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Updates

Zurich, fund may outbid Byrne for control of The Home

NEW YORK—A possible 11th-hour offer to buy up shares in struggling Home Holdings Inc. could stymie John J. Byrne's attempts to invest in the insurer and become its chairman.

Late last week, Zurich Insurance Co. units, together with Insurance Partners Ltd., were discussing a deal with Home officials. Such a deal could be either a buyout or a capital infusion.

Zurich, Insurance Partners and Home all declined to provide details of any new offer.

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Minnesota employers aiding health reforms

By CHRISTINE WOOLSEY

Employers in Minnesota, a state widely considered a health care reform bellwether, are ushering in the next stage of changes to the state's health care market in what could become a model for the nation.

While the state, through its ambitious MinnesotaCare legislation, is attempting to guarantee affordable health care to low-income uninsured individuals, employers are busy shoring up the private-payer marketplace to make coverage more affordable and responsive to purchasers' needs.

Over the last three years, Minnesota lawmakers' and employers' efforts have tremendously altered the state's health care marketplace (*BI*, June 21, 1993).

In this most recent effort, the state's two largest employer coalitions have worked together to boost the clout of smaller employers in the state to negotiate a new managed care program.

The resulting program, which will be available Jan. 1 to small and midsized employers throughout the state, will adhere to purchasers' specific quality guidelines and will offer multiyear caps on rate increases.

To date, the two employer groups—one formed by large companies and the other composed of small businesses—generally have been working on reforms tailored only for the interests of their own members.

The Business Health Care Action Group, a coalition now comprising 22 large self-insured employers covering 250,000 people in the Twin Cities area, launched a major health care purchasing initiative in 1992 (*BI*, July 13, 1992).

Among other things, the group established a set of specific quality improvement and cost containment goals and ultimately struck

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Wrongful termination

Court strikes down defense coverage in work comp policy

By JOANNE WOJCIK

SAN FRANCISCO—California employers can no longer count on their workers compensation insurers to defend them from wrongful termination suits.

The California Supreme Court last week unanimously overturned a lower court ruling that held that the employer liability portion of a workers compensation policy covers defense costs, so long as the suits allege an injury that is covered under workers comp law.

Since that 1993 ruling—and another one that the court also overturned—many workers compensation insurers in California have been accepting part of the defense responsibility in wrongful termination suits (*BI*, Oct. 18, 1993).

That will now change, at least for firms that do not self-insure.

"The decision means employers will have to purchase employment practices liability coverage to defend wrongful termination cases," or retain that exposure themselves, said Paul E.B. Glad, a partner with Sonnenschein Nath & Rosenthal in San Francisco who represented Industrial Indemnity Co. in the case.

By some accounts, demand is already rising for the coverage, which can provide up to $5 million to pay both defense costs and judgments associated with wrongful termination suits.

"We expected an increase in inquiries by employers as a result of the decision," agreed Richard Rupp, vp-risk management at Calco Insurance Brokers in San Mateo. "Now the submissions are snowballing."

In deciding *LaJolla Beach & Tennis Club Inc vs. Industrial Indemnity Co.*, the justices seemed particularly concerned that if employers could buy insurance to cover sexual harassment or racial discrimination damages they would have less incentive to com-

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No crisis in OPA deadline

Alternative markets fill pollution coverage void for ships

By ADRIAN LADBURY

WASHINGTON—Oil tanker owners and operators are finding new sources of financial guarantees for their oil spill liability, averting the oil crisis some had feared would occur when traditional insurers balked at providing coverage required under the Oil Pollution Act of 1990.

More than 650 oil tankers have already received the certificates of financial responsibility that will be required as of Dec. 28 to transport oil in U.S. waters, according to the U.S. Coast Guard, which issues the certificates. The Coast Guard also has sanctioned a number of self-insured arrangements and surety bonds created to help tanker owners and operators gain accreditation.

"Any possibility of a train wreck has now been averted," a Coast Guard spokesman said.

Effective Dec. 28, all tankers carrying oil into or within U.S. waters will have to show the Coast Guard that an independent guarantor will guarantee the statutory liabilities of each vessel.

More than 650 oil tankers already have the certificates of financial responsibility, reports the U.S. Coast Guard.

Protection and indemnity clubs, which are shipowners mutual insurers, traditionally have provided first-party indemnity coverage for shippers, as well as third-party liability coverage to limits set by international maritime agreements. But the P&I clubs are refusing to meet the new financial responsibility requirements for U.S. pollution liability.

They fear that U.S. courts could unreasonably extend their liabilities for cleanup and restoration in the event of an oil spill beyond the limits set by the international agreements, which are not recognized by the United States.

Earlier this year, when the Coast Guard issued interim OPA '90 regulations, both shipowners and the P&I clubs warned of a coming oil crunch if the government did not relax the requirements or set up a government-funded guarantor. The United States currently imports about 50% of its oil (*BI*, Oct. 3; July 18).

Unfazed, the Coast Guard refused to change the rules and pre-

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Constitution Re's journey

1940: The Constitution Reinsurance Co. incorporated in New York as unit of Baltica Insurance Co. Ltd.

1969: Crum & Forster Inc. buys Constitution Re from Baltica.

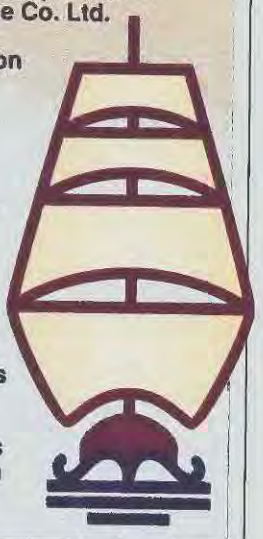
1983: Xerox buys Crum & Forster for $1.6 billion.

1991: Xerox tries to spin off more than 50% of Constitution Re, but drops IPO citing poor market.

1992: Major restructuring at Xerox fuels speculation of Crum & Forster sale.

1993: Xerox puts Crum & Forster operations on the block.

1994: First Crum & Forster sale planned as Exor America Inc. offers $400 million in cash for Constitution Re.



GRAPHIC BY JERRY PARKS

Xerox sells reinsurer in $400 million deal

By MICHAEL SCHACHNER

STAMFORD, Conn.—A proposed $400 million cash purchase of Constitution Re Corp. is considered a very good deal for buyer Exor America Inc. and a pretty good deal for Xerox Corp., which has been trying to unload its insurance units for more than a year.

Exor America already holds stakes in Partner Reinsurance Co. Ltd., La Salle Re Ltd. and Chartwell Reinsurance Co., and the Constitution Re purchase is expected to give it a higher market profile. Exor is the U.S. arm of Luxembourg investment group Exor Group, an affiliate of Italy's Agnelli Group, which also owns carmaker Fiat S.p.A.

Constitution Reinsurance Corp., the underwriting unit of Constitution Re, is known as a stable, well-run regional and specialty facultative and treaty reinsurer. It ranks as the eighth-largest U.S.-based reinsurer and is expected to produce very solid returns into the future.

Its specialties include quota-share reinsurance for non-stan-

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Updates

Rival emerges for The Home

Continued from preceding page

Insurance Partners, an investment fund backed by Robert Bass, Chase Manhattan Corp. and others, saw its own plans to pump $200 million into Continental Corp. trumped by a $1.1 billion buyout bid from CNA Financial Corp. (*BI*, Dec. 12).

Mr. Byrne's investment firm, Fund American Enterprises Holding Inc., last week learned of the rival offer for the holding company parent of The Home Insurance Co., a spokesman said.

"(Home officials) have told us that they signed one confidentiality letter a week or so ago," the spokesman said. Such letters are routinely signed before negotiations begin.

Fund American will consider its options to go ahead with its plans to lead a $420 million investment in The Home, he said.

The rival offer could hurt The Home as it tries to restore policyholder confidence during year-end renewals, he said. "(The Home) has already lost some customers and if there are a new bunch of players to meet the rating agencies and customers, it may run out of time."

The new offer shows that the demand for well-known insurers is exceeding the supply, said Michael A. Lewis, senior vp at Dean Witter in New York. "There aren't a lot of large insurance companies with a well-known name to invest in."

CIGNA acts to improve rating

PHILADELPHIA—CIGNA Corp. will spin off several companies from its 19-member inter-company property/casualty pool in an effort to get them back to an A- rating after the pool was downgraded to B++ by A.M. Best Co. last week.

The companies remaining in the pool will continue to write less rating-sensitive business, such as general commercial insurance for smaller companies, a CIGNA spokesman said. He added that CIGNA has no plans to add capital to the pool, but will do so if necessary.

A.M. Best based its downgrade on environmental and asbestos claims, which will probably pull CIGNA profits down for at least two years, said John H. Snyder, senior vp at the Oldwick, N.J.-based firm.

CIGNA is already feeling the effects. A member association of the U.S. Olympic Committee turned down CIGNA as the insurer for its $3.5 million general liability program after the downgrade, said David Mair, risk manager for the committee in Colorado Springs, Colo.

Owens-Illinois asbestos claims

TOLEDO, Ohio—Owens-Illinois Inc. says it will receive about $96 million in cash from reinsurers of its Bermuda captive under an agreement reached last week in an asbestos liability dispute.

That amount represents about 18% of the total coverage limits on the policies for Owens Insurance Ltd. of Bermuda, which is managed by International Risk Management (Bermuda) Ltd. Owens Insurance had provided umbrella coverage of up to $150 million excess of $1 million and then fully reinsured the risk.

Also last week, the New Jersey Supreme Court issued preliminary rulings on several coverage issues in a dispute in which the former asbestos maker—which still faces 35,000 asbestos suits—is seeking up to $960 million in coverage (*BI*, May 3, 1993).

The litigation involves United Insurance Co., a Cayman Islands group captive that provided coverage to $1 million excess of $250,000.

Owens-Illinois said that the high court remanded the case and ordered a special master to be appointed to allocate liability between the company and its insurers. The company had sought its full limits.

Upholding two lower courts, the high court also applied a continuous trigger, meaning the company's insurers from 1977 to 1985 would be jointly and severally liable, Owens-Illinois said.

IRS issues final 401(k) rules

WASHINGTON—Final Internal Revenue Service rules published last week will ease non-discrimination testing procedures for employers offering 401(k) plans to union employees, while other rules give employers extending 401(k) plans to young or new employees a new testing option and clear up uncertainties on hardship withdrawals.

The rule involving union employees applies to employers that offer a single 401(k) plan to workers covered by different collective bargaining agreements. The IRS said employers have the option of combining different collectively bargained units—if their members are covered by one 401(k) plan—so the non-discrimination test only will have to be run once for union employees (*BI*, Jan. 11, 1993).

In another rule, the IRS said employers that extend 401(k) plans to employees they are not legally required to cover may split their plan and separately test those employees. This technique permits higher contributions by highly paid employees (*BI*, May 3, 1993).

Finally, the IRS made clear that secondary educational room and board expenses—and not just tuition—are considered an eligible financial hardship and funds can be withdrawn to pay those expenses.

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Errors & omissions

- CAPP CARE Inc. supplied an incorrect number of employees and dependents participating in its PPO network for the Dec. 20 Managed Care Market Report. The correct number is 3.9 million lives, which would rank it as one of the 10 largest general service PPOs.
- A Dec. 19 article on health costs misspelled the name of Jeff Verney, CIGNA Corp.'s vp of national accounts. It also misstated the expected increase in PPO rates for Travelers Group; it is 11%.
- Due to an error by AMR Corp., a Dec. 19 story incorrectly reported that the American Eagle plane that crashed on Dec. 13 near Raleigh, N.C., had engine problems before takeoff. It was actually a different plane that had problems.

Orange County liability trail leads to courthouse steps

By RODD ZOLKOS

As Orange County, Calif., struggles with the fallout from its multibillion-dollar investment pool loss, much of the action is moving into the courts.

Investors who bought Orange County bonds have already filed more than half a dozen suits, commonly naming as defendants both former county treasurer Robert L. Citron and Merrill Lynch Inc. The suits seek class-action status and do not specify damage amounts.

One much-anticipated action—by Orange County against Merrill Lynch—had not been filed as of Dec. 20, however. Merrill Lynch participated in many of the reverse repurchase agreements Mr. Citron used to leverage the pool's investments, sold the county some of the derivative investments that went sour when interest rates rose and underwrote county debt.

Losses to the $7.5 billion pool, which under Mr. Citron's direction invested funds for the county and more than 180 other local jurisdictions, now are expected to exceed more than $2 billion. The county has begun selling off securities held by the pool to return funds to those jurisdictions.

It is uncertain whether Orange County is obligated to reimburse some of the jurisdictions for their losses.

Several school districts that were required by state law to invest excess cash with the county-run fund have charged that, in fact, their money was in trust and consequently the county should reimburse them the full amount invested. State auditors are examining the validity of that claim.

The investor suits are aimed at

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Quake rattles 1994 P/C results

NEW YORK—The Northridge earthquake helped hold property/casualty insurers' rate of return on capital to 3.9% this year—compared with 10.6% a year earlier—according to the Insurance Information Institute and Standard & Poor's Insurance Rating Service.

And returns for 1995 will improve to only about 7.5%, said Peter Wade, associate director of S&P's Insurance Rating Service. Because insurers have moved away from the traditional industrywide price cycle, "earnings improvements will continue to be affected largely by internal cost control measures and (factors) like the level of catastrophe losses," he said.

The Northridge quake, which hit the Los Angeles area Jan. 17 causing insured damage that could top $10 billion, is the major reason for the decline, said Sean Mooney, senior vp and economist for the III.

Total insured catastrophic property damage for 1994 is estimated at $13 billion, making 1994 the second-costliest year on record.

Other factors that depressed the industry's results were a 1.8% drop in investment income from 1993 and an 80.6% decline in realized capital gains, he said. The premium growth rate of 3.9% also lagged behind 1993's 6.1% growth rate, he said.

—By Mark A. Hofmann

So much for that theory

Study questions suspicion of fraud in Monday comp filings

By MEG FLETCHER

A new study challenges risk managers' widely held suspicion that the high volume of workers compensation claims filed on Mondays is driven by non-work-related injuries.

Many risk managers have been concerned that employees may "postdate" a non-work sprain or strain that occurred on a weekend. The theory is that if an employee reports the injury as a workers comp claim on a Monday, the necessary medical treatment will be fully covered, rather than subject to deductibles and copayments under group health plans.

New research challenges that suspicion and earlier research on which it was based. However, it leaves many questions unanswered.

"The fact that more workers compensation claims are filed on Mondays than any other workday is not necessarily a sign of fraud," according to a paper presented at a recent seminar sponsored by the National Council on Compensation Insurance Inc. at the University of Pennsylvania's Wharton School of Business.

After analyzing claims data from Minnesota in the mid-1980s, two university economists also found that even employees who are less likely to have general health insurance are no more likely than covered employees to

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Provident sells group health book

HOOKSETT, N.H.—Healthsource Inc. last week topped off an active year of acquisitions by agreeing to pay $310 million in cash and preferred stock for the health care business of Provident Life & Accident Insurance Co. of America Inc.

Healthsource, a managed care company based in Hooksett, N.H., that already has acquired three smaller health maintenance organizations this year (*BI*, Dec. 20), will pay $210 million in cash for Provident's group health, HMO and third-party administration business. And, Healthsource will issue Chattanooga, Tenn.-based Provident $100 million in convertible preferred stock to close the deal.

Dr. Norman Payson, Healthsource's president and CEO, said the acquisition will strengthen the company's hold in the Southeast, where Provident insures or administers health benefits for about 2.4 million people. The merger will allow Healthsource to derive about one-third of its revenues from Georgia, North Carolina, South Carolina and Tennessee.

Provident said the deal will allow it to "offer customers a broader line" of managed care services than it could alone.

As part of the deal, Healthsource will create a new subsidiary named Healthsource-Provident. James Pesnell, a Provident vp in charge of its Southern region, will be president and CEO of the new unit.

The transaction is expected to close during the second quarter of 1995.

—By Michael Schachner

Inside

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- U.K. treaty reinsurer Terra Nova Insurance Ltd. is setting up shop in Bermuda. **PAGE 39**
- Organized crime and fraud have supplanted terrorism as a major risk for multinational companies, a political risk consultant says. **PAGE 39**
- The Insurance Services Office Inc. is revising the CGL form to extend defense cover to policyholders. **PAGE 42**

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The Newsmakers
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Superfund debate tops risk management list

Quake and GOP landslide make news

By MARK A. HOFMANN

The top risk management story of 1994 involved something that didn't happen—the reauthorization of the federal Superfund law.

As a result of the congressional inaction, many risk managers face at least another year of uncertainty over the extent of their companies' environmental liabilities. Strangely enough, the bill was killed by a dispute over wages to be paid at Superfund sites rather than overwhelming disagreement over the merits of the legislation.

The second most important risk management story of 1994 was the Northridge earthquake that devastated the Los Angeles area in January. Rounding out the top five were the Republican electoral triumph, the ongoing woes of Lloyd's of London and another perennial favorite, the continuing softness of the property/casualty insurance market.

From the time the administration introduced its first reauthorization bill on Feb. 3 until it declared the initiative dead eight months later, the Superfund reform debate lurched up and down like a roller coaster with a couple of loose wheels (see synopsis, page 17).

During that ride, the property/casualty insurance industry proved again that, contrary to the complaints of consumer groups or state officials, it is by no means a single-minded monolith. In fact, the most heated debate over Superfund occurred within the insurance industry as trade groups and insurers bickered loudly and publicly over premium taxes to pay for a proposed Environmental Insurance Trust Fund.

The environment also played the central role in the No. 2 story. Mother Nature showed her violent side as an earthquake centered in Northridge, Calif., rocked the Los Angeles area on Jan. 17 (*BI*, Jan. 24). Insured losses were initially put at up to $2.5 billion, but now estimates run to four times that amount.

Quake losses helped firm up

Continued on next page

Health reform leads benefit stories

Pension reforms and drug industry consolidations follow

By JERRY GEISEL

Health care reform was not the only benefits story in town in 1994, but it was by far the most important.

It easily eclipsed such important news as new pension funding reform legislation intended to shore up the Pension Benefit Guaranty Corp., and growing vertical integration in the pharmaceutical industry with more drug manufacturers gobbling up prescription drug cost management firms.

Health care reform legislation that would have fundamentally altered the role of benefit managers died this fall due in part to political ineptitude on the part of the Clinton administration (see synopsis, page 32).

The second most important benefits story of 1994 involved a rare success for the administration: the passage of PBGC reform legislation to improve pension plan funding.

Down the road, the new law could eliminate the PBGC's deficit and bring an end to a steady cycle of insurance premium increases on employers that the PBGC has been forced to seek to pay for massive pension plan failures (see synopsis, page 33).

The No. 3 story of the year—the vertical integration in the pharmaceutical industry—could lead to broad and deep changes in the private health care markets for managed care products and prescription drugs (see synopsis, page 34).

The fourth most important benefit story of 1994 involves a federal appeals court decision that has broad implications for employers.

In that decision, the 3rd U.S. Circuit Court of Appeals ruled that Curtiss-Wright Corp. violated the Employee Retirement Income Security Act when it cut retiree health care benefits in 1993. While the company had reserved the right to amend the plan in plan documents, the court ruled that Cur-

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Top Risk Management Stories

Congress fails to pass a Superfund reauthorization bill

Northridge earthquake damages near $10 billion

Republicans win control of the U.S. House and Senate

Lloyd's of London woes continue amid losses and lawsuits

Property/casualty rates remain flat for most lines of coverage

Massive insurance antitrust suit settled

Workers compensation system continues to improve

Breast implant makers offer $4.75 billion to settle liability suits

Insurance industry undergoes major financial restructuring

Debate over risk management outsourcing intensifies

Top Employee Benefits Stories

Drive for health care reform legislation goes down in flames

Sweeping pension law aims to shore up PBGC funding

Pharmaceutical firms keep buying drug benefit managers

Supreme Court to rule on how to cut retiree health benefits

Derivative losses hit employee savings plans

GOP sweep may threaten tax-favored status of benefits

Costs of group health plans slow dramatically

Labor Department rules CSX Corp. captive can't reinsure benefits

Judge rules that GM improperly cut early retiree health benefits

Merger mania sweeps through HMO industry

Risk stories

Continued from previous page
property rates for catastrophe-exposed areas, yet they wrought little change in the overall insurance market (see synopsis, page 20).

They did shake the fortunes of some individual insurers, notably 20th Century Industries, which later received a $200 million cash infusion from American International Group Inc.

The Northridge quake helped 1994 earn the dubious distinction of being the second costliest year in terms of natural disasters in U.S. history, exceeded only by 1992, the year of Hurricane Andrew.

What Democratic leaders regarded as a political catastrophe of the first magnitude took place on Nov. 8, and soon became the No. 3 risk management story of the year (see synopsis, page 22).

The Republican electoral victories gave them control of both the U.S. House and Senate for the first time in more than 40 years. Republicans also awoke on the morning of Nov. 9 in control of the majority of the governorships, a big portion of the state legislatures and key insurance departments.

The GOP transformed Congress' risk management priorities overnight. Disappearing from the agenda were such perennials as federal insurance solvency regulation, anti-redlining legislation and amendments to or repeal of the McCarran-Ferguson Act.

In fact, the principal proponent of McCarran modification, House Judiciary Committee Chairman Jack Brooks, D-Texas, himself disappeared as angry voters turned him out of a seat he had held for more than 40 years.

The Republican victory also enhanced the prospects for one piece of federal legislation long sought by risk managers—a uniform product liability code. The GOP House leadership's "Contract with America" promised a vote on product liability reform and other tort reform measures within the first 100 days of the 104th Congress.

The Northridge quake helped 1994 earn the dubious distinction of being the second costliest year in terms of natural disasters in U.S. history, exceeded only by 1992.

While risk managers could view future events in the U.S. capital with some sense of relief, nagging problems continued in another capital across the Atlantic as venerable Lloyd's of London sank deeper into losses and litigation (see synopsis, page 23).

In mid-winter, Lloyd's members rejected a £900 million ($1.31 billion) offer to settle their litigation with members and managing agents, and chose instead to seek relief through the courts (*BI*, Feb. 21). By October, the Gooda Walker Action Group won its suit, the first to go to trial, alleging negligence by underwriters (*BI*, Oct. 10).

Between the rejection of the first settlement offer and the Gooda Walker Action Group's legal victory, Lloyd's reported a £2.05 billion pound ($3.03 billion) global loss for the 1991 underwriting year. That loss put the marketwide total for 1988 to 1991 at more than $10 billion (*BI*, May 23).

Like the top story of the year, 1994's No. 5 story involved an event that never happened—the long-awaited turn in the property/casualty market (see synopsis, page 27).

Despite the massive losses caused by the California quake, rates for most lines of coverage remained flat throughout the year. Only some accounts with coastal property or earthquake exposures experienced significantly higher rates accompanied by shrinking capacity. On the casualty side, buyers reported that insurers remained generally willing to negotiate on casualty rates throughout the midyear renewal season (*BI*, July 4).

One of the longest running legal battles involving the property/casualty insurance industry came to a halt in October, and earned the No. 6 spot on the *BI* list of the Top stories of 1994 (*BI*, Oct. 10).

That's when a massive antitrust lawsuit that pitted state attorneys general against nearly three dozen insurance industry defendants was settled. Foreign defendants in the case, which stemmed from a suit filed in 1988, had already settled with the states.

Under terms of the settlement, the defendants agreed to relinquish control of the Insurance Services Office Inc., which gathers actuarial data and creates common policy forms for insurers. Although insurers would continue to serve as a minority of the statistical organization's board, control of ISO passed to outsiders. In addition, insurers promised to pay about $36 million to end the litigation, some $21 million of which will fund a new Public Entity Risk Institute (*BI*, Oct. 10).

Story No. 7 focused on dramatic improvement in the long troubled workers compensation market. The line's combined ratio improved to 111.5% in 1993 from 121.5% a year earlier and as underwriting results improved, rates flattened and capacity increased nationwide.

In addition, workers comp reforms in several states were viewed as having a salutary effect on the marketplace. To top matters, Colorado voters rejected Amendment 11, a labor-backed attempt to scale back key aspects of the state's workers comp reforms enacted in 1991 (*BI*, Nov. 14).

At No. 8 was potentially the largest product liability settlement in history, the $4.75 billion global settlement proposed by the three leading manufacturers of silicone breast implants (*BI*, Feb. 21).

Although a federal judge approved the deal, Dow Corning Corp., Bristol-Myers Squibb Co. and Baxter Healthcare Corp. were still wrestling with their insurers for coverage to pay for the deal. In addition, at least 12,000 of the women eligible for payments chose not to be part of he global settlement, which could mean substantially higher liabilities for the manufacturers (*BI*, July 18).

The ninth-place story became evident late in the year, in what one stock analyst called "the deal of the decade," and that with the decade of the 1990s not half over. The story was the continued financial restructuring of property/casualty insurance industry as exemplified by CNA Financial Corp.'s proposed $1.1 billion buyout of Continental Corp. (*BI*, Dec. 12).

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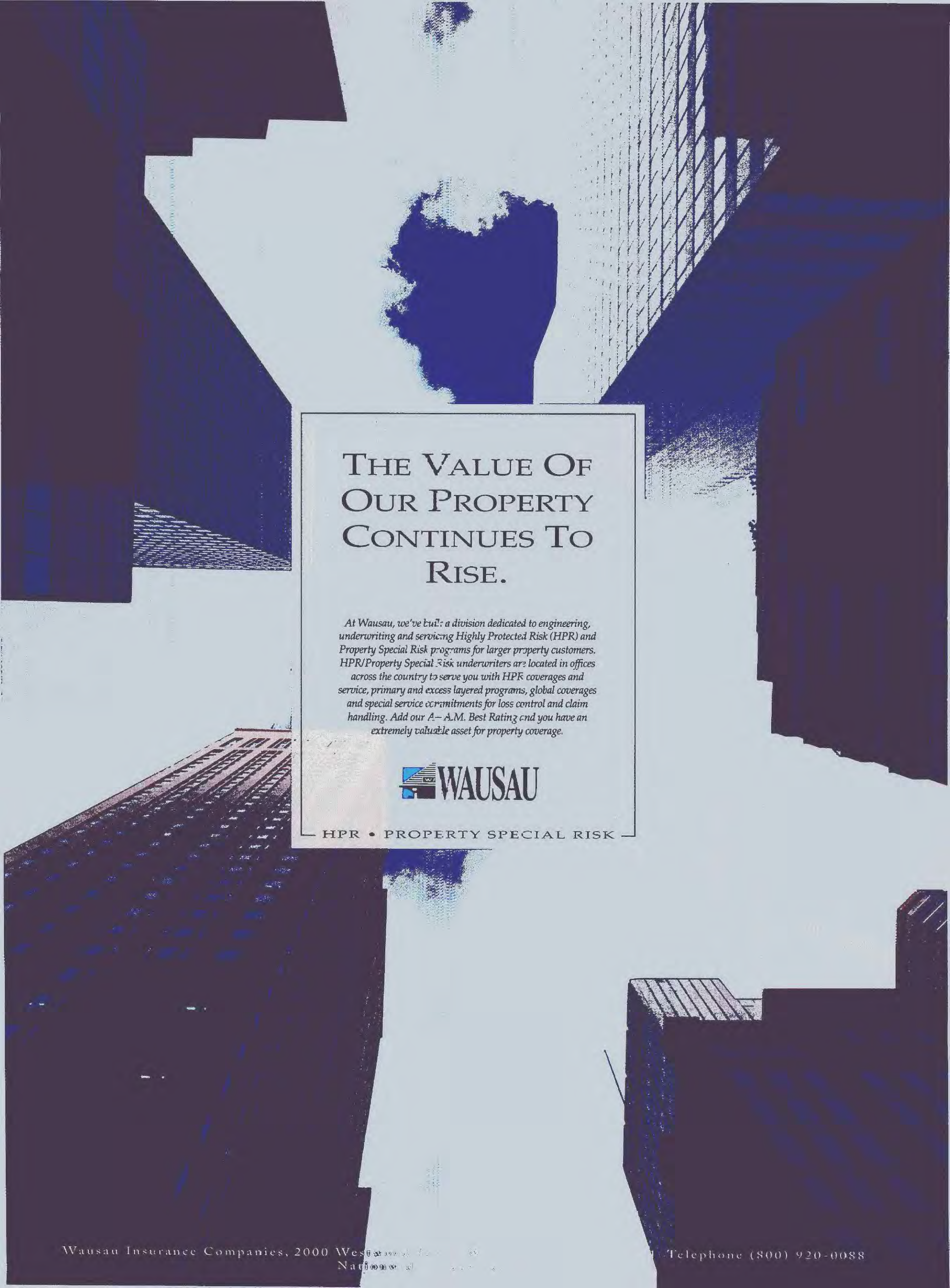

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Risk stories

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The acquisition would make CNA the nation's third-largest property/casualty insurance company and the largest commercial property/casualty insurer.

Meanwhile, more signs of restructuring emerged as the man credited with turning around two property/casualty companies within 20 years decided to see if his magic touch would work for a third.

John J. Byrne, who had previously restored both GEICO Corp. and Fireman's Fund Corp. to financial stability, put together a deal involving $630 million in new money for Home Holdings Inc. It was the biggest such rescue of a commercial insurer in history.

American International Group Inc. wasn't idle, either, first investing $200 million in ailing brokerage Alexander & Alexander and then another $200 million in earthquake-shaken 20th Century Industries.

Other deals of note included Sears, Roebuck & Co.'s spinoff of its remaining stake in Allstate Corp., Swiss Reinsurance Co.'s decision to sell its direct insurance units and General Reinsurance Co.'s acquisition of a controlling stake in Cologne Reinsurance Co.

Last of the top 10 stories, but by no means least important to many risk managers, was the move by many corporations to outsource risk management.

The trend was exemplified by International Business Machines Corp.'s cost-cutting move to outsource its worldwide risk management functions to two brokerages—Marsh & McLennan Cos. Inc. and Johnson & Higgins (*BI*, Aug. 15; Aug. 1). BI

Shaken and stirred in 1994

Comp, quake, outsourcing worried risk managers most

Risk managers pegged workers compensation, the Northridge earthquake in January and outsourcing as the issues that warranted most of their attention in 1994.

4
Top Risk Management

Republicans' sweep of the November elections has also created a stir, as risk managers speculate on what that means for the issues they care about.

A top issue for benefit managers, health care reform, also held a professional interest for risk managers because of the workers compensation implications.

Most risk managers "did care what went on in health care reform because the Clinton bill did have workers compensation in it," explained Margy McKenna, director of risk and benefits for Jones InterCable Inc., a cable television company in Englewood, Colo.

"When workers compensation fell out of the health plan, that was significant," said Stephen Finley, risk manager for the city of Lakewood, Colo.

The proposal was too general, he said. "Employers would continue to pay but lose control."

He cited the defeat of a proposed constitutional amendment in Colorado that would have allowed employees to select their own physicians for workers comp injuries as an event of local significance.

"The voters saw the light that this would be an expensive proposition," Mr. Finley said.

Other risk managers also noted with satisfaction workers comp reform trends in their own states.

Texas's 2-year-old reform law has been a great success, said Rupa Mathur, who is the Austin-based director of risk management for the state of Texas.

"Employees are paid more in indemnity payments, they are paid promptly and there is less attorney involvement," she said.

Based on the success of workers comp reform, Texas was able to reduce its property/casualty insurance expenditures by 8.5% in 1994 to $63.1 million, Ms. Mathur added.

That figure includes 132 state agencies, but certain large entities, such as the Department of Transportation and the University of Texas, are not included.

John B. Hughes, director of risk management at Alex Lee Inc. in Hickory, N.C., said he has been following efforts across the country to reform workers comp, especially North Carolina House Bill 906, which is still pending.

Many risk managers were shaken up by the Northridge earthquake that struck the Los Angeles area.

Although Hilton Hotels Corp. in Beverly Hills, Calif., did not suffer damage in the earthquake, W. David Little, director of risk management, observed that "it accentuated the troubled catastrophe market."

"Northridge is still the unknown quantity," said Richard J. Welch, risk manager for the city of Los Angeles. More than $10 billion in claims are sure to impact everyone in the industry, and claims are still coming in, he said.

"It certainly has dried up the ability to get earthquake coverage in California," he added.

"Having to deal with a fairly sizable earthquake claim for the first time" was quite an experience for United Parcel Service of America Inc. in Atlanta, said Gale Davis, risk manager. Ultimately UPS's losses will total about $3 million from earthquake damages to two major hubs.

Even in Canada, the earthquake was the event of 1994, said Kenneth L.H. Murphy, risk manager with Hudson's Bay Co. in Toronto. "It's still pretty much on everyone's mind. The fallout continues as everyone is re-evaluating their disaster response plans. We're dusting off our plans, examining them and making sure any squeaky wheel gets some oil."

Risk managers reported that one headline-making story probably led to a good deal of soul-searching among colleagues.

International Business Machines Corp.'s announcement this summer that it was outsourcing its risk management functions to a pair of major brokers was very important, said Michael Abadie, insurance manager at Hoechst Celanese Corp. in Somerville, N.J.

"When that hit the headlines, I couldn't help but think about that old catch phrase, 'What's good for IBM is good for America.' This has to lead to a change. Risk managers will now have to view themselves as much more than just filling an

Continued on page 10

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Opinions

Helping manage new risks

IF NOTHING ELSE, recent events like the Orange County investment debacle and the public relations mess with the Intel Corp. Pentium chip illustrate the proliferation of risks over which risk managers have little control.

Does this mean that risk managers should be given expanded responsibility for their organizations' investments? Hardly.

Should they control the public relations department? Nope.

But, organizations facing these and other exposures outside the risk manager's traditional purview can benefit from the risk manager's experience. And risk managers should strive to at least be aware of these risks so that they are better prepared to offer advice when problems occur.

Who would be better in the organization to give perspective on protecting assets or minimizing liability than the risk manager?

In recent years, companies have increasingly relied on the risk manager to review a range of business dealings that fall outside their typical duties. These include: reviewing merger and acquisition targets for hidden hazards or liabilities; assessing the development of new products for safety risks; considering whether geographic expansion will bring higher costs; and even reviewing hiring and firing policies to minimize employers liability exposure.

Not every risk manager will be in a position to help with some of the added exposures facing their organizations. How many would really understand "inverse floaters" or "reverse repos," the investments that landed Orange County in hot water?

"GUESS WHAT I GOT FOR CHRISTMAS?"

Unfortunately, it often will be up to risk managers to alert senior management that they can provide such advice and do more than procure insurance.

But for risk managers who are able to demonstrate their worth to the organization in new and unexpected ways, it's a way to help them help themselves.

Letters

Vocational rehabilitation needn't be costly

To the editor: I had an opportunity recently to review your Oct. 17 issue and was excited to read the articles regarding earlier return to work programs for injured workers.

This kind of information will heighten the awareness level of business and industry, facilitate earlier return to work of injured employees, and reduce workers compensation costs while complying with the ADA.

One thing that I found confusing was the reference to expenses involved in vocational rehabilitation. The articles indicated that returning injured workers to transitional employment, light duty or modified jobs was less expensive than vocational rehabilitation.

Since the term vocational rehabilitation includes "restoration to a former capacity, former state, useful and constructive activity," it can be the same as the former.

That is, modified jobs, light duty or transitional employment are among the kinds of activities that are considered to be vocational rehabilitation.

Perhaps the issue is really how and by whom it is provided.

If the employer provides the vocational rehabilitation, or helps to do it, it will be less costly than involving a private rehabilitation provider.

Paying a third party is costly, just as retraining, education or other cost services, which could have been stated more clearly.

Other options might include utilization of public rehabilitation programs. There are state/federal rehabilitation programs across the country which offer services to persons with significant disabilities and their employers in an effort to assist people in maintaining employment.

Many of the services available through the public rehabilitation agencies are provided at no cost.

Mary Kaye Johnston
Glen Allen, Va.

Remembering Edith Lichota

To the editor: On behalf of everyone associated with Bankers Insurance Co. Ltd., please accept my sincere thank you for the article and editorial in the Dec. 5 issue of *Business Insurance* regarding Edith Lichota.

As you may know, Edith served as BICL's original chairwoman and later as vp-administration.

Edith's passing leaves the insurance and risk management community with a tremendous void.

She possessed intelligence and determination second to none and applied those traits with precise focus to each and every task, whether as an attorney, risk manager, consultant or insurance company executive.

Her willpower was essential to the creation of Bankers Insurance Co. Ltd., and BICL's success will be a part of her legacy.

Those of us who were involved in BICL were lucky to be, in a very real sense, part of her extended family. As such, many of us feel a similar sense of loss to what we would experience upon the loss of a family member, not merely a business associate. Those of us who were fortunate to know Edith will never forget her.

Frederick D. Driscoll
Chairman
Bankers Insurance Co. Ltd.
Hamilton, Bermuda
Vp and Risk Manager
Michigan National Corp.
Farmington Hills, Mich.

Business Insurance welcomes letters from its readers. Please keep your comments as brief as possible. We reserve the right to edit letters for clarity or space. We will not publish unsigned letters. Send your comments to Letters to the Editor, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611-2590.

Brazil market story in error

To the editor: Being active in the Brazilian insurance market for the past 42 years, I read with interest the Nov. 7 article, "Market Opening Seen in Brazil," which reported on the possible opening of the market to international reinsurers and foreign capital.

While I do not dispute the personal opinions of various players in the market, which were reproduced in the article—after all, opinions are opinions and everyone is entitled to his own—I must comment on two items where your reporter got the actual facts wrong.

In the first place, no broker is involved in placing reinsurance with the IRB for the local direct insurers. All reinsurance is done directly. As a matter of fact, one of the past presidents of the IRB went so far as to prohibit access to the IRB's brokers.

It is also incorrect to state that "smaller companies thrive on the retrocessional business they get from the IRB."

Firstly, because this business very often shows disastrous results, and secondly, as can be seen from the figures in the article itself, retrocessions represent about 2% of the total gross premium volume, which obviously is not sufficient to make 100 companies "thrive."

Petr Purm
Consultant
Sao Paulo, Brazil

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1994 risks

Continued from page 6

administrative position," Mr. Abadie said.

When risk managers discuss outsourcing risk management functions among themselves, it often turns into a "broker-bashing" exercise, with "risk managers accusing the brokerage industry of trying to take their jobs," observed Graeme Harper, director of risk management for Home Depot U.S.A. Inc. in Atlanta.

"I don't necessarily agree with that viewpoint," Mr. Harper said.

"I don't think any major company can do without a risk manager if they are doing their job properly," he said.

One late-breaking newsmaker was the shift of power in Washington.

The November congressional elections that ushered in a Republican Congress were the biggest single event in 1994 impacting risk management and business in general, said Gregory Hidden, director of risk and insurance services with American General Hospitality Inc., a Dallas-based hotel management company.

"We're seeing a groundswell that's saying, 'Let's stop killing business and jobs and let's start saying the economy is good and let's keep it good.' For the hotel industry, this is very important," Mr. Hidden said.

"The change in Congress is the biggest story," agreed Anton Kronenburg, division chief-insurance and risk management for the city of Jacksonville, Fla.

He said he thinks Superfund and tort reform now stand a better chance on the coming year's agenda.

—By Sara J. Harty

Risk managers peer into future

Workers compensation dominates visions of the new year

By MARK A. HOFMANN

Risk managers predict that next year's top issues will be workers compensation, workers compensation and workers compensation.

Workers comp overwhelmed such other potential issues as the impact of the Republican congressional victories, the debate over outsourcing risk management and even the lingering effects of the Northridge earthquake.

"We think (workers comp) is going in the right direction," said Gale Davis, risk manager at United Parcel Service of America Inc. in Atlanta.

Steven H. Lawrence, director of risk management and insurance at Purchase, N.Y.-based PepsiCo Inc., is looking forward to improved workers comp vendor service as well as innovative cost control methods.

"In California, open rating is going to be a big change in workers compensation," said Richard J. Welch, risk manager for the City of Los Angeles.

Joe Reyes, risk manager in Los Angeles for Gruma Corp., agrees. Everyone is dying to see the new rates and products, he said. For companies that self-insure or have large deductibles, they may split off the California entities if the pricing is better under open rating, he said.

Repetitive strain injuries will continue to be risk managers' crucial consideration, said Karen J. Miller, risk manager at LSI Logic Corp. in Milpitas, Calif. "Dealing with that from a managed care perspective will be an issue."

Workers comp will remain a top concern, agreed Nancy Johnston-Bellard, risk manager of Alameda County, Calif., in Oakland. But, repetitive stress problems will not lead the list, she said.

Instead, there will be "more claims having to do with (office) buildings, environmental indoor health," she predicted. The claims will stem from chemicals and allergic reactions, said Ms. Johnston-Bellard, noting that medical literature seems to be addressing the issue more often.

Cost control and loss prevention will be a top concern for Twinsburg, Ohio-based Revco DS Inc. next year, said Thomas Coles, director-risk management for the drugstore chain. In the last 18 months, Revco has introduced an aggressive return-to-work program; now, it is installing "real time" computer links in its stores to allow immediate online claims reporting, he said.

'I hope with a new Congress we will have tort reform and Superfund reform,' says Marriott's Robert Steggert.

And, states will continue attempting to improve workers comp laws, said Gregory Saxum, director-workers compensation for Eastman Kodak Co. in Rochester, N.Y.

Of course, Republican control of Congress is another factor in next year's risk management outlook. Some long-running debates, like repeal of McCarran-Ferguson, will likely languish under the GOP, noted Graeme Harper, director-risk management for Home Depot U.S.A. Inc. in Atlanta.

"I hope with a new Congress we will have tort reform and Superfund reform. The (Superfund) goal should be to put money where it needs to be and to minimize friction costs, including the costs of bureaucracy and litigation," said Robert Steggert, vp-casualty claims for Marriott International Inc. in Bethesda, Md.

The GOP victories increase the chance of tort reforms, predicts Glenn Klinksiek, the University of Chicago's risk manager.

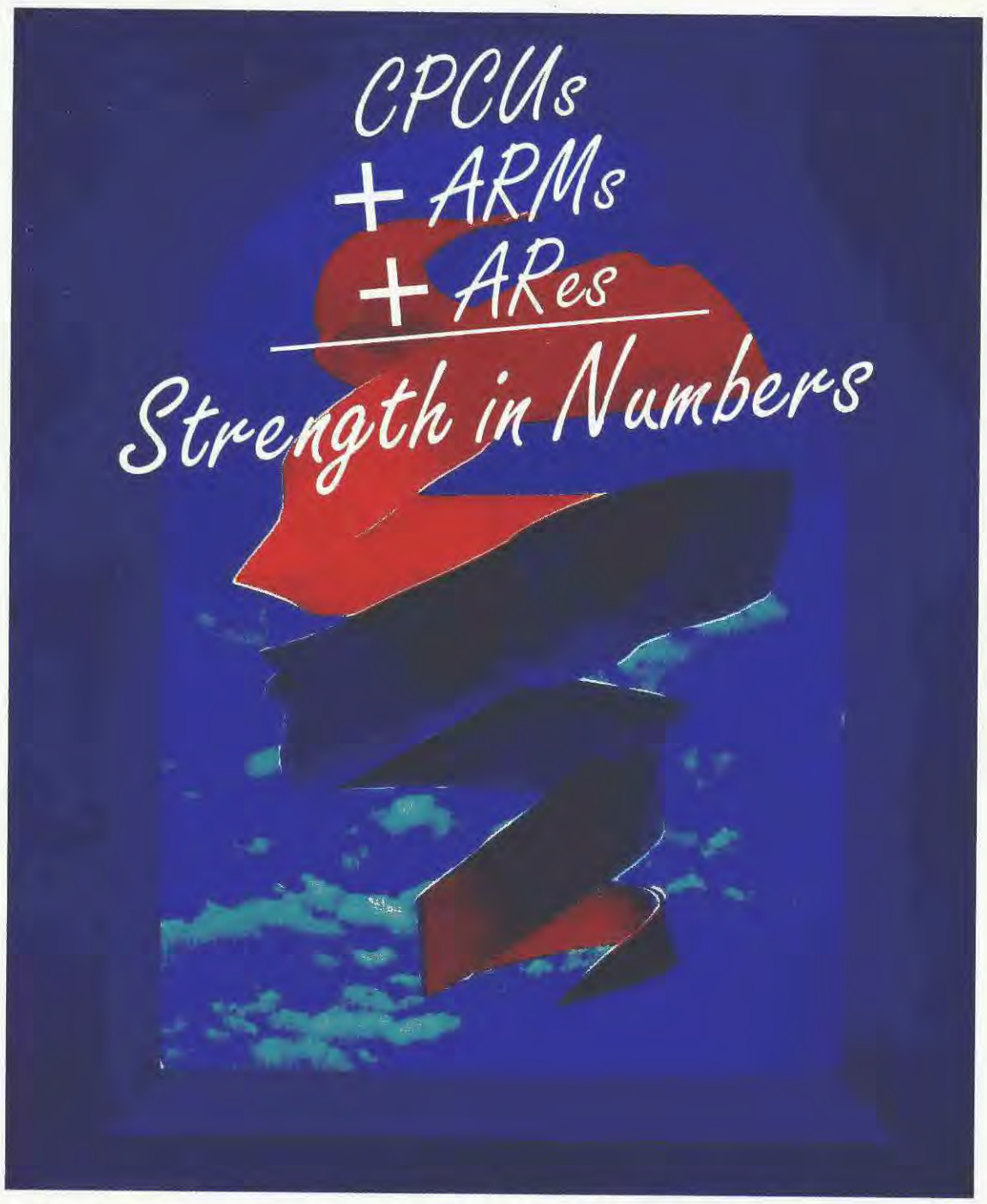
But, that may not be such a good thing, he said: "With tort reform, there will be less need for risk management professionals."

Perhaps a more immediate threat is the trend toward outsourcing the risk manager's function, several risk managers noted.

"Some things you can outsource, some things you can't. You need someone in-house to watch the contractors. You will always need risk managers who do more than buy insurance," said Alameda County's Ms. Johnston-Bellard.

The restructuring of risk man-

Continued on page 14



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1995 risks

Continued from page 10

agement also will include issues like outsourcing risk management duties, how brokers will work with risk managers as they try to replace them and brokers' attention to improving quality, said Michael W. Bryant, director-insurance for Pittsburgh-based Westinghouse Electric Corp.

"From a management and control point of view, I don't believe (outsourcing) would benefit a company. Managers could lose control if they outsourced to a broker because of a potential conflict of interest," said Harold C. Lang, director of insurance and risk management at manufacturer Kohler Co. in Kohler, Wis.

The corporate risk manager's office isn't the only restructuring likely to mark 1995, said Bill Cauveren, director of risk management and safety at Payless Cashways Inc. in Kansas City, Mo. He expects to see more financial problems and mergers among large insurers in 1995 as well.

Another major issue next year will be the significantly greater emphasis that property/casualty insurers place on loss control over risk transfer, said Jim Noble, director of corporate risk management and insurance for Colgate-Palmolive Co. of New York.

'I'm hoping for the end of things like the McDonald's hot coffee episode,' says one risk manager.

That trend, fueled by the numerous catastrophes in recent years, will place a premium on data collection and information systems, he said.

Kenneth L.H. Murphy, risk manager at Hudson's Bay Co. in Toronto, said the Northridge quake that hit Los Angeles will have an effect well into 1995. "There will be more selectiveness next year, with some insurers walking away from less attractive risks or setting prices so high that they price themselves out."

He was not alone in looking to a change in the market.

"We have been riding the crest of a soft market over such a long period of time, all of us should keep an eye on the possibility of the market turning and hardening," Kohler's Mr. Lang added.

Taking a philosophical view of the coming 12 months, Gregory Hidden, director-risk and insurance services at American General Hospitality Inc. in Dallas, anticipates that 1995 will be characterized by budget control, deficit reduction—and common sense.

He hopes to see more predictability, "which will allow us to buy insurance better. I'm hoping for the end of things like the McDonald's hot coffee episode. I just don't feel juries should be giving dumb people money, but they have been." BI

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P/C rates' direction up for grabs in 1995

Risk managers' outlook on property rates for 1995 somewhat resembles a tug of war.

Some think the strength of catastrophe losses—primarily the Northridge earthquake—will pull overall property rates up next year, while others say that competition's firm hold on the market will hold most prices steady.

94 Top Risk Management

Predicting casualty rates is a less interesting sport, since few risk managers see much action in that arena.

"Property rates are probably going to stay firm (because of the earthquake and other disasters), but I don't see anything to change liability rates," said Richard J. Welch, risk manager for the City of Los Angeles.

Joe Reyes, risk manager in Los Angeles for Gruma Corp., a Mexican-owned food company with operations in several states, also sees—with certain exceptions—minor changes in property/casualty rates. "It's going to be a continuum in the same direction as the prior two years."

Those exceptions are flood and earthquake, and specific casualty lines, such as employment practices, directors and officers and environmental impairment liability.

"When (those lines) hit the market, they were introduced with favorable rates. Now, the experience has given better pricing information for underwriters and risks are evident. Pricing has already moved forward," said Mr. Reyes.

"We all thought (rates) would harden after all the natural catastrophes, but I haven't seen it," said Harold C. Lang, director-insurance and risk management at Kohler Co. in Kohler, Wis. "Unless we have another major natural disaster, they will remain level."

Others say rate increases are possible but will be small.

"Property rates will range from flat to 5% increases next year," said Gregory Hidden, director of risk and insurance services at American General Hospitality Inc., a Dallas-based hotel management company.

Michael Abadie, insurance manager at chemical company Hoechst Celanese Corp. in Somerville, N.J., predicts that property rates will increase by 5% to 10%

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P/C rates

Continued from page 14

next year. "That's mostly because of what happened in California," he said. Casualty rates, he said, will increase by about 5% or "slightly higher than general inflation."

Indeed, the days of wild rate fluctuations are gone, according to most commercial property/casualty insurance buyers.

"I don't think we'll see cycles any more," said Jim Noble, director-corporate risk management and insurance for Colgate-Palmolive Co. in New York.

"It isn't logical for (rates) to stay soft, but I think they will," said Bill Cauveren, director of risk management and safety at Payless Cashways Inc. in Kansas City, Mo. Interest rates are on the rise, and "with that investment income opportunity growing even to a small extent, I think rates might be held constant."

Insurers may want to raise rates, but market competition makes that difficult. "Any time there is plenty of capacity, management tends to talk more than it acts," said Michael W. Bryant, director of insurance for Pittsburgh-based Westinghouse Electric Corp.

Anton Kronenburg, division chief-insurance and risk management for the city of Jacksonville, Fla., agreed that competition will prevent rates from hardening too much.

Rates will continue to be flat in 1995, "unless there is another Hurricane Andrew," Mr. Kronenburg said. "There is more competition in the property area," including the recent proposed merger of CNA Financial Corp. and Continental Corp., which he believes will emerge as a strengthened competitor (*BI*, Dec. 12).

And, insurers are facing competition not just from other companies but also from risk managers, who can turn to alternative risk financing solutions.

"I don't see P/C rates going anywhere in the next couple years," said Christopher Addieg, risk manager at Los Angeles-based First Interstate Bancorp. "I think there's just too many options for risk managers these days, with having captives and other ways to handle risk."

But, risk managers being risk managers, they are keeping an eye out for sudden market changes.

Property/casualty rates will hold steady in the near term, "assuming there's no huge understated liability that comes to roost," said Glenn Klinksiek, risk manager of the University of Chicago.

"The market is pretty flat," said Judith Moses McDonald, vp of Comerica Inc. in Detroit. "In our renewals, we're seeing a moderate reduction in premiums. The only problem I have is if it really hardens fast and knocks us for a loop like last time."

As insurance pricing cycles become harder to predict, many risk managers see pricing patterns becoming more buyer-specific.

"I think (rates) will tighten about 10%," said Brent Winans, risk manager of Concord Services Inc., a diversified Denver-based company with interests ranging from uranium mining to food processing. "Our property/casualty situation has already hardened since we're involved in so many difficult industries."

At least one risk manager in California is resigned to the inevitable rate increases in that state.

Property rates "will probably go up in California," said Nancy Johnston-Bellard, risk manager of Alameda County, Calif. "What else can they do in California? We've had billion-dollar losses."

Thomas Coles, director of risk management for Revco DS Inc., the Twinsburg, Ohio-based drugstore chain, also foresees rate increases. He said he expects the property market, which already has hardened in excess layers, to continue hardening next year.

Some risk managers say the forecast may be predicated on the confidence that the best rates go to those who know where to shop.

"If you want earthquake, look on the East Coast; if you want windstorm, look on the West Coast," said Mr. Kronenburg. He found California insurers willing to fill out a difficult windstorm policy because they wanted to reduce their earthquake exposure.

Still others shun attempts at forecasting, saying that anything can happen. "When the market turns, I'm afraid it's going to turn worse than ever, but I don't know when," said Eric B. Larson, risk management officer for the City of Des Moines, Iowa.

—By Roseanne White

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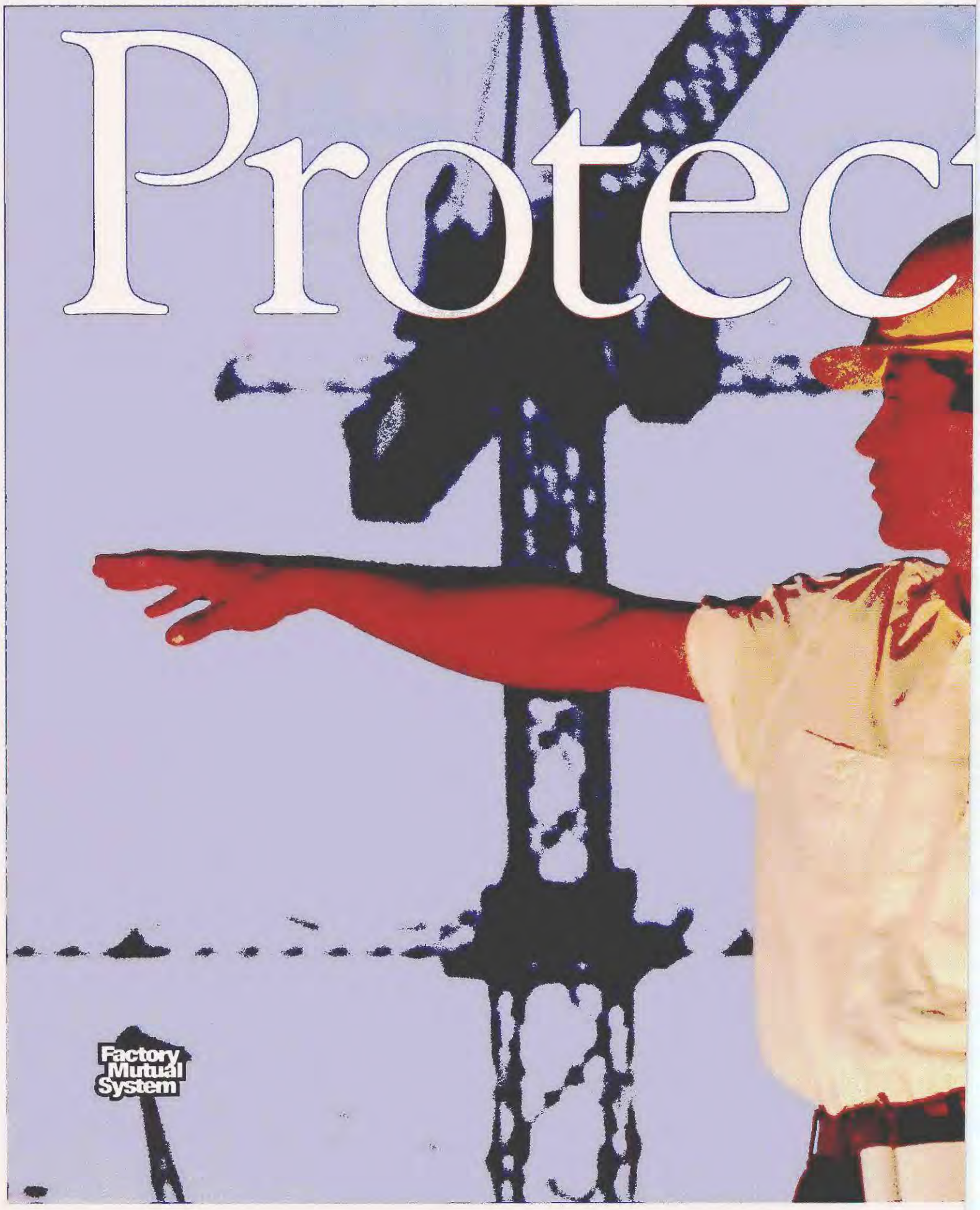


Superfund saga takes top billing

EIRF, insurer liability and wage dispute killed bill

In the end, a dispute over wage rules at dump sites killed Superfund reauthorization only a few days before the 103rd Congress left town for good.

#1
Top Risk Management

Superfund, the shorthand version of the Comprehensive Environmental Response, Compensation and Liability Act, was supposed to be reauthorized by last Sept. 30 or the federal government would lose its right to levy taxes to pay for the cleanup of certain polluted sites for which no responsible parties could be found. Because it has a surplus, though, the program can pay for such "orphan share" cleanup into next year.

In the months before Superfund reauthorization failed, debate focused not on wages but rather on an internecine fight among insurers over a proposed premium tax that would have paid for a new Environmental Insurance Resolution Fund. The battles grew bitter and personal, leaving even sympathetic legislators wondering why insurers couldn't settle their differences in private.

But, after Republicans triumphed in the November congressional elections, the industry debate over Superfund swung full circle to where it had begun, with most major trade associations backing nothing less than a full repeal of Superfund's imposition of retroactive liability.

Thus, the year ended as it began, with a measure of optimism that retroactive liability would be repealed, or at least limited.

At the beginning of 1994, the optimism stemmed from an internal Treasury Department memo calling for a complete overhaul of Superfund's liability system (*BI,* Oct. 11, 1993). A few weeks later, the White House began considering a plan that would tax insurers to provide a pool of money to pay part of policyholders' Superfund-related cleanup costs in return for policyholders' promise not to sue their underwriters for more money (*BI,* Dec. 20, 1993). Insurers' reaction to that plan was lukewarm, though some appeared willing to accept a broad-based premium tax in exchange for liability relief (*BI,* Feb. 7).

Much to the chagrin of insurers and businesses, the White House package not only left retroactive liability untouched but included the term "joint and several liability" for the first time. The bill also contained a new tax on insurers to pay for the EIRF but with no requirement that a policyholder accept an EIRF offer. Neither businesses nor insurers were terribly impressed.

An insurer/business group, the Coalition on Superfund, released its own proposal to reduce coverage litigation costs in mid-March (*BI,* March 21). This proposal also contained a version of the EIRF. But, the industry remained split on the concept, with the American Insurance Assn. endorsing it and other trade groups opposing it.

The reauthorization outlook dimmed in mid-April when House Transportation and Hazardous Waste Subcommittee Chairman Al Swift, D-Wash., one of the original co-sponsors of the administration's bill, put Superfund reform on indefinite hold due to the lack of consensus on the EIRF (*BI,* April 18). A few days later the Risk & Insurance Management Society Inc. said it opposed the bill.

The administration unveiled another Superfund proposal in early May. It kept the EIRF but tightened the liability allocation process for Superfund sites and provided greater flexibility in selecting remedies for individual site cleanup (*BI,* May 9).

Superfund advanced throughout the rest of the spring and much of the summer, but Republican members of the Senate Superfund, Recycling and Solid Waste Subcommittee managed to delay markup of the reform bill for three weeks because they wanted retroactive liability repeal included in the measure.

Meanwhile, the acrimony within the insurance industry over the EIRF grew as details of the proposed tax burden became clearer. The industry was also split over how taxes should be levied. Some groups favored a totally retroactive tax, others a pure prospective tax, others a mix and no one was particularly happy with the administration's attempt to blend the two.

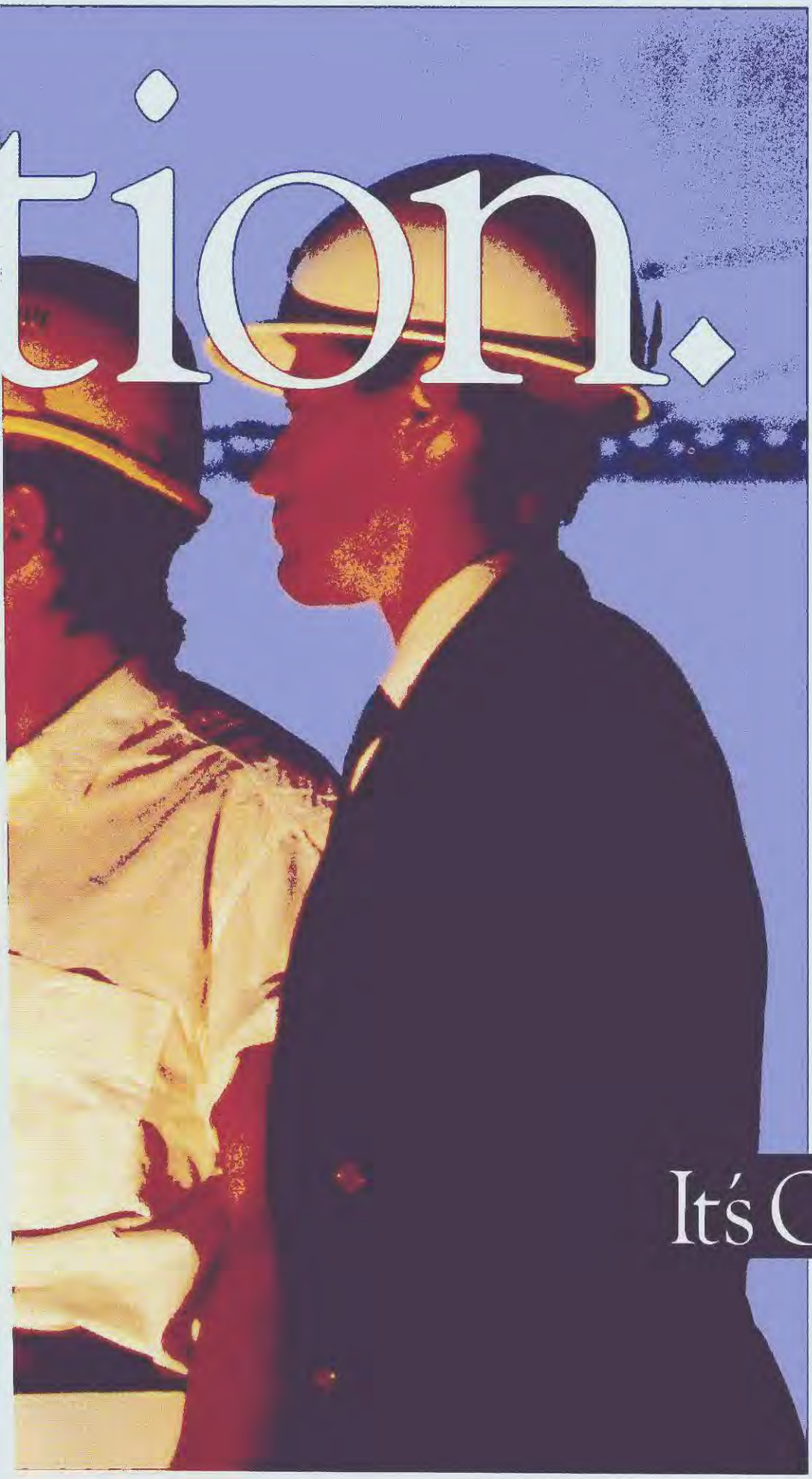
By the end of September, both the House Ways and Means Committee and the Senate Finance Committee had approved reform bills that would have established an EIRF.

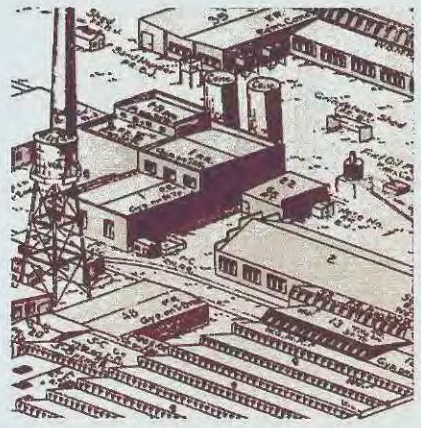
But the bills differed on other details. One of those details, a House provision requiring that the Davis-Bacon Act apply to wages paid to workers at sites being cleaned by a private/public partnership, ultimately killed the bill. Davis-Bacon requires that workers on federal projects be paid the prevailing wage in their area, which usually means the union wage. Republicans opposed any Superfund bill that contained Davis-Bacon language. House and Senate conferees could not agree on that provision, and Superfund reauthorization was declared dead on Oct. 5 (*BI,* Oct. 10).

Even before the GOP congressional victories raised the possibility that retroactive liability might be stripped from Superfund, various insurance trade groups began talking about the need to calm the emotionally charged atmosphere surrounding the Superfund debate.

The AIA formally abandoned the EIRF as a "starting point" for debate after the election (*BI,* Nov. 21). A few weeks later, representatives of six trade groups named Franklin W. Nutter, president of the Reinsurance Assn. of America, head of a joint group to hammer out a list of principles against which any Superfund proposal would be measured.

—By Mark A. Hofmann





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Insurance industry still trembling from Northridge earthquake

#2 Top Risk Management

Nearly a year after the Northridge earthquake rocked the greater Los Angeles area, the insurance industry is still feeling the aftershocks.

The quake that tore through Los Angeles at 4:31 a.m. on Jan. 17 measured as high as 6.8 on the Richter scale and was followed by numerous aftershocks during the weeks that followed, several of which were greater than 5.0.

The earthquake, which had its epicenter in the San Fernando Valley town of Northridge, crumpled freeways, collapsed many buildings and left thousands of structures uninhabitable, killed at least 55 and injured about 7,000 people.

Insured loss estimates initially were $1.5 billion to $3 billion, but that figure has grown steadily throughout the year. Insured losses from the Northridge quake, already the second costliest catastrophe in U.S. history, currently are expected to exceed $10 billion.

Long before the full extent of the damage was known, risk managers and brokers were reporting steep rate increases for properties with quake exposures.

By midyear, rates for companies with California earthquake exposures were up between 50% and 200% (*BI*, July 4).

"The big increases are for risks with heavy exposures in Southern California or on the coasts, and the worst would be both," Kieran Burke, executive vp at Tri-City Insurance Brokers Inc. in New York, said at the time.

The quake devastated the results of reinsurers and insurers alike. That disaster, combined with continuing low investment yields, cut domestic reinsurers' net income by 35.7% to $861.2 million for the first nine months of this year vs. $1.34 billion for the same period in 1993 (*BI*, Nov. 28).

Primary insurers suffered as well, although not as spectacularly. A *BI* survey of 23 primary underwriters for the first nine months of the year, which reflected the Northridge, Calif., earthquake but few third-quarter catastrophes, showed net income was down 6.4% to $4.71 billion from $5.03 billion for the same period a year earlier (*BI*, Nov. 21).

This was an improvement, however, over the 13.9% decline to $3.38 billion reported for the first half, and the first quarter's 39.5% plunge to $1.29 billion, which reflected the record catastrophe losses.

By mid-December, State Farm Group had increased its tally of quake-related losses by 26.5% to $2.53 billion from $2 billion reported two months earlier (*BI*, Dec. 19). 20th Century Industries, the parent of 20th Century Insurance Co., increased its loss estimate to $900 million from $815 million in September.

20th Century Industries itself made earthquake-related news in late September when American International Group Inc. proposed a $200 million bailout (*BI*, Oct. 3).

Under the deal, which closed this month, AIG could within one year control nearly 40% of 20th Century Industries by investing $200 million in a new issue of 17.6 million shares of convertible preferred stock and exercising warrants for 16 million additional shares.

AIG's letter of intent also provides for it to commit $70 million in additional capital and quota share reinsurance should 20th Century's Northridge quake-related losses increase.

Not surprisingly, legal aftershocks began rattling through Los Angeles area courthouses within weeks of the quake (*BI*, March 7). Several suits were filed in Los Angeles Superior Court seeking damages for wrongful death from the owner and builder of the multistory Northridge Meadows apartment complex, which collapsed during the temblor.

In addition, the unexpected degree of damage to steel-framed buildings led engineers to wonder whether any structure in Southern California is really earthquake-proof (*BI*, June 6).

By late spring, investigators had found cracks in the girder and weld connections in as many as 76 steel-framed buildings.

The potentially dangerous cracks can only be revealed by removing parts of walls and fireproofing material, which in buildings more than 10 years old can be made of highly volatile asbestos, adding remediation costs to the already expensive re-examination tab.

The repercussions of the findings in Southern California are already reverberating throughout the state, with engineers recommending that new inspections of steel-frame buildings in the San Francisco Bay Area be conducted. The strength of the connections in many of those buildings may have been similarly compromised by the 1989 Loma Prieta quake, the engineers say.

Pre-cast concrete structures, such as parking garages and bridges, also fared poorly in the quake while wood-framed buildings fared disastrously.

—By Mark A. Hofmann

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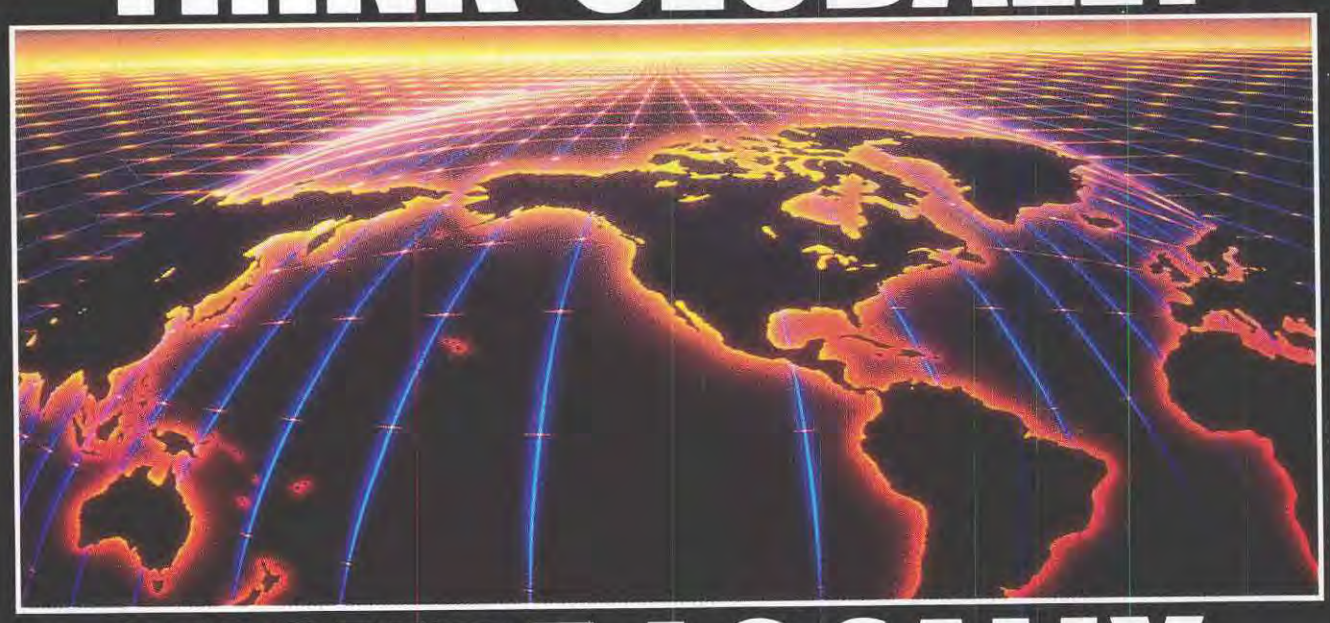

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A new agenda in Congress

GOP victory may spell reform of Superfund, liability

The Republican electoral sweep on Nov. 8 sent the congressional risk management and insurance agenda spinning.

#3
Top Risk Management

Legislative initiatives associated with key Democrats, including federal insurance regulation, modification of the McCarran-Ferguson Act's limited antitrust exemption for insurers, tougher workplace safety regulations and federal investigations into alleged insurer redlining fell to the bottom—or even all the way off—of the agenda.

Into their place leap-frogged federal product liability reform, as well as other tort reforms and the possibility that a Superfund reauthorization bill passed by the new GOP-controlled Congress would repeal Superfund's imposition of retroactive liability for cleaning up dump sites.

Perhaps the most dramatic change was the defeat of House Judiciary Chairman Jack Brooks, D-Texas. Rep. Brooks repeatedly introduced legislation that would have greatly circumscribed the protections granted to insurance companies under the McCarran-Ferguson Act.

His most recent effort, H.R. 9—a compromise worked out with the American Insurance Assn. and the Independent Insurance Agents of America—stopped short of full McCarran-Ferguson repeal. Although the measure passed the Judiciary Committee over the protests of its Republican members, it was incorporated into the Clinton administration's health care reform bill, where it died.

Rep. Brooks, also an adamant opponent of federal product liability reform, was credited by friend and foe with blocking House consideration of such legislation. But his successor as Judiciary chairman—Rep. Henry Hyde, R-Ill.—opposed amending McCarran and has supported product liability reform.

House Energy and Commerce Committee Chairman John D. Dingell, D-Mich., was luckier than his colleague from the Lone Star State: He survived the election but found himself a member of the congressional minority for the first time in his four decades in Washington and no longer head of the powerful committee he led for 14 years. That means he will no longer be able to use the Energy and Commerce Committee as a forum from which to call for greater federal regulation of insurance, notably the creation of some sort of federal solvency oversight for multistate and foreign insurers.

The new chairman of the now-renamed Commerce Committee—Rep. Thomas Bliley, R-Va.—does not share Rep. Dingell's enthusiasm for federal regulation. In fact, he tends to view much federal regulatory activity with a decidedly skeptical eye.

The new GOP majority is also cool to a couple of other Democratic initiatives: anti-redlining legislation and labor-backed reform of the Occupational Safety and Health Administration. The GOP leadership has shown no interest in pursuing allegations of insurer redlining, the illegal practice of denying coverage to individuals based on their race or where they live.

Rather than subject employers to more stringent workplace safety regulations—as OSHA reform legislation proposed in the 103rd Congress by Sen. Edward Kennedy, D-Mass., and Rep. William Ford, D-Mich., would have done—any OSHA reform bill backed by the GOP seems more likely to reduce employers' regulatory burden.

Reducing businesses' regulatory burden in the form of product liability reform is also high on the Republicans' list. In fact, it's part of the House Republicans' 10-point "Contract With America."

Although a product liability reform bill could not garner the 60 Senate votes needed to get it to the floor in the last Congress, reform proponents are optimistic that the GOP victories, coupled with the defeat of Rep. Brooks and the decision of Senate Majority Leader George Mitchell, D-Maine—the upper chamber's most vigorous reform opponent—not to seek re-election, will give reform a needed boost.

The Contract With America also promises to pursue other "common sense" tort reforms, a theme that may mark the Superfund reauthorization debate as well.

Insurer groups are rallying behind repealing Superfund's imposition of retroactive liability for environmental cleanup. Although the GOP majority has not taken a formal position on retroactive liability, two of its key players in the Superfund debate, Sen. Robert Smith, R-N.H., and Rep. Bill Zeliff, R-N.H., called for repeal of retroactive liability in a bill they introduced last year.

—By Mark A. Hofmann

It's Not fo

CommonwealthRisk • • •

Lloyd's has a long row to hoe

Market predicts future profits, but problems persist

Will Lloyd's of London survive?

Several events at the 306-year-old institution this year give fuel to skeptics and optimists alike.

#4

Top Risk Management

Despite global losses posted at mid-year, market executives predict that the 1993 underwriting year will be the first profitable account since 1987. And, despite the Northridge earthquake, pundits expect 1994 also will be profitable.

Corporate members' interest in Lloyd's continued to grow in 1994.

Lloyd's Chief Executive Peter Middleton had hoped to attract £250 million ($390 million) in corporate capital in 1995 and by the Nov. 30 deadline, wound up with £330 million ($514.8 million).

It also appears that more individual members than expected will stick with Lloyd's in 1995.

In August, it looked like many of the market's 17,624 individual members would drop out, reducing their capacity to between £6.5 billion and £7.5 billion ($10.1 billion and $11.7 billion) in 1995 from £9.3 billion ($13.76 billion) in 1994 (*BI*, Aug. 29). But, it appears enough individual members will remain—mainly via investment trusts known as members agency pooling arrangements—to provide more than £8 billion ($12.48 billion) in capacity next year.

Lloyd's started the year on strong footing, with its 1994 capacity up 24% to £10.89 billion ($16.12 billion). This included £1.6 billion ($2.37 billion) of capacity contributed by the entrance of 95 corporate members.

In May, the market posted a global loss of £2.05 billion ($3.03 billion) for the 1991 underwriting year, the fourth consecutive year of marketwide losses (*BI*, May 23). Another loss of about £1 billion ($1.51 billion) is expected for 1992.

Lloyd's also squeaked by the two Department of Trade and Industry solvency tests, one involving the market as a whole, and the other individual members' solvency.

As the New Year approaches, however, some outstanding questions remain that could easily upset Lloyd's plans for survival.

The biggest is ongoing litigation by 23,488 members against numerous underwriting agents and auditors.

Lloyd's late last year tried to end all the litigation in one fell swoop by brokering a £900 million ($1.4 billion) offer to members with the money coming from underwriting agents' errors and omissions insurers, various third parties and centrally from Lloyd's. The offer was rejected in February, however, mainly because the amount was too low and the offer did not provide a cap on future liabilities (*BI*, Feb. 21).

The rejection cleared the way for litigation. In April, the Gooda Walker Action Group began the first of these trials against 71 underwriting agents. And, in October, the Gooda Walker members declared victory when the High Court ruled the syndicates' underwriters were negligent and, therefore, the agents could be held liable (*BI*, Oct. 18).

The Gooda Walker members expect to get as much as £510 million ($795.6 million) in damages—more than double the £220 million ($343.2 million) Lloyd's offered them in the failed settlement—but the agents' E&O underwriters have disputed the coverage available, which could reduce any damages awarded.

Following the Gooda Walker win, Lloyd's also tried to gets its hands on the money by proposing to change each member's premium trust deed. In this way, each Lloyd's member would have a duty to first pay its market debts before paying off any other creditors. However, Lloyd's later withdrew this idea amid an outcry from members.

Other litigation continues. The first of the trials involving the Feltrim Names Assn. and underwriting agents is coming to an end. The first trial involving long-tail liability actions—a suit brought by the Merrett 418 Action Group—begins in March.

High Court Justice Phillips is expected in January to decide whether members who are "first past the post" in winning their cases should be paid first, which would leave little money for future claimants.

Against this background, Lloyd's said earlier this month it will try one more time to bring all parties to the table to settle all litigation (*BI*, Dec. 12). The effort could result in a new settlement offer by spring.

Meanwhile, questions still abound over the expected establishment at the end of 1995 of Equitas Ltd., formerly known as NewCo, the reinsurer designed to run off most of the market's nagging past losses.

Projections made this year by various sources about the amount Equitas will need to pay these losses range from £500 million to £15 billion ($780 million to $23.4 billion).

—By Stacy Shapiro

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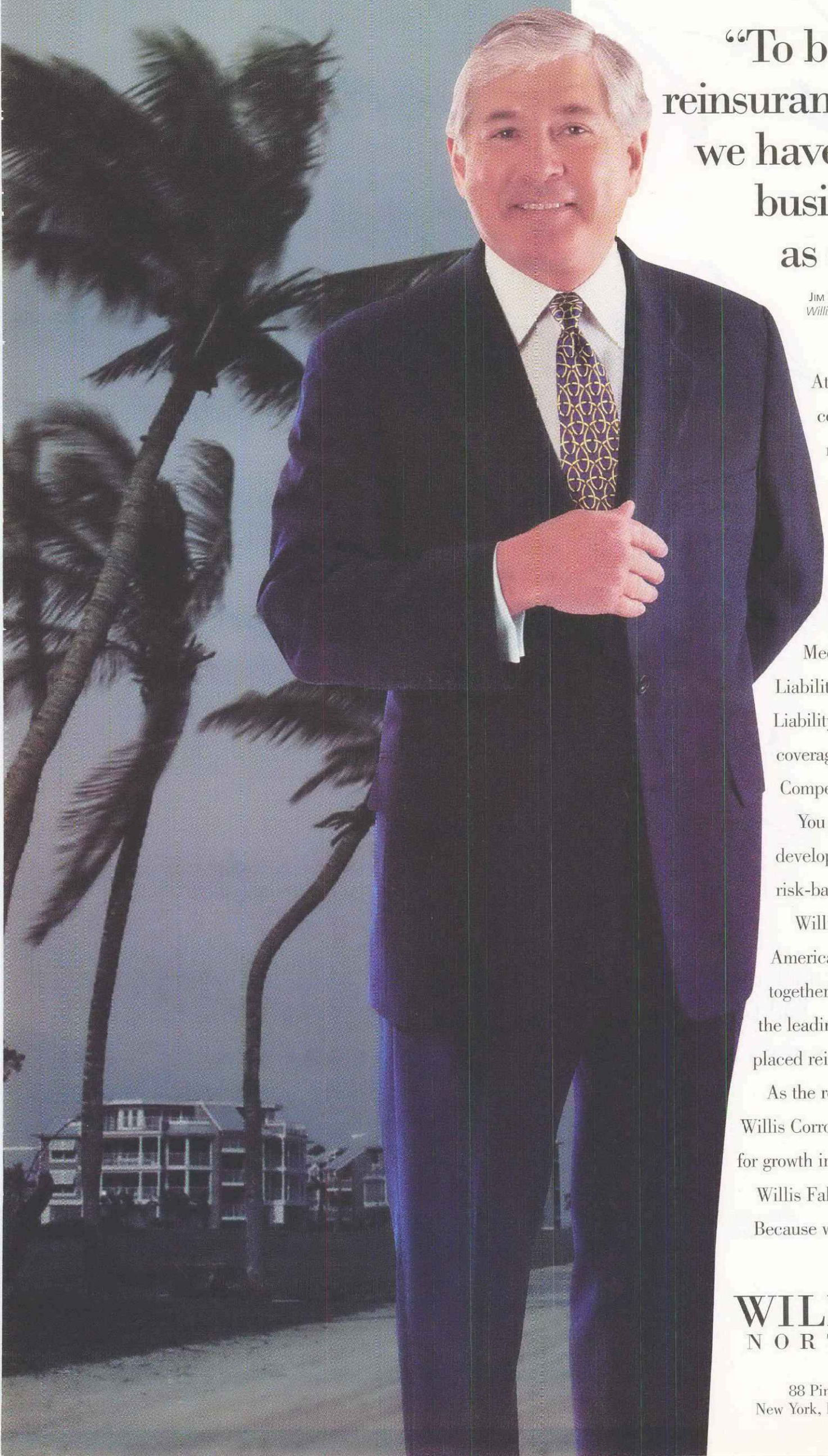

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P/C rates largely unshaken in spite of catastrophe losses

The earth may have moved, but for the most part rates didn't budge in 1994.

With the exceptions of earthquake and windstorm coverage, property/casualty rates remained stable and even continued to decrease slightly in some lines of business.

#5
Top Risk Management

Pricing was particularly soft for casualty risks as insurers shied away from catastrophe exposures but sought to expand their writings in other arenas.

There was even good news for buyers in workers compensation in 1994, where flat rates were attributed to state reforms and improvements in companies' loss control programs.

But, where the news was bad, it was very bad.

One risk manager reported a 250% rate increase on some excess California earthquake coverage at the company's July renewals (*BI*, July 4).

Insurers' response to the Jan. 17 Northridge earthquake that struck the Los Angeles area—which caused more than $10 billion of insured damage—sent many risk managers scrambling to find insurance coverage for their property risks in California.

Many companies had difficulty filling out layers of their programs and insurers in those layers were less likely to follow the forms below them, instead imposing their own terms and conditions.

Rates for windstorm coverage leaped similarly after Hurricane Andrew—and still remain high. But that and other huge natural catastrophes in recent years have not been enough to turn the market.

While conditions appear ideal for a market turn, overcapacity and higher interest rates may prove insurmountable.

"I think back to after Andrew happened, everyone thought we would begin to see a turn in the market. It didn't occur," David McDonald, senior vp and chief underwriting officer for Royal Insurance Group in Charlotte, N.C., said in August.

Despite poor results and record-breaking catastrophe losses in the first quarter, property/casualty insurers predicted little or no rate increases in the foreseeable future.

Although damage estimates from the Northridge earthquake grew throughout the year, insurers and analysts did not revise their expectations of a change in the overall market.

Insurance industry results remained lackluster throughout 1994, though insurers' combined ratio for the first nine months of 1994 improved to 109.6% from 111.6% for the same period in 1993 (*BI*, Nov. 21).

Net income declined 6.4% for the first three quarters to $4.71 billion from $5.03 billion in 1994.

That is better, though, than the 13.9% decline to $3.38 billion reported for the first half, and the first quarter's 39.5% plunge to $1.29 billion, which reflected the record catastrophe losses (*BI*, Aug. 29).

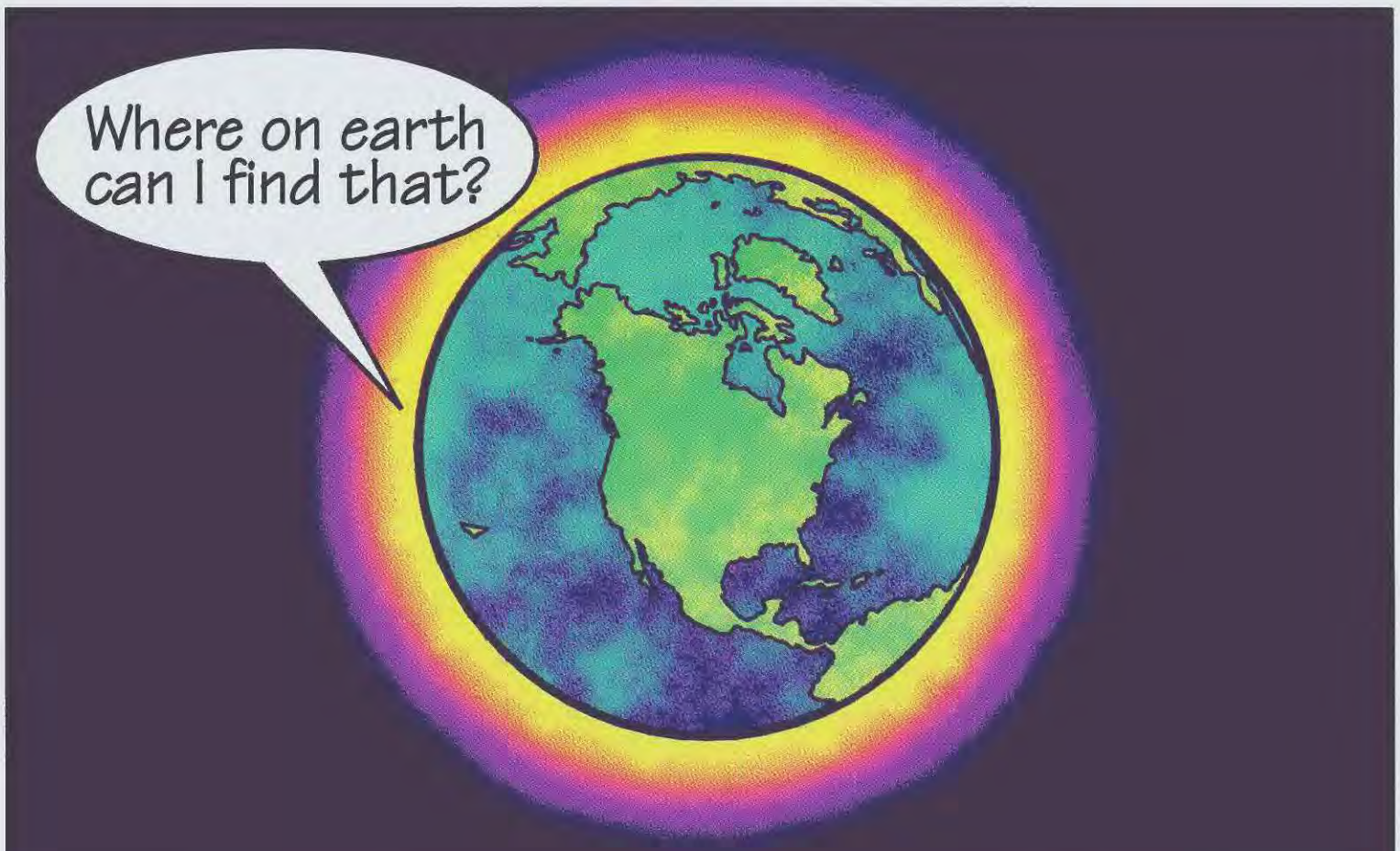
The ongoing soft market had some observers speculating during the year that the commercial property/casualty market is no longer cyclical but will instead be marked by pockets of rate increases in specific lines.

"The cycle as we know it is dead, and the reason is that everyone understands the dynamics" now, so that even if some company leaves the market, others will replace it right away, explained Barbara Stewart, president of Stewart Economics in Atlanta.

While some observers say conditions appear ideal for a market turn, overcapacity and higher interest rates may prove insurmountable.

"Everything suggests the market should be ready for a turn, but it's just not happening," Dennis Busti, president of Reliance National Insurance Co. in New York, said in November.

—By Sara Marley



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Benefit execs rank health reform as top story

It's no great surprise that benefit managers rank health care reform—or the lack of it—as the top employee benefits event of 1994.

What may be surprising is the very different reasons they have for placing it there.

Top Employee Benefits

Nina Lansky Falci, supervisor-benefits and compensation at Engineering Research Associates Inc. in Vienna, Va., said she was disappointed that Congress did not make even incremental changes, such as prohibiting pre-existing conditions clauses and improving access to comprehensive, affordable insurance. "Everybody got too busy politicking and lost sight of some of the real issues, which is unfortunate because there are problems. . .that need to be fixed," she said.

"No other employee benefits topic was more in the public eye than health care reform; Congress and the administration had a prime opportunity to gain public favor. This is another example of the inability of. . .government. . .to truly understand what is happening," said Beverly Khosh, manager-employee benefits at American Restaurant Group, Newport Beach, Calif.

Health care reform failed because the administration "overwhelmed everybody with what they wanted to do; we just weren't prepared to accept all that," said Roger Krantz, health plan administrator for Minnesota Power Co. in Duluth, Minn.

Some benefit managers were much happier to see the reform measures fail, citing advantages from government inaction.

Congress' failure "relieved benefit managers of substantial future complexity and bureaucratic requirements," said Gerald Modjeski, corporate director-employee benefits at Leaseway Transportation Corp. in Cleveland.

Bob Bonin, manager-benefits administration for First Chicago Corp. in Chicago, explained, "I'm personally happy to see it failed. The proposals advanced in Washington were too radical."

If the most important benefits story of the year came from Washington, many benefit managers seemed to think local developments were nearly as important in 1994.

Sally Gottlieb, benefits manager at Apple Computer Inc. in Cupertino, Calif., said an important event was the "incredible market developments that have been happening without any federal action."

Among those market developments are the spread of employer coalitions to bargain with health care plans, providers becoming "more reasonable" in increasing prices and forming networks and the mergers of health plans to increase efficiency, Ms. Gottlieb said. "And, I hear. . .more people talking about quality of care. That's really exciting."

Cost control efforts have increased this year, a result appreciated by many. "Without question, the whole issue of controlling health care costs" was the most important development of 1994, said Eric B. Larson, risk management officer for the City of Des Moines, Iowa.

He cited not only reform, but also stabilizing rates and consolidation among managed care companies.

The potential of health care reform resulted in employers implementing cost containment programs, managed care and quality initiatives within their organizations, said Bernard Knobbe, manager-employee benefits for Morton International Inc. in Chicago.

These steps contributed to continuing leveling trends in medical costs, which also "was big news in 1994," he said. "Everyone was focusing" on reducing health care costs, he said.

Benefit managers also noted the importance of fundamental changes in health care purchasing.

Fred Hamacher, vp-compensation and benefits with Dayton Hudson Corp. in Minneapolis, said the growth of employer-based health care purchasing coalitions was the biggest story in 1994.

"There was a lot of activity in various locations, and most coalitions were seeking something different. Some were formed to negotiate only on pricing, while others were concerned primarily with quality, and pricing was" secondary, he said.

Other benefit managers seemed relieved to be free of the Clinton plan's distractions.

Tom Richards, director-employee benefits for Alaska Airlines Inc. in Seattle, said that having to watch the health care reform jousting in Washington kept his company from planning for the future.

"We've been having to watch it pretty closely," he said. "Now we're thinking we will be on our own and (are spending less time) thinking about the impact benefit legislation" would have on any decision we make.

"I certainly watched every tick Congress made," agreed Steven Guzski, compensation manager for Utica National Insurance Group in Utica, N.Y.

Only a few other stories were cited as important by the benefit managers surveyed. One of those was the headaches caused by a 1993 tax law change that capped at $150,000 the amount of wages employers could use in computing pension benefits and contributions (*BI*, Sept. 6, 1993).

The $150,000 cap "had us reeling in terms of some sort of compensation for the more highly compensated," said Sharon Cook, senior manager/employee benefits at Amway Corp. in Ada, Mich. "That has caused more work for us."

At NYNEX Corp., the cap forced officials to study offering some non-qualified pension and savings plans, said Thomas Burns, managing director-employee benefits at the White Plains, N.Y., telecommunications company.

—By Kerry A. Dziubek

Benefit news

Continued from page 3

tiss-Wright violated ERISA because it did not specify which company representatives can amend the plan and which procedures they must follow. As many as 75% of employers follow similar practices, benefit experts have said (see synopsis, page 35).

The stakes in this case—which the U.S. Supreme Court earlier this year agreed to review—are enormous. If the high court upholds the appeals court decision, thousands of employers that have cut retiree health care benefits in recent years could face extensive litigation (see synopsis, page 35).

The year's No. 5 story on the benefits front involved the losses that employee savings plans have incurred through investments in risky financial derivatives. Atlantic Richfield Co., for example, announced that its employee investment fund had lost $22 million, or about 5% of its assets, in derivatives deals. ARCO later agreed to restore the loss to the plan (see synopsis, page 35).

The granddaddy, though, of all derivative losses involved Orange County, Calif., whose officials may have lost as much as $1.5 billion in speculative strategies (*BI*, Dec. 12).

The Republican sweep of both branches in Congress ranked as the sixth most important benefit story of the year.

For employer-sponsored benefit programs, the Republican victory could have both positive and negative implications.

On the positive side, the GOP victory is the final nail in the coffin for what employers consider overreaching health care reform legislation, such as the package proposed by the Clinton administration.

With hardly an exception, Republicans this year united against the central elements of health care reform legislation, including an employer mandate, federal health care cost controls and an expanded federal Medicare program for the uninsured.

In addition, Republican control means that legislation that would allow punitive damages against employers and benefit advisers that violate various ERISA rules is unlikely to get beyond the talking stages. Retiring Sen. Howard Metzenbaum, D-Ohio, has long favored such a bill.

On the other hand, if history is a reliable guide, Republican ascendancy could put the tax-favored status of employee benefit plans at risk.

In the past, Republicans targeted benefit plans with an eye toward raising revenue needed to offset reductions in basic tax rates—a longtime Republican goal.

For example, in the mid-1980s, Sen. Robert Dole, R-Kan., who is soon to become majority leader, was the Senate's most outspoken champion of taxing employees on a portion of employer-paid health care premiums. That type of proposal, if enacted, could cause employers enormous administrative problems.

Even the immensely popular 401(k) plans were not safe from Republicans looking for new revenue sources. On several occasions, the Reagan administration proposed wiping out 401(k) plans to offset some of the cost of lowering basic tax rates.

With Republicans once again calling for rolling back basic rates, taxation of employee benefits may once again come under scrutiny (*BI* , Nov. 14).

The slowdown in group health care plan cost increases was selected as the seventh most important employee benefit story of 1994.

In February, for example, A. Foster Higgins & Co. Inc., reported that group health care plan costs in 1993 rose by 8%, the first time in five years that costs rose in the single digits (*BI*, Feb. 14).

The news on the health care plan cost front got even better during the year. In October, the Federal Employees Health Benefits Program—the nation's largest, with 9 million federal employees, dependents and retirees—reported that premiums next year would fall an average of 3.4%.

And this month, the Group Health Assn. of America, a health maintenance organization trade association, said that HMO premiums next year will decline by an average of 1.2%.

Benefit experts say the growth of managed care plans has played a vital role in slowing down health care plan cost increases. Enrollment in managed care plans now well exceeds that of traditional indemnity plans. That in turn gives managed care plans enormous leverage to negotiate favorable rates and conditions with health care providers.

Managed care plans also are competing fiercely with one another to attract new business and retain existing accounts, another factor that has made group health care coverage a buyer's market.

The eighth most important employee benefits story of the year was the U.S. Department of Labor's denial of CSX Corp.'s bid to reinsure its group term life insurance program through its Vermont-domiciled captive insurance program. Labor Department approval was needed because benefit transactions between corporate units normally are considered prohibited transactions.

CSX ran afoul of a 1979 Labor Department rule that said that in order to fund its parent's employee benefit coverages, at least 50% of the captive's business must be derived from third-party risks. By contrast, about 90% of CSX Insurance Co.'s premiums come from CSX-related risks.

The CSX case attracted widespread attention in employee benefit and risk management circles because of potential tax implications. Had the Labor Department ruled in favor of the Richmond, Va.-based transportation firm, employers would had new opportunities to take tax deductions for property/casualty premiums paid to their captives by using their captives to fund benefit risks.

Those opportunities would be possible because:

- Several courts have ruled that a parent company could take tax deductions for property/casualty premiums paid to its captive if the captive generates a significant amount—about 30%—of outside business.
- The Internal Revenue Service has said that employers may take tax deductions for group long term care insurance premiums paid to their captives because the coverage is unrelated business.

According to this reasoning, if a company funds employee benefit coverages through a captive, the captive could be considered as writing a significant amount of unrelated business. That would increase the likelihood that the parent would be able to deduct property/casualty premiums paid to the captive.

But, in the wake of the Labor Department's decision in the CSX case, that tax strategy appears to be on hold (*BI*, April 4).

The No. 9 story of the year was a U.S. District Court ruling that General Motors Corp. violated federal law when it cut health care benefits for about 50,000 early retirees.

At issue is whether GM promised never to cut early retirees' benefits or only that early retirees could not be required to pay a portion of monthly premium contributions.

At stake in the case, which is before an appeals court, are early retiree health care obligations worth tens of millions of dollars (*BI*, Feb. 7).

The 10th most important story involves HMO industry consolidation, which has been going on for many years but reached new heights in 1994.

The stage was set in January when FHP International Corp. announced it would purchase TakeCare Inc. With 1.7 million enrollees, the merged firm became the nation's fifth-largest HMO (*BI*, Jan. 17). During the year, consolidation continued, including such blockbusters as Travelers Corp. and Metropolitan Life Insurance Co. agreeing to convert their predominating indemnity-based business into a single managed care plan (*BI*, June 20).

Some observers say buyers will benefit from the spate of mergers and consolidations. As HMOs grow, they should benefit from greater economies of scale and more leverage in negotiating contracts with providers. That in turn should help them to keep the lid on premium increases. BI

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Benefit managers predict: Health Care Reform part II

Federal health care reform legislation failed to pass in 1994, but employee benefit managers believe they will see more reform initiatives in 1995.

Fred Hamacher, vp-compensation and benefits at Dayton Hudson Corp. in Minneapolis, said that in 1995, states will be seeking to enact their own health care reform programs, as well as obtaining from Congress the waivers of the Employee Retirement Income Security Act that will be necessary in many cases.

"I expect this to be a bloody battle. You've got a Republican Congress with a bunch of states' righters who'll be encouraging states to experiment with their own plans. But that'll mean the states will have to march into Washington in search of waivers. It should be an interesting fight," Mr. Hamacher said.

Roger Krantz, health plan administrator for Minnesota Power Co. in Duluth, Minn., agreed. States seeking ERISA waivers will be at the top of benefit managers' watch list next year, he said.

"What scares me is the state initiatives and the big push on the part of a number of states for ERISA waivers. With the new Congress and the philosophy involved of 'Let the states do it,' it may be a real possibility," Mr. Krantz said.

"Waivers would be a real big mistake. It's the self-insured employers that are the innovators that are leading health care reform," said Alan J. Ritchie, vp and director of compensation and benefits at Minneapolis-based General Mills Inc.

"Every benefits manager should work against them and let Congress know what they think."

For Bernard Knobbe, manager of employee benefits for Morton International Inc., a Chicago-based company with multistate operations, ERISA waivers are a big concern. As a multistate employer, "if all of sudden states started applying for ERISA waivers, we would have a difficult administrative task on our hands."

Other benefit managers predict that Congress, under Republican control, will again tackle health care reform.

"I suspect they'll revisit health care but in a manner that's more favorable to the employer. It'll be less of a Canadian or U.K. approach, and more like Germany, where taxes on employers play less of a role," said Lindsay Luck, manager of international benefits at Philip Morris Management Corp. in New York.

Failure to pass federal health care reform legislation this past year disappointed Tom Richards, director of employee benefits for Alaska Airlines Inc. in Seattle. "It looks like we will be starting over, and I don't think that is best."

Starting over from scratch will be a waste of time and could leave employers susceptible to increasing health care costs, Mr. Richards said. He believes price increases were artificially restrained in the wake of reform threats.

Some reform legislation will pass in 1995, predicted Sharon Cook, senior manager-employee benefits at Ada, Mich.-based Amway Corp.

But, she believes it will be more in keeping with her company's goals for health care reform, which include targeting administrative areas as a way to reduce health care expenses and giving the private sector a chance to discuss what can be done at the local level to reform health care.

General Mills' Mr. Ritchie predicts that Congress will still have to address the issues of access to health care, open rating and preexisting conditions.

"The American people still expect some reforms, so the debate isn't over," he said. "The public obviously didn't want Clinton's proposal. But they were left without a sense of security. So, last year's failure left it an issue that must still be dealt with."

Another topic on benefit managers' minds for 1995 is pension reform.

Mr. Richards said changes brought by pension funding reform will have the greatest impact on benefits during the coming year (*BI*, Dec. 5). "Under revised rules, there may be more plans that will have to be reported as underfunded," he said. "I think it is going to be a surprise to some plan sponsors."

Ms. Cook said, "We're watching pension reform closely, and with the new Congress I think we're a bit more optimistic that there won't be some detrimental type of legislation for employers to face."

But, some benefit managers foresee other issues of concern to employers.

Sally Gottlieb, benefits manager at Cupertino, Calif.-based computer giant Apple Computer Inc., predicts that employers will see new tax laws in '95.

"I think with the new Congress we're going to see some changes in the tax code that will affect employee benefits," she said. Ms. Gottlieb said she doesn't know what those will be, but added they might take the form of limits on tax-free health care benefits.

Possible congressional repeal of the tax-favored status of flexible benefit plans and flexible spending accounts will be a top concern in 1995, predicted Stephanie Caloumenou, director of benefits at Home Quarters Warehouse Inc. in Virginia Beach, Va.

Educating employees about financial planning will continue to be an important job for employers in 1995, said Ann DeBellis, manager of health and benefit services at BellSouth Telecommunications Inc. in Birmingham, Ala.

"For us that will continue," she said. "The financial education is going to be a big carry-over to the next year because we have so many people taking early retirement, so the need to know where you stand in your financial future is really big."

Next year, BellSouth also will be looking into flexible benefits for the first time, Ms. DeBellis said.

Bob Bonin, manager of benefits administration for First Chicago Corp. in Chicago, said employee health plan satisfaction surveys—like those conducted by Xerox Corp., Digital Equipment Corp., GTE Corp. and the Chicago Business Group on Health—will make headlines in 1995 and have a big effect on the market (*BI*, Oct. 31; July 11).

—By Regis Coccia

Demise of health care reform spells relief

Congressional Republicans were not the only people heartened by the failure last summer of President Clinton's central domestic policy initiative.

The nation's benefit managers also allowed themselves a bit of celebration after leading Democrats in Congress effectively threw in the towel on the president's Health Security Act in September.

The demise of the Clinton bill "made me very jubilant," said Leo DeJohn, compensation and benefit manager at Kirk Paper Co. in Downey, Calif.

"In some ways, I was relieved because, the way it was structured, I thought we were in for a lot of problems," said Ann DeBellis, manager of health and benefit services at BellSouth Telecommunications Inc. in Birmingham, Ala.

"I definitely believe we need to do something in this country to help people who don't have (health coverage), but I'm not sure that was the right way," she said.

Similarly, Sharon Cook, senior manager-employee benefits for Amway Corp. in Ada, Mich., said she was pleased there was no action. "We were not supportive of most of the bills being discussed and thought they were too far-reaching."

Asked for his reaction, James J. Tomney, assistant vp of New York Life Insurance Co., recalled simply: "Relief."

He added, though, that he saw little "cerebral quality" in the other health care reform proposals.

Not all benefit managers considered the demise of the president's reform package as a complete victory.

Sally Gottlieb, benefits manager at Apple Computer Inc. in Cupertino, Calif., said she was disappointed at the failure to pass federal reform legislation.

"Not necessarily that I wanted the Clinton package, but we really need some leadership," she said. "Now, one thing I fear is with the federal government failing to provide leadership, the states are pushing to do their individual things which would make it very hard for a company like Apple that has employees in 38 states."

Collapse of health care reform was a "mixed blessing," said Beverly Khosh, manager of employee benefits at American Restaurant Group Inc. in Newport Beach, Calif.

"As a multistate employer with a self-funded plan, (the company is) worried that Congress will begin chipping away at ERISA preemptions state by state," Ms. Khosh said.

Susan Weiner, assistant superintendent, office of risk and benefit management for the Dade County Public Schools in Miami, was a bit ambivalent.

"I was somewhat sad to see nothing happen but glad nothing revolutionary happened," said Ms. Weiner.

"I am pleased with the way employers have been able to get their hands around (health care costs) rather than the government," she said. Dade's HMO rates were actually down 8% for 1995 renewals and POS rates were down 5%.

Some benefit managers actually attribute some of that success to the debate over reform legislation.

Even though the bill died, "it did bring it to public eye and created lots of market reforms," said Steven Guzski, compensation manager for Utica National Insurance Co. in Utica, N.Y. For example, managed care growth made the market more efficient.

Asked what went wrong in the drive for reform, many benefit managers seem to agree on two things: There is plenty of blame to go around, and the president overreached.

"I think the administration was going at it the wrong way because it was proposing changes that were too massive and called for too much intervention," said Gregg Conroy, manager of total compensation and human resource information systems at ALCOA Fujikura Ltd. in Brentwood, Tenn.

"Some reform would have been appropriate," said Fred Hamacher, vp-compensation and benefits with Dayton Hudson Corp. in Minneapolis. "Congress could have enacted some underwriting reform, small market changes and limits on pre-existing conditions. But the debate deteriorated into an access discussion. It became a fight to get the uninsured coverage. This was fairly expected considering that's all the politicians really understood."

One element that other observers have focused on—but few benefit managers have seemed to—is naivete or arrogance on the part of the administration. As evidence of both, many other observers have pointed to the closed-door process used to develop the administration plan.

"There is no one party to blame," said Bob Bonin, manager of benefits administration for First Chicago Corp. But, he adds, "if there had been more open dialogue during the formation of the proposal, it would've had an easier time at the end."

Benefit managers—who have been predicting for several years that reform legislation would pass—do not seem to think that the defeat of the Clinton initiative in Congress will spell the end of health care reform.

Amway's Ms. Cook, for one, predicts that a reform law will pass in 1995. But she foresees a law more in keeping with her company's goals for health reform, which include targeting administrative areas to reduce health care expenses and giving the private sector a chance to discuss what can be done at the local level to reform health care.

Alan J. Ritchie, vp/director of compensation and benefits for General Mills Inc. in Minneapolis, sees a modified version of health care reform returning to the forefront. "All employers will have to offer health plans, regardless of (employee) size. But employers will not be required to pay for health care packages," he said.

Ray Regan, vp of compensation and benefits for Hoechst Celanese Corp. in Somerville, N.J., thinks that next year, states will pass their own health care reform legislation because of Congress' failure to resolve the issue in 1994, "especially with the new Republican Congress."

But a patchwork quilt of reform laws "is going to be a mess for us benefit folks."

—By Timothy J. Stanton

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Reforms doomed from start

It was not to be.

Despite an unprecedented presidential and congressional effort, health care reform legislation this year went down in flames.

#1 Top Employee Benefits

As the year began, support for health care reform legislation—at least the Clinton administration's version—was already slipping.

In Congress, Republicans and Democrats alike repudiated central elements of the Clinton plan, especially mandatory, monopolistic health care alliances.

In February, business groups, which had been edgy ever since the administration appeared indifferent to their concerns, became openly hostile.

Like falling dominoes, one business group after another—the Business Roundtable, then the U.S. Chamber of Commerce and the National Assn. of Manufacturers—denounced the Clinton package (*BI*, Feb. 7).

It was the purchasing alliances—perhaps more than any other provision in the Clinton plan—that aroused the business groups' ire. Employers feared that under the alliance structure they would lose all control over their health care programs and end up as mere payers.

More doubts about the Clinton plan surfaced when the Congressional Budget Office reported that the package was seriously underfinanced (*BI*, Feb. 14).

By March, when congressional panels began formally drafting and voting on legislation, the Clinton plan had become so discredited that legislators essentially started from scratch in developing their own proposals.

But those proposals weren't necessarily any more politically realistic or more intelligently designed than the administration's.

For example, a proposal by Acting House Ways and Means Committee Chairman Sam Gibbons, D-Fla., relied on a huge expansion of the federal Medicare program to ensure coverage to many of the nation's 36.3 million uninsured as well as millions of employees working for smaller firms (*BI*, July 4).

While expanding Medicare was a long-time goal of Rep. Gibbons, that approach to increase coverage seemed politically foolish at a time of rising public doubts about giving the federal government the reins.

Rep. Gibbons never would have been in a position to advance his position had it not been for a twist of fate.

In May, just as the Ways and Means Committee was digging into health care reform legislation, its chairman—long-time congressional baron Rep. Dan Rostenkowski, D-Ill.,—was forced to relinquish his position after he was indicted on corruption charges (*BI*, May 30).

Rep. Rostenkowski was the master of counting votes and cutting deals—with Republicans and Democrats alike—to get legislation passed.

It will never be known whether had he not been indicted, Rep. Rostenkowski could have saved health care reform legislation. Even his political skills, realism and close ties with President Clinton may not have been enough.

But his departure as Ways and Means chairman and the ascendancy of the far less politically gifted Rep. Gibbons made failure that much more likely.

As the summer began, the fading prospects for health care reform legislation further dimmed. The pivotal Senate Finance Committee did pass a reform bill in early July, but the slap-dash, three-day committee consideration of the proposal was a sign that many of that committee's members had begun to lose interest.

Public interest also was fading. The "Health Security Express," a bus caravan of health care reformers that was supposed to trigger massive public support as it crossed the country, was a bust. In some locations, opponents vastly out-

Continued on next page

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State of PBGC cause for concern

Funding changes real news in benefits community

Continued from previous page

numbered supporters of reform.

By early September, health care reform was on its last legs. Still, Senate Majority Leader George Mitchell, D-Maine, made one last-ditch effort. He vowed to keep the Senate in session 24 hours a day, seven days a week until a bill was passed.

But soon after making the threat, Sen. Mitchell withdrew it (*BI*, Oct. 3). Republicans warned that prolonged discussion of health care reform would threaten other high priority legislation, including a new world trade agreement to cut tariffs.

When Sen. Mitchell threw in the towel, it was a formality to what had been known for weeks, if not months: significant congressional and public support for major health care reform legislation had vanished.

But one more act was yet to follow. In the November elections, Republicans swept control of the Senate and House. Pollsters said one of the reasons Democrats did so badly was the public's identification of Democrats—through their support of health care legislation—as representatives of Big Government.

The fallout from the reform debacle continues. White House officials say Ira Magaziner, the senior domestic policy adviser who directed the administration's health care task force, will only play a subsidiary role in future reform efforts.

And Hillary Rodham Clinton, who headed the administration health care task force, has moved on to other issues—like child care—that are not so politically sensitive.

President Clinton, who once said he would settle for nothing less than universal coverage—now appears more interested in an incremental approach to expanding coverage.

—By Jerry Geisel

#2 Top Employee Benefits

The problem is obvious. The insurance program that protects the pension benefits of about 32 million workers and retirees is badly frayed.

Various loopholes in federal laws have allowed some of the 64,000 premium-paying employers to amass tens of billions of dollars in unfunded pension liabilities.

With the next economic downturn, some of those companies could collapse, taking with them their underfunded pension plans.

In turn, those benefit promises would have to be borne by the Pension Benefit Guaranty Corp., where the major insurance program already is $2.9 billion in the red.

Taking on those liabilities could swamp the PBGC, forcing it to seek congressional permission to hugely boost premiums. That, in turn, could trigger a mass termination of well-funded pension plans by employers unwilling to pay escalating premiums. That scenario, carried to its extreme, could mean the PBGC, faced with a shrinking revenue base, might collapse or require a bailout.

If the problem is obvious, so is the solution: tighten pension funding rules to improve plan funding and reduce the PBGC's exposure to big losses.

But strengthening funding rules is not easy. Efforts to do so have been resisted by a small but powerful and well-organized group of companies, chiefly rust belt companies with billions in unfunded liabilities. Resistance has also come from organized labor, which is concerned that employers might cut other benefits to free up money to put into pension plans.

Added to those obstacles was the labyrinth of congressional committees that PBGC legislation would have to survive. Two of those panels—the Senate Labor and Human Resources and the House Education and Labor Committees—had done their best to weaken reform legislation.

Only the most wild-eyed optimist would have predicted that the Clinton administration would be successful when it unveiled comprehensive pension funding reform legislation.

But, the proposals that were given only the slightest chance of success became law this month when President Clinton signed a legislative package that includes the most significant changes in

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pension funding rules since ERISA was enacted 20 years ago.

There were many reasons for the success. First—in sharp contrast to the veil of secrecy surrounding its health care efforts—the administration maintained a very open door policy, holding dozens of meetings with employer groups and others as the legislation was prepared.

Second, the administration made a concerted effort to diffuse opposition. For example, the pension funding package did not include a provision—initially proposed by the Bush administration and strongly opposed by organized labor—that would have denied PBGC protection for future benefit increases promised by employers with underfunded plans.

To ease opposition from such employers, the administration included numerous transitions to phase in stiffer funding rules and soften the immediate financial impact of complying with the rules.

But the most important decision the administration made was to convince legislators this summer to attach the funding reform package to legislation implementing the General Agreement on Tariffs and Trade.

In so doing, the administration tied the fate of pension reform to a broader bill that had overwhelming congressional support. GATT pulled the PBGC legislation "out of the ashes," said Frank McArdle, a consultant with Hewitt Associates L.L.C. in Washington.

Key provision of the PBGC legislation—known as the Retirement Protection Act of 1994—include:

- Tightened funding requirements. A special rule that requires employers with pension plans that are less than 35%-funded to accelerate contributions to their plans will be extended to plans that are less than 60%-funded.
- Boosted annual premiums that employers with underfunded plans pay the PBGC. Employers with the most underfunded plans can expect their premiums—at the end of a three-year transition period—to nearly double from the current $72 per participant maximum to about $140.
- Mortality assumptions. Employers will have to use a conservative mortality table—known as GAM 83—in calculating the life expectancies of plan participants. Only 20% to 30% of employers now use the table. The Treasury Department will develop a new table for use beginning in 2000.
- Interest rate assumptions. The maximum interest rate assumption employers can use in valuing plan liabilities will be reduced—starting in 1995—by one percentage point annually over the next five years until 1999, when the maximum falls to 105% of the four-year weighted average of the rate for 30-year Treasury bonds.
- Solvency requirement. Pension plans will be required to maintain liquid assets equal to at least three years of benefit payments. That provision is intended to stop a current problem in which lump-sum payments can quickly drain a plan of its assets.

With this reform package in place, the PBGC believes its $2.9 billion deficit will be wiped out in 10 years, which could mean a reduction in the basic $19 annual premium that employers with well-funded plans pay the agency.

—By Jerry Geisel

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What's right.

Drug firms' acquisitions come under scrutiny

Vertical integration in the pharmaceutical industry turned plenty of heads in 1994. But not until Eli Lilly & Co. moved to buy PCS Health Systems Inc. for $4 billion did the deals catch the eye of the Federal Trade Commission.

#3
Top Employee Benefits

Unlike two previous drug company buyouts of drug benefit management firms, the FTC scrutinized the Lilly deal closely, looking for potential anti-competitive practices that could be spawned by the alliance.

In November, the FTC and Indianapolis-based Lilly finally reached a consent agreement that PCS would accept all discounts and rebates offered by other drug manufacturers (*BI*, Nov. 7). Lilly also agreed to have PCS make available to customers "open formularies" including any drug approved by an independent pharmacy and therapeutic review committee and to put up a "fire wall" to keep Lilly away from competi-

tors' pricing data (*BI*, Oct. 31).

FTC Chairman Janet D. Steiger and Commissioner Christine A. Varney still remain concerned about the overall competitive impact the rapid vertical integration by drug companies will have on the industry.

Indeed, the market saw some mammoth deals over the last two years.

In the first, the $6 billion price tag raised eyebrows in 1993 when Merck & Co. announced it was buying pharmacy benefits management firm Medco Containment Services Inc.

Employers suspected that the acquisition by Whitehouse Station, N.Y.-based Merck might transform Medco into a clearing house or sales arm for Merck products rather than an independent cost containment unit (*BI*, Aug. 9, 1993).

In the second major deal, drug manufacturer SmithKline Beecham Corp. of Philadelphia bought Diversified Pharmaceutical Services Inc., the pharmacy benefit management unit of United HealthCare Corp.

Valued at a more modest $2.3 billion, the deal convinced observers that drug makers were serious about gaining control over pharmacy benefit managers—and therefore the valuable distribu-

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tion channel to millions of consumer members of employee benefit plans (*BI*, May 16).

Meanwhile, the independent pharmacy benefit management firms that were left began creating "alliances" with remaining drug manufacturers. For example, Caremark International Inc. of Northbrook, Ill., in April announced an alliance with three drug makers that would, among other things, assure the drug makers preferential spots on Caremark's formularies.

Prescription drug formularies are lists of preferred medications that prescription drug managers encourage physicians and pharmacists to prescribe based on their efficacy and the discounted pricing negotiated with drug makers.

Value Health Inc. in Avon, Conn., which owns ValueRx, a pharmacy benefit manager, has a similar agreement that guarantees Pfizer Inc.'s drugs will get a preferred position in its formularies. The firm recently announced its decision not to sell the ValueRx unit because of its profitability.

Indeed, there are big profits to be made in the pharmaceutical industry. While prescription drug costs generally account for about 10% of employer health care costs, they had been increasing faster than any other health care component. That is why employers increasingly turned to pharmacy benefit management firms to secure the best deals possible from drug manufacturers.

But now that some of the largest U.S. drug makers own those firms, employers and others worry that cost containment will play second fiddle to the drug makers' desire to sell more medication.

The FTC's actions in the Lilly/PCS deal were indicative of those concerns, but it is not clear whether the federal agency will go back and require Merck and SmithKline Beecham to agree to similar concessions.

And, consultants say it is still too early to tell whether the new drug company/pharmacy benefit management alliances are affecting the cost of prescription drugs purchased through employer-sponsored benefit plans.

—By Christine Woolsey

Orange County fiasco makes derivative losses hit home

#5 Top Employee Benefits

The derivative losses that hit both private and public investors in 1994—most notably in Orange County, Calif.—surfaced in the employee savings plan area this spring when an Atlantic Richfield Co. fund suffered a $22 million loss.

In May, Los Angeles-based ARCO announced that its Money Market Plus employee investment fund had lost nearly 5% of its asset value through a drop in the value of investments the company identified as "corporate notes and bank CDs with principal risks."

Participants had believed the internally managed ARCO fund holding employee 401(k) and other savings plan assets offered relatively low risk.

The $400 million fund was one of four investment options in a $1.5 billion program managed by the ARCO Investment Management Co. It had a stated objective of stability of principal and a yield higher than that on three-month Treasury bills (*BI*, May 23).

While expressing their disappointment in the development, the ARCO officials' letter notifying employees of the loss also noted that from 1989 to 1993, the fund's performance was considerably better than that of traditional money market funds.

In fact, in retrospect, ARCO officials speculated that the healthy returns the Money Market Plus fund earned for several years preceding the loss might have lulled the plan's 17,000 participants into overlooking any downside potential.

Still, ARCO officials promised to make employees whole for the losses. They made good on that promise later in the year, after receiving a favorable private letter ruling from the Internal Revenue Service.

The IRS indicated it would not consider the reimbursement taxable income for plan participants and would treat the nearly $23 million that ARCO was returning to the fund to replace lost principal and interest as a deductible business expense for the company.

At the time ARCO announced the loss, many benefit experts suggested employee savings plans rarely invested in derivatives—largely unregulated investments that "derive" their value from underlying assets like securities or from movements in indicators like interest rates or stock indexes.

But, a survey by a Greenwich, Conn.-based consulting firm suggested the instruments' use may be more common than many think.

A 1993 Greenwich Associates survey of 1,603 large, tax-exempt investment funds showed 13% using financial derivatives. And, when that universe was narrowed to funds of more than $1 billion in assets, the percentage of funds using derivatives grew to 38%.

Not all derivatives hold the same level of risk, however, and fund managers and consultants point out that some—by speeding the implementation of transactions or lowering their costs—are particularly useful for employee savings or pension funds.

Stock futures, for example, offer that sort of opportunity. A fund wanting to move quickly into a stock investment could do so by buying a stock option, then converting the future position as the actual stock is purchased at the price established by the future.

Many pension funds and their money managers continue to look for new opportunities for derivative investments—many to hedge shifts in other areas of their portfolios and some, no doubt, with an eye toward increasing yield.

And, as plan managers continue to worry that participants in defined contribution retirement plans remain too cautious in allocating their retirement funds, some plans are looking for new "risk frontiers" to offer participants.

Of course, educating defined contribution plan participants to help them act more like investors rather than savers also remains a top concern of employee benefit professionals.

It follows, then, that plans offering participants the potential to reap greater benefits from higher-risk investment options will also face even greater pressure to provide the level of education necessary to enable those employees to make more sophisticated investment decisions.

The entire landscape of derivative investments may be subject to change, though, if any of a number of calls for greater regulation of financial derivatives are answered.

Those calls from members of Congress and various market watchers and participants began in the spring following the well-documented losses at the ARCO fund and at a number of other corporations.

While the new Republican Congress might dampen those calls for new regulation, certainly they received new fuel in the $2 billion loss suffered recently by the $7.5 billion Orange County investment pool after a strategy involving heavy leveraging and investments in interest-sensitive derivatives went horribly awry (*BI*, Dec. 12).

—By Rodd Zolkos

The top stories of the year were selected by *Business Insurance* staff and from responses to a survey mailed to risk manager and benefit manager readers.

Risk and benefit managers also were interviewed for their perspective on events in 1994, what to expect in 1995 and on two key issues for their professions.

Separately, staff members selected 10 people who made a significant impact on the industry in 1994.

Plan language warrants attention

Threat of retiree litigation a major concern for employers

#4 Top Employee Benefits

Employers are nervously awaiting a U.S. Supreme Court ruling that could scrap their myriad health plan modifications in recent years and trigger a wave of litigation by disgruntled retirees against them.

The high court in late September agreed to hear the case, *Curtiss-Wright Corp. vs. Frank C. Schoonejongen et al.*, which centers on the language that plan documents must contain before employers may amend their plans (*BI*, Oct. 3).

The decision could help employees and especially retirees at most companies mount strong legal challenges against the various health plan changes they have faced in recent years.

Those changes include benefit cutbacks, higher premium contribution requirements and the implementation of managed care features.

Benefit experts estimate that possibly as many as 75% of the health care plans that employers offer do not contain the language that the 3rd U.S. Circuit Court of Appeals ruled they must have before employers can amend the plans.

In a decision originally returned in December 1993 and then vacated and reissued in March to correct a minor technical error, the 3rd Circuit ruled that plan documents must detail who at the company is responsible for making plan amendments and the procedures they must follow.

Employers that amend health plans that do not contain that language violate the Employee Retirement Income Security Act of 1974, even if they reserve their right in plan documents to modify the plans, the 3rd Circuit ruled (*BI*, Jan. 10).

While the ruling also applies to ERISA-qualified pension plans, most pension plan documents include the appropriate plan amendment language.

Employers cannot change their plan document language to retroactively adopt the changes they made in recent years to cut benefits.

Attorneys expect that retirees, a highly sympathetic group of plaintiffs in court, will lead the litigation charge against employers over the value of their lost benefits if the Supreme Court affirms.

The employer in the case, defense contractor Curtiss-Wright Corp. of Lyndhurst, N.J., would have to pay more than $2 million to 500 retirees if the high court affirms the decision.

Curtiss-Wright's plan documents contained a reservation of rights to modify the plan, but the only entity that the documents said could amend the plan was "the company." The documents did not specify what procedures had to be followed to amend the plan.

Employer attorneys say ERISA defines "company" as a person capable of making plan amendments.

And, they are strongly backed by the Clinton administration (*BI*, Nov. 21).

In an amicus brief it filed with the high court last month, the administration presented three arguments against the 3rd Circuit's decision:

- ERISA defines "company" as a person, and Curtiss-Wright's reservation of rights should be "read against the background of corporation law" to mean that a company's board or board-authorized committee can amend the plan.
- Established trust law principles should apply to the case. Those principles provide "a sound basis" for allowing a plan sponsor that reserves its right to modify a plan to do so without specifying the procedures it will follow.
- Suggesting that employers cannot amend their plans if they do not contain the language requirements the 3rd Circuit seeks is "perverse" because Congress intended that all plans include an amendment mechanism.

Consultants and attorneys began advising employers early this year to adopt the plan language that meets the 3rd Circuit's standard so past amendments will be safeguarded at least from that time forward (*BI*, March 21).

But that advice unleashes another set of problems for employers.

First, many employers will have to establish formal plan documents before they can add the new amendment language to their plans.

An even tougher issue may be how to communicate this current change in plan language without encouraging retirees and employees to sue over the previous plan changes.

—By Dave Lenckus

The Newsmakers in 94

It is a diverse group: The wife of the president. The head of one of the nation's largest commercial insurance companies. An indicted congressman. And even two fictional characters.

But what they all had in common in 1994 is the commanding role they played on issues of great importance to employee benefit and risk managers.

•

When President Clinton last year named **Hillary Rodham Clinton** to head his health care reform task force, many hailed the selection as nothing less than a stroke of genius.

While not especially well-versed in health care, Mrs. Clinton is a quick study and an eloquent public speaker—two gifts, it was thought, that would accelerate the legislation drafting process and help to drum up public support.

In hindsight, though, Mrs. Clinton could not have been a worse choice. However quickly she sized up issues, she did little, if anything, to accelerate the drafting.

The First Lady ignored a basic political rule of either trying to work with or ignore opponents. Instead, she savaged them. She lit into a managed competition approach by Rep. Jim Cooper, D-Tenn., thereby alienating a potential ally.

She saved her sharpest barbs for TV commercials from the Health Insurance Assn. of America, and in so doing, gave them publicity that no amount of money could buy.

If the administration does make a push for health care reform next year, Mrs. Clinton will largely stay on the sidelines.

•

House Energy and Commerce Committee Chairman **John D. Dingell**, D-Mich., continued to make waves by putting out "Wishful Thinking" just before the November elections.

Like 1990's "Failed Promises," the report ripped state regulation of insurance as lax, saying it was "dangerously inadequate," and based on programs "that simply hope for the best because they are not equipped to avert worst."

The report was simply the most recent salvo in Rep. Dingell's long-standing efforts to regulate solvency at the federal level.

As part of that effort, Rep. Dingell this spring introduced a measure that would subject foreign insurers and reinsurers doing business in the United States to federal rather than state regulation, allow voluntary federal licensing for some domestic commercial insurers and allow captives and risk retention groups to apply for federal licenses. Although the measure was never introduced in the full House, it won plaudits from risk managers and some insurers.

But with the Republicans controlling the House for the first time in 40 years, Rep. Dingell's influence seems likely to wane this year.

•

Maurice R. Greenberg seldom has quiet years and 1994 was no exception.

The American International Group Inc. chairman and CEO was in the thick of both politics and business.

In the political arena, Mr. Greenberg was a central figure in the Superfund debate, and author of a "Dear Lloyd" letter to the Treasury Secretary on the issue. Attempts to reform Superfund failed amid internecine insurance industry disputes, but where he controlled his own destiny Mr. Greenberg acted emphatically and decisively.

In June, AIG plunged $200 million into Alexander & Alexander Services Inc., which had been struggling for some time. Several months later, AIG put another $200 million into 20th Century Industries, a California insurer that faces huge earthquake-related losses.

Analysts praised both preferred stock deals as win/win situations for Mr. Greenberg.

•

Enactment of health care reform legislation was supposed to be **President Clinton's** crowning domestic achievement.

Instead, its defeat may have been his most crushing setback and the key reason why the Democratic Party lost control of both houses of Congress.

If Bill Clinton was respected for anything, it was his political acumen. That reputation makes even more baffling the basic blunders he committed on health care.

His first error was his snail's pace in developing a bill. After promising to send a reform plan to Congress within 100 days of his inauguration, he didn't deliver a final version until December.

His most fundamental error, though, was developing a plan that was a public relations and political disaster. Mandatory state-established health care alliances were among the things that conjured up images of Big Government and gave potent ammunition to opponents.

For the health care rhetoric early in his administration, President Clinton said virtually nothing in September when Senate Majority Leader George Mitchell, D-Maine, pulled the plug on legislation. That was an obvious sign that health care reform no longer is President Clinton's top domestic priority.

•

Harry and Louise, of course, don't really exist. They were characters, two middle-aged yuppies in a Health Insurance Assn. of America ad campaign that trashed the Clinton health plan.

While Harry and Louise may not be real, their impact on reform debate sure was.

Abstract concepts in the administration's proposals, like mandatory purchasing alliances, became real—and disturbing—to the public in the Harry and Louise ads.

While it was an advertising agency that created Harry and Louise, it was Mrs. Clinton that gave them recognition that no amount of money could buy.

The First Lady's frequent and biting attacks helped to make Harry and Louise virtual household names and, far more important, ensured more public discussion and concern about the issues that the couple were raising.

•

It would be an overstatement to credit **Sen. Robert Dole**, R-Kan., with the defeat of health care reform legislation. But the once and future majority leader played a key role in that defeat.

From the beginning, he was among the most outspoken opponents of the administration plan.

But, his most important role was in helping to squash a last-ditch effort by a group of moderate and conservative Senate Democrats and Republicans—known as the mainstream coalition—to pick up support for a proposal they were developing.

First, Sen. Dole advised members of Congress to wait until after the summer recess to consider health care legislation. Then, when legislators returned in September, Sen. Dole said time simply had run out for careful consideration.

Even an incremental approach to expanding coverage should be put off, Sen. Dole said, perhaps sensing that if Congress acted at all, President Clinton, not Republicans, would get the credit.

•

When 1994 began **Rep. Daniel Rostenkowski**, D-Ill., may have had visions of one last triumph—perhaps his greatest one—in a career that spanned 16 terms.

As chairman of the House Ways and Means Committee, Rep. Rostenkowski had the power to shape President Clinton's health plan as it moved through his committee, the first of the four congressional panels on its course.

His close ties to the president and his political judgment made him one of the administration's chief health care advisers in Congress.

But Rep. Rostenkowski never got the chance to use those skills. In May, he was forced to step down as chairman of the Ways and Means Committee after being indicted on corruption charges.

The chairmanship passed onto Rep. Sam Gibbons, D-Fla., a genial but far less politically gifted veteran legislator.

Rep. Rostenkowski's final fall came in November when an unknown derailed his bid for a 17th term.

•

Every time Lloyd's of London Chairman **David Rowland** speaks publicly, he tells his audience that he has the best job in the world.

But aside from the salary—£450,000 ($702,000)—no one much envies his work.

Mr. Rowland's task: to save one of the world's most important markets after record losses from 1988 to 1991 of £6.74 billion ($10.5 billion) and another potential £1 billion ($1.52 billion) loss in 1992.

His self-imposed deadline: the end of 1995.

The challenge: to satisfy everyone from the disgruntled members who refuse to pay, to investors in corporate capital vehicles, to regulators and politicians and policyholders.

To watch Mr. Rowland work an angry crowd is to watch a master diplomat. And, as one of the best public speakers in London, he can describe any situation colorfully.

Earlier this year, for example, he described Lloyd's current situation as like trying to cross a "great gaping chasm on a very, very wobbly plank. On the one side of the chasm is a green field full of profits and prosperity and probity. And on the other side is a great darkness from where we've actually come. And the chasm is not filled with lions and tigers, but with rambling lawyers so if you fall in you would be in a terrible mess."

•

After four years of searching, **John J. Byrne** finally found a home for his money in 1994.

The veteran insurance executive is leading an investor group that plans to inject $420 million into struggling Home Holdings Inc. and its subsidiary, The Home Insurance Co.

The funds are part of a package that is expected to pull The Home out of the crisis that began with rating agency downgrades.

The Home was not the first insurer that Mr. Byrne looked at since he sold Fireman's Fund Corp. to Allianz A.G. Holding in 1990. Six other major insurers had taken his fancy, but he could never agree on terms.

Turning around The Home won't be easy. The insurer faces large, long-tail liability losses as well as huge losses on its current book of professional liability business.

But, it also will not be the first difficult situation Mr. Byrne has faced. In the 1970s he turned around GEICO Corp., and in the 1980s he took the ailing Fireman's Fund public.

The Home effort could be the swan song in a long career.

•

Talk about an up and down year. **John Garamendi**, California's first and, until January, only elected insurance commissioner, can savor at least one win.

Six years after the ballot initiative that he and other consumer activists championed became law, Mr. Garamendi took his Proposition 103 fight all the way to the California Supreme Court. And won big. Soon afterward, he ordered 28 insurers to refund some $1.25 billion to policyholders.

Little else seemed to go right for the nation's best-known insurance regulator.

Early in the year, newspapers reported that the FBI was looking into alleged wrongdoing in the California Department of Insurance, though neither the commissioner nor any of his subordinates have been charged with wrongdoing. Also in 1994, the junk bond market recovered a bit, reviving charges that Mr. Garamendi may have sold Executive Life Insurance Co. for too little.

Then he made his long-anticipated foray into big-time politics, launching a bid for the Democratic nomination for governor of California. But he was defeated by Kathleen Brown, a member of the state's premier political family.

Minnesota

Continued from page 1

a multiyear deal with HealthPartners, an integrated provider network made up of physicians from several of the area's largest health care centers.

That same year, the Employers Assn. Health Care Purchasers Coalition, a group of about 363 small and midsize companies covering more than 160,000 employees and dependents, negotiated a three-year group purchasing initiative with Prudential Insurance Co. of America.

But Prudential—citing low market share and the ultra-competitive nature of Minnesota's health care environment—announced in July that it would pull out of the state's group medical market by the end of the year.

Prudential agreed to honor the Employers Assn. contract until it expired in 1995, but the group wanted to find a replacement as soon as possible.

The Employers Assn. first struck an alliance with the Minnesota Chamber of Commerce. Then, armed with financial backing and negotiating expertise from the large employers of the BHCAG, the coalition this fall requested bids from various managed care companies willing to enter into a long-term partnership with the groups to cover their small and midsized employer members.

"We wanted to come together as a united business community" and find an organization that would offer small and midsize employers advantages typically available only to large employers, said Thomas Ebert, president and chief executive officer of the Employers Assn.

On Nov. 30, the new coalition signed a three-year contract with Allina Health Systems of Minneapolis to provide managed care coverage to its small and midsize employer members.

Allina is a managed care organization created when two Minnesota health plans—Medica and HealthSpan—merged earlier this year (*BI*, Nov. 14).

While the BHCAG was part of the final negotiating team, it will not offer its members the new Allina health plans, which have been designed to target employers with fewer than 1,000 workers.

In addition to providing competitive rates for 1995, Allina guarantees that premiums for Employer Assn. and Chamber of Commerce members will not exceed a maximum increase of 6% set for 1996 and 6.5% for 1997.

Based on many of the same principles initially espoused by the BHCAG and the Employers Assn.—which include adhering to clinical practice guidelines and regularly surveying members' satisfaction with the plan—the new purchasing initiative could potentially provide health care coverage to as many as 350,000 employees covered by Employer Assn. and Chamber of Commerce members' health plans.

"This is just a logical extension" of the coalitions' previous activities, according to Mr. Ebert. "As a business community, if we can speak with one voice, it's easier to accomplish what we want, which is high quality and stabilized costs."

"This is a golden opportunity to transform the small-employer market," said George Morrow, an independent health consultant with his own firm, Health Ventures Ltd. in Minneapolis. Mr. Morrow helped the Employers Assn. negotiate its former deal with Prudential as well as the new deal with Allina.

"Sixty-five to 70% of the coverage sold in Minnesota is to small and medium-sized employers," he pointed out.

But the program holds advantages for large employers, as well.

"We want to create the right incentives to reward care systems, and that means involving the entire marketplace on the demand side," explained Steve Wetzell, executive director of the BHCAG. "Otherwise it's kind of like pushing a rope uphill."

There are some political benefits for large employers, as well.

"There are a lot of stakeholders who think we are only out to pursue our own agenda and will end up cost-shifting to the small employer," Mr. Wetzell said. "So, we created a small-employer coalition and negotiated to get them a product modeled after the same types of aggressive performance guarantees we've been able to get."

In fact, at this point the rates the new coalition negotiated with Allina are better than those the BHCAG negotiated with HealthPartners, Mr. Wetzell said.

Given legislators' eagerness to "fix" the health care problem, large and small employers may increasingly unite in their market reform efforts. They hope to prevent lawmakers from passing health care market reform legislation that could end up doing more harm than good.

"It's our hope to show the marketplace is the right" place to reform the health care system, commented David Olson, president of the Minnesota Chamber of Commerce. "We don't need a government-run system."

The latest employer coalition's efforts will "assure there is a competitive market" throughout Minnesota, he added.

Allina will offer coalition members a choice of two managed care products, each with a high and low option.

The first, Medica Choice, is a point-of-service product that allows employees to seek care from non-network providers at reduced benefit levels. The second, Medica Premier, is a so-called triple-option plan that requires enrollees to seek care from a "designated care clinic" to receive maximum coverage.

The new plans emphasize primary care, employee health education, wellness programs, preventive health care, health appraisals and ongoing patient/physician communication.

The plans will use employers' demographic data and previous claims experience to place them in one of eight rating categories. Employers with more than 50 employees will have the option to self-insure, provided they purchase stop-loss coverage from United Health & Life Insurance Co., a unit of United HealthCare Corp. in Minneapolis.

The 97 companies that had contracted with Prudential through the Employers Assn. are expected to replace their current health plans with the new Allina products on Jan. 1, 1995, while other employers interested in purchasing the coverage can do so as their health plans renew.

The Minnesota Chamber had negotiated a separate agreement with HealthPartners, which provides health, life and disability insurance to about 60 of its 2,700 member companies through a for-profit subsidiary of the Chamber. Beginning in February, those employers, which cover about 1,200 people, will have the option of offering the new Allina health plans. BI

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Tankers

Continued from page 1

dicted that alternative means of meeting the financial responsibility requirements would emerge. The fact that as of last Tuesday it had registered 652 tankers seems proof.

Despite the OPA '90 rules, shipping into the United States will continue because U.S. trade is the lifeblood of many tanker owners and operators, said a London broker involved in First Line, one of a few facilities that have won approval from the Coast Guard and is now writing guarantees for shippers.

But the broker did predict that the new rules will speed up the trend toward specialization among shippers, with the industry splitting into those that ship to the United States and those that do not.

Besides First Line, the only other Coast Guard-approved guarantors are Shoreline Mutual (Bermuda) Ltd. (*BI*, May 30) and The Water Quality Insurance Syndicate, a New York marine insurance underwriter owned by 17 U.S. insurers.

Only a few of the more than 650 tankers that have been approved are backed by these facilities, though the Coast Guard spokesman predicted an "explosion" in that number as facilities mature.

Self-insurance is the option most favored by oil tanker owners and operators that can afford it.

Mobil Corp., for example, set up its own company, Marine Guarantee Corp., capitalized at $285 million, to provide guarantees for its fleet.

Earlier this month, Texaco Inc. was allowed to use its Bermuda captive, Heddington Insurance Ltd., as guarantor for its certificates.

Other companies have purchased surety bonds to meet the deadline.

Unable to self-insure or buy huge surety bonds, many small and mid-size operators are turning to the new facilities, most of which are backed by international reinsurers.

Bermuda-based Stockton Re is the primary backer of First Line, a financial guarantee facility developed by Johnson & Higgins in New York and Aon Corp.'s Bankassure unit in London. A Bankassure spokesman in London said the facility is "swamped" with applications.

First Line has secured capacity of up to $300 million, enough to cover very large cargo vessels, including oil tankers (*BI*, Nov. 14).

Stockton Re has obtained reinsurance for the First Line program from X.L. Insurance Co. Ltd. and ACE Ltd. Additional reinsurance is led in Lloyd's of London by marine liability reinsurer Richard Youell, underwriter for syndicate 79 managed by Janson Green Ltd.

Shoreline Mutual, sponsored by Willis Faber & Dumas, Willis Faber North America and Sedgwick Marine & Cargo, was formed by a merger of Shoreline and OPACLUB, another facility set up by reinsurers to issue financial guarantees.

OPACLUB and Shoreline were merged mainly because OPACLUB's creators failed to drum up sufficient support in time to make it an industrywide scheme. The newly merged Shoreline began issuing certificates on Dec. 15.

Shoreline can provide guarantees of financial responsibility of up to $395 million. It is wholly reinsured by Centre Reinsurance (Bermuda) Ltd., which will manage the facility in conjunction with Mutual Risk Management Ltd. of Bermuda.

"If you want to charter to U.S. waters, you need a certificate. I think a lot of people. . .held back in the hope that the U.S. government or Coast Guard would back down. Some of the bigger operators have gone the self-insurance route, some have bought bonds, some are with Shoreline and some are with First Line," said John Collings of Willis Faber & Dumas in London.

And, New York-based Water Quality Insurance Syndicate on Dec. 16 got Coast Guard approval to act as guarantor for vessels insured by the syndicate. BI

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INTERNATIONAL

London reinsurer enters Bermuda

By ADRIAN LADBURY

LONDON—Terra Nova Insurance Co. Ltd., one of London's biggest treaty reinsurers of U.S. business, is setting up a new reinsurer in Bermuda with initial capital of $55 million.

Terra Nova, which reinsures U.S. property catastrophe business and counts itself among the top five London reinsurers by net premiums written, has also decided to move its holding company to Bermuda. The new holding company will be renamed Terra Nova (Bermuda) Holdings Ltd.

John Riddick, managing director of Terra Nova in London and deputy chairman of the new Bermudian reinsurer, said that the move does not signal a retreat from the London market. The new venture will actually help raise Terra Nova's committed capacity to London, he said.

Terra Nova (Bermuda) was created by the acquisition, through a share swap, of Underwriters Capital (Merrett) Ltd., which was formed by Lloyd's of London managing agency Merrett Underwriting Agency Management Ltd. to boost its syndicates' capacity through quota share reinsurance (*BI*, Jan. 18, 1993).

Mr. Riddick said that initially, while the company establishes itself in the Bermuda market, the reinsurer's main function will be to provide quota share reinsurance to Terra Nova in London, thus boosting its underwriting capacity to possibly more than $200 million in 1995, from about $145 million this year.

Apart from that, Terra Nova (Bermuda) will underwrite a book of largely excess property business, which "does not arrive in London in the normal course of business," according to Mr. Riddick.

Mr. Riddick said that Bermuda was chosen as the new home for the holding company because of its tax structure and its easier access to U.S. capital markets, which may be needed for future expansion. U.S. capital markets, more so than London markets, are geared toward "specialty" companies such as reinsurers, he said.

The deal was made possible by a major change in the holding company's shareholders.

Former major shareholders Aetna Property & Casualty Co., CIGNA Property & Casualty Co. and Marsh & McLennan Risk Capital Corp. all have reduced their combined stake in the Bermuda company to 38.5% from 71.6%. Nimrod Securities, another incumbent investor, reduced its stake to 4.1% from 14.9%.

Donaldson, Lufkin & Jenrette Securities Corp. of New

Continued on next page

Crime and fraud in a new league

Terrorism no longer biggest concern from multinationals

By STACY SHAPIRO

LONDON—Terrorism will continue to be a problem for multinational companies in 1995, but crime and fraud have taken over as the major threats, according to a political risk consultant.

Terrorists will continue to attack foreign targets, particularly Israeli and Jewish targets worldwide, says a new report by international consulting firm Control Risks Group.

Kidnappings of business executives also will continue to rise in certain countries like Mexico. And, a potential civil war in Algeria should deter foreign business at all costs, the report said.

However, "organized crime is the most pervasive and sophisticated threat business will face next year," according to the report by London-based Control Risks. Russian organized crime syndicates in particular threaten not only businesses in their own nation but also other parts of Western Europe.

Control Risks complete 123-page report, "Business Security Outlook—The World in 1995," will be available in January. It details the consultant's outlook on political, economic and social risks that foreign businesses face in most regions of the world.

Control Risks' conclusions generally agree with those of a separate survey of 101 British boardroom executives polled by the consultant earlier this month and included in the report.

A total of 55% of those executives surveyed said they believe the risk of fraud will increase in 1995, compared with 29% who predicted political instability will increase.

And, 52% said they expect crime activities will rise, particularly organized crime, compared with 36% who said religious extremism will increase.

British businesses see growing opportunities to invest in South America, South Africa and India in 1995, as well as Russia, China and Southeast Asia.

Organized crime, rather than politically motivated violence, is expected to be the most pressing security concern for international business in 1995.

But, the British executives surveyed predicted that the greatest risks to investment will be in Russia, Nigeria, Egypt and China.

Control Risks said it believes the executives overestimated the risk to foreign business in Egypt, stating that the greatest threat to foreigners appears to be crimes against individual tourists.

The consultant did acknowledge that there was a wave of 10 small-scale bombings against Egyptian and foreign bankers in Cairo between February and May. "But these were largely symbolic, and were not intended to cause major damage or casualties," according to Control Risks. "The prospects of local terrorists singling out foreign business people for assassination are remote."

According to Control Risk's report, "Information is the first step to effective political and security risk management."

"Overall, crime rather than politically motivated violence will be the most pressing security concern for international business in 1995," the report predicts.

The areas hardest hit by crime will be the countries that comprised the former Soviet Union, particularly Russia.

The Russian Federation "is a huge potential market" with more than $3 billion in direct foreign investment expected in 1995. International organizations believe by the year 2000, Russia could be the fastest-growing economy in the world, observed Control Risks. Indeed, among the Overseas Private Investment Corp.'s largest commitments on expropriation and political violence coverage in 1994 was Russia (*BI*, Nov. 28).

More than half the British business executives polled by Control Risks also thought that "Russia (was) the most dangerous place in which to invest."

However, Control Risks said it believes that "foreign companies can do business effectively in Russia if they address the risks. . .(and) act to minimize security risks."

Extortion and racketeering are notorious in Russia, the consultant's report shows. Every month, police register 600 to 700 cases of racketeering. A Russian government report in 1994 also claimed that 70% to 80% of businesses pay extortion demands. In fact, the Moscow offices of two Korean multinationals were bombed in February 1994 "for apparent non-payment of an extortion demand," the report said.

"However, each (extortion and racketeering) case should be dealt with on its merits and a contingency plan drawn up to deal with the problem when it arises," said Control Risks. The most important step is to ensure that all personnel are aware of the crime risks and that they keep abreast of latest developments. "Out-of-date information is bad information," the group warned.

Organized criminal gangs also regularly kidnap local business figures in Russia "and are now turning to foreigners," in particular those who fail to pay protection money, warned Control Risks. At least seven foreigners were kidnapped in three Russian cities in the first six months of 1994.

Official figures early in 1994 claim that the Russian Mafia controls almost 40,000 businesses in Russia, so there is an additional risk of accidentally becoming involved with a fronting company for a criminal gang. This "is one of the greatest hazards for foreign businesses starting operations in

Continued on next page

London

U.K. now downscaling pension reform plans

By ADRIAN LADBURY

LONDON—U.K. employer groups and pension experts are welcoming a government decision to water down key provisions in its proposed changes to pension legislation under the Pensions Bill introduced into the House of Lords earlier this month.

Employers accepted most of the proposed changes to U.K. pension regulation and legislation that were contained in a Department of Social Security white paper, "Security, Equality, Choice: the Future for Pensions," released earlier this year, and the subsequent bill (*BI*, Sept. 19; July 4).

However, many employers and pension plan experts—including the Confederation of British Industry and the National Assn. of Pension Funds—warned that key elements of the DSS package would prove too tough for many pension programs to handle.

They warned that such proposals as strict new minimum solvency requirements and tight new deadlines for improved funding of underfunded plans would prove difficult for many occupational pension plans to meet, deter employers from setting up new plans and, in some cases, even push employers into bankruptcy.

On Dec. 8, the DSS stated that it would amend the proposals in reaction to the concerns that British employers voiced. It announced three key changes to its pension reform proposal:

- Large defined benefit plans with liabilities of more than £100 million ($156 million) would be allowed to use equities to meet up to 25% of their liabilities when calculating the new minimum solvency standards.

Under the former proposals, all plans would have only been allowed to carry so-called gilt-edged securities—typically bonds with demonstrated long-term reliability—to meet plan liabilities. The idea was that if the employers became bankrupt, plan members could be assured that they would have guaranteed income to use toward the purchase of insurance annuities.

Managers of large pension funds complained bitterly that this investment basis would be expensive and that it would have an adverse impact on the levels of investment in U.K. equities.

- The time limits for restoring

Continued on next page

Guernsey and Dublin attract more captives

Captive insurance operations are growing at record or near record levels in two European domiciles.

The Channel island of Guernsey registered a record 31 new captives in 1994, bringing its total to 279, while Dublin, Ireland, has registered 24 new captives, bringing its total to 113.

Captives managed on Guernsey, which was the world's third-largest domicile in 1993, now have assets of about £2.2 billion ($3.43 billion), said Steve Butterworth, Guernsey's superintendent of insurance.

One new addition in Guernsey is Pentegram International Insurance Co. Ltd., which has been set up by airline captive Polygon Insurance Co. Ltd. to underwrite new long-term policies for periods longer than five years. It will only cover the risks of the captive's parents.

Guernsey registered a record 31 new captives in 1994, while Dublin, Ireland, has attracted 24 new captives.

At least eight of Guernsey's new captives have been set up by U.K. law firms seeking to escape steeply rising professional liability premiums and deductibles, and by building societies, or thrifts, seeking to escape rising premiums and responsibility for mortgage indemnity business (*BI*, April 18).

In Dublin, where the International Financial Services Centre is marketed as a captive domicile, the number of new captives formed this year is up sharply from 15 and 16 new formations in the past two years. Twenty-two formations are projected for 1995.

Polygon—which is primarily owned by KLM Royal Dutch Airlines, Scandinavian Airlines System and SwissAir—also accounts for one of the Dublin additions. Its new Polygon Insurance Co. Europe Ltd. will underwrite European risks, explained Richard Tee, general manager of Polygon in Guernsey.

Other notable arrivals on the Dublin captive scene include AT&T Corp. and London medical insurer British United Provident Assn.

—By Adrian Ladbury

Crime

Continued from previous page
Russia." Foreign companies should carry out extensive investigations into the background of any company it plans to do business with, Control Risks advised.

Businesses in the Baltic States of Estonia, Latvia and Lithuania also will be exposed to organized crime problems in 1995, though the region will remain stable politically, Control Risks said.

Businesses that may be vulnerable to extortion demands should consider "visible security measures" such as armed guards, as well as draw up contingency plans. "All demands should be taken seriously. Refusal to pay can prompt physical threats and attacks against personnel and premises," said Control Risks.

Organized crime is also a concern in the European Union, particularly in Italy, the southern states of China and in Central and South America, where drug cartels still dominate in some countries, said Control Risks.

Petty crime also is thriving in the Americas, where "police inefficiency" has prompted firms to run their own security arrangements. "Banks and security companies transport cash and other valuables, and there is a growing trend for supermarkets, shops and stores, country clubs, factories, sporting events, schools and hospitals to employ armed security personnel," said Control Risks.

Argentina alone has 90,000 private security agents, up from 8,000 in 1984, the consultant said.

Employers should beware of environmental risks in Central and South America, especially where new gas fields are opening.

"Foreign companies moving (there) will need to bear in mind that the environmental impact of future projects will come under scrutiny," said the report. "Companies will face new, stricter environmental regulations at the construction and operational stages."

Foreign companies would be "wise" to adhere "rigorously" to current environmental standards and anticipate stricter regulations at the construction and operational stages."

Control Risks' study details other business security risks in various countries, including:

• France, where "political instability has raised doubts about whether (the nation) is an attractive proposition for foreign investment."

Foreign investors withdrew some $18 billion from French stocks and bonds in each of the first three quarters of 1994, the consultant noted.

• United Kingdom, where the Irish Republican Army ceasefire has improved business security, particularly in London where past IRA bombings have cost hundreds of millions of dollars.

However, the ceasefire is "fragile," so businesses should plan for the worst—the IRA bombing resuming. The City of London, the nation's largest financial district and twice a target for the IRA, has spent £1 million ($1.56 million) on anti-terrorist security measures.

• The Middle East, where an Israeli-Palestinian peace treaty has opened the door to foreign investment. There is a safer business environment in Lebanon following the civil war, so foreign companies are offering services for reconstruction. In addition, Syria has become "one of the safest countries in the Middle East," the report says.

Organized crime is a concern in the European Union, the southern states of China and in Central and South America.

But in Saudi Arabia, the succession of King Fahd, who is ill, could cause political instability and delays in payment from the government to foreign contractors. French and British export credit insurance providers have tightened up their terms to Saudi Arabia as a result, according to Control Risks.

• Algeria, which is "the most dangerous country in the world for foreign business."

Only a miracle will save the country from civil war in 1995, the report concluded. More than 30,000 people have already died in violence between Islamic extremists and government security forces, including 17 foreigners—non-native wives of Algerians, visiting businessmen, journalists, tourists, sailors and nuns. "Foreigners are shot on sight."

Most foreign business are withdrawing their expatriates.

• China and India, which "look set to dominate emerging market investment through to the end of the century."

Although China is rich in opportunities, foreign businesses suffer problems, including: the archaic legal system which cannot cope with disputes; debt recovery; and insufficient intellectual property law. India's political system, on the other hand, is "based on much more secure foundations."

• Mexico, where kidnapping has increased since the 1980s and is now a serious problem.

Those who have been kidnapped, however, are mainly Mexican business executives. "Expatriates or employees of foreign companies have not been targeted in recent years and foreigners remain at only slight risk."

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Copies of "Business Security Outlook" are available through Control Risks Group, 83 Victoria St., London SW1 0HW; 0171-222-1552; fax: 0171-222-2296. Price is £140 ($218).

UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK

In re

Petition of Gareth Howard Hughes, Nigel James Hamilton and Jacqueline Barbara Stephenson, as Joint Provisional Liquidators of Municipal General Insurance Limited,

Debtor in Foreign Proceedings.

Case No. 94-B-41329 (CB)

PRELIMINARY INJUNCTION ORDER

This matter has come before the Court on the above Petitioners' request for a Preliminary Injunction Order pursuant to Bankruptcy Rule 7065 and Federal Rule of Civil Procedure 65(b). The Court has considered and reviewed the Petition filed in this case, the Affidavit of Ronald DeKoven, one of the attorneys for Petitioners, the Declaration of Gabriel Moss, Q.C., the Declaration of Gareth Howard Hughes, one of the Petitioners herein, and the Memorandum of Law in support of the application, and any responses filed thereto, and having held a hearing and heard arguments by counsel on the 29th day of March, 1994, the 27th day of July, 1994 and the 8th day of December, 1994, and based on the foregoing the Court finds and concludes as follows:

1. Petitioners have demonstrated a substantial likelihood of success or have raised serious questions on the merits of the contentions that: (a) Municipal General Insurance Limited ("MGI") is subject to "foreign proceedings" within the meaning of Sections 101(23) and 304(a) of the United States Bankruptcy Code (the "Bankruptcy Code"), 11 U.S.C. §§ 101 *et seq.*; (b) Petitioners are the "foreign representatives" of MGI within the meaning of Sections 101(24) and 304(a) of the Bankruptcy Code; (c)(i) the commencement or continuation of any judicial, administrative or regulatory action or proceeding against MGI, any of its property in the United States, or any proceeds thereof, (ii) the enforcement of any judicial, administrative or regulatory judgment, assessment or order, and the commencement or continuation of any act or any judicial, administrative or regulatory action or proceeding, to create, perfect or enforce any lien, set-off or other claim against MGI, any of its property in the United States, or any proceeds thereof, and (iii) the drawing down of any letters of credit established by MGI in excess of what is expressly authorized by the terms of the contracts and any related trust or other agreements pursuant to which such letters of credit have been established, should be enjoined* pursuant to Section 304(b) of the Bankruptcy Code to permit the expeditious and economical administration of the foreign estate in the pending proceedings brought under foreign law; and (d) the relief requested will not cause hardships to parties that are not outweighed by the benefits;

2. Unless an injunction is issued, it appears to this Court that one or more parties in interest will transfer, relinquish or dispose of assets of MGI in the United States, or proceeds thereof, commence or continue the prosecution of judicial, administrative or regulatory actions against MGI, its assets, or proceeds thereof, or draw upon letters of credit established by MGI in excess of the amount to which such parties are contractually entitled, thereby interfering with, and causing harm to, the Petitioners' efforts to administer the MGI estate pursuant to the foreign proceedings, and that, as a result, the Petitioners will suffer immediate and irreparable injury for which they will have no adequate remedy at law;

3. Unless the injunction is issued, Petitioners will be unable to acquire sufficient information about pending and potential litigations against, and U.S. assets of, MGI to properly protect the interests of MGI in the United States, resulting in the further depletion of MGI's limited assets;

4. The interest of the public will be served by this Court's grant of the relief requested by Petitioners; and

5. Venue is proper in this district pursuant to 28 U.S.C. § 1410.

NOW, THEREFORE, IT IS:

ORDERED that all persons (except as provided in the New York Superintendent Order) are hereby enjoined and restrained from:

(1) transferring, relinquishing or disposing of any property of MGI in the United States, or any proceeds thereof, to any persons or entities other than Petitioners;

(2) commencing or continuing any judicial, administrative or regulatory action or proceeding against MGI, any of its property in the United States, or any proceeds thereof;

(3) enforcing any judicial, administrative or regulatory judgment, assessment or order, or commencing or continuing any act or any judicial, administrative or regulatory action or proceeding, to create, perfect or enforce any lien, set-off or other claim, against MGI, any of its property in the United States, or any proceeds thereof; and

(4) drawing down any letters of credit established by MGI in excess of what is expressly authorized by the terms of the contracts and any related trust or other agreements pursuant to which such letters of credit have been established; and it is further

ORDERED that nothing in this Preliminary Injunction Order shall in any respect prevent the continuance or commencement of proceedings against or involving other London Market insurers or any other insurance company defendant; and it is further

ORDERED that, pursuant to Bankruptcy Rule 7065, the security provisions of Fed. R. Civ. P. 65(c) be, and the same hereby are, waived; and it is further

ORDERED that this Preliminary Injunction Order shall be served (A) by hand delivery or U.S. mail, first class postage prepaid, on or before December 18, 1994 upon the parties in interest appearing in this case (or their counsel, where known); and (B) by publication of a summary of this Preliminary Injunction Order in *Business Insurance Magazine* on or before January 8, 1995; and that service pursuant to this paragraph shall be deemed good and sufficient service and adequate notice; and it is further

ORDERED that the time to answer or move with respect to the Petition is extended *sine die*, but that parties wishing to move for modification of or relief from this Order or otherwise may do so in accordance with the schedule set forth by the Court herein and in any subsequent Scheduling Order entered by the Court in this case; and it is further

ORDERED that this injunction shall remain in effect pending further order of the Court after a hearing to consider whether the injunction shall be continued, which hearing is scheduled to be held in Room 601 of the Alexander Hamilton Custom House, One Bowling Green, New York, New York on April 11, 1995 at 2:00 p.m.; and it is further

ORDERED that all papers submitted for the purpose of controverting the Petition or opposing a continuation of the relief provided for in this Preminlinary Injunction Order shall be filed with the Court with a copy to the Chambers and delivered personally or by overnight mail or so as to be received by Shearman & Sterling, 599 Lexington Avenue, New York, New York 10022 (attention: Ronald DeKoven), Attorneys for Petitioners, on or before March 8, 1995 at 1:00 p.m.

Dated: New York, New York
December 8, 1994
2:50 p.m.

CORNELIUS BLACKSHEAR
U.S.B.J.

*Petitioners' request for relief, and the terms of this Order, are subject to the provisions of any temporary restraining order or order of conservation obtained by the New York Superintendent of Insurance (the "New York Superintendent Order").

London

Continued from previous page
scheme funding levels have been relaxed.

Pension plan sponsors would now have up to one year to bring schemes to at least 90% of the minimum solvency requirement and five years to reach 100% of the solvency requirement.

Under the original proposals, the time limits would have been three months and one year, respectively.

Plan managers complained that the original limits could have posed a threat to the solvency of some companies if they were required to make a rapid injection of money to bring funding levels up to the required levels of 90% or 100%.

• The minimum solvency requirement calculations will now be made on the basis of plan assets' market values spread over a period of months rather than the assets' values on the day that the valuation is made.

Pension plan managers argued that the original method would have left them vulnerable to short-term fluctuations in the financial markets.

"We will need to study the detail of what emerges, but the moves announced by the DSS on time periods for meeting solvency standards and equity funding in larger (pension) schemes ease the fears of unreasonable costs, while providing the realistic security we all want," said Howard Davies, director general of the Confederation of British Industries, one of the U.K.'s largest employer organizations.

Other special interest groups and some pension experts, however, are not happy with the way the government appears to be watering down reform proposals as originally advanced by Roy Goode, who led a government panel that suggested regulatory reforms in the wake of the Maxwell pension scandal (*BI*, Oct. 11, 1993). They warn that if too many changes are made to those original ideas, the reform package will fail in its primary objective of protecting pensioner's rights and the security of their pensions.

The opposition Labour Party has stated it is concerned about another major change proposed by the government. The DSS has decided to ditch a proposed change that would require boards to be recast so that at least one-third of pension trustees were composed of plan members. The government now proposes that the changes should only be made to a board of trustees' composition if 10% or more of members register dissatisfaction with their current boards.

"There has been an awful lot of tinkering made along the way and you've got to remember that when Professor Goode first published his proposals he said they would only work as a package. Many people are beginning to wonder how effective this piecemeal package may turn out to be," said Richard Malone, European policy director at benefits consultant Sedgwick Noble Lowndes in London.

Terra Nova

Continued from previous page
York, which specializes in insurance investments, is the biggest new investor with an 18.9% stake, for an undisclosed sum.

Other new investors in the holding company include: J.P. Morgan & Co. Inc., with 5.8%; Paine Webber Group Inc., with 5%; Chemical Venture Partners, a fund affiliated with Chemical Banking Corp., with 5.8%; and Byrne & Son L.P., an investment vehicle of John J. Byrne, with 2.8%. Terra Nova's management took a 1.5% stake.

"We have recognized the changes taking place in our industry and have moved to respond. London and Bermuda are important markets today and we believe that successful reinsurance companies will need to have a presence in both. By year end we will be one of the few reinsurance companies to have operations in both principal reinsurance markets," said William O. Bailey, chairman of Terra Nova and the new holding company. BI

U.K. amends law

LONDON—The United Kingdom has become one of the first European Union member states to amend its national insurance law so that the European market for insurance extends to all 17 member states of the European Economic Area.

The nations of the European Free Trade Agreement grouping—Austria, Iceland, Norway, Sweden and Finland—agreed to join the 12 nations of the European Union to create the single European market for insurance as of July 1, 1994, when the third non-life and life directives finally came into force.

But, the agreements with the EFTA nations were ratified after the necessary national regulations within E.U. nations to incorporate the directives came into force. The realization of a single E.E.A. insurance market is therefore delayed until each E.U. member changes its national laws to include the EFTA nations.

Other obstacles to the single market remain.

Not all E.U. member states have yet fully incorporated the two insurance directives into their national legislation. And, Portugal and Greece were granted extensions until next year to adopt the directives because of the relatively immature state of their insurance markets.

Completion of the free market, which will let companies sell products across borders without having to seek registration in all member nations, is expected before the end of next year. BI

Carpenter named to Travelers post

Comings & Goings: Industry

Michael A. Carpenter has joined Travelers Group as executive vp and chairman. He will also serve as chief executive officer of Travelers Life Insurance Co., succeeding **Robert Crispin** who joined UNUM Corp. as executive vp. Mr. Carpenter previously was chairman and CEO of Kidder, Peabody Group Inc.

In other insurer changes:

Liberty Mutual Insurance Co. in Boston has named **Edward G. Troy** executive vp and manager of commercial lines for national accounts, a newly created position. He previously was senior vp for AIG Risk Management Inc.

Robert W. Trainer, chief financial officer, senior vp and treasurer of Hartford Steam Boiler Inspection & Insurance Co., has resigned for personal reasons. No replacement has been named.

Kathryn A. Lu named vp and associate counsel at Mutual of America Life Insurance Co. in New York.

W. Kenneth Hunt III named president of Liberty Life Insurance Co. in Greenville, S.C. He succeeds **Ralph Ogden**, who remains president of Liberty Insurance Group.

Richard F. Williams named CEO of The Fidelity & Deposit Cos. in Baltimore. Mr. Williams succeeds **Joseph C. Eanes Jr.**, who will continue as chairman.

Michael J. Cohen named vp-marketing for American Home Assurance Co., an American International Group Inc. subsidiary in New York.

At New York Life Insurance Co., **Michael L. Callahan** and **Thomas J. Warga** named senior vps in the corporate compliance department.

ITT Hartford Group Inc. announced several new appointments: **Frederic W. Baker** named vp of ITT Hartford and executive vp of its subsidiary, Hartford Specialty Co.; **Judith A. Blades** named vp-standard commercial underwriting in the property/casualty group; **Calvin Hudson** named vp and director of managed care operations; **William B. Malchodi** named vp and director of taxes; **Hugh F. Martin** named vp and director of agency personal lines, property/casualty operations; **Michael O'Halloran** named vp and director of corporate law and senior associate general counsel; **Richard J. Quagliaroli** named vp and manager of the Southern division of the property/casualty operations; and **Patrick J. Salve** named vp, associate general counsel and director of property/casualty legal operations.

The MetraHealth Cos. Inc., the newly formed company that comprises the combined group health care businesses of Metropolitan Life Insurance Co. and The Travelers Insurance Co., made several appointments: **Terrence C. Burke**, formerly senior vp at Aetna Health Plans, named senior executive vp; **Elliot F. Gerson**, formerly head of The Travelers' employee benefit business, named executive vp; and **Allen F. Wise**, formerly with his own firm, named executive vp.

Agents/brokers

J. Randy Pugh named CEO of Willis Corroon Corp. of San Diego, succeeding **Thomas G. Eakes**, who will be a consultant in the San Diego office until his retirement at the end of 1995.

Ralph R. Petersen named chief operating officer of the Troy, Mich., office of Jardine Insurance Brokers Inc.

James C. Locker named vp and managing director of property for Sedgwick James of California Inc. in San Francisco. **Susan Brainard** named regional director for environmental services in the California region for Sedgwick Environmental Services and Sedgwick James of California.

Also at Sedgwick, **Louis H. Burge** named director of the newly formed Business America, a Memphis, Tenn.-based Sedgwick James Inc. brokerage unit that provides specialized insurance, risk control and claims management for midsize companies.

Other suppliers

James P. Rippy named president and CEO of Thomas Howell Group (Americas) Inc., an Atlanta-based property/casualty insurance claims adjuster. Mr. Rippy succeeds **T. Bruce Tilley**, who is retiring.

D.W. (Bill) Schrempf named director of global insurance consulting services for KPMG Peat Marwick L.L.P. in New York. He is the former president and CEO of Argonaut Group Inc., and most recently operated his owned consulting firm.

Reinsurance

William Fischer named vp-treaty property department of Prudential Reinsurance Co. in Newark, N.J.

Dennis E. Arnold named senior vp of URC Holdings Corp. and president of its newly formed specialty underwriting group in Woodland Hills, Calif., **Russell T. John** named senior vp at URC Holdings and succeeds **Steven H. Newman** as president of subsidiary Underwriters Reinsurance Co. Mr. Newman will remain chairman of the company. **Stephen C. Kolakowski** named chief financial officer of URC Holdings filling a vacant post after **Peter A. Bengelsdorf** resigned last June.

John W. Rodgers named vp-claims division at American Re-Insurance Co. in Princeton, N.J.

General Reinsurance Corp. announced several new vp appointments: **James W. Canfield**, **Wilma J. Davis** and **Douglas M. Holaday** in Stamford, Conn.; and **Leslie F. Howell** in Chicago.

Kenneth J. Rutkowsky named executive vp of The Mercantile & General Reinsurance Co. of America in Morristown, N.J. BI

Day after Xmas

Continued from page 47

He shook his white head, finished with his assault.
"DoNothing," he sighed, "the damn thing's all your fault.

"If you'd listened in the past, if you hadn't played dumb,
Perhaps—just perhaps—Christmas cheer might have come.

"But I've warned you and warned you eight blasted years!
Your company's simply past helping, I fear."

DoNothing stood rigid, stern and aloof,
Irritated by each little paw of a hoof.

These eight stinking reindeer, that white-bearded crone
All acted like he'd caused the problems alone!

"Hey, listen here, Santa," DoNothing was crying.
"If you say this is all due to me, well, you're lying."

He walked through the stable, slapping each reindeer's stall.
"An industry downturn's not new—not at all!"

"Through Nixon, through Ford, through Carter, through Reagan,
Through Bush and now Clinton, this business has been makin'

"A long downward slide into the mediocre!"
DoNothing pronounced, the crafty old joker.

"Okay. I'm the first CEO to admit
Net investment income has not been a hit.

"Cash flows and rates of return were misjudged—
No matter how slyly the numbers were fudged.

"Lately, agencies that we pay for our rating
Have had the gall to start downgrading

"And though we've been forewarned and apprised,
Our factories still haven't been downsized."

DoNothing was sweating, his palms they were damp.
He felt his gut twist, an uncomfortable cramp.

"Bailouts have occurred, in some firms that were hexed.
But Santa, who said that we'd have to be next?"

St. Nick gave a snort and a shake of his head.
"Mark my word," he said sadly. "Next year you'll be dead."

He spoke not a word, but went straight to his work,
Walked down the long stable, then turned with a jerk.

"Go home, DoNothing. Say Santa is tired.
Better yet," he said grinning, "Say that you've been fired.

"Believe me, this downturn is not a rehearsal.
'95 won't bring with it a magic reversal."

And finally, reluctant to say any more,
Santa nodded and left through the stable's back door.

DoNothing stood silent, his mouth hung agape.
He wondered what might whip his firm into shape.

And Santa's last words the CEO strained to hear:
"It's too late for Christmas—make a change for next year!" BI

Myron M. Picoult is managing director and senior insurance analyst with Oppenheimer & Co. in New York. He is the past president of the Assn. of Insurance & Financial Analysts and a member of the New York Society of Security Analysts.

Jodi Picoult Van Leer is his daughter and the author of several novels.

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LEGAL NOTICE

IN THE HIGH COURT OF JUSTICE (IN ENGLAND) **No 007734 of 1994**

CHANCERY DIVISION

IN THE MATTER OF

SCAN RE INSURANCE COMPANY LIMITED

-and-

IN THE MATTER OF THE COMPANIES ACT 1985

Notice is hereby given that, by an Order dated 13th December 1994 made in the High Court of Justice in the matter of Scan Re Insurance Company Limited ("the Company"), separate meetings were ordered to be summoned of Scheme Creditors (as defined in the scheme of arrangement referred to below) of the Company for the purpose of considering and, if thought fit, agreeing to a scheme of arrangement proposed to be made between the Company and its Scheme Creditors pursuant to Section 425 of the Companies Act 1985 ("the Scheme"), namely:

i) Scheme Creditors with claims in respect of which they are not Prospective Protected Policyholders (as defined in the statement required to be furnished under Section 426 of the Companies Act 1985 in connection with the Scheme (the "Explanatory Memorandum")) and

ii) Scheme Creditors with claims in respect of which they are Prospective Protected Policyholders.

The meetings will be held on 15th February 1995 at The Great Hall, Chartered Insurance Institute, 20 Aldermanbury, London EC2V 7HY, United Kingdom at the times mentioned below, namely;

i) in the case of Scheme Creditors with claims in respect of which they are not Prospective Protected Policyholders, at 11:00am;

ii) in the case of Scheme Creditors with claims in respect of which they are Prospective Protected Policyholders, at 11:20 am (or as soon thereafter as the previous meeting shall have concluded or been adjourned).

The times referred to are London times.

The Chairman of the meetings will address Scheme Creditors generally on the Scheme and on issues relevant to voting and will invite and answer questions at the commencement of the first meeting.

Scheme Creditors may attend and vote at the meeting(s) for which they are eligible either in person or by proxy and are, in any event, requested to complete the appropriate form of proxy and return it to the Provisional Liquidators at 44/46 Old Steine, Brighton, East Sussex, BN1 1NH, England by 5:30 pm on 8th February 1995, although if not so returned, proxy forms will still be valid provided the original is received by the provisional liquidators by post no later than the date of the meetings or by personal delivery not later than the time at which the person appointed as proxy exercises its appointor's right to vote or the creditor itself exercises its right to vote. The Chairman of the meetings will accept faxed forms of proxy subject to receipt of the original in the manner and before the time specified above.

Each Scheme Creditor or his proxy will be required to register his attendance at the meeting he is entitled to attend prior to the commencement of the first meeting. Registration will commence at 10:00 am.

The Scheme is proposed between the Company and its Scheme Creditors. Subject to the exceptions referred to below, Scheme Creditors are those creditors of the Company in respect of claims arising out of a liability to which the Company is subject at the date of the Scheme or to which it may become subject thereafter by reason of an obligation incurred before that date. The exceptions are creditors in respect of any claims which would have been preferential in a liquidation of the Company, or which relate to the costs or expenses of the Scheme or which arise out of travel insurance policies through Collective Insurance Agency between 1st October 1989 and 30th September 1992 which will all be paid in full.

Any Creditor of the Company who is or believes that he may be entitled to attend at either of the meetings may obtain a copy of the document containing the Scheme and the Explanatory Memorandum and forms of proxy for use at the meetings from the Secretary of the Company at 44/46 Old Steine, Brighton, East Sussex, BN1 1NH in England and at the office of Leboeuf, Lamb, Greene & MacRae, 125 West 55th Street, New York, NY 10019-5389 in the United States of America.

By the Order, the High Court of Justice has appointed Gareth Howard Hughes or, failing him, Nigel James Hamilton to act as Chairman of the meetings and has directed the Chairman to report the results of the meeting to the court.

Date 20th December 1994

Ashurst Morris Crisp, Broadwalk House, 5 Appold Street, London, EC2A 2HA

Solicitors to Gareth Howard Hughes and Nigel James Hamilton

Provisional Liquidators of the Company

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NOTICE OF CORRECTION TO INSURANCE IFB

On December 5, 1994, the Public Housing Agency of the City of Saint Paul (PHA) issued an Invitation for Bids (IFB) for **Comprehensive General Liability** insurance to be effective February 15, 1995.
Due to technical difficulties, some names, addresses and other information from those who responded have been lost. If you responded to the original advertisement on December 5, 1994, and received the complete set of bid documents, please contact Junella C. Pichelman again, at telephone number 612-298-5665, extension 3061.
This is important because the PHA is issuing an addendum to the original IFB in response to questions it received from some potential bidders. Unless the PHA has your name and address as an interested potential bidder, you may not receive information available to other bidders.
Failure to respond to this advertisement may result in the rejection of any bid you may be considering submitting for consideration.

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Business Insurance Circulation Breakdown

Commercial Consumers

Administrative:

CEO's, Presidents, and Owners 2,528
Vice Presidents, General Managers and Other Administrative Personnel 4,118

Financial:

Chief Financial Officers and Vice Presidents of Finance 2,171
Secretaries, Treasurers, controllers and other Financial Personnel 3,335

Risk/Employee Benefits:

Vice Presidents, Directors, Managers, and other related department personnel of: insurance, risk employee benefits, personnel, compensation, pension, safety, security, industrial relations, human resources and employee/labor relations 16,157

Sub-total **28,309**
Associations 369
Government, Unions and Educational Institutions 974

Commercial Consumers

Sub-total **29,652**
Insurance Agents and Brokers 8,408
Insurance Companies 8,181
Accountants, Actuaries, Attorneys & Consultants 3,611
Managers & Health Care Providers 1,903
Others Allied to the Field 849

TOTAL **52,604**

★ *Source Business/Occupational breakdown of qualified circulation, May 30, 1994 Issue, as submitted to BPA for June 1994 BPA Publisher's Statement*

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The January 2nd issue will close at noon on Tuesday, December 27th.
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CGL policy revisions to extend defense cover

By MEG FLETCHER

In a pro-policyholder move, the Insurance Services Office Inc. plans to revise commercial general liability policy language to require an insurer to provide defense costs, albeit within policy limits, in some contractual liability cases.

The new language would amend the supplementary payments section of the standard commercial general liability insurance form to provide that if an insurer defends a policyholder it will also defend an indemnitee of the insured, but only if several policy conditions are met.

For example, there can be no apparent conflict between the interests of the policyholder and the indemnitee.

If that and the other conditions are met, associated attorneys' fees and necessary litigation expenses will be paid by the insurer as supplemental payments within the policy limits.

Brokers and agents have argued that the 1986 CGL form inadvertently omitted the third-party defense coverage.

This situation could commonly arise when subcontractors agree to hold general contractors or building owners harmless for claims from the subcontractors' work.

Insurance companies and policyholders and brokers disagree over whether third-party defense costs should actually be covered under the standard commercial general liability form, which was introduced by ISO in 1986.

Brokers and agents have argued that the drafters of the 1986 form inadvertently omitted the third-party defense coverage; ISO has argued that neither the 1986 form nor previous forms were intended to provide such coverage (*BI*, Feb. 10, 1992).

The issue first came to a head in 1991, when ISO initially proposed modifying the standard policy to cover third-party defense costs within policy limits.

Policyholder defense costs were then and would still be outside policy limits on the ISO standard form.

The new revisions should finally resolve disputes over that proposal, said Carole J. Banfield, ISC senior vp.

She said the new wording came out of continuing talks with insurance regulators and four agent and broker associations: the Council of Insurance Agents & Brokers; the Independent Insurance Agents of America; the National Assn. of Insurance Brokers and the National Assn. of Professional Insurance Agents.

It's "a perfect example of how good communication can produce positive results" that will benefit all commercial general liability policyholders, Ms. Banfield said at a recent National Assn. of Insurance Commissioners meeting in New Orleans. B

Insider Trading

American International Group Inc.: Patrick J. Foley, vp, disposed of by gift 1,000 shares of common stock at an unreported price on Sept. 19. He indirectly acquired by gift 1,000 common shares at an unreported price the same day. Mr. Foley now directly and indirectly holds 15,909 common shares.

Wayland Mead, officer, exercised an option for 200 shares of common stock at $22.63 each on Nov. 28 and now directly and indirectly holds 79,600 common shares.

Nicholas Alexander Okulich, vp, disposed of by gift 124 common shares at an unreported price on Sept. 14. He indirectly acquired by gift 124 common shares at an unreported price the same day. Mr. Okulich bought 100 common shares at $87.75 each on Oct. 5 and now directly and indirectly holds 424 common shares.

Frank Petralito, vp, indirectly sold 562 common shares at $93.50 each on Nov. 1. He now directly and indirectly holds 5,652 common shares.

Ernest E. Stempel, officer and director, indirectly disposed of by gift 10,588 shares of common stock at an unreported price on Sept. 19. He now directly and indirectly holds 7,497,013 common shares.

AIG stock closed at $97.63 a share on Dec. 16.

Chubb Corp.: David S. Fowler, vp, disposed of by gift 711 shares of common stock at $70 each on Nov. 3. Mr. Fowler indirectly acquired by gift 711 common shares at $70 each that same day. Mr. Fowler now directly and indirectly holds 10,179 common shares.

Henry G. Gulick, vp, disposed of by gift 200 common shares at $69 each on Oct. 25. He indirectly acquired by gift 100 shares at $69 each that same day. Mr. Gulick now directly and indirectly holds 6,183 common shares.

Chubb stock closed at $76 a share on Dec. 16.

CNA Financial Corp.: Philip L. Engel, director, bought 200 shares of common stock at $61.38 each on Sept. 15 and now directly holds 400 common shares.

Loews Corp., beneficial owner, bought 62,000 shares of common stock between $61 and $61.50 each from Oct. 12 to Oct. 24 and now directly holds 51,994,360 common shares.

CNA stock closed at $66.38 a share on Dec. 16.

Fremont General Corp.: Houston I. Flournoy, director, disposed of by gift 600 shares of common stock at an unreported price on Nov. 3. He now directly holds 1,164 common shares.

James Albert McIntyre, chairman, disposed of by gift 796,651 shares of common stock at an unreported price from Sept. 26 to Sept. 27. He indirectly acquired by gift 796,651 common shares at an unreported price that same day. Mr. McIntyre now directly and indirectly holds 1,890,365 common shares.

Fremont General stock closed at $22.50 on Dec. 16.

Fund American Enterprises Holdings Inc.: John J. Byrne, director and beneficial owner, disposed of by gift 130,000 shares of common stock at $70.75 each on Oct. 31. He now directly and indirectly holds 670,224 common shares.

Fund American stock closed at $75.75 a share on Dec. 19.

Arthur J. Gallagher & Co.: Gary M. Vandervoort, vp, sold 6,314 shares of common stock at $32.88 each on Nov. 9. He now directly and indirectly holds 52,326 common shares.

Gallagher stock closed at $29.88 a share on Dec. 16.

Humana Inc.: David A. Jones, chairman, disposed of by gift 50,000 shares of common stock at an unreported price on Sept. 14 and now Mr. Jones directly and indirectly holds 9,472,754 common shares.

Humana stock closed at $22 a share on Dec. 16.

Lincoln National Corp.: Richard Stuart Robertson, vp, exercised an option for 2,000 shares of common stock at $23.50 each from Nov. 4 to Nov. 22. To cover transaction costs, he turned in 241 of the shares for $37 each from Nov. 4 to Nov. 22 and sold 2,050 shares in the open market between $36.75 and $37.88 each during the same period. Mr. Robertson now directly and indirectly holds 20,889 common shares.

Lincoln National stock closed at $35.63 a share on Dec. 16.

Old Republic International Corp.: Peter Lardner, director, indirectly disposed of by gift 5,428 common shares at an unreported price on Oct. 3 and now directly and indirectly holds 72,552 common shares.

Spencer Leroy, vp, indirectly bought 500 shares of common stock at $19.50 each on Nov. 21. He now indirectly holds 463 common shares.

Old Republic stock closed at $21 a share on Dec. 16.

SAFECO Corp.: Phyllis J. Campbell, director, bought 500 shares of common stock at $50.25 each on Nov. 8. She now directly and indirectly holds 500 common shares.

Robert Stanley Cline, director, bought 500 shares of common stock at $48.50 each on Nov. 15. He now directly holds 1,500 common shares.

Roger H. Eigsti, chairman, exercised an option for 3,500 shares of common stock at $28.13 each on Sept. 29. He now directly and indirectly holds 46,326 common shares.

Paul W. Skinner, director, indirectly bought 600 common shares at $48.75 each on Nov. 18. He now directly and indirectly holds 132,060 common shares.

SAFECO stock closed at $51.25 a share on Dec. 16.

SCOR U.S. Corp.: John T. Andrews, vp, sold 44,000 shares of common stock at $11.13 each on Nov. 2 and no longer holds shares in the company.

Noland E. Asch, vp, sold 9,071 common shares at $11.13 each on Nov. 2 and now directly holds 14,188 common shares.

Jerome Karter, president, sold 25,000 common shares at $11.13 each on Nov. 2 and no longer holds shares in the company.

SCOR S.A., beneficial owner, bought 82,000 shares of common stock at $11.13 each on Nov. 2 and directly holds 14,547,756 common shares.

SCOR U.S. stock closed at $7.50 a share on Dec. 16.

Transamerica Corp.: Myron Dubain, director, exercised an option for 1,000 common shares at $39.75 each on Nov. 2. To cover transaction costs, Mr. Dubain turned in 807 of the shares for $49.25 each on Nov. 2 and now directly and indirectly holds 5,267 common shares.

Sammie L. Ginn, director, exercised an option for 1,000 shares of common stock at $39.75 each on Nov. 2. To cover transaction costs, Mr. Ginn turned in 807 of the shares for $49.25 each on Nov. 2 and now directly and indirectly holds 2,687 common shares.

Frank C. Herringer, president, exercised an option for 4,513 common shares at $25.75 each on Nov. 8. To cover transaction costs, he turned in 3,091 of the shares for $50.31 each on Nov. 8 and now directly and indirectly holds 44,507 common shares.

Raymond F. O'Brien, director, exercised an option for 1,000 common shares at $39.75 each on Nov. 2. To cover transaction costs, he turned in 807 of the shares for $49.25 that same day. Mr. O'Brien now directly and indirectly holds 1,703 common shares.

Forrest N. Shumway, director, exercised an option for 1,000 common shares at $39.75 each on Nov. 2. To cover transaction costs, he turned in 807 of the shares for $49.25 each on Nov. 10. Mr. Shumway now directly and indirectly holds 10,708 common shares.

Charles R. Schwab, director, exercised an option for 1,000 common shares at $39.75 each on Nov. 10. To cover transaction costs, he turned 781 of the shares for $50.87 each on Nov. 10 and now directly holds 5,428 common shares.

Peter V. Ueberroth, director, exercised an option for 1,000 common shares at $39.75 each on Nov. 10. He now directly and indirectly holds 5,507 common shares.

Transamerica stock closed at $49.50 a share on Dec. 16.

Trenwick Group Inc.: Alan L. Hunte, vp, exercised an option for 11,250 common shares at $9.65 each on Nov. 16. He now directly holds 21,179 common shares.

William P. Walsh, officer of a subsidiary, sold 250 common shares at $36.75 each on Nov. 15. Mr. Walsh now directly holds 7,356 common shares.

Trenwick Group stock closed at $38 a share on Dec. 16.

USF&G Corp.: Robert J. Hurst, director, indirectly bought 3,000 shares of common stock at $14 each on Oct. 25 and sold 3,000 shares at $13.38 each on that same day. He now directly and indirectly holds 6,857 common shares.

USF&G stock closed at $13.63 on Dec. 16.

U.S. Healthcare Corp.: Leonard Abramson, officer and director, sold 375,000 shares of common stock between $42 and $43.25 each from Aug. 22 to Aug. 31. He indirectly sold 418,000 shares at $47 each from Oct. 26 to Oct. 31. Mr. Abramson now directly and indirectly holds 14,533,483 Class B common shares and 1,989,208 common shares.

Michael Cardillo, officer, sold 10,000 shares of common stock between $42.50 and $42.75 each on Aug. 23 and now directly holds 53,000 common shares.

Allen Misher, director, sold 1,500 common shares at $66.75 each on March 17 and now directly holds 5,250 common shares.

Costas C. Nicolaides, officer, sold 45,000 shares of common stock between $42.75 and $43.25 each on Aug. 31. He now directly holds 45,000 common shares.

U.S. Healthcare stock closed at $43.75 a share on Sept. 23.

Marshall V. Rozzi, divisional officer, exercised an option for 6,000 shares of common stock at $28.55 each on Sept. 1 and sold them at $43.75 each on Sept. 1. He sold 35,000 shares between $47.50 and $47.75 each on Oct. 13 and now directly holds 32,657 common shares.

U.S. Healthcare stock closed at $42.50 on Dec. 16.

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Insider Trading, compiled by Invest/Net Trading Group Inc. of Fort Lauderdale, Fla., from reports filed with the Securities and Exchange Commission, tracks stock sales and purchases by insurance industry directors and officers. The column is distributed by Tribune Media Services Inc.

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Monday

Continued from page 2
file claims for Monday injuries.

In addition, the pair concluded that employees with lower wages—whose indemnity benefits would replace a higher share of their preinjury wages—were not any more likely than high-wage employees to have Monday injuries. In fact, it was high-wage employees who had the largest share of Monday injuries.

The researchers also found that workers comp insurers and employers, which typically denied 10% of all claims during the period studied, were no more likely to contest a Monday injury than one filed any other day of the week.

"We were surprised," said Brian P. McCall, assistant professor of industrial relations at the University of Minnesota in the Twin Cities. He worked with David Card, professor of economics at Princeton University, to write the paper, entitled "Is Workers' Compensation Covering Uninsured Medical Costs? Evidence from the 'Monday Effect.'"

In this century, "the worker's compensation system has evolved from a program of death and disability benefits into a major third-party payer of health care," the researchers said in their 23-page paper. Workers comp now pays "just under 6% of all government health expenditures in the U.S.," they reported.

"The rising costs of medical care, coupled with a declining fraction of workers with medical care insurance...have led to a growing concern that workers comp is paying the costs of some off-the-job illnesses and injuries," the researchers said. "If medical costs for on-the-job injuries are fully covered (with no deductibles and generous reimbursement schedules) while medical costs for off-the-job injuries are uninsured, employees have a powerful economic incentive to misreport the timing and/or cause of an injury."

Employees with lower wages were no more likely than high-wage employees to have Monday injuries.

The researchers concluded that the Minnesota employees studied did not respond to those incentives as researchers expected.

While researchers were surprised, some experienced claims experts were not.

Robert E. Steggert, vp-casualty claims for Marriott International Inc., said he has never agreed with the common belief that Monday claims are more likely to be fraudulent. Focusing on "the Monday effect" is "too narrow a view" and may result in a company alienating legitimately injured workers, he warned.

What Marriott has found is a strong correlation between employees' lack of health insurance and the filing of workers comp claims. During 1991 and 1992, the hospitality company found that more than half of its employees who did not have health insurance, such as part-time workers, filed workers compensation claims. Also, the same group was very likely to have workers comp medical bills that exceeded $25,000.

Other factors also may have contributed to the researchers' conclusions.

"The research shows that workers compensation claims behavior is much more complex than workers compensation agencies' data can easily reveal," added Brian Zaidman, a senior researcher with the Minnesota Department of Labor and Industry in St. Paul. He helped the researchers obtain data from 26,500 injuries reported in Minnesota in the mid-1980s.

The complexities of Minnesota's law may also be a factor, added Gregory A. Saxum, director of workers compensation for Eastman Kodak Co. in Rochester, N.Y.

The applicability of the researchers' findings may vary from state to state, depending upon how the state law defines fraud in claims reporting, Mr. Saxum said.

One state may accept a claim stemming from work-related aggravation of a pre-existing condition, while another state would reject it, he said.

As an alternative explanation to fraud, the researchers speculated that the higher number of sprains and strain injuries occurring on Mondays may be "a consequence of an employee returning to work after a weekend hiatus."

The University of Minnesota's Mr. McCall said he is interested in learning about companies that have instituted prework exercise programs to prevent worker injuries caused by a loss of conditioning for the physical demands of the job.

Marriott's Bloomington, Minn., hotel was successful with an exercise program for housekeepers that was documented in a study in the mid-1980s, Mr. Steggert said. After one year, 30 volunteers generally improved their flexibility and reported 29% fewer musculoskeletal injuries and 50% fewer lost-time accidents.

The results of that program supported the continuation of and expansion of Marriott's company-wide loss prevention program that includes 10-15 minutes of flexibility exercises for high-risk employees, he added. BI

Judge finds killings unrelated to Prozac

LOUISVILLE, Ky.—Drug maker Eli Lilly & Co. was cleared of any liability in the first civil lawsuit involving the antidepressant Prozac to be ruled on by a judge.

A Jefferson Circuit Court jury on Dec. 12 found no link between Prozac and the actions of Joseph Wesbecker, who in 1989 killed eight people and wounded 13 others at his former workplace before committing suicide at the scene.

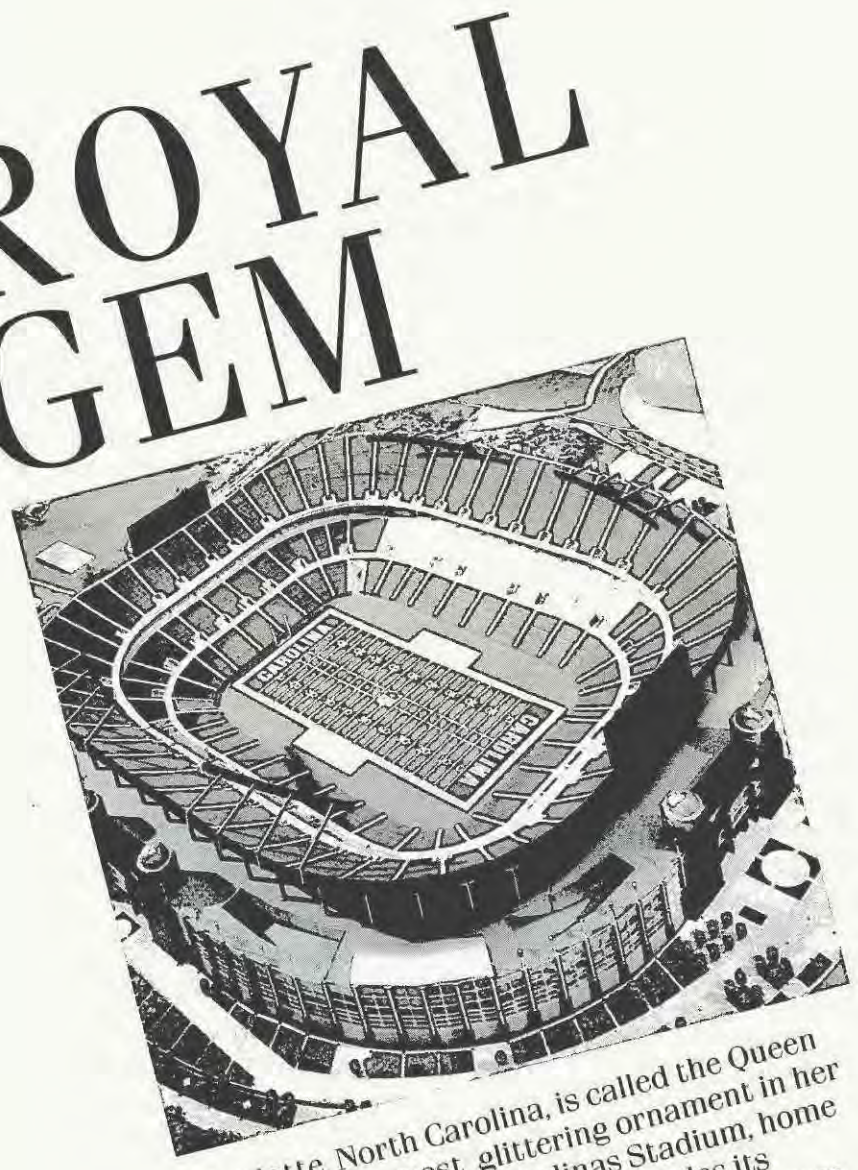
Some of the surviving victims and family members of deceased victims sued Eli Lilly following Mr. Wesbecker's attack at the Standard Gravure printing plant in Louisville on Sept. 14, 1989. The plaintiffs contended that Prozac was responsible for Mr. Wesbecker's actions.

In a statement, Indianapolis-based Eli Lilly said Mr. Wesbecker had a long history of mental illness and a well-documented record of threats against his former co-workers.

"There is no clinical evidence whatsoever that establishes a link between Prozac and violent or suicidal behavior," Randall L. Tobias chairman and chief executive officer of Eli Lilly, said in the statement.

An Eli Lilly spokeswoman said 160 civil cases claiming Prozac is responsible for violent behavior are currently pending, and 90 others have been dismissed.

—Bu Christine Woolsey



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Comp

Continued from page 1

ply with civil rights laws, according to Mr. Glad.

"At oral argument, the one thing the court focused on was that discrimination was a wrong to be prohibited and not a risk to be spread through the actuarial mechanism of insurance," he explained.

This also "reflects their concern that workers compensation premiums were too high in California," Mr. Glad said, referring to insurers that raised their rates after the appeals court ruling to reflect the possibility of defending such cases.

"It would have added another $500 million (annual) cost to the system with not one penny going to injured workers," he said.

"Obviously it will have some long-term savings" for insurance companies, said Frank Floyd, director of education for State Compensation Insurance Fund in San Francisco. State Fund provides work comp coverage for approximately 50% of the state's employers.

"The Supreme Court has given us direction by focusing on the purpose of the work comp policy—to provide benefits," he said.

Since the appeals court ruling in *La Jolla*, and the similar holding in *Wong vs. State Compensation Insurance Fund*, State Fund and other insurers have attempted to restrict coverage for defending wrongful termination claims by endorsement, according to Mr. Floyd.

"We've had about 500 demands for defense cost coverage," he estimated.

Employers, of course, do not see the ruling as favorably as their insurers do.

"Employers are generally disappointed with the ruling," said Charles W. Bader, executive director of Californians for Compensation Reform, an employer coalition based in Sacramento.

"We would like to have insurance coverage to defend us from unwarranted complaints of racial and other discrimination," he said.

As a result of the *La Jolla* decision "employers will have to be careful when negotiating with insurers to make sure coverage is provided," Mr. Bader added.

The decision "points up the need for an employer to take steps to prevent and deal with harassment complaints," observed Robert F. Millman, a labor relations attorney with Littler, Mendelson, Fastiff, Tichy & Mathiason in Los Angeles.

The case stemmed from a 1986 racial discrimination complaint filed by Adnan Saleh against the Sea Lodge restaurant, where he was fired after six years as a manager.

Mr. Saleh, who is of Palestinian descent, said he was told not to hire any more of "his own kind" or any other "foreigners."

In his suit, Mr. Saleh alleged breach of an employment contract, breach of the covenant of good faith and fair dealing, wrongful termination, intentional infliction of emotional distress and violation of the Fair Employment and Housing Act.

On May 9, 1986, La Jolla Beach & Tennis Club, the owner of the Sea Lodge, tendered defense of the Saleh complaint to its work comp insurer, Industrial Indemnity.

La Jolla Beach & Tennis Club was covered under a standard two-part workers compensation policy. Part I was designated as "workers compensation insurance" and Part II "employers liability insurance."

Eliminating defense coverage for wrongful termination will save an estimated $500 million in annual comp costs.

Part I provided payment for "the benefits required of (La Jolla) by the workers compensation law."

Part II is traditionally written in conjunction with workers compensation policies as a "gap filler" providing protection to the employer in those situations where the employee has a right to bring a tort action despite the provisions of the workers compensation statute or the employee is not subject to the workers compensation law.

However, the Part II portion of La Jolla's policy from Industrial Indemnity specifically excluded insurance coverage for "any obligation imposed by a workers compensation, occupational disease, unemployment compensation or disability benefits law, or any similar law."

What brought Mr. Saleh's complaint within the scope of workers compensation coverage was his allegation of emotional distress, the appellate court found.

By ruling several times that workers compensation is the exclusive remedy for emotional distress caused by a termination of employment, the California Supreme Court had defined the scope of workers compensation coverage to include such claims, the appellate court had reasoned.

However, the Supreme Court in the LaJolla case said that "the insurer need not defend if the third-party complaint can by no conceivable theory raise a single issue which could bring it within the policy coverage. . .No such potential existed in this case.

"Regardless of the merit of the claims alleged in Saleh's complaint, the Superior Court never had jurisdiction to award workers compensation benefits," the high court said. "Rather, the award of such benefits is within the exclusive jurisdiction of the WCAB (Workers Compensation Appeals Board). Thus, a civil suit for damages is no more a claim for workers compensation benefits than a criminal or disciplinary action is a civil suit for damages."

"The court of appeal fundamentally misconstrued the kind of potential coverage that gives rise to a duty to defend when it concluded that Industrial had a duty to defend the civil action merely because Saleh might, at some interminate time in the future, file a workers compensation claim that did fall within Industrial's coverage," the court said.

While the coverage decision was a setback for employers, they can take some solace in the fact that 1993 reforms to state workers compensation laws make it more difficult for employees to file post-termination stress claims, pointed out CCR's Mr. Bader.

"This type of claim will be more difficult for claimants to file because of the '93 reforms," he said.

In addition, the introduction of competitive rating beginning Jan. 1 has created a "buyers' market" for comp coverage in California (*BI*, Sept. 26).

"Work comp renewals are down 30% to 50% from last year," estimated Calco's Mr. Rupp.

"Nevertheless, employers are on notice as they negotiate in the new insurance climate," Mr. Bader warned.

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LaJolla Beach & Tennis Club Inc. et al. vs. Industrial Indemnty Co., Cal. Sup. Ct. SO36170, Dec. 19, 1994.

Orange

Continued from page 2

recovering money that may have been lost as Orange County bonds decreased in value.

In one typical suit, investors who bought Orange County debt in 1993 and 1994 accuse the county, Mr. Citron, Matthew Raabe, the assistant county treasurer, Merrill Lynch and Smith Barney Inc. with violating federal securities laws.

The defendants "failed to adequately disclose the risk associated with the county investment pool, particularly interest rate gambles that Merrill Lynch, Mr. Citron and others were engaging in," charges Jeffrey Klafter, who represents investors in a suit filed in U.S. District Court in Santa Ana, Calif.

The suit also alleges that the defendants failed to disclose the decline in the Orange County fund's value before they sold $600 million in county notes to investors to shore up collateral on the fund's reverse repurchase agreements.

Smith Barney officials would not comment; Orange County officials could not be reached.

Merrill Lynch maintains that its actions were not improper.

Some fault the company for underwriting Orange County debt to help prop up the collapsing investment fund.

"Merrill Lynch and others were saying, 'We want more collateral,' so Merrill Lynch goes ahead and underwrites a bond issue to shore up the collateral," said Mr. Klafter, a partner with Bernstein Litowitz Berger & Grossman in New York.

For now, bankruptcy law shields Orange County—which has filed for Chapter 9 protection—from any further suits by creditors of any sort. Investors and others will have to petition the bankruptcy court for access to county funds.

Merrill Lynch continues to deny any wrongdoing in its dealings with Orange County.

"We are confident that we have conducted our business with regard to Orange County both professionally and properly," a company spokesman said.

While denying any knowledge of plans by Orange County to file suit, a Merrill Lynch statement said, "There is no basis for any such action and if a lawsuit is forthcoming, Merrill Lynch will vigorously contest it."

Merrill Lynch described as "preposterous" suggestions that it had refused to disclose risks associated with investments sold the county investment pool.

The statement also said, "Orange County's investment strategy, based on leverage, was well known for many years, applauded by numerous public officials when it regularly produced above-market returns over a lengthy period, and was the subject of intense public debate during a recent election campaign." BI

Reinsurer

Continued from page 1

dard automobile insurers and treaty reinsurance for various property and casualty lines. The company posted statutory net income in 1993 of $31.4 million on net written premiums of $454 million. Its statutory surplus at year-end 1993 was $271.7 million and stood at about $290 million in September.

A key to the deal, which some industry observers labeled a near steal for Exor, is that it carries no contingencies beyond regulatory approval and thus is expected to go through as negotiated.

Exor is acquiring a company known for one of the more skilled and stable upper management teams in the reinsurance industry, led by Bard E. Bunaes, chairman and chief executive officer of the holding company, and Frank Ruyak, president of the reinsurer.

The acquisition greatly enhances Exor's position in the reinsurance industry. Exor recently acquired very small interests in Bermuda-based catastrophe facilities Partner Re and LaSalle Re, as well as a larger interest in Stamford, Conn.-based Chartwell Reinsurance Co. Exor had previously entered the U.S. insurance market through a 20% stake in Fireman's Fund Corp., prior to that company's sale to Allianz A.G. Holding.

Exor's president said Constitution Re would undergo no major changes once the deal is completed.

"Constitution Re will remain unchanged. We think it has proven itself to be a well-capitalized company with strong managers. We will support them thoroughly with an eye toward long-term stability and growth," said Andrea Botta, president of New York-based Exor America.

For Xerox, which restructured its Crum & Forster Inc. insurance operations in September 1993 into a new holding company, Talegen Holdings Inc., the Constitution Re deal marks the first sale of any of the 10 units within Talegen (*BI*, Sept. 13, 1993).

Calling the sale of Constitution Re a "milestone that is in line with our objective of exiting the financial services business," Xerox said in a statement that it would use the proceeds of the sale to pay debt.

A spokeswoman for Seattle-based Talegen said that while Xerox is pleased with the deal, the sale does not necessarily signal that Talegen will soon sell its other nine units. "There is no relationship between this deal and the other companies," she said.

Analysts have generally considered Constitution Re to be the most attractive Talegen entity. Therefore, questions still abound whether Talegen will find buyers or investors for its other companies, including Crum & Forster Insurance Co., Industrial Indemnity Co. and Coregis Group Inc.

Meanwhile, analysts, reinsurance intermediaries and reinsurers lauded Exor for buying Constitution Re on favorable terms. They say the quality of the company and its management, along with the purchase price—believed to be just more than 10% above GAAP book value—made it a deal too good to turn down.

"If the price is truly that low, it's astounding," said Mike Smith, an analyst at Lehman Bros. in New York. "Xerox was certainly a motivated seller, but that price is cheap, cheap, cheap for a company like Constitution Re. Even the cheapest stock reinsurers are trading at a minimum of 130% of book value."

"This is a great deal" for Exor, agreed Paul Ingrey, president of F&G Re Inc. in Morristown, N.J. "Constitution Re is a reasonably well-run company with good management. I like the company and believe they do non-standard auto as well or better than anyone in the reinsurance industry."

But just how much pressure Xerox and Talegen were under to move Constitution Re and whether that factored into the selling price is uncertain and a point of debate. The reinsurer had been for sale for more than a year, and an initial public offering announced early in 1991 was aborted (*BI*, Nov. 4, 1991; May 27, 1991).

"I don't see this as a forced sale. It seems as though the deal was fairly negotiated and the price was about right," said David Seifer, an analyst with Donaldson, Lufkin & Jenrette Securities Corp., who nonetheless said it was a good acquisition for Exor. "Constitution is a quality company with quality people. Many people considered it to be the best horse in the Talegen stable."

Reinsurance intermediaries also like the deal.

"It benefits everyone," including Talegen, said Willis King, chairman of Willcox Inc. Reinsurance Intermediaries in New York. He said Talegen got a good cash price and didn't need a reinsurance company for its own underwriting units, so the deal makes sense.

For Exor, the deal is a chance to get further into the U.S. market; for Xerox, it's a first step to getting out.

"As long as Constitution's management is happy and stays in place, this is good news all around," said Paul Davies, chairman and CEO of Aon Re Inc., a reinsurance brokerage unit of Aon Corp. in Chicago. "We have used Constitution a lot and will continue to use them."

Constitution Re's management apparently is happy with the new ownership.

"We're delighted. Exor is a long-term player—a stayer that will lend solid support," said Mr. Bunaes. "They sniffed at us a few years ago and were well-known to Talegen."

Because no operational or managerial changes are slated for Constitution Re, analysts and reinsurance professionals said the change of ownership will have a very limited effect on the market, if any at all.

"For customers, it may be a plus," said Mr. Seifer. "There has been a stigma surrounding Crum & Forster, so being separated from that can't hurt."

Industry insiders see the sale of Constitution Re as another indication that in reinsurance bigger is better. But, unlike in the primary industry, where consolidation and capital infusions are becoming more common due to financial pressures, this is a one-shot deal brought on by Xerox's desire to sell its insurance units and Exor's desire to strengthen its position in the U.S. market.

"There really aren't that many reinsurers in need of buyers and cash infusions," Mr. Davies said. "But this deal signifies that the movement toward larger reinsurers with more money is still on," he said. BI

No growth expected in benefit offerings

By DEBORAH SHALOWITZ COWANS

Most employers will not expand health or retirement benefits next year, according to a recent survey.

However, more than one-third of those surveyed said they plan to add at least one new employee benefit next year, such as a wellness program or a financial education program.

The survey, conducted by William M. Mercer Inc., found that 79% of 190 employers plan to keep health benefits the same in 1995 as 1994. Only 1% said health benefits will increase significantly, while 7% said health benefits will increase slightly. Some 13% of the respondents plan to decrease health benefits slightly.

Some 89% of employers plan to keep retirement benefits the same in 1995 as 1994, the survey reported. Only 1% of respondents plan to increase retirement benefits significantly while 6% plan to increase them slightly. Four percent of employers plan to decrease retirement benefits slightly.

However, some employers do plan to add some new employee benefits next year. Of the 37% of employers that plan to add at least one new employee benefit next year, 13% said they plan to add a wellness program. Eleven percent said they will institute an employee financial education program, while 4% plan to add long-term care insurance coverage. Three percent plan to add new managed care options to an existing health care plan and 2% reported plans to add new savings plans, flexible spending accounts or vision care.

Few employers—only 12%—said they expect comprehensive health care reform next year. However, two-thirds of respondents expect incremental health reform legislation to pass in 1995. And 8% of employers think Congress will grant widespread ERISA waivers to allow states to enact health care reforms.

Employers generally are optimistic that health care costs will not rise faster next year than they did this year.

For example, 48% of respondents said they think health care costs will increase at the same rate next year as this year and 34% said they think health care cost increases will slow down. Only 18% of the employers said they expect health care costs to increase faster next year than they did this year.

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The survey is available free from William M. Mercer Inc., Public Relations Department, 1166 Ave. of the Americas, New York, N.Y. 10036-2708; 212-345-7584.

Lloyd's 1995 capacity down, corporate role up

LONDON—Lloyd's of London will commence the 1995 underwriting year with £10.2 billion ($15.91 billion) of capacity, compared with £10.9 billion ($16.13 billion) in 1994.

Chairman David Rowland said the capacity is in line with market needs and expectations, and will help maintain the market's return to profitability.

Corporate members, participating in Lloyd's for the second year, will account for a greater percentage of capacity this year than last. Individual members will account for 77% of the total capacity in 1995, compared with 85% this year. New and existing corporate members will pick up the slack.

The number of individual underwriting members will fall 15.5% to 14,804 next year from 17,529 this year, with 19 first-time individual investors.

The market has attracted 28 new corporate capital members for 1995 that have been allocated £593 million ($925.1 million) in capacity on £331 million ($516.4 million) of capital raised. This year, 25 corporate members secured £1.59 billion ($2.35 billion) of capacity on £1.9 billion of capital ($2.81 billion). Incumbent corporate members have increased their capital by nearly one-tenth, so the total amount of allocated corporate underwriting capacity for next year is 48% higher, or £2.36 billion ($3.68 billion).

—By Stacy Shapiro

For the Record

Auto insurer faces criminal charges

SANTA ANA, Calif.—The Orange County, Calif., district attorney has filed criminal charges against the operator of an offshore insurer seized by the California Insurance Department last year.

Robert M. Granafei was arrested earlier this month on felony and misdemeanor charges of illegally operating Underwriters Reserve Ltd. of St. Kitts, British West Indies. The insurer took in $11.2 million in auto premiums, but California regulators say they have recovered only $1.9 million in assets, including $1.5 million from a Swiss bank account.

Regulators estimate that the insurer's outstanding claims total $4.8 million.

Mr. Granafei was released on his own recognizance and is scheduled for arraignment Jan. 9. He plans to plead not guilty, according to James Bullard, his Orange, Calif., lawyer. If convicted, Mr. Granafei faces a maximum of three years in prison.

"These charges are garbage," Mr. Bullard said. "There certainly was no willful violation of the licensing statutes." He added, "Every claim was being honored up to the day of the seizure."

No ERISA pre-emption found in Texas suit

NEW ORLEANS—The pre-emption authority of the federal Employee Retirement Income Security Act is not broad enough to squelch an employee's negligence lawsuit, a federal appeals court has ruled.

In a 2-1 decision, the 5th U.S. Circuit Court of Appeals ruled last month that Roxanne Hook could proceed with her lawsuit alleging that Morrison Milling Co. in Denton, Texas, operated an unsafe workplace.

"We conclude that (Ms.) Hook's claim does not relate to MMC's ERISA plan and therefore is not pre-empted," the court ruled Nov. 14.

Ms. Hook was injured in December 1990 after falling down a flight of stairs at the grain milling plant.

Morrison Milling unsuccessfully argued in trial court that her negligence claim, which she filed in February 1992 under Texas law, was pre-empted by ERISA.

The company began offering a welfare benefit plan under ERISA after discontinuing its workers compensation insurance program in March 1989. She voluntarily accepted that program and received benefits under it for her injury.

Morrison Milling has asked the court for a rehearing by the full court.

Dozen arrested in comp mill sting

VENTURA, Calif.—Culminating a yearlong sting aimed at squashing workers compensation fraud, about 170 investigators and police officers raided 17 locations in Southern California, arresting several attorneys and chiropractors.

Investigators participating in the "What's Up Doc" operation arrested five chiropractors, four attorneys and a psychologist, according to the Ventura County District Attorney's Office.

Records and allegedly bogus workers comp claims were seized Dec. 1 at 12 businesses and homes in Ventura County, north of Los Angeles, and at five locations in Los Angeles County.

The raids came after two undercover investigators from Ventura County spent a year operating a front called Oak Tree Medical Marketing.

The investigators offered to steer workers comp claimants to attorneys and medical practitioners for fees and insurance kickbacks. Prosecutors said some of the suspects paid as much as $300 per referral. Others agreed to pay 30% of insurance payments.

More arrests could follow, but so far 12 are facing charges varying from fraud and capping to conspiracy.

Information in brief

Aon Corp.'s Rotterdam, Netherlands-based brokerage unit, **Rollins Hudig Hall Holdings b.v.**, plans to consolidate its alternative risk transfer services into a new company called Aon Risk Services (Nederland) b.v., merging Rollins Hudig Hall Risk Management Consultants and recent acquisition BLAAK Risk Managers. . . .Malcolm Mackenzie, director of managing agency D.P. Mann Underwriting Agency Ltd., has been re-elected chairman of the **Lloyd's Underwriting Agents Assn.** . . .Rena Weeks, the **Baker & McKenzie** secretary who received $7 million in a sexual harassment verdict in September, accepted the $3.8 million award a San Francisco judge reduced late last month (*BI*, Sept. 5). Baker & McKenzie, which has not accepted the decision, has until Dec. 28 to appeal. . . .Kenneth J. Rutkowsky, former senior vp of broker U.S. Reinsurance Corp., has been named executive vp of **The Mercantile & General Reinsurance Co. of America**. Mr. Rutkowsky replaces John Dunn who left M&G earlier this year. BI

Updates

Outsiders in at J&H

NEW YORK—Johnson & Higgins' first outside directors will come from the other brokerages in the UNISON network, which are reciprocating by putting J&H directors on their boards.

Designed to promote closer links between the firms, the moves also may lead to further cross-ownership, said John W. Gussenhoven, director of J&H and president of UNISON.

J&H's first outside directors are: Christian Dahms, partner of Jauch & Huebener KGaA in Hamburg, Germany; Patrick Lucas, chairman and chief executive officer of Gras Savoye S.A. in Paris; and Santiago Gil de Biedma, chairman of Gil y Carvajal in Madrid.

In return, Mr. Gussenhoven, Daniel Naftalski, managing director of Gras Savoye, and Mr. Gil de Biedma will join the Jauch & Huebener board. Mr. Gussenhoven and Jochen Scheele of Jauch & Huebener will join the Gras Savoye board. And Volker Preuss, a partner at Jauch & Huebener, and Aad Strijbos, a managing principal of J&H, will join the Gil y Carvajal board.

Green light for asbestos claims

BALTIMORE—More than 1,100 shipping and construction workers will be able to pursue claims against 11 companies for allegedly failing to warn of the dangers of asbestos after a Baltimore Circuit Court jury cleared the way for the claims last week.

In the latest development in the nation's largest asbestos case, the jury awarded $20.1 million to five plaintiffs, including the estate of a man who died of asbestos-related cancer.

That verdict opens the way for about 1,100 other workers to press claims against the companies, said Thomas V. Friedman, a senior associate in the Baltimore law firm of Peter G. Angelos, which represented the five plaintiffs. The companies named in the decision are: Asbestospray Corp., A.W. Chesterton Co., Corhart Refractories Co., John Crane Inc., Hampshire Industries Inc., Harbison-Walker Refractories, Lloyd E. Mitchell Inc., Rapid American Corp., E.L. Stebbing & Co., U.S. Mineral Products Co. and Westinghouse Electric Corp.

Earlier in this case, a Baltimore jury found six asbestos manufacturers and installers liable for failing to warn workers of the substance's health dangers (*BI*, July 20, 1992).

Briefly noted

Salvatore Curiale, known for his work on health reforms and risk-based capital rules, is resigning as New York insurance superintendent after the defeat of Gov. Mario M. Cuomo, who appointed him in 1990. No replacement has been named. . . .**Intel Corp.** will not say whether it has any insurance for what could be hundreds of millions of dollars of expenses in replacing its flawed Pentium microprocessor chip. Intel did say it would take a charge against fourth-quarter earnings to cover costs associated with the replacement program. . . .**General Motors Corp.** will make a $2.5 billion fourth-quarter cash contribution to its pension plan for hourly workers, bringing 1994 cash contributions to $7.7 billion. GM's unfunded pension liability at the end of 1993 was about $20 billion and this year's contributions, along with higher interest rate assumptions, are expected to cut its unfunded liability by about half. . . .**Bermuda Fire & Marine Insurance Co. Ltd.** will be liquidated after the provisional liquidators determined the insurer's surplus must be downwardly adjusted by at least $30 million, maybe more than $130 million. A scheme of arrangement is still planned. . . .After having what one participant called a "very productive" initial meeting last week, an insurance industry task force will reconvene early next year to develop standards for **evaluating Superfund reform legislation** (*BI*, Dec. 19). The group, representing six major property/casualty trade associations, is trying to form a consensus on Superfund. . . .The **New York City Transit Authority** is self-insured for all property and liability losses that may arise from Wednesday's firebombing of a crowded subway train in Manhattan. Forty-four people were injured, some severely, when a homemade firebomb ignited. . . .**New Jersey** Insurance Commissioner Drew Karpinski approved a 5.8% average workers comp rate increase, which reflects a 1.2% increase in benefits to injured workers. . . .**New Hampshire** will cut its workers comp rates by 1.1% next year. The reduction, the first in more than 20 years, results from improved loss experience. . . .Russian American Insurance Co., a joint venture between **American International Group Inc.** and its Russian partners, has been licensed as a multiline insurer in the Russian Federation. . . .Lloyd's of London syndicate 672, managed by Wellington Underwriting Agencies Ltd., and Price Forbes Non-Marine, a unit of Sedgwick Group P.L.C., have developed the **world's largest facility for fixed bridges, dams and tunnels.** Underwriting capacity of $125 million has been amassed among Lloyd's underwriters that, on a maximum foreseeable loss basis, can cover structures valued at up to $500 million. The facility is open to all brokers. . . .David Trezies, chairman of Sedgwick Aviation Ltd., was named to the new post of deputy chairman at **Sedgwick Payne Ltd.**, the reinsurance arm of Sedgwick Group P.L.C. . . .**Prudential Insurance Co. of America** is adding $365 million to Prudential Securities' reserves to help pay back investors in risky real estate partnerships that the unit ran in the 1980s. A.M. Best Co. is reviewing Prudential's rating, with negative implications. . . .The Vermont Department of Banking, Insurance and Securities last week filed a petition in Superior Court to liquidate **Beverage Retailers Insurance Co. Risk Retention Group**. BRICO—which has been in rehabilitation since last year and, as of Sept. 30, was insolvent by $4,753,000—would be the first Vermont captive to fail under the state's 1981 captive statute. . . .A High Court judge last week awarded some Lloyd's of London members £80 million ($124.8 million) in damages against two **Gooda Walker** managing agencies. Both agents—Gooda Walker Ltd. and Gooda Walker & Partners Ltd.—are in liquidation and chose not to defend the negligence case brought by 250 members of the Gooda Walker 387 Litigation Group. The stop-loss syndicate 387 action group is separate from the Gooda Walker Action Group.

Little cause for holiday cheer

Most insurers can expect to find coal in their stockings this year

By MYRON PICOULT and JODI PICOULT VAN LEER

'TWAS THE DAY after Christmas, and all through the firm
Was a shocked sense of quiet—each temp and each perm

Sat still at his desk trying hard not to bawl—
For this year St. Nick hadn't stopped by at all.

In the high corner office, surveying below
Stood Almost DoNothing, the famed CEO.

"How dare he not come," DoNothing mused sadly.
"How dare he this year, when we needed him badly.

"Too many companies have been making a fuss,
Taking writings to firms that are stronger than us."

He narrowed his eyes, feeling naught but frustration
At this humble, dastardly business migration.

The result of his clientele's steady defection
Created an adverse natural selection.

Where the big firms got bigger from all of the jumble,
And the weak ones—like his—were fared to crumble.

"In the past we would grow our way out of our trouble—
Take capital gains! Or write some more rubble!

"But now, even that doesn't guarantee mending,
It would seem that our own sham is finally ending.

"Retention levels have gotten too high,"
DoNothing mourned with a great wrenching sigh.

"They have to be lowered," he said, with a curse,
"Before this firm turns from just bad to much worse."

He stared at the workers under his employ,
Who'd been counting on Santa for holiday joy.

Their faces were glum, devoid of all cheer
(There certainly hadn't been any 'round here).

Then in DoNothing's mind, there arose such a clatter,
He suddenly knew how to fix the whole matter.

To his wide picture window he flew like a flash,
Tore open the shutter and threw up the sash.

He peered toward La Guardia, then JFK,
In search of wide bodies jetting his way.

He furrowed his brow and he pondered his goal—
How many frequent flier miles to get to the North Pole?

He punched his intercom, feeling suddenly merry,
And barked out an order to his secretary.

"Try Delta—Northwest! But book a flight quick!
There's a power lunch waiting for me and St. Nick!"

Scant hours later, DoNothing stood
Shivering in a snow-white neighborhood.

With chattering teeth, he moved fast as he was able
Toward a large building labeled ST. NICHOLAS' STABLE.

He blinked back the dark, and what should appear
But a miniature sleigh and eight tiny reindeer.

And there, in the corner, despondent and sick
Was a man he supposed might have been St. Nick.

His eyes were red-rimmed, his face marred by a frown
Formed by watching the stock market creep steadily down.

His skin was ash-gray, his strength had been sapped,
Mountains of claims had left his hands chapped.

For he read them and cried, entirely appalled—
"Please, dash away, dash away, dash away all!"

Santa looked up and saw the CEO.
He sighed, closed his eyes, and said, "Oh, yes. I know.

"In a year where so little joy remained,
You've come to see why Santa Claus was detained.

"Well, I'll tell you; Believe me—it's no fabrication.
This year there was no cause for celebration."

His eyes narrowed down to small shards of ice.
"DoNothing," he said, "You've been naughty, not nice.

"The stock and bond market has not been enough
To generate capital and all that good stuff.

"How long ago did I tell you to begin
Accreting capital from within?

"I told you not to take FAS 115 lightly—
The gap between real and perceived capital is unsightly.

"And," Santa said, "if you'd given thought,
Environmental reserves might not have fallen short.

"Your fungibility of capital's no longer the same.
You've been transforming funds like a seedy shell game."

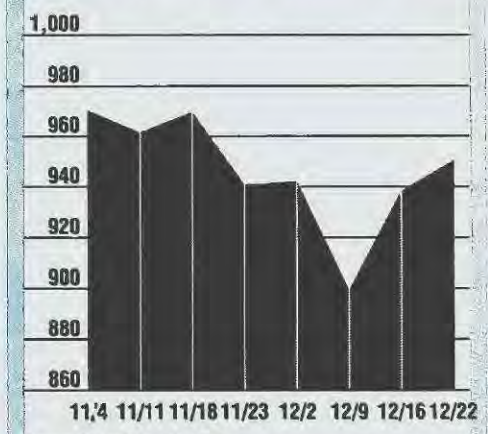
"Here's something I've given you warnings galore on—
Reinsurance recoverables are an oxymoron.

"Your assets and liabilities have been unmatched
'Cause you're counting on chickens that never got hatched!"

Santa patted the side of a reindeer's soft fleece.
"You've drawn down reserves, when you should've increased!"

Continued on page 41

BI Insurance Index



Base=100 on Dec. 29, 1978
Source: Nordby International Inc.

Insurance stocks rose last week, as the *Business Insurance* Index gained 11.6 points to 950.2 Dec. 22 from 938.6 on Dec. 16. Advancing issues were led by: NAC Re Corp., up 19.4%; Sphere Drake Holdings, up 18.9%; and Frontier Insurance Group, up 17.7%. Declining issues followed: SCOR U.S. Corp., down 8.7%; Re Capital Corp., down 5.9%; and Lincoln National, down 4.0%. The most active issue was U.S. Healthcare, 7.25 million shares traded. The *BI* Index rose 1.2%; the Dow Jones 30 Industrials rose 3.4%; the NYSE Composite gained 2.7%; and the S&P 500 rose 2.8%.

British Issues

Dec. 21 Companies	Price pence	P/E*	Div.* pence	Yield %	1 week high—low
Comml Union	517	16.5	31.0	6.0	534—517
Genl Accident	519	10.3	34.4	6.6	537—519
Gdn Royal Exch	175	11.3	9.5	5.4	180—175
Independent	269	8.8	10.4	3.9	270—259
Royal	279	12.1	9.4	3.4	288—279
Sun Alliance	300	13.4	18.4	6.1	313—300
Brokers					
Bradstock	93	10.4	7.1	7.6	93—92
Fenchurch	160	11.2	10.0	6.2	160—160
CE Heath	248	8.9	20.0	8.1	248—248
JIB Group	126	11.1	9.4	7.5	126—126
Lloyd Thmpson	161	11.2	9.8	6.1	161—161
Lowndes Lmbrt	164	10.4	9.4	5.7	164—162
Nelson Hurst	176	17.2	7.0	4.0	176—176
PWS Holdings	35	N/M	1.9	5.4	35—35
Sedgwick Grp	155	17.3	7.5	4.8	157—155
Steel Brl Jones	121	N/M	11.3	9.3	121—121
Willis Corroon	137	12.5	8.3	6.0	140—137

Source: Philip Olsen, London * Latest actual year

BI Industry Stock Report DEC. 19, 1994, THROUGH DEC. 22, 1994

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	32.25	8.40	30.96	32.25	23.00	41	0.60	1.86	17	13.24	2.44
Alexander & Alexander	NYS	19.13	0.66	-3.77	22.75	14.00	342	0.10	0.52	-147	6.08	3.15
E.W. Blanch Holdings Inc.	NYS	19.75	6.04	13.67	23.00	15.75	6	0.32	1.62	17	4.55	4.34
Gallagher Arthur J. & Co.	NYS	30.50	-1.61	-14.69	37.13	28.13	186	0.88	2.89	15	6.48	4.71
Hilb, Rogal & Hamilton	NYS	11.75	6.82	-10.48	13.38	11.00	57	0.56	4.77	14	4.72	2.49
Marsh & McLennan	NYS	79.63	5.81	-2.15	88.75	71.25	883	2.90	3.64	16	19.40	4.10
Poe & Brown	NDQ	20.63	4.43	14.58	22.75	16.88	5	0.48	2.33	14	4.49	4.59
BROKERS	AVERAGE		4.4	4.0					2.5	-8		
INSURERS/REINSURERS												
ACE Ltd.	NYS	21.50	-3.37	-29.51	31.25	20.75	228	0.44	2.05	-20	22.45	0.96
Acceptance Insurance Cos.	NYS	14.50	7.41	24.73	18.00	11.13	95	0.00	0.00	11	9.83	1.48
AEGON N.V.	NYS	63.25	1.20	15.53	64.00	49.38	18	2.94	4.64	11	43.84	1.44
Aetna Life & Casualty	NYS	47.00	4.44	-21.99	65.75	42.25	1230	2.76	5.87	-6	57.21	0.82
Allied Group Inc.	NDQ	25.75	9.57	3.00	31.00	22.00	282	0.60	2.33	6	23.43	1.10
Allmerica Prop. & Casualty	NYS	15.75	5.00	-26.89	22.16	14.25	506	0.16	1.02	10	19.45	0.81
Allstate Corp.	NYS	23.75	3.26	-20.17	30.13	22.63	1724	0.72	3.03	19	19.60	1.21
American General	NYS	27.75	3.74	-2.63	30.50	24.88	1729	1.16	4.18	18	20.39	1.36
American Heritage Life Ins.	NYS	18.38	5.00	-1.34	20.13	16.50	20	0.66	3.59	11	12.42	1.48
American Indemnity/Fin'l	NDQ	10.50	2.44	-19.23	14.75	10.00	8	0.24	2.29	4	15.92	0.66
American International	NYS	98.00	2.89	11.21	98.75	81.75	4069	0.46	0.47	15	49.75	1.97
American Re Corp.	NYS	30.50	11.42	7.96	35.75	23.50	270	0.00	0.00	16	16.85	1.81
Aon Corp.	NYS	31.88	2.41	-0.91	35.75	29.25	562	1.28	4.02	10	21.96	1.45
Argonaut Group	NDQ	28.50	2.70	-6.56	31.75	26.25	77	1.16	4.07	8	29.80	0.96
AVEMCO Corp.	NYS	14.00	0.00	-25.33	20.25	13.38	63	0.44	3.14	12	6.30	2.22
Baldwin & Lyons Inc.	NDQ	15.75	5.00	5.88	16.25	13.75	14	0.24	1.52	9	13.56	1.16
Berkley W.R. Corp.	NDQ	37.00	10.86	12.98	42.00	32.50	90	0.44	1.19	23	36.47	1.01
Berkshire Hathaway Inc.	NYS	20400.00	3.82	24.96	20800.00	15150.00	2	0.00	0.00	26	9157.79	2.23
Capital RE Corporation	NYS	23.25	12.73	-9.71	25.75	18.50	44	0.20	0.86	9	21.48	1.08
Capsure Holdings Corp.	NYS	13.13	3.96	-2.78	16.13	12.13	69	0.00	0.00	13	13.72	0.96
Chubb Corp.	NYS	77.13	7.49	-1.91	83.13	68.63	1256	1.84	2.39	13	48.40	1.59
CIGNA Corp.	NYS	62.25	-2.54	-1.58	74.00	57.00	686	3.04	4.88	8	80.98	0.77
CNA Financial Corp.	NYS	65.88	3.33	-16.35	82.25	60.00	87	0.00	0.00	173	73.83	0.89
Continental Corp.	NYS	18.88	0.67	-31.67	28.50	12.00	1909	0.00	0.00	-3	29.69	0.64
EMC Insurance Group Inc.	NDQ	10.00	-2.44	5.26	10.75	8.50	4	0.52	5.20	8	10.77	N.A.
Emphesys Financial Gr. Inc.	NYS	32.13	15.25	NA	38.50	21.25	171	0.60	1.87	9	N.A.	N.A.
EXEL Ltd.	NYS	39.75	7.43	-11.67	45.38	36.00	375	1.32	3.32	9	31.62	1.26
Fremont General Corp.	NYS	22.88	2.81	-5.18	26.00	21.50	93	0.76	3.32	7	22.90	1.00
Frontier Insurance Group	NYS	21.63	17.69	-50.71	37.50	16.75	266	0.48	2.22	18	14.94	1.45
Gainsco Inc.	ASE	8.13	0.00	-9.72	9.41	7.63	108	0.04	0.49	11	3.79	2.14
General RE Corp.	NYS	125.63	5.57	18.24	127.00	101.75	1516	1.92	1.53	17	57.17	2.20
Guaranty National Corp.	NYS	16.38	4.80	-6.43	18.75	13.75	11	0.50	3.05	10	11.84	1.38
Harleysville Group	NDQ	24.25	10.23	-14.91	30.25	19.75	55	0.68	2.80	17	20.18	1.20
Hartford Steam Boiler	NYS	40.13	4.56	-9.83	53.38	35.88	253	2.20	5.48	16	14.62	2.74
HCC Insurance Holdings	NDQ	20.00	0.00	-0.83	22.25	15.00	164	0.00	0.00	14	10.75	1.86
Home Holdings Inc.	NYS	8.38	17.54	-51.45	18.50	3.00	412	0.00	0.00	-3	22.36	0.37
ITT (Hartford Group)	NYS	84.00	5.16	-8.45	95.97	77.00	2302	1.98	2.36	12	49.95	1.68
Kemper Corp.	NYS	38.63	4.75	7.67	65.00	34.38	1912	0.92	2.38	10	28.68	1.35
Lincoln National	NYS	35.63	-4.04	-17.15	44.38	34.63	1152	1.72	4.83	13	31.99	1.11
Markel Corp.	NDQ	40.50	-1.22	5.19	44.50	37.50	20	0.00	0.00	11	25.15	1.61
Mid Ocean Ltd.	NDQ	26.38	14.05	-6.64	30.50	22.25	527	0.00	0.00	11	20.24	1.30
Mutual Risk Mgmt. Ltd.	NYS	27.88	9.85	-7.08	30.75	21.13	44	0.32	1.15	16	9.11	3.06
NAC Re Corp.	NDQ	30.75	13.42	5.58	32.00	24.00	490	0.16	0.52	15	19.75	1.56
National Re Corp.	NYS	26.50	10.42	-13.47	31.75	22.25	414	0.16	0.60	11	17.31	1.53
Navigators Group	NDQ	14.75	1.72	-57.86	36.00	14.25	20	0.00	0.00	-4	10.21	1.44
Nobel Insurance Ltd.	NDQ	8.13	0.00	6.56	8.75	7.63	72	0.20	2.46	4	6.84	1.19
NWNL Companies	NYS	28.25	4.15	-13.08	34.50	27.00	355	0.90	3.19	9	24.81	1.14
Ohio Casualty Corp.	NDQ	28.38	-2.16	-10.98	33.75	26.50	358	1.46	5.15	10	24.68	1.15
Old Republic Int'l	NYS	20.75	9.93	-7.78	24.50	18.88	756	0.48	2.31	8	24.60	0.84
Orion Capital Corp.	NYS	32.88	4.78	6.48	34.75	28.13	176	0.80	2.43	8	25.86	1.27
Partner Re Holdings Ltd.	NDQ	20.88	9.87	-4.02	22.25	18.50	790	0.40	1.92	10	N.A.	N.A.
Penn-America Group Inc.	NDQ	7.25	11.54	-5.69	8.50	6.50	41	0.00	0.00	9	6.21	1.17
Phoenix RE Corp.	NDQ	28.00	5.66	1.82	29.25	18.50	312	0.60	2.14	6	22.86	1.22
Provident Life	NYS	22.38	0.56	-29.25	31.88	21.63	138	1.04	4.65	6	27.09	0.83
Re Capital Corp.	NDQ	12.00	-5.88	-11.93	14.75	12.00	10	0.32	2.67	10	17.63	0.68
Reliance Group Holdings	NYS	5.25	5.00	-32.26	8.13	4.88	80	0.32	6.10	13	3.48	1.51
RLI Corp.	NYS	20.38	0.62	-23.83	27.75	19.88	63	0.60	2.94	-28	20.51	0.99
St. Paul Companies	NYS	45.00	8.11	0.28	45.38	37.69	1019	1.50	3.33	9	31.88	1.41
SAFECO Corp.	NDQ	51.38	3.53	-5.95	59.75	46.75	1119	1.96	3.82	11	46.94	1.09
SCOR U.S. Corp.	NYS	7.88	-8.70	-37.62	13.00	7.50	258	0.36	4.57	-36	13.60	0.58
Seibels Bruce Group	NDQ	2.81	0.00	60.71	3.50	1.25	65	0.00	0.00	11	1.05	2.68
Selective Ins. Group	NDQ	24.38	1.56	-19.42	30.75	23.00	214	1.12	4.59	10	23.36	1.04
Sphere Drake Holdings	NYS	13.38	18.89	-18.94	18.25	10.75	196	0.16	1.20	6	13.15	1.02
TIG Holdings	NYS	19.25	11.59	-14.92	23.25	17.00	800	0.20	1.04	24	17.25	1.12
Titan Holdings, Inc.	NYS	10.13	3.85	-6.90	11.75	7.75	113	0.28	2.77	8	9.31	1.09
Tokio Marine & Fire	NDQ	60.13	5.71	11.34	66.00	51.38	54	0.41	0.67	53	57.72	1.04
Torchmark Corp.	NYS	35.13	2.93	-21.51	49.50	32.38	958	1.12	3.19	9	17.49	2.01
Transatlantic Holdings	NYS	57.25	10.36	7.26	57.25	45.38	226	0.40	0.70	14	32.43	1.77
Transnational Re Corp.	NDQ	21.63	10.90	-19.91	27.00	17.25	285	0.00	0.00	10	N.A.	N.A.
Travelers Corp.	NYS	31.50	0.80	-18.97	43.13	30.38	5265	0.60	1.90	8	24.26	1.30
Trenwick Group Inc.	NDQ	41.00	10.07	5.81	43.75	33.25	33	1.00	2.44	14	29.20	1.40
United Fire & Casualty	NDQ	42.00	-2.33	16.67	44.00	36.00	5	1.20	2.86	10	28.96	1.45
Unitrin	NDQ	43.50	3.57	2.35	51.50	38.50	548	1.60	3.68	20	38.64	1.13
UNUM Corp.	NYS	39.75	5.30	-24.29	58.00	35.13	1152	0.96	2.42	17	27.78	1.43
US Facilities Corp.	NDQ	10.56	4.32	-11.05	14.63	8.25	140	0.00	0.00	13	11.07	0.95
USF&G Corp.	NYS	13.75	6.80	-9.09	16.13	11.69	1290	0.20	1.45	6	10.04	1.37
USLICO Corp.	NYS	20.00	1.91	21.21	24.00	15.75	56	0.24	1.20	10	24.44	0.82
USLIFE Corp.	NYS	34.50	2.60	-10.97	41.38	30.88	194	1.32	3.83	8	40.82	0.85
Washington National	NYS	19.50	-1.89	-19.59	25.38	18.63	84	1.08	5.54	7	23.61	0.83
Zenith National Ins.	NYS	22.00	2.92	-0.56	27.38	20.63	33	1.00	4.55	10	17.54	1.25
Zurich Reinsurance Centr.	NYS	27.25	6.86	-3.54	28.38	24.25	54	0.00	0.00	-26	22.26	1.22
INSURERS/REINSURERS	AVERAGE			-7.3					2.5	12.5		
HEALTH MAINTENANCE ORGANIZATIONS												
FHP International	NDQ	26.50	-0.47	1.92	31.00	20.25	1769	0.00	0.00	15	12.22	2.17
Humana Inc.	NYS	22.00	15.03	19.73	25.38	15.88	5184	0.00	0.00	22	6.04	3.64
Pacificare Health Sys.	NDQ	66.00	6.45	74.83	79.50	36.75	578	0.00	0.00	22	14.21	4.64
Safeguard Health Enter.	NDQ	9.88	9.72	-21.00	15.50	8.50	44	0.00	0.00	22	6.16	1.60
Sierra Health Services	NYS	30.13	13.68	35.39	33.50	20.50	413	0.00	0.00	18	6.04	4.99
United Healthcare Corp.	NYS	46.00	9.85	23.08	55.38	37.00	4589	0.03	0.07	30	6.57	7.00
U.S. Healthcare	NDQ	41.50	5.73	8.26	49.00	33.75	7252	0.84	2.02	18	5.04	8.23
Wellpoint Health Networks	NYS	28.88	1.76	-6.48	37.00	24.25	249	0.00	0.00	14	12.73	2.27
HMOs	AVERAGE			7.7	17.0				0.2	18		
ALL COMPANIES	AVERAGE			5.7	4.6				2.6	13		

System design: Nordby International Inc.

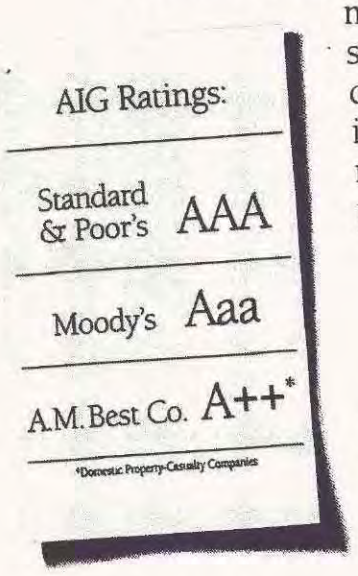
In today's uncertain markets, when are "strength and stability" more than just buzzwords?

When they're backed by an impeccable balance sheet and healthy profits.

If you're concerned about the financial strength of your insurance and financial services organization, here are some questions you should ask.

What's the clearest indicator of financial health?

A balance sheet of impeccable quality, conservatively managed. Look at AIG's financial statements. You'll find $16 billion in capital funds; $18 billion of general insurance net loss and loss expense reserves; and $1.9 billion in after-tax profits in 1993.

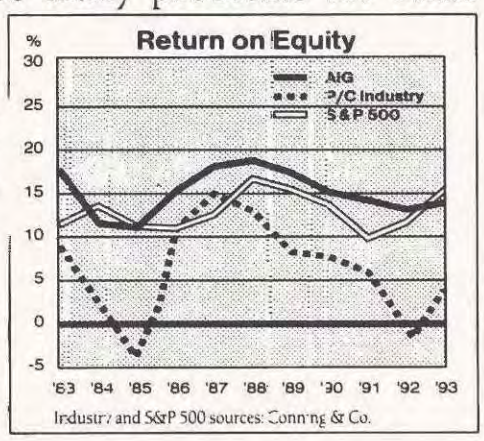


How important are the designations awarded by the rating agencies?

Very important. They provide an impartial, thoroughly researched measure of a company's financial strength. AIG holds the highest ratings awarded by the principal agencies. They are a prized asset, enabling us to capitalize on business opportunities not open to those without these credentials.

Are there substantial differences in the way insurance organizations are managed?

Yes. Take investment and underwriting philosophies. In investing, AIG has an insignificant exposure to high-yield securities and commercial real estate, which have caused so many problems for other companies.



The overall quality of our assets is excellent, with new cash flow invested primarily in investment-grade fixed-income securities.

We also believe underwriting profits are fundamental to the long-term stability and health of a company.

For years these beliefs have produced outstanding results. Including a return on equity that has consistently exceeded the industry average by a wide margin.

What other qualities should I look for?

A strong commitment to its basic business, a diversified business portfolio and global presence. AIG is the largest underwriter of commercial and industrial coverages in the U.S. We also have an international network second to none.

So if you're looking for financial strength, stability and commitment for the long term, as well as the other qualities AIG has demonstrated for years—creativity, service and a willingness to consider new ways of solving financial problems—we want to hear from you.

AIG World leaders in insurance and financial services.

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