
Harleysville Group	NDQ	25.00	-2.91	3.09	26.50	20.25	38	0.68	2.72	9	20.18	1.24
Hartford Steam Boiler	NYS	45.38	2.83	13.79	46.00	35.88	127	2.28	5.02	17	14.62	3.10
HCC Insurance Holdings	NYS	26.00	-1.89	23.81	27.88	18.50	52	0.00	0.00	15	11.76	2.21
ITT (Hartford Group)	NYS	118.75	1.39	33.99	121.88	77.00	2321	1.98	1.67	10	49.95	2.38
Lincoln National	NYS	40.75	-0.91	16.43	46.25	34.63	1137	1.72	4.22	10	31.99	1.27
Markel Corp.	NDQ	65.50	8.26	57.83	65.50	40.25	82	0.00	0.00	15	25.15	2.60
Mid Ocean Ltd.	NDQ	33.00	3.13	21.10	34.63	22.25	242	1.00	3.03	9	20.24	1.63
Mutual Risk Mgmt. Ltd.	NYS	34.75	-2.11	32.38	36.38	24.13	87	0.32	0.92	19	9.11	3.81
NAC Re Corp.	NDQ	35.88	-1.71	7.09	37.00	24.25	120	0.20	0.56	14	13.75	1.82
National Re Corp.	NYS	33.75	-1.10	28.57	34.38	22.25	59	0.16	0.47	19	17.31	1.95
Navigators Group	NDQ	14.25	-12.31	-1.72	19.75	12.75	31	0.00	0.00	-14	13.21	1.40
Nobel Insurance Ltd.	NDQ	10.25	-2.38	24.24	10.50	7.75	17	0.20	1.95	-	3.84	1.50
Ohio Casualty Corp.	NDQ	32.50	-1.52	15.04	34.25	27.00	153	1.52	4.68	13	24.68	1.32
Old Republic Int'l	NYS	26.38	-0.47	24.12	26.75	18.88	145	0.52	1.97	10	24.60	1.07
Orion Capital Corp.	NYS	41.00	1.55	16.31	42.50	28.13	90	0.80	1.95	9	25.86	1.59
Partner Re Ltd.	NDQ	25.75	3.00	24.10	26.25	18.50	1033	0.48	1.86	-	N.A.	N.A.
Penn-America Group Inc.	NDQ	10.25	-3.53	38.98	11.25	6.50	18	0.12	1.17	18	3.21	1.65
Philadelphia Cons. Holding	NDQ	15.38	-1.60	25.51	16.00	10.25	4	0.00	0.00	14	3.43	1.82
Phoenix RE Corp.	NDQ	26.25	0.96	-7.08	29.00	21.00	145	0.60	2.29	8	22.86	1.15
Provident Life	NYS	23.13	-0.54	6.32	29.88	20.50	80	0.72	3.11	16	27.09	0.85
Reliance Group Holdings	NYS	6.63	3.92	27.71	6.75	4.88	612	0.32	4.85	17	3.48	1.90
Reliastar Financial Corp.	NYS	37.50	-0.33	29.31	39.63	27.00	212	1.00	2.67	10	24.81	1.51
RLI Corp.	NYS	22.38	-2.72	36.43	23.63	15.91	10	0.52	2.32	17	20.51	1.09
St. Paul Companies	NYS	49.13	0.51	9.78	51.88	39.38	2929	1.60	3.26	9	31.88	1.54
SAFECO Corp.	NDQ	58.63	-1.16	12.74	59.88	46.75	828	2.12	3.62	12	45.94	1.25
SCOR U.S. Corp.	NYS	10.63	6.25	26.87	12.25	7.50	19	0.20	1.88	10	13.60	0.78
Seibels Bruce Group	NDQ	1.00	-3.03	-60.00	3.50	0.75	20	0.00	0.00	-?	.05	0.95
Selective Ins. Group	NDQ	31.75	2.01	25.74	33.75	23.25	115	1.12	3.53	10	23.36	1.36
Sphere Drake Holdings	NYS	17.00	3.03	22.52	17.38	10.75	48	0.16	0.94	?	13.15	1.29
TIG Holdings	NYS	25.25	0.50	34.67	25.38	17.00	534	0.20	0.79	20	17.25	1.46
Titan Holdings, Inc.	NYS	12.00	1.05	23.08	12.88	7.84	43	0.24	2.00	9	9.31	1.29
Tokio Marine & Fire	NDQ	58.88	-2.28	-3.09	64.13	49.88	10	0.46	0.78		57.72	1.02
Torchmark Corp.	NYS	38.75	-0.32	12.32	44.50	32.38	551	1.16	2.99	10	17.49	2.22
Transatlantic Holdings	NYS	66.75	1.52	19.46	66.75	47.75	160	0.40	0.60	13	32.43	2.06
Transnational Re Corp.	NDQ	21.00	-2.04	-10.64	24.00	18.75	57	0.00	0.00	?	N.A.	N.A.
Travelers Corp.	NYS	47.13	0.27	45.56	47.88	30.38	3419	0.80	1.70	17	24.26	1.94
Trenwick Group Inc.	NDQ	46.38	0.27	9.44	47.25	36.50	39	1.12	2.42	12	29.20	1.59
United Fire & Casualty	NDQ	29.00	0.00	4.82	31.00	26.25	1	0.80	2.76	8	28.96	1.00
Unitrin	NDQ	48.38	1.84	12.50	51.50	41.50	431	2.00	4.13	13	38.64	1.25
UNUM Corp.	NYS	48.75	0.52	29.14	50.00	35.13	507	1.06	2.17	24	27.78	1.75
US Facilities Corp.	NDQ	18.19	3.19	81.88	18.38	9.13	829	0.20	1.10	9	1.07	1.64
USF&G Corp.	NYS	17.50	8.53	29.63	17.50	12.63	4781	0.20	1.14	8	10.04	1.74
USLIFE Corp.	NYS	41.88	1.82	20.07	42.50	30.88	130	1.40	3.34	10	40.82	1.03
Washington National	NYS	21.38	0.59	12.50	22.88	17.75	81	1.08	5.05	8	23.61	0.91
Zenith National Ins.	NYS	22.00	2.92	-3.30	27.38	19.38	52	1.00	4.55	12	17.54	1.25
Zurich Reinsurance Centr.	NYS	28.25	0.89	-2.16	30.88	25.00	52	0.00	0.00	-39	27.26	1.27
INSURERS/REINSURERS	AVERAGE		0.2	17.6					2.3	9.6		
HEALTH MAINTENANCE ORGANIZATIONS												
FHP International	NDQ	23.56	-10.24	-8.50	31.00	19.50	2258	0.00	0.00	13	12.22	1.93
Humana Inc.	NYS	18.00	-10.56	-20.44	27.13	17.00	12889	0.00	0.00	15	6.04	2.98
Pacificare Health Sys.	NDQ	53.25	-11.98	-18.23	79.50	44.50	612	0.00	0.00	-	14.21	3.75
Safeguard Health Enter.	NDQ	11.00	4.76	18.92	13.25	8.25	15	0.00	0.00	65	6.16	1.79
Sierra Health Services	NYS	26.13	-0.95	-17.39	33.63	22.13	346	0.00	0.00	14	6.04	4.33
United Healthcare Corp.	NYS	41.00	-8.89	-9.14	55.38	34.13	5594	0.03	0.07	21	6.57	6.24
U.S. Healthcare	NDQ	30.63	-1.61	-25.76	49.00	26.50	6032	1.00	3.27	12	5.04	6.08
Wellpoint Health Networks	NYS	28.63	-0.43	-1.72	39.00	24.25	186	0.00	0.00	13	12.73	2.25
HMOs	AVERAGE		-5.0	-10.3					0.4	17		
ALL COMPANIES	AVERAGE		-1.6	3.5					2.5	12		

Top advancing issues: CIGNA Corp.; USF&G Corp.; EMC Insurance Group Inc. Leading decliners: Navigators Group; Pacificare Health Sys.; Humana Inc. Most active issue: Humana Inc. The BI Index fell 3.4%; the Dow Jones 30 Industrials declined 0.7%; the S&P 500 fell 0.7% and the NYSE Composite declined 0.5%.

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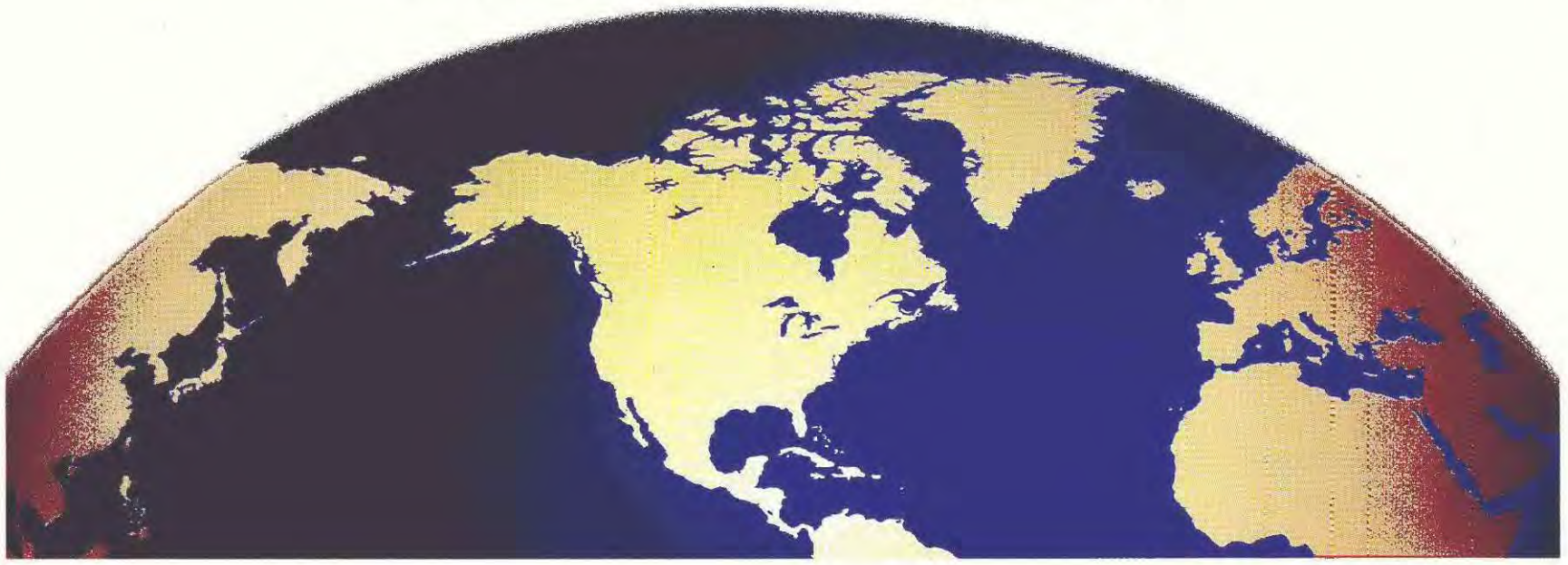
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