

Business Insurance

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

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Fatal Comair crash on heels of bad 1996 aviation loss picture

CINCINNATI—Commuter airline Comair has \$200 million in combined hull and liability insurance to cover losses arising from Thursday's fatal crash of a turboprop plane outside Detroit. New York-based United States Aviation Insurance Group is the lead underwriter on coverage for Comair Holdings Inc. placed in March by Willis Corroon Aerospace in Chicago, according to Department of Transportation documents. Other members of the underwriting consortium include the American Home Assurance Co. in Atlanta; Indemnity

See Updates on next page

Storm losses near \$300 million

By JOANNE WOJCIK and AMY SLOTEMAKER

Insured losses from winter storms that have ravaged several Western states since late December are nearing \$300 million, though uninsured losses exceed that amount. The latest insured loss estimates don't include widespread flood damage, which is excluded under standard personal and commercial property insurance. Commercial crop damage is expected to be minimal, despite growers' exposure to flooding, because the inclement weather occurred during the winter dormant season for most crops. Yet some food processors are con-

cerned that failed refrigeration units and roof collapses on storage facilities will generate future losses. Nineteen counties in Washington, five in Oregon, 13 in Idaho, 37 in California and four in Nevada had been declared federal disaster areas as of last week. The Property Claims Services division of American Insurance Services Group of Rahway, N.J., last week estimated that insured losses from the storms totaled \$280 million, which surpasses its initial estimate of losses in the range of \$125 million to \$250 million (BI, Jan. 6). Most of the insured property damage was caused by strong winds, snow and ice and heavy rains.

Subsequently, the combination of mild temperatures and heavy rain sped up the snow melt, causing numerous rivers and streams in the Pacific Northwest to overflow. And "while the proportion of total damage covered by the private market is not large," when compared with other natural disasters, "the volume of claims to be handled by insurers is significant," said Gary Kerney, assistant vp of PCS. He estimates that more than 180,000 property insurance claims will be filed from the storms. Most of the commercial losses in central Washington have been caused by the heavy weight of ice and snow on

See Flood on page 53



AF/WIDE WORLD PHOTOS
Reno, Nev., firefighters rescue people trapped in a local motel by rising water from the flooded Truckee River.

Expert tips to defuse mail bomb risks

By MARK A. HOFMANN

WASHINGTON—Hard to anticipate, often disguised and frequently deadly all describe mail bombs. Fortunately, mail bombs also are relatively rare and manageable risks, say security experts. But a rash of mail bombs, seven on Jan. 2 alone, has heightened awareness of this invidious exposure and placed new urgency on recognizing and responding to mail bombs. Mail bombs are not daily occurrences in the United States. According to a spokeswoman for the U.S. Postal Inspection Service, only 13 mail bombs of all types were investigated during the fiscal year that ended last Sept. 30. The inspection service says the average annual number of investigations in recent years

has been 16, minuscule considering the postal service processes about 170 billion pieces of mail a year. But during the current fiscal year, 12 mail bombs have been found. "Given the vast amount of mail that goes through the U.S., you'd have to put it on a numerical basis as kind of rare," said Mayer Nudell, an independent security consultant based in Falls Church, Va., and co-author with Norman Antokov of "The Handbook for Effective Emergency and Crisis Management." But, added Mr. Nudell, "consequences could be very high." Fortunately, none of the January mail bombs exploded before being detected and disarmed. Four of the bombs, disguised as Christmas cards, arrived at the

See Bomb on page 44

Departing OSHA chief touts agency's reinvention

By MARK A. HOFMANN

WASHINGTON—As Joe Dear trades a job in Washington, D.C., for one in Washington state, he leaves a legacy of "reinventing" the often-criticized Occupational Safety and Health Administration. "Reinvention put OSHA on a new course," said Mr. Dear, the assistant U.S. secretary of labor for occupational safety and health, at a press briefing last week. Mr. Dear, who stepped down as OSHA head last Friday after more than three years at its helm, will become chief of staff to Gov. Gary Locke, D-Wash., this week. Mr. Dear stresses, however, that a new course does not mean a new destination for OSHA, which remains committed to im-

proving safety in the nation's workplaces. Instead, reinvention of OSHA means moving away from the agency's traditional and much-criticized reliance on fines and sanctions against employers to a more collaborative effort between the safety regulators and the stakeholders in the process: namely business and labor. Of necessity, reinvention also meant doing more with less, noted Mr. Dear. That has resulted in focusing enforcement efforts on serious safety hazards rather than paperwork violations and other minor infractions. Mr. Dear credited the reinvention efforts for the fact that OSHA emerged from the 104th Congress unscathed.

See Dear Joe on page 53

State targets self-insurers

Oklahoma to probe health plan complaints

By JERRY GEISEL

OKLAHOMA CITY—Self-insured employers in Oklahoma that refuse to cooperate with state Insurance Department requests for information about their health care plans could become the targets of a U.S. Department of Labor investigation under a two-year pilot program agreed to last week by Oklahoma and federal officials. Under the program—which is being viewed with concern by business groups—the Labor Department is authorizing the Oklahoma Insurance Department to directly follow up with employers after receiving requests for assistance on claims disputes from

employees covered by self-insured plans. If an employer refuses to comply, such as by not providing benefit plan documents to state officials, the Dallas regional office of the U.S. Office of Pension and Welfare Benefits Administration will write a letter to the employer confirming its agreement with the Oklahoma Insurance Department and requesting that the employer cooperate with the department. If that fails, the PWBA, the federal benefits regulatory and enforcement agency, would consider opening an investigation and possibly issuing a subpoena to obtain the documents. The PWBA could share this information with the Oklahoma Insurance Department if that would help the PWBA resolve issues initially raised with the Insurance Department.

See Oklahoma on page 54

Stamping out mail bombs

Mail bombs sometimes can be identified by these characteristics:

- Marked "personal" or "private"
- Rigid, uneven or lopsided envelopes
- Unprofessionally wrapped parcels marked "Fragile" or "Rush"
- Distorted handwriting or cut-and-paste lettering
- Irregularly shaped packages with soft spots or bulges
- Postmark that differs from the return address
- Excessive postage
- Protruding wires, aluminum foil, oil stains or odors
- Missing or fictitious return address

Source: U.S. Postal Inspection Service GRAPHIC BY ADAM DOI

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January Renewals 1997

NEWSPAPER

Updates

USAIG leads Comair coverage

Continued from previous page

Insurance Co. of North America in New York, a unit of CIGNA Corp.; Lloyd's of London; three Paris-based insurers, Assurances Generales de France, GAN Incendie Accidents and La Reunion Aeriennne; and Aero Assurance Ltd. in Hamilton, Bermuda, the documents indicate.

A spokesman for USAIG said the company had not yet established a liability reserve.

Although Atlanta-based Delta Air Lines Inc. owns 20% of Comair and Flight 3272 was operating as the Delta Connection, the commuter airline has its own policy and is not covered by Delta's insurance, a Delta spokesman said. Comair was unavailable for comment Friday.

The Emb 120 Brasilia turboprop commuter plane, en route to Detroit from Cincinnati, crashed in a snowstorm 18 miles from Detroit Metropolitan Airport, killing all 26 passengers and all three crew members. There are 318 such aircraft operating, 220 of them in the United States, according to a spokesman for Embraer Aircraft Corp. in Fort Lauderdale, Fla. The current value of the Comair aircraft would be \$4.1 million to \$4.3 million, the spokesman said.

The National Transportation Safety Board is investigating the cause of the crash, and a spokesman said all possibilities—including ice and mechanical failure—will be explored.

Among those who died in the crash was Roger Bransford, managing director of Watson Wyatt Investment Consulting in Atlanta. Mr. Bransford, 52, joined Watson Wyatt last February and earlier worked for Towers Perrin and William M. Mercer Inc. He is survived by his wife and three sons.

In another air incident, USAir Express Flight 5326 from Bangor, Maine, to Boston crashed shortly after takeoff Friday. The commuter flight, a Beechcraft 1900 twin-engine turboprop owned and operated by Mesa Air Group Inc., reached 400 feet before crashing, injuring two of the nine passengers, a spokeswoman for the Federal Aviation Administration said. Two crew members were unharmed.

NTSB investigators are trying to determine the cause of the crash.

A spokeswoman for the Farmington, N.M.-based Mesa said the two injured passengers were treated and released the same day.

The Comair crash marks the seventh fatal accident of an Embraer 120 in the past 20 years, according to London-based aviation analysts Airclaims Ltd. Six were commercial passenger flights and one a military flight, the last occurring in August 1995, when an Atlantic Southeast Airlines commuter flight plowed into a field in Georgia, killing eight (BI, Aug. 28, 1995).

Meanwhile, 1996 appears to be one of the worst airline-loss years on record, with airline hull and liability losses totaling \$1.6 billion, up 25% from 1995, according to Airclaims. A total of 1,306 passengers died in 11 accidents.

EEOC wins largest-ever verdict

DETROIT—The Equal Employment Opportunity Commission won its largest verdict ever in an Americans with Disabilities Act case last week when a federal court jury in Detroit awarded a former trucker about \$5.5 million because his company refused to accommodate him after he developed epilepsy.

However, the total award to Thomas Lewis was reduced to \$491,931 after a \$300,000 cap mandated by federal law was applied to the \$5.3 million awarded for compensatory and punitive damages. The trucker also received \$191,931 in back pay.

The Troy, Mich.-based company, now known as Commercial Carriers Inc., plans to appeal, said Fred Batten, an attorney with Clark Hill P.L.C. in Detroit. The company is a subsidiary of Ryder Systems Inc. in Miami.

Mr. Lewis, 45, drove a truck until he suffered a seizure at home in 1989. Because federal transportation rules prohibited him from working as a driver, he asked the company to transfer him to a different job, said David Whitcomb, his EEOC attorney.

Mr. Lewis went on unpaid leave and became eligible in March 1993 for a job loading automobiles onto railroad cars within a confined area. Medical experts hired by Mr. Lewis and the company said he could perform the essential functions of the proposed job safely, but the company refused to give him the job. The company maintains he still poses a direct safety threat to himself and his coworkers, especially because he sometimes would be working 18 feet above ground, Mr. Batten said.

PBGC aims to terminate plans

WASHINGTON—The Pension Benefit Guaranty Corp. will go to federal court this week to terminate three pension plans with about \$185 million in unfunded liabilities sponsored by Anchor Glass Container Corp., a financially ailing manufacturer in Tampa, Fla.

Anchor Glass, which filed for bankruptcy last year, is selling its assets, which would remove Anchor Glass from the control of its Mexican parent, Vitro S.A. The PBGC says Vitro has not supported Anchor Glass's liquidity needs during bankruptcy, including making required contributions to Anchor's pension plans. The agency has an \$18.9 million lien on a Vitro facility in Laredo, Texas, to cover pension contributions Anchor Glass failed to make.

The three plans have a total of 15,600 participants. The termination of the plans would be the largest since the 1993 PBGC takeover of several Sharon Steel Corp. plans, which were underfunded by about \$250 million.

See Updates on page 54

Errors & omissions

- The Dec. 27 Directory of Managed Care Providers incorrectly stated that Prudential HealthCare POS-Utah is licensed in the state of Utah.
- A listing in the Directory of Managed Care Providers abbreviated the name of a health plan in Georgia. "BlueChoice Healthcare Plan/Blue-Choice Option underwritten by HMO Georgia Inc." is the full name of the plan.

KFC not liable for refusal to meet robber's demands

By ROBERTO CENICEROS

SAN FRANCISCO—In a case followed closely by retail industry risk managers, the California Supreme Court has ruled that an employee's refusal to comply with an armed robber's demands does not make shop owners liable for customer safety.

The ruling in *Kentucky Fried Chicken of California Inc. vs. The Superior Court of Los Angeles County* bars liability to customers injured by the inaction or delay of

an employee during a robbery.

However, there is still potential liability in cases where harm is caused to a customer by an employee actively resisting or provoking a robber.

While businesses applauded the decision, some legal observers are surprised by the high court's reversal of an appellate court decision.

They note that it runs counter to a propensity for California courts to place greater liability on retailers and side with consumers.

In fact, the Supreme Court justices were sharply divided in their opinions stemming from a 1993 robbery at a Redondo Beach, Calif., KFC restaurant in which a woman was held at gunpoint. Four justices concurred, while three others issued lengthy dissents.

Writing for the majority, Justice Marvin Baxter said the public is better served if robbers know their victims do not have a legal duty to comply with a criminal's

See KFC on page 54

Employers get guidance on reimbursements

IRS sets rules on adoption benefits

By JERRY GEISEL

WASHINGTON—Employers that want to take advantage of a change in federal law that allows them to provide tax-favored adoption assistance benefits programs for their employees now have guidance from the Internal Revenue Service on how to operate those programs.

Under a provision in tax legislation passed last year and effective Jan. 1, employers can reimburse employees for up to \$5,000 of expenses per adoption without that reimbursement being added to

employees' taxable income. In the case of an adoption of a child with special needs, the tax-free limit on employer reimbursement is \$6,000. Individuals who adopt children also are eligible for tax credits.

Even without the new tax breaks, a good number of large employers already have programs that reimburse employees for a portion of adoption-related expenses. A new Hewitt

Associates L.L.C. study of more than 1,000 major employers found that 23% offer an adoption reimbursement program.

Typically, corporate programs reimburse employees for between \$2,000 and \$2,500 of adoption expenses, said Karol Rose, a principal with Kwasha Lipton L.L.C. in Fort Lee, N.J. The cost of an adoption ranges between \$10,000 and \$30,000.

With the new tax breaks extended by Congress, more employers are expected to add adoption assistance benefit programs.

See Adoption on page 48



Mattel recalling dolls to patch up image

By SALLY ROBERTS

EL SEGUNDO, Calif.—Mattel Inc. is self-insured for the costs of recalling its Cabbage Patch Snacktime Kids dolls, which on at least 100 occasions have munched on children's fingers and hair rather than toy food.

Risk management experts agree the recall is a good move, noting that Mattel faced more of a public relations exposure than product liability risks.

As part of the voluntary recall, which comes one week after it said it would put a warning label

on all remaining and new dolls, Mattel is withdrawing the product from all retail shelves across the United States, discontinuing distribution and offering a full cash refund of \$40 to consumers for any returned doll.

Since the Snacktime Kids doll was introduced in August 1996, about 700,000 have been distributed and 500,000 have been sold, Mattel said. In addition to the cost it will incur from retailers, Mattel could pay out as much as \$20 million if all 500,000 dolls are returned by consumers.

See Recall on page 52



AP/WIDE WORLD PHOTOS

Customers can get refunds for Cabbage Patch Snacktime Kids.

Crain names new chairman

DETROIT—The board of directors of Crain Communications Inc., publisher of *Business Insurance*, has named Keith E. Crain chairman.

Keith Crain becomes the third chairman in the company's 81-year history. Founder G.D. Crain Jr. served as chairman until 1973, followed by his

wife, Gertrude R. Crain.

Gertrude Crain died in July 1996. Rance Crain continues as company president.

Crain Communications publishes 30 business, trade and consumer publications and operates two radio stations from 16 offices worldwide.

Inside

- A court ruling requiring business to comply with illegal demands only invites more crime. **PAGE 8**
- Insurers still are trying to determine the losses related to an oil spill from a Russian tanker that broke apart off the coast of Japan. **PAGE 45**
- A wrap-up insurance program for a San Diego sewer improvement project reduced the city's insurance costs and won national recognition. **PAGE 49**

Departments

- Advertiser Index37
- Ask a Benefit Actuary31
- Classifieds50
- Comings & Goings: Industry51
- Datebook42

- Global Briefs45
- Insider Trading51
- Insurance Services Guide51
- International45
- Letters8
- Opinions8
- Perspectives31
- Reader Reply Service37
- Ticker55

Business Insurance (ISSN 0007-6864) Vol. 31, No. 2, is published weekly by Crain Communications Inc., 740 N. Rush St., Chicago, Ill. 60611-2590. Periodicals postage is paid at Chicago and at additional mailing offices. POSTMASTER: Send address changes to *Business Insurance*, Circulation Department, 965 E. Jefferson Ave., Detroit, Mich. 48207. \$4 a copy and \$87 a year in U.S. \$105 in Canada and Mexico (includes GST). All other countries \$205 a year (includes expedited air delivery). Canadian Post International Publications Mail Product (Canadian Distribution) Sales Agreement No. 0293512, GST No. 136760444. Printed in U.S.A. Copyright 1997 by Crain Communications Inc.

Quake only tight coverage in market, risk managers say

By MICHAEL BRADFORD
and MICHAEL PRINCE

Risk managers are wondering whether it's really the renewal season or just a recurring case of *deja vu*.

They are reporting very few changes in insurance price and availability as renewals are completed. Most buyers say there is little chance those conditions will change any time soon.

"I don't see any changes that will make it harden," said Jim Green, risk manager at Fort Worth, Texas-based footwear manufacturer Justin Industries Inc.

Risk managers pointed to earthquake coverage in California, Mexico and Japan as the only type of insurance that could be called "tight" in terms of available limits.

"The reinsurers are holding all the cards right now," dictating price to primary underwriters of earthquake insurance, said Mary Dopsloff, vp-risk management for Four M Corp., a manufacturer of cardboard and paper products in Valhalla, N.Y.

Those increases then have to be passed on to policyholders, and that trend should continue in 1997, she added.

Insurers would have to take a very big hit before they began to restrict capacity and raise prices in other areas, some risk managers think.

"Barring a huge catastrophe," insurers should remain "innovative and aggressive and seek more market share," said Edmund Greene, deputy treasurer-insurance at General Electric Co. in Fairfield, Conn.

He agrees with Ms. Dopsloff that capacity for earthquake risks remains tight in some areas. Continuing consolidation among insurance companies could be a trigger to firm the market, Mr.

Greene speculated.

But it's "anybody's guess" when the number of companies would be winnowed to the point that the marketplace would become less competitive.



London market caters to policyholders...Page 38
HPR insurers should see good results....Page 20
'Frenzy' in surplus lines renewals.....Page 24
Market spurs innovation, J&H reports.....Page 51

Competition offers chance for better terms, brokers say

By SALLY ROBERTS and ROBERT KAZEL

Risk managers can look forward to a relatively easy renewal period in 1997, brokers report.

The property/casualty market has remained relatively unchanged over the past year despite continued consolidation among reinsurers, insurers and brokers. The relatively few natural disasters last year also contributed to keeping rates low this renewal period.

But the impact of the recent series of winter storms and flooding that has hit the western United States has yet to be determined.

Preliminary estimates have the storms causing \$280 million in insured damages (see story, page 1).

Overall, the market is as competitive as ever, with ample capacity giving way to flat or decreasing rates and broad terms and conditions, according to brokers.

"Pricing continues to be pretty predatory. Companies are scraping around, trying to write premiums—and at lower prices," said J. Hyatt Brown, chairman and chief executive officer of Poe & Brown Inc. in Daytona Beach, Fla. "Today, everyone is willing to do something extra to lock in business. We don't see any changes in 1997. It's going to be just as competitive as in 1996."

"Everything is pretty much continuing as it did in '96," agreed Charles Ruoff, executive vp at Sedgwick James Inc. in New York. "The market is very reasonable and offering enhanced terms and conditions. Pricing is still relatively soft in basically all lines."

Specifically, Bill McBurnie, a senior vp at Johnson & Higgins in New York, said he has seen reductions anywhere



And insurers aren't facing any legislative changes that could lead to a market hardening, according to Stephen Scammell, senior consultant with Tillinghast Towers Perin in Parsippany, N.J.

Mr. Scammell said there seem to be no threats on the horizon in Washington for buyers. "The laws that are dealing with insurance issues all remain favorable to policyholders."

Many risk managers are finding price breaks during this renewal period. "If anything, I think it's softening," said Mari Jo Hill, risk manager at SAS Institute Inc., a Cary, N.C.-based computer software company.

SAS recently completed casualty renewals for Prestonwood Country Club, a facility it owns in Cary.

"I don't know what it's like elsewhere, but workers comp is a very soft market in North Carolina," Ms. Hill said.

With some minor losses in 1996, the country club is inking renewals with Travelers/Aetna Property Casualty Corp. at essentially the same cost as last year.

The Travelers/Aetna merger didn't bring a lot of change to Prestonwood's workers comp program, she noted. Some policy wording was rewritten because "Travelers had a slightly different form" than that used by Aetna, which wrote the coverage for the previous three years, Ms. Hill

See Managers on next page

Drop in number of reinsurers doesn't push up rates

By GAVIN SOUTER
and DAVE LENCKUS

The premium paid for reinsurance companies may be high, but the premiums paid for reinsurance coverage are only getting lower.

Despite the major consolidation among reinsurers in 1996, the drop in the number of large reinsurance companies did nothing to push premiums up, reinsurers and brokers say.

Instead, the good results of the past couple years and the resurgence of Lloyd's of London have led to almost universal decreases in premiums, they say.

Since their last year-end renewals, reinsurance buyers have seen a shake-up among the large direct reinsurers. In a flurry of acquisitions in the last six months of 1996, reinsurers often

paid huge amounts to increase their market share by buying rivals.

The impact of the reinsurance industry's consolidation on insurers' mindset is unclear, but the consolidation so far has not restricted capacity or reinsurers' flexibility, according to market executives.

"I don't see the consolidation as having an impact," said Heidi Hutter, chairman, president and chief executive officer of Swiss Re America Corp. in New York. Parent company Swiss Reinsurance Co. this summer offered to acquire Mercantile & General Reinsurance Co. P.L.C. (BI, Sept. 2, 1996).

Several market executives said capacity is at least as plentiful, if not more so, than it was last summer.

That includes capacity for property catastrophe risks.

"If anything, for smaller companies, there may be more capacity. So this is maybe a case where one plus one does equal two, not one and a quarter," said Edmund Megna Jr., managing director and an executive vp with Guy Carpenter & Co. Inc. of New York.

"But, we're still in the early stages" of the consolidation period, he said. Consolidation "takes some reinsurance out of the market."

"If anything, capacity will continue to expand," predicted Edward Noonan, president of domestic insurance company business at American Re-Insurance Corp. in Princeton, N.J. Munich Reinsurance Co. last summer acquired American Re (BI, Aug. 19, 1996).

At the new combined company, capacity will be greater because of the company's greater size and diversification of risk and the stronger balance sheet, Mr. Noonan said.

There has been some speculation that consolidation would drive some cedants of companies involved in deals to move to other reinsurers.

"Naturally, clients—insurance companies—want to deal with a handful of companies. With consolidation, there are fewer companies. There is a concern about having a healthy, viable market," said Mr. Megna of Guy Carpenter.

See Reinsurers on page 34



What little difference a year makes.

In fact, insurers say about the only difference between the year-end 1996 and 1995 renewal seasons is the year on the calendar.

And there's little reason to think the 1997 year-end renewal season will look much different when it rolls around 11 months hence.

Rates for virtually all property and casualty lines remain soft, capacity remains abundant and surplus is growing. There's little geographic disparity in market conditions. Although new products are fueling growth for some underwriters, all insurers are scrambling to find ways to hold down costs.

As Michael L. Downs, senior vp at Hartford, Conn.-based Hartford Steam Boiler Inspection & Insurance Co. put it: "I

think the market of today will be the market of the future, and we're going to have to learn to live with it."

"Generally speaking, I would say that it's all soft. I don't see any differentia-

tion," said David McDonald, chief underwriting officer of Royal Insurance Group in Charlotte, N.C.

"The pricing levels today are as soft as they were in 1983," said Mr. McDonald.

"I think the market is as soft as it's ever been. We don't anticipate any change in the marketplace," said Mark Owens, executive vp in the marketing division of Reliance National in New York.

"The lines of insurance that from our perspective we're seeing the most pressure on are the excess and surplus lines, the primary, the excess," Mr. Owens said.

"Certainly the excess is competitive," said Brian Duperreault, chairman and chief executive officer of ACE Ltd. in Hamilton, Bermuda. "And I'm not sure there are really that many new players involved, but Lloyd's is particularly competitive on the energy side."

"What we're seeing in the marketplace is continued flat rates," said Paul J. Krump, senior vp and managing director at Chubb & Son Inc. in Warren, N.J.

"People are saying it's a great time to be a buyer." Faced with the competitive market, customers are asking, "Why don't we check and make certain that we've got the right type of coverage in place, that we've got the right carrier," he said.

"I don't think anybody is getting surprised by a major increase in their rates this year," Mr. Krump said. With rates so competitive, Chubb is focusing on such aspects as identifying customers' exposure increases, making sure they have the proper coverage in place and marketing its loss-control services.

The general liability market is "just as soft if not softer than in 1995. The pricing has gotten almost to the point where you ask how much more can you cut. The pressure now is on coverage enhancements, unusual modifications

See Insurers on page 16

WHAT YOU

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Opinions

Court unties business' hands

ONCE IN A WHILE, business gets a break. Such was the case when a majority of the usually liberal California Supreme Court recently resisted efforts to expand businesses' premises liability and reversed a controversial appellate court decision.

The justices ruled 4-3 that a restaurant employee's refusal to promptly comply with the demands of an armed robber does not breach a duty to ensure the safety of third parties from foreseeable harm.

As we report in this issue, Kentucky Fried Chicken was sued by Kathy Brown, a customer who had been seized at gunpoint during a robbery of one of its restaurants. The armed robber threatened to shoot her unless a KFC clerk emptied the cash registers. When the KFC clerk falsely said she would have to first get a key in the back of the restaurant, the robber became agitated and threatened to shoot his hostage. Ms. Brown, afraid the employee's actions would get her killed, began screaming at the clerk to open the cash drawer, at which point the clerk complied.

Ms. Brown sued the restaurant chain, alleging that the employee's failure to promptly comply with the robber's demands caused her injury, emotional distress and other damages. She also claimed KFC was liable because it had failed to properly train its employees to respond to crimes to avoid endangering customers, among other things.

We believe the court's majority was correct to overturn the controversial appellate court ruling in Ms. Brown's favor. To require businesses to comply with the unlawful demands of robbers is just setting up those businesses to be ripped off.

We also think it would do little to ensure the safety of customers. Armed robbers are not rational people to begin with. We seriously doubt, therefore, they would suddenly abstain from shooting a hostage or customer simply because stores are opening their cash registers more quickly.

Indeed, legally requiring businesses to surrender to unlawful demands for money or other property to protect third parties could put the public at greater risk. It could even encourage armed robberies to oc-



"HOLD IT, JOE.... THIS SAYS WE'RE RESPONSIBLE FOR WHAT HAPPENS HERE!!!"

cur when a store or restaurant is crowded with customers.

Businesses' liability for the safety of customers should only extend to those hazards in their control or those they can reasonably expect. Obviously, gross negligence for the safety of third parties is still a cause of action, but KFC showed that it was unaware of any prior armed robberies or other crimes at the restaurant.

Even if the store had been hit by prior crimes, though, there are limits to how much risk management can do to prevent crimes. Not only are criminals unpredictable, but efforts to stop them also can hurt a business. Installing high-profile metal detectors and armed guards in KFC stores, for example, might deter robberies but might also deter most customers.

There are still plenty of measures businesses can take to deter crime and protect customers. We are relieved that the majority of the California Supreme Court ruled against making the surrender of property to armed robbers one of them.

Letters

OSHA working fine without legislative reform

To the editor: Your recent editorials arguing for legislative reform of OSHA and against an ergonomics standard for American workers not only miss the mark but completely elude the range (BI, Dec. 16, 1996; Dec. 9, 1996).

Over the past 25 years OSHA, the occupational death rate in the United States has been halved. If that's not a workplace improvement, I don't know what is. One study found 22% fewer injuries at companies where OSHA cited violations during the three years following an inspection, demonstrating a direct correlation between OSHA activity and improved workplace safety and health.

Employers that follow OSHA recommendations can save money, too. Boise Cascade Corp. in Rumford, Maine, paid OSHA penalties of more than \$750,000

following a 1989 inspection that turned up nearly 3,000 violations. Bad news? Perhaps, but the company's new safety and health program instituted following that inspection cut serious injuries to zero and minor injuries by half, reducing workers compensation costs by 97% over five years.

We appreciate *Business Insurance's* support for our January ergonomics conference. It will showcase best practices among companies and industries that have been successful in improving the fit between workers and their jobs, resulting in fewer injuries and lower costs. Repetitive stress injuries cost employers more than \$20 billion in direct costs and an additional \$100 billion in indirect costs each year. And that does not even take into account the related human suffering.

OSHA has no intention of issuing a "one-size-fits-all" ergonomics proposal. We intend to develop a strong, scientific standard that empowers employers to adopt protective measures appropriate to their worksite. While we continue to work on the direction this standard will take, one approach is clear: We will focus on specific problems with identifiable solutions. This targeted approach makes good sense for employers and employees alike.

Regarding OSHA reform, bills from

the last Congress appear to put OSHA reinvention efforts into law, but in reality, they are full of pitfalls that actually reduce worker protection and limit OSHA's flexibility to develop successful partnership alternatives to traditional inspections and penalties.

We will continue such innovative programs as OSHA's new complaint policy, handling many complaints by phone and fax. We are expanding our new cooperative compliance programs, encouraging participating employers to find and fix hazards on their own. A new penalty policy that is now being tested could cut penalties by up to 100% for companies with effective safety and health programs.

Any OSHA reform legislation should build on, rather than ignore, the successes of the past 25 years to enable the agency to do an even better job of improving safety and health for American workers.

Joseph A. Dear
Assistant Secretary for
Occupational Safety and Health
U.S. Department of Labor
Washington

■ Mr. Dear left his post at the Occupational Safety and Health Administration Jan. 10 to become chief of staff to Washington Gov.-elect Gary Locke.

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

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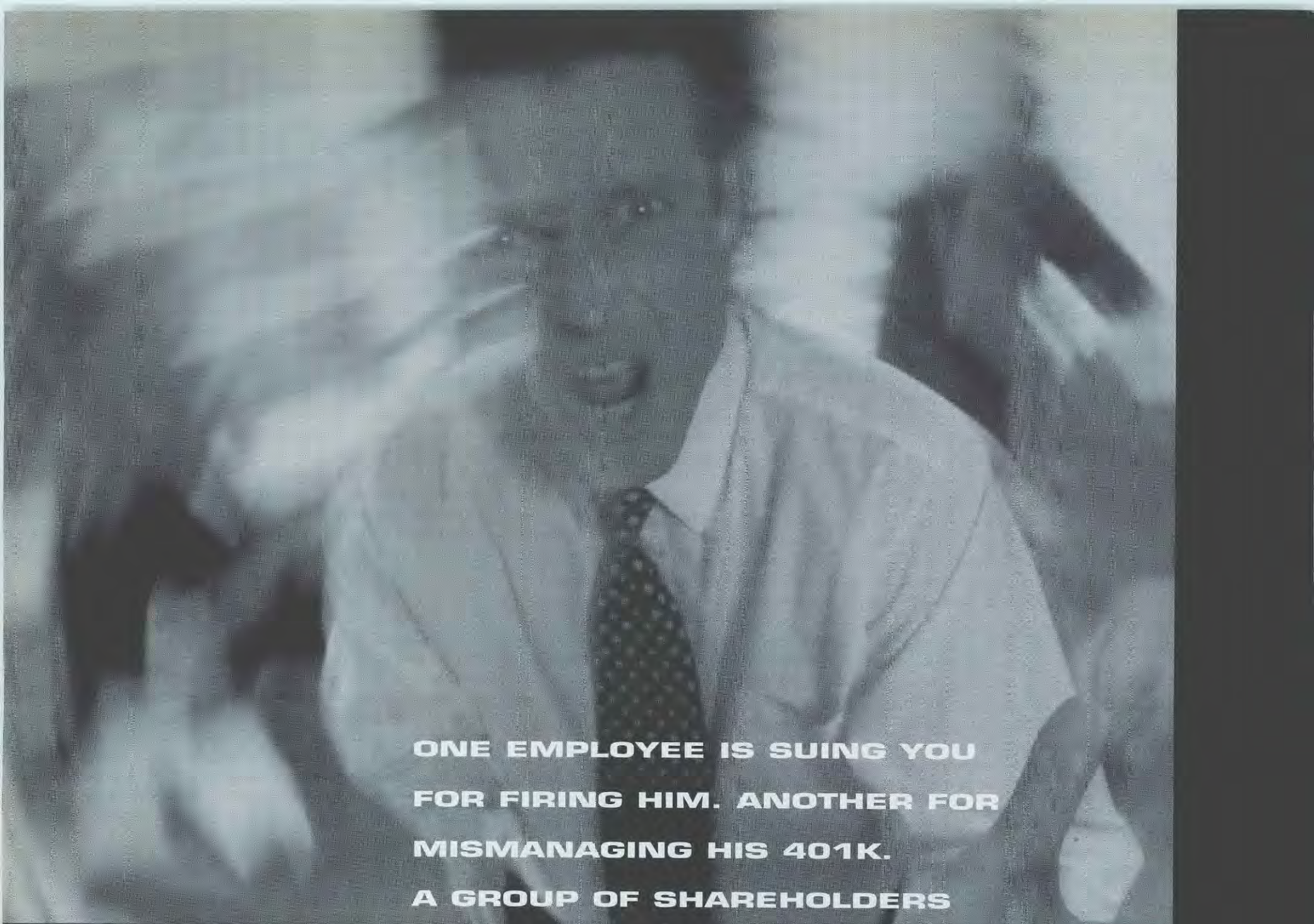
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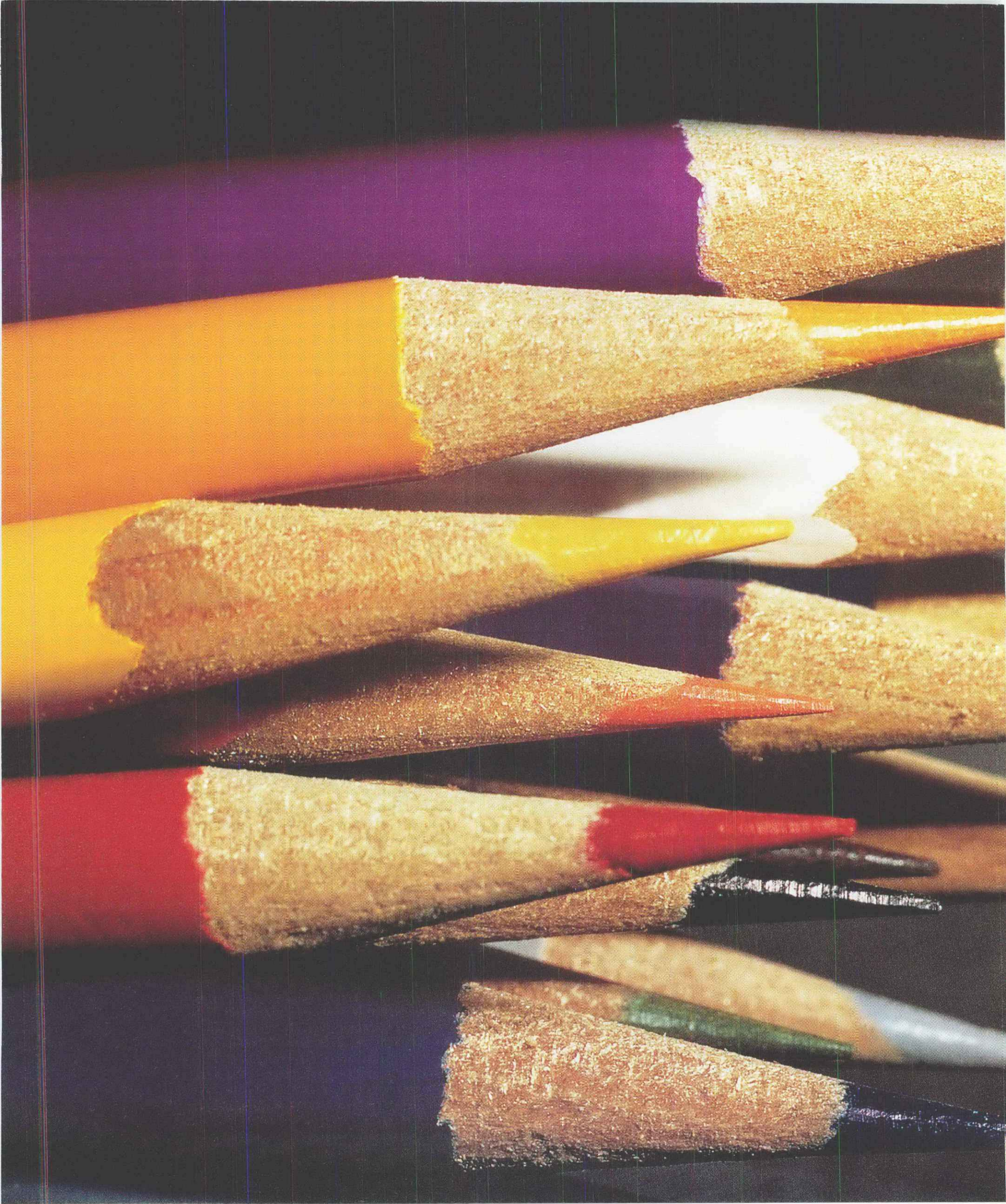
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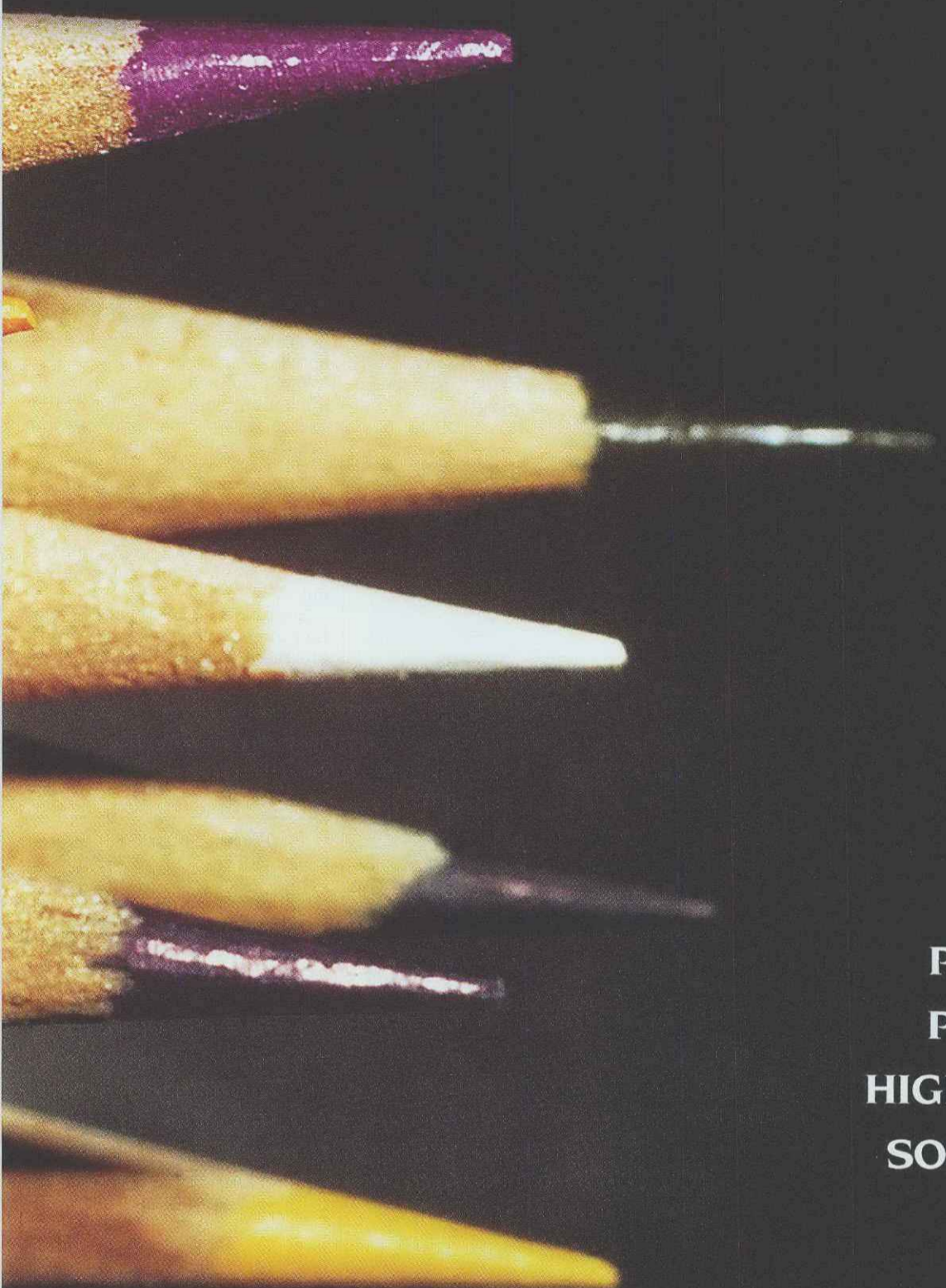
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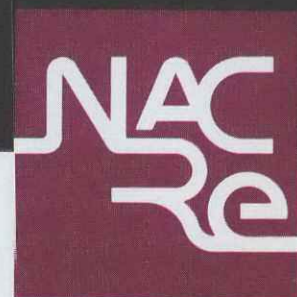
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Managers

Continued from page 4

There was a slight increase in the port's property insurance costs because waterfront development has resulted in higher values.

Although the values were up 6%, the rate for coverage did not increase.

Ms. Chappelle said marine and property insurers apparently weren't skittish about writing coverage along the waterfront despite the recent ramming of the Riverwalk in New Orleans by the M/V Bright Field (BI, Dec. 23/30, 1996).

Risk managers renewing D&O insurance policies say the coverage is getting a little cheaper in some cases.

"We were quite pleased with the way (renewals) went, particularly

excess liability and D&O," said Gerald W. Wilkins, risk manager at Oklahoma Gas & Electric Co. in Oklahoma City.

"All the liability coverages were about 2% to 5% cheaper," he

considering entity coverage," Mr. Wilkins remarked. "We had considered it in the past and did decide to obtain it" at the renewal completed in December, he said.

Entity coverage is purchased as

With growing frequency, buyers are asking, 'I pay this broker \$1.5 million a year and what am I getting for it?' says consultant Stephen Scammell.

added.

Because D&O coverage was costing about 5% less at renewal, the utility was able to purchase the same limits and add entity coverage all at the expiring premium.

"More risk managers are con-

an addition to D&O coverage and covers claims against a company arising out of actions of the directors and officers.

Mr. Wilkins said research indicates that in most cases corporations are also named in lawsuits against directors and officers.

"Some say the courts in effect are granting entity coverage. But in my opinion you're rolling the dice when you put in the hands of the court what could be a long, protracted situation," Mr. Wilkins said.

Mr. Green of Justin Industries said he expects some broadening of coverage for directors and officers but "no increase in premium to go with it" when the coverage is renewed Feb. 1.

Workers comp, auto liability and general liability also renew Feb. 1 for Justin and Mr. Green expects smooth sailing.

The footwear maker's workers comp coverage is structured as a large deductible plan and "our loss picture has been excellent," he remarked.

"We don't expect any market-driven increases in auto or G.L.," he added. St. Paul Cos. writes those two coverages and the

workers comp insurance for Justin.

Oklahoma Gas & Electric wasn't as fortunate on the property side as with casualty renewals.

"Property insurance was up because of our loss ratio," said Mr. Wilkins, a disappointment "in a market when you are hoping to hold the line or get a reduction. I anticipated there would be some increase and there was, but it wasn't horrendous."

The coverage formerly was written by Industrial Risk Insurers in Hartford, Conn.

Because IRI decided to stop writing coverage in the first \$100 million layer for electric utilities, Oklahoma Gas & Electric had to put the program out for bid.

That layer now is written by a number of insurers, Mr. Wilkins noted.

While policyholders aren't making a lot of changes in the current market, they are demanding that intermediaries find the best deals and provide other services, according to Mr. Scammell.

With growing frequency, buyers are asking, "I pay this broker \$1.5 million a year and what am I getting for it?" Mr. Scammell pointed out.

Because buyers are being asked by top management to substantiate their vendor costs, the pressure is on brokers to provide value, he said.

In addition, risk managers who have suffered staff reductions are turning to their brokers to do more work. **BI**

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Insurers

Continued from page 3

ard deletions of exclusions," said Tom Swensen, vp-underwriting and marketing services for Wausau Insurance Cos. in Wausau, Wis.

"It's clearly a buyers' market," Mr. Swensen said. Brokers have come up with "some very comprehensive" wish lists and are very aggressive in seeking the terms they want.

"We look at it from a standpoint of we try to be selective as to which enhancements or modifications we will make. Rather than make them across the board, we will try to tailor the enhancements based on the individual account," he said.

As an example of the type of terms sought, Mr. Swensen said brokers are seeking modifications in pollution exclusions. "As much as a particular broker may be asking for this modification across the board of all accounts, it's imperative that the insurance company look at it on a selective basis," he said.

Dennis Kane, president of CIGNA Property & Casualty's Special Risk Facilities in Philadelphia, put a more positive spin on conditions.

Looking at the overall property/casualty market, he saw "obviously a pretty positive picture."

That perspective is based on key indicators, he said. For example, industry surplus grew about 20% in 1996 from 1995, to about \$230 billion. "So that's sort of the first sign that things are generally pretty good," Mr. Kane said. "Couple that with a strong performance in industry income. I think most companies are reporting improved operating income."

Also contributing to a positive picture is the fact that over the past two years some companies like CIGNA have taken "major steps to address asbestos and environmental," Mr. Kane said.

"From the big picture view there's very little pressure for change," Mr. Kane said. So the market of 1997 should be very similar to the markets of 1995 and 1996.

According to Stephen J. Sills, president and chief underwriting officer of Executive Risk Inc. in Simsbury, Conn., this renewal season's market is very much the same as year-end 1995's in terms of rates and capacity, and there seems little chance that will change in the foreseeable future.

Perhaps the biggest change in the marketplace, then, is the growing importance of factors other than price in purchasing decisions, Mr. Sills said. "Prices have gone down and they might still go down further, but I think a key issue is the deliverables from an insurance company other than price," he said.

Such aspects as speed of delivery and other factors that can help a broker cut its expenses in dealing with the insurer are becoming ever more important, he said. "From that standpoint the issue of how can an insurer get a policy out in a few days is becoming important," said Mr. Sills.

CIGNA's Mr. Kane said primary casualty coverage is an area where typically programs provide a high degree of service and some risk transfer. This area has been very competitive for the past three or four years, he said. "There's not a lot of investment income associated with this because of the program design where the customer self-insures a large part of their exposures." Because profit margins in this area are thin, he expects to see some underwriters move to stabilize rates in this area.

Mr. Kane said he sees customers beginning to demand better service, so companies able to provide the service demanded at competitive rates will have an advantage.

The primary casualty market may be a mixed bag for the next year,

"but if there's going to be a change in terms of the upward adjustment of rates, we'd probably see it in this segment first," Mr. Kane said.

The market for excess casualty has been very competitive over the past few years and remains so, Mr. Kane said. "This is very much a long-tail business. It's hard to imagine any short-term needs that would effect a change in market conditions."

Chubb recently increased its casualty capacity to \$50 million from \$25 million, "just to be more responsive to agents and brokers." Mr. Krump said the company thinks that move will help position it as a "one-stop shop" for a customer's entire range of casualty coverages.

Workers compensation rates are dropping as well, Mr. Krump said, adding, though, that the extent of those declines varies by state.

The boiler and machinery marketplace also is mired in softness.

"In the large account area, there's

really a diminishing boiler and machinery market; it's becoming an all-risk market because of the client's desire to have a package and eliminate the potential for gaps," said Hartford Steam Boiler's Mr. Downs.

This all-risk market operates very much like the commercial property market, with mostly single-year contracts, although a few buyers have gone to fixed multi-year contracts, he said.

Rates are continuing to soften with the tremendous increase of capacity in the domestic and overseas markets.

Prices for the all-risk policies are down 5% to 15% from the levels of a year ago, he said.

Insurers looking to make up for soft casualty prices in the property market are finding little more than disappointment.

Wausau's Mr. Swensen called the commercial property market "softer than soft." The insurer is cautious not

to congregate a lot of exposure in a given area, he said.

As in the case of liability coverages, buyers are interested in coverage enhancements rather than simply price cuts, he said. "Reductions have been pushed so far that there isn't a lot left there" to cut, he said.

"Even the cat lines, property, are softening up compared to what it was," said Reliance's Mr. Owens. "I don't want to characterize it as 'the cat market is becoming soft,' but the longer people forget about Northridge the softer it becomes," he said, referring to the devastating 1994 earthquake that struck the Northridge section of Los Angeles.

"Except for the obvious places," such as coastal exposures, property rates were soft, said Royal's Mr. McDonald. "But even that in the last quarter, prices began to move southward, as they say. It's an extraordinary market," he said.

"Reinsurance capacity even on the

property side is abundant and generally speaking, prices for catastrophe cover as well as casualty cover are coming down," said Mr. McDonald. He said underwriters that have enjoyed favorable catastrophe experience are seeing catastrophe reinsurance rate reductions of 10% to 13%.

CIGNA's Mr. Kane pointed out four distinct categories of property insurance buyers who can expect to experience varying conditions.

For customers in areas prone to earthquakes, hurricanes or spring flooding, the prospect for a change in market conditions is "probably not very great," Mr. Kane said. Rates should be stable, and there's even some additional capacity in earthquake-prone areas.

For petrochemical risks, "we've seen about two years of rate reductions in the petrochemical market, and my best guess is rates are probably in line for where they need to be

Continued on next page



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Continued from previous page
for a very catastrophe-prone area, and we'll probably see rates stabilize there," the CIGNA executive said.

Few underwriters specialize in writing utility property covers, Mr. Kane noted. Rates in the utility area probably will remain stable, though there are some concerns among insurers about what impact utility deregulation might have.

Heavy industrial risks are "the one area we see some upward pressure on rates," Mr. Kane said. Many insurers' performance in this area hasn't been particularly strong in recent years, and Mr. Kane sees underwriters looking at increasing deductibles or maybe increasing the waiting time on business interruption claims. He couldn't provide any across-the-board idea on the extent of those rate increases, however, instead saying any changes will be "account-specific."

Underwriters reported there is

very little differentiation among casualty risks in terms of softness.

From a regional perspective, while the entire U.S. market is competitive, some areas are more so. "The whole country is pretty competitive, but we see a lot more competition in the West and the South," said Mr. Owens of Reliance.

"Even overseas is becoming more competitive," he said. "We're seeing a lot more competition in Europe. It's the age-old thing—there's too much capacity out there."

Given the impact of nearly a decade of soft market conditions, the challenge for all insurers is to find new areas in which to grow, said Mr. Owens.

"But everybody says that; everybody wants to be a niche player," he said.

Not surprisingly, one of the chief ways insurers are responding to the continued soft market is by rolling out new products, pointed out sever-

al underwriters.

Among the new products offered or demanded, multi-year/multi-line products remain among the most prominent, Mr. Kane said. "We continue to see a high level of customer interest in these products despite the more competitive nature of the traditional market."

ACE's Mr. Duperreault said his company has had a good response to its multi-year/multi-line products since it started offering them in early 1995. "Is it a growing trend? Maybe," he said. "I think a lot of insureds are rethinking their programs once again. A soft market tends to produce a rethinking of structures."

While allowing that an argument can be made that customers would take advantage of a soft market to buy traditional coverages, Mr. Duperreault said, "We see a lot of insureds saying, 'We want a longer term relationship, more stability,' and these programs tend to give them

that."

Chubb's Mr. Krump said there's a lot of interest among customers for employment practices liability products. Chubb introduced an EPL product in 1996 and, while satisfied with market response to it so far, Chubb would like to see it do better in 1997. But such products often have a relatively long gestation period, with risk managers first needing to become familiar with them, then working the cost of the coverage into their budgets, he added.

EPL products appear to be much in demand, agreed Executive Risk's Mr. Sills. A product Executive Risk unveiled in 1996 called The Power combines employment practices coverage with directors and officers and entity coverage for privately held for-profit companies. "It's been very hot," Mr. Sills said.

Wausau's Mr. Swensen said the underwriter also has an EPL product under consideration but has not in-

troduced it.

Chubb also is emphasizing increasing its business with mid-size multinational companies, pointed out Mr. Krump. "Anything we can do to differentiate ourselves or separate ourselves from the pack is something we're trying to emphasize," Mr. Krump said.

With offices in 29 countries and the company's capacity and underwriting expertise, that emphasis on multinational business is a natural fit for Chubb, Mr. Krump said. "When we make it easier for the agent and the insured to do business with us (overseas), it plays better for us back in the United States."

"We're seeing more packaging of traditional products together," Mr. Krump said. "And the whole theme of making it easier for the agent and the broker and the customer buying the product."

In addition, "We're certainly seeing much more partnering going on with agents and brokers in the marketplace," Mr. Krump said. Agents and brokers seeing the consolidation among insurers are concerned about the long-term nature of the market. "They're concerned about who's going to be a long-term survivor," he said. "They're identifying those companies they believe are going to be in the marketplace long-term and are looking to form stronger bonds with those companies."

And the pace of merger and acquisitions activity isn't likely to slow down soon, said Reliance's Mr. Owens.

"Consolidation is still on the horizon," he said. Merger and acquisition activity ultimately may affect the market, he said, "but I don't think anybody has figured out how and when and why."

But while consolidation might continue, Mr. Duperreault doesn't see it lessening competition in a market with seemingly no shortage of capacity. "I frankly don't see consolidation as much of a solution," he said. "I don't think that takes the capital out."

The capital markets' convergence with insurance is something that "will eventually happen," as well, said CIGNA's Mr. Kane. "To date, most of the activity we have seen has been in the reinsurance side, and I think underwriters have been struggling with, 'How can we take some of these concepts and apply them to individual customers' programs to try to develop more innovative solutions?'" CIGNA is working toward that end, he said.

As insurers' struggle to find ways in which they can compete more effectively, electronic communications are taking on an ever greater role, Mr. Sills said. He said his company's World Wide Web site is "seeing a lot of hits." Within the next few weeks, interested parties will be able to download applications of policy forms from the site, he said.

Among the advantages such electronic systems bring to the renewal process are speed, an opportunity to save postage and mail room costs, streamlining the overall process "and making the buying process that much more efficient and effective," Mr. Sills said.

"The front end of the process has become more and more important in terms of giving people a competitive edge," Mr. Sills said. "If we can help (the broker) become more effective that gives us a leg up."

But no matter what the current market conditions, the basic business of insurance remains the same, said Royal's Mr. McDonald.

"At the end of the day, we're still in a business where we are assuming risk, and the most important ingredient is risk selection, understanding the needs of the ultimate buyer and are you willing to meet those needs for a fair price," he said. **BI**

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Mixed opinions on Aon/A&A merger

Chicago-based Aon Corp.'s announcement that it will acquire Alexander & Alexander Services Inc. and thus create the largest retail brokerage in the world is drawing mixed reviews from underwriters with which it will do business.

While underwriters agree the merger makes economic sense,

'I think it's going to have a very positive impact for several of the carriers out there,' says Paul J. Krump.

they say customers will pass the ultimate judgment on the merger's value.

"It's inevitable in their business, just like it is among the insurers," said Mark Owens, executive vp in the marketing division of Reliance National Insurance Co. in New York.

"We're not crazy about that kind of consolidation. We'd like to see the broadest lines of distribution," he said.

"It just makes bigger gorillas," Mr. Owens said of broker mergers. "Any time you tighten your distribution system, it puts pressure on the carriers."

Mr. Owens' assessment was not universally shared.

"I think it's going to have a very positive impact for several of the carriers out there, like Chubb," said Paul J. Krump, senior vp and managing director at Chubb & Son Inc. in Warren, N.J. Mr.

Krump added that determining which insurers will benefit from the deal will be in large part a matter of "who is willing to partner with Aon and cut some creative compensation deals."

"Because they are larger now, they certainly don't need all the carriers in the stable that they had before and they certainly are able to pick that handful of winners into the next millennium," he said.

Brian Duperreault, chairman and chief executive officer of ACE Ltd. in Hamilton, Bermuda, said for insurers that depend on brokers, anything that creates a more viable broker community is a good thing.

"We rely heavily on the brokers, obviously, so what we need is a viable broker infrastructure in the insurance world," Mr. Duperreault said. "To the extent that this consolidation makes the brokers more viable, financially sound, then I think that's good for us at the end of the day."

Another insurance company executive said he expects the deal to have little direct impact on his company's business.

"From the underwriter's perspective—at least from CIGNA's perspective—we have done business for a long, long time with both Aon and A&A, and the combination of the two simply means we have one source to deal with instead of two," said Dennis Kane, president of CIGNA Property & Casualty's Special Risk Facilities in Philadelphia.

"The real issue is how do the customers respond?" Mr. Kane asked.

—By Rodd Zolkos and Mark A. Hofmann

HPR insurers see a turnaround

Loss control efforts spurring success

By GAVIN SOUTER

Financial loss control efforts seem to be paying off for highly protected risk insurers.

By increasing rates, cutting back their exposures and applying more stringent engineering requirements, HPR insurers are likely to post good results for 1996.

The turnaround comes two years after a sharp deterioration in results for some of the Factory



Mutual insurers and the Industrial Risk Insurers pool in 1994.

The HPR insurers generally have been less willing to follow the downward trend in property insurance rates, though the soft market has restricted them from making many large rate increases, said Gary Marchitello, managing director-global property practice at Aon Risk Services Co. Inc. in New York.

"They have been more conservative than usual, but the market has been so soft that it's hampered their ability to get rates where they think they should be," he said.

The turnaround was most pronounced at Hartford, Conn.-based IRI. In 1994, IRI's net loss was \$163.3 million. IRI began raising rates and altering the makeup of its book of business but two large losses in 1995 helped push its net loss to \$438 million.

The property insurance pool's

strategy of writing fewer and better risks finally paid off in 1996, when IRI enjoyed an \$11 million profit, said Gail P. Norstrom, president and chief executive officer.

"We've got a bit smaller and a bit more focused," he said.

In 1996, IRI had gross premiums of \$500 million compared with \$643 million in 1995.

Part of the decrease in premiums was due to IRI's decision to cut back on oil and petrochemical risks and to restructure its power generation business, Mr. Norstrom said.

IRI currently writes only power generation accounts in excess of \$100 million, whereas it formerly had also written primary coverage, he said.

Although rates are soft and getting softer in most areas of the property market, IRI saw its rates for highly protected risks increase by 5% overall in 1996, Mr. Norstrom said.

IRI also improved its results by reducing its capacity for certain risks and sharing more risks with other insurers, Mr. Norstrom said.

"We had become very concerned about underwriters' ability to quantify the risks," he said.

A restriction of capacity has been the most noticeable aspect of HPR insurers' efforts to improve their results, said Frank Gundersen, a managing director at Marsh & McLennan Inc. in New York.

"When they see an increased (maximum foreseeable loss estimate) they cut capacity back and we have to look for other insurers to complete the program," he said.

In the past, HPR insurers were far more likely to individually cover complete programs, Mr. Gundersen said.

"There is a much greater will-

ingness to share risks," agreed Mr. Marchitello of Aon.

Other HPR insurers did not see losses as severe as IRI's, but they still pursued new strategies to improve on the poor results of 1994.

Arkwright Mutual Insurance Co. of Waltham, Mass., has improved its results in part by becoming more focused on individual business areas and creating specific units to serve those different businesses, said Wolfgang Friedel, senior vp.

"We have customized our products for specific industry groups," he said.

For example, risks that are handled by Arkwright's education unit will have to meet safety engineering standards designed specifically for educational institutions, Mr. Friedel explained.

"The recommendations that we make to them may be more on the human element side of the risks than the actual physical protection, so we reduce our operating expenses and improve our service to our customers," he said.

For the first nine months of 1996, Arkwright made a \$34 million profit compared with a \$31.7 million profit in the same period of 1995. For all of 1994, Arkwright posted a \$31.8 million loss.

Allendale Mutual Insurance Co. of Johnston, R.I., is more rigorously imposing safety requirements at the sites it insures than a few years ago, said Mike Turner, vp-international.

"We had not been working closely enough with the customers," he said.

Allendale is now, for example, more actively working with its customers in windstorm-prone areas to secure roofs and also with clients in earthquake zones to minimize potential damage to sprinkler systems in the event of a quake, Mr. Turner said.

Allendale does not release nine-month figures, but it expects profits to increase in 1996 from \$42 million in 1995 and the \$16 million profit in 1994.

All HPR insurers are focusing much more on catastrophe loss exposures than they had in the past, agreed Mr. Friedel.

"Through a combination of engineering and leaving some customers behind, we have significantly reduced our exposure to windstorm," he said.

And IRI is conducting more detailed analysis of risks located near the New Madrid earthquake fault zone in the Midwest, said Mr. Norstrom.

"It is only in the past year that we have had the computer models that we need to assess it," he said.

Protection Mutual Insurance Co. of Park Ridge, Ill., has continued to judge every account on its own and apply rate increases where they are needed, said CEO James W. Black.

However, he added, that strategy is becoming increasingly difficult as the insurance market becomes even softer than it was a year ago.

"The key is to keep the accounts that you want to keep and should keep and let the others go to the uninitiated," Mr. Black said.

Protection Mutual expects to see a significant increase in profits this year, but that is partly due to the relatively few major catastrophes in 1996, he said.

"The rates are so low that they don't allow for any catastrophe-type loadings, so, as long as we don't have any bad catastrophe years, we can be pretty profitable," Mr. Black said. **BI**

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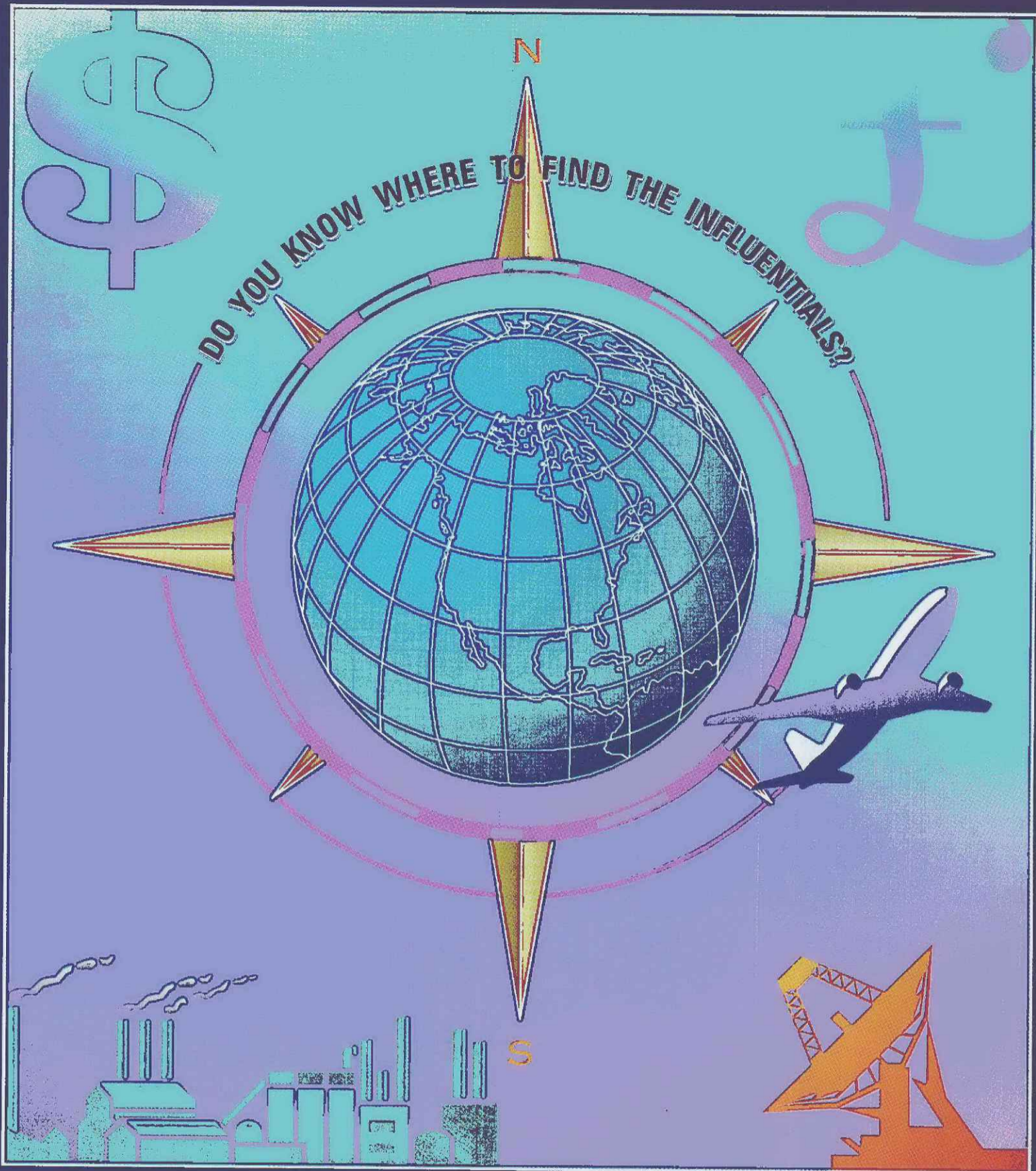
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Competition for surplus lines business keeping rates down

By **ROBERTO CENICEROS**
and **JOANNE WOJCIK**

Surplus lines renewals should provoke celebration among buyers, because insurers are undercutting each other to get the business, market watchers report.

"If it's a large risk, it almost reminds me of an auction and the frenzy that happens at an auction," reflected Marcus Payne, president and chief operating officer of Dallas-based wholesaler Crump Insurance Services Inc., a unit of Price Forbes North America. "A big risk gets caught in there and people's appetite gets after it, and they keep reducing the rates until they get it down as much as 50%."

Competition in the surplus lines market is so fierce some observers

say it reminds them of the late 1970s, when "cash-flow underwriting" was rampant, and insurers hoped investment yields would compensate for their underpricing.

"I don't see any firming up of pricing anywhere," said Pennington H. Way III, executive vp of New York-based Reliance National Co. who oversees the Reliance Insurance Co. of Illinois surplus lines unit in Chicago. "I've never seen more of a buyer's market."

The competitive conditions make it "very difficult for underwriting companies to maintain premium volume and underwriting integrity at the same time," Mr. Way said. "A lot of companies must be deluding themselves on the loss development they're expecting."

Eob Keul, vp-underwriting at

Scottsdale Insurance Co., agrees.

"The market is still really in turmoil, with business being written at pricing levels insufficient to carry known or reported losses," he said.

Overall, 1996 premium volume for the Scottsdale, Ariz.-based surplus lines unit of the Nationwide Group



is about 5% below projections, Mr. Keul said.

"But we're only 4% below last year," he pointed out, adding that Scottsdale made conservative pro-

jections for 1996 because of the enduring soft market.

Other insurers are in the same situation, observers point out.

Brokers are pressuring Reliance to put certain lines previously written on a surplus lines basis on admitted paper, Mr. Way said.

"We're having to move and make filings in a couple of states for architects and engineers E&O," he said. Among those states are California and Massachusetts.

Despite the fact that insurers' business projections may be down and they are facing more competition from London, the admitted market and other surplus lines companies, several say they continue taking a conservative approach to underwriting risk.

"We're trying to be smart risk-

takers so we'll be here tomorrow for our clients," said Kevin Kelley, president of Boston-based Lexington Insurance Co., a surplus lines unit of American International Group Inc. "We're in the high-risk business and, therefore, we think prudent clients would want a carrier to take appropriate care when underwriting."

Pricing for smaller accounts is more stable, with the competition the toughest for large accounts placed by surplus lines brokers, Mr. Keul said. As an example, he described the casualty coverage placement for a distributing company that would have been a new account for Scottsdale.

Scottsdale's underwriters originally estimated the premium at \$1.2 million and reduced it to \$950,000 after negotiations with the broker.

"But we lost the business when the risk was bound at \$600,000 by another carrier," Mr. Keul said.

Some observers see renewal business receiving the most favorable treatment from insurers, courting it like accounts they are trying to win for the first time. But others also see a big push for new business.

"(Underwriters are) under a lot of pressure from the home office to write new business," said Ron Stone, senior vp and branch manager in San Francisco for Swett & Crawford Group.

"About the only place where there is a tightening of the market is in residential contracting," Mr. Stone said. "There is a market; it's just that they have to pay for it."

Because of numerous lawsuits over alleged building defects—especially in condominium construction—general liability coverage for California home builders has been a problem area (*BI*, Nov. 11, 1996).

But the same problem could surface in other states, like Texas and Nevada, where construction booms are under way, Mr. Stone said.

"We hear rumors of California attorneys getting licensed in Nevada and Texas," he explained. "Texas we are hearing that it is starting to be where California was three or four years ago."

Professional liability for insurance agents also remains hard, though it has softened somewhat over the past year, insurers and wholesalers said. But it has not softened nearly as much as other lines.

"We went into 1996 expecting that the casualty market had somewhat stabilized and yet we found we were off base because we saw casualty rates go down 25% to 50% depending on the individual risk," Crump's Mr. Payne said.

"It didn't get any better as the year went along," he said. "It continued to get worse, and it's about as tough right now as we have ever seen it. The standard markets are still writing risks that normally and historically have been in the excess and surplus lines (realm) and some risks they had let go of and have now taken back. Umbrella coverage has almost completely become a standard coverage now."

While directors and officers liability insurance remains mostly an excess and surplus lines coverage, rates have dropped 20% to 25%, with more capacity available and increasing competition from the standard market, Mr. Payne said.

D&O coverage for high-technology companies was a stable market for insurers and wholesalers, but it also has seen the steep drops now familiar among other lines of D&O insurance, said John G. Hahn, president of San Francisco-based Tri-City Brokerage Inc. Rates continue to drop because more insurers have

See **Surplus** on page 26



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Surplus

Continued from page 24
entered the market, he said.

"It's taken the same big 25% to 45% slices some of the other lines have taken," Mr. Hahn said. "Where two years ago there was a handful of players, there are probably two or three times that many today."

Product liability has softened 10% to 15%, with higher limits easier to obtain, Mr. Stone said. There are standard market insurers writing product liability that were not in that line of business two or three years ago.

Stability also has disappeared from property coverage, further eroding rates that already were low, observers said. Rates dropped 10% during the first part of the year and then continued down to 25%. The same happened in the high excess liability market.

The commercial earthquake market has softened unless the property is on fill dirt or a fault line, or the building was constructed before 1982, Swett & Crawford's Mr. Stone said.

"That can get tough," he said. "You have to go into London or you pay a lot of money for it with high deductibles of up to 25% or 30%."

But normal building renewal pricing is down anywhere from 10% to 20%, and more capacity is coming on line, Mr. Stone said.

"Right now, even the catastrophe property area that a year ago was holding relatively firm, we are seeing pretty significant amounts of competition in all lines, whether it's wind or earthquake," Tri-City's

Mr. Hahn said. "Everyone seems to be playing."

"Earthquake is stable," Crump's Mr. Payne said. "But even it is starting down now. Capacity is still a problem in some areas, but you can pretty much get the risk placed, and sometimes the rates are lower than what you would have thought going in."

"It just means it's tougher and tougher out there for excess and surplus lines wholesalers," he continued. "I say that, but on the other hand we are going to show a growth this year of about 11% in premium volume."

"We're all chasing the same amount of accounts and premium dollars that are out there with more capacity chasing them and more pressure to maintain your accounts and more pressure to produce the business," added James W. Barnes, chairman and chief executive officer of San Francisco-based wholesaler Sherwood Insurance Services.

Surplus lines insurers also are writing larger layers of coverage in just about all lines, observers said.

"The drive is there to keep increasing the limits you have available," Mr. Way said. "This fuels the softening of pricing. Reinsurance capacity also is extremely plentiful."

"I can put \$100 million in limits together today in two phone calls for high casualty if I can get the right underwriter and get the right account," Mr. Stone said. "With four companies you could easily put \$100 million together. You can name companies in both hands that have \$25 million in house, net-and-treaty capacity just sitting there." **BI**

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ASK A BENEFIT MANAGER

By Dennis J. Nirtaut



What do organizations need to focus on in benefits in 1997?



As usual, there is a fair amount of legal compliance work to be done in 1997. A flurry of legislation passed in late 1996 will take effect in 1997 and at various dates through the year 2000.

Therefore, benefit managers will need to check their follow-up files to ensure they don't miss any effective dates.

Outside of legal compliance, we need to anticipate the future as much as possible, think strategically and function as members of our management teams.

Legal compliance

The 1996 legislation includes:

- Small Business Job Protection Act.
- Health Insurance Portability and Accountability Act.
- Newborns' and Mothers' Health Protection Act.
- Mental Health Parity Act.

Because there is not adequate space to discuss all the legislation, I will discuss only the main points.

The major provisions of the Small Business Job Protection Act include:

- New definition of highly compensated employee for benefit plan non-discrimination testing purposes. Effective in 1997, highly compensated employees are defined as essentially those earning more than \$80,000 per year or owning at least 5% of a company.

- Section 415 definition of compensation. Effective in 1998, definition includes elective deferrals to 401(k), 403(b) and 457 plans and salary reduction under Section 125 plans.

- Definition of compensation for disabled employees. Effective in 1997.

- Minimum required pension plan distributions. Effective in 1997, this will no longer be required for active employees who continue to work after age 70½.

- Educational assistance programs. The tax-favored status of employer-provided educational assistance benefits was extended through May 31, 1997. However, employer reimbursement for graduate-level courses only will receive favorable tax status through June 30, 1996.

- Adoption assistance programs. Effective in 1997, this provision allows employers to reimburse their employees for up to \$5,000 in adoption-related expenses without the reimbursement being added to employees' taxable income.

I addressed the provisions of the Health Insurance Portability and Accountability Act in a prior column (*BI*, Nov. 25, 1996). In addition to assisting in health care portability, this act provides tax advantages for accelerated death benefits and employer-provided long-term care benefits.

The Newborns' and Mothers' Health Protection Act is effective in 1998 and requires health plans to offer inpatient coverage for mothers and their newborns for at least 48 hours after a normal vaginal delivery and 96 hours for Caesarean section delivery. The Mental Health Parity Act also is effective in 1998 and requires employers to offer the same lifetime or annual limits for mental illnesses as for physical ailments. Separate copayments and deductibles are allowed, however.

Also, don't forget about Department of Labor Advisory Opinion 96-14A, which requires group health plans to give participants and beneficiaries, upon request, copies of the schedule of "reasonable and customary" fees. This will create an additional administrative burden for plan administrators. Benefit managers should ensure that their plan administrators are prepared to respond to employees' requests for this information. The Labor Department's

reasoning regarding reasonable and customary schedules may apply to other items, such as utilization review guidelines and treatment protocols. Stay tuned on this.

These legislative changes cover a wide range of issues. Take these changes into consideration when planning future changes in your benefit program.

Health care

Health care benefits still present many challenges. Although costs have moderated over the past few years, I don't think the cost moderation will last much longer. Once concessions on price start impacting profits, price concessions will stop. Recently, it was reported that the percentage of profitable HMOs dropped to 61% in 1995 from 88%. Also, as mergers and acquisitions continue, the larger players likely will be less sensitive to price.

This softening of health care costs has given us an opportunity to focus on quality. Ultimately, the best quality translates into the best cost as our employees receive the best preventive care and treatment. The improved reporting on quality by health care plans will help us assess quality.

Keep an eye on the anti-managed care legislation. More than 30 states passed such legislation in 1996. Some of this legislation is useful, such as requiring doctors in managed care plans to share information about their financial arrangements. There is increasing concern that doctors in managed care are focusing more on their financials than on their patients' health. Recently, members of the Illinois legislature proposed legislation requiring minimum hospital stays for mastectomies.

Voicing concern about managed care, one state legislator promised to legislate by body part to ensure proper health care is being delivered. In response to the public's increased concern about proper medical treatment, the American Assn. of Health Plans introduced an initiative aimed at improving patient/physician relations and requiring the disclosure of more information to patients.

Financial planning education

Employers are doing an increasingly good job of educating employees regarding investing, and to some degree, financial planning. Initially, the 404(c) regulations drove employers to both widen their selection of investment choices and increase employee education efforts regarding investments. It appears that the baby boomers have realized the need to save and have generally increased their savings in employer-sponsored defined contribution plans.

Also spurring increased savings has been the stock market. The Standard & Poor's 500 Index returned 37.5% in 1995 and about 23% in 1996. With rates of return at such high levels, employees have been more apt to invest in stocks. As I expressed in a previous column on this topic (*BI*, Feb. 26, 1996), I am concerned how employees may react if there is a significant market correction. Employees need to be ready for a market correction, and I hope they respond in a prudent manner.

Employees should be ready for the fact that the recent high returns will not continue. I have seen recent projections of the average stock market return over the next three to five years to be 5% to 6%. If these projections are accurate, employees may become very impatient with such relatively low returns. Employees may reduce their savings levels or move into high-risk investments if such options are available.

While most companies generally have focused on investment education, some employers have expanded this to financial planning education. This education provides employees with a broader picture of their personal financial situations. An example of a company that provides such financial planning education is Schaumburg, Ill.-based Motorola Inc., which provides employees a menu of choices subsidized by the employer, including financial education.

Long-term care

As our employee population ages, the need for long-term care becomes more of a reality. Educating employees about long-term care would be useful. This could be made part of a financial planning program.

The recent Health Insurance Portability and Accountability Act allows employers to pay employees LTC

premiums without the employers' contributions being added to employees' taxable income. Also, premiums for individual coverage are deductible, subject to certain conditions, by the employee. These changes in tax law should make long-term care more attractive to employees.

Technology

Employers probably should be exploring the Internet and Intranet for possible employee benefit uses.

Some employers are starting to use this technology for plan enrollment and employee communications. We also will see the capability of accessing our 401(k) accounts and making transactions.

Using this technology will give us the opportunity to improve benefit delivery and potentially to lower costs.

Communication

Intertwined in all that we do in benefits is the need to clearly and effectively communicate our plans to employees. We spend a great deal of our total payroll costs for benefits, about 35%. Our employees need to understand our plans and appreciate them. The annual benefit statement, which many employers use, is very helpful in communicating the value of our plans.

Ultimately, plans must attract and retain those employees necessary to our organizations.

Whatever we can do to communicate the value of our benefit program to recruits and employees will be positive for the organization. Such communication cannot be a one-time event. We need to regularly get out the message.

As more of our employees shift to managed care plans—in some cases, we have forced this to happen—they need to understand how to use these plans effectively. Whatever we can do to smooth the transition to managed care will pay big dividends. Communicating more clearly how managed care works will make these plans more effective for our employees. If employees understand how to use the plans, they will maximize the benefits of managed care.

Finally, don't forget to think strategically. All too often, benefit managers get distracted by the legal compliance and administrative elements of our profession. While legal compliance and administration are important, we have a more significant contribution to make to our organizations.

We need to add value to our organizations by ensuring whatever we do helps our organizations meet stated objectives.

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This month's column on employee benefit management issues is written by Dennis J.



Mr. Nirtaut

Nirtaut, managing director of compensation and benefits for Andersen Worldwide S.C. in Chicago. Susan M. William J. Miner, an actuary with Watson Wyatt Worldwide in Chicago, answers actuarial questions on benefits issues. Christopher E. Mandel, director of risk management for KFC Corp. in Louisville, Ky., answers questions on risk management. And Richard E. Sherman, president of Richard E.

Sherman & Associates Inc. in Ashland, Ore., answers actuarial questions in the casualty field.

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

Partnership can help measure total cost of risk

By Susan M. Sauer
and Kimberly C. Ishoy

If you're not looking at the big picture of managing your total cost of risk, you can get lulled into thinking you're getting valuable service from your outside providers, including brokers, insurers and vendors, when in fact the service may have little to do with your strategic or financial needs.

What is total cost of risk?

The world has changed from the days when an organization's total cost of risk was calculated based solely on an analysis of its cost of premiums, losses and broker/service provider fees.

Traditionally, this approach led to recommendations for insurance products. And when the existing insurance products didn't work, more expensive, so-called advanced or state-of-the-art insurance products were recommended.

While these solutions may have helped reduce some of your risk-related cost, they might not have attacked your most pressing cost drivers.

Unfortunately, many insurance brokers are continuing to focus on building a better mousetrap. That's not to say insurance products don't help manage total cost of risk; if used properly, they can help a great deal.

Today, a total cost-of-risk approach can enable your organization to address its entire spectrum of risk: pure risk; financial risk; and speculative risk such as market, liquidity, credit risk, legal and regulatory risk, as well as the risk of damage to its reputation.

This approach often calls for a broad-based partnership of key employees involved in understanding and managing risk, outside vendors, suppliers and service providers and insurance brokers/consultants that can focus on your business strategies and the impact of your risks on your bottom line.

Breaking through organizational gridlock

Organizational gridlock results when departments, vendors, suppliers, service providers and all other entities that intersect with the organization cause congestion by behaving independently.

On the surface these entities act as if they all work toward the same goal but at the same time pull in different directions.

A decision one department makes in an effort to manage the total cost of risk may have a significant impact on another department's cost—and, therefore, the organization's total cost of risk.

For instance, if the operations department proposes to relocate the company's Florida factory to New Jersey, it may seem to be an effective way to reduce the company's total cost of risk, i.e., losses due to hurricanes are reduced.

However, the operations department may not be aware of other costs associated with the move that ultimately could increase the organization's overall total cost of risk.

Some of these potential costs include: potentially higher workers compensation classification rates, potentially higher premium taxes and increased payroll as salaries in New Jersey may be substantially higher than in Florida.

To make sure a move to New Jersey makes the most sense, the operations department should consult all affected parties, i.e., risk management, human resources, insurance brokers, etc.

Thus, avoiding organizational gridlock on cost-of-risk issues calls for improving the quality and frequency of communication among all involved internal departments as well as with insurance

brokers, consultants and other outside service providers and vendors.

And all of the outside providers helping you reduce your corporation's cost of risk must understand your current business strategies as well as any plans that will affect your operations three to five years into the future.

Senior management knows the direction their firm is taking—what it plans to buy, sell, whether it foresees downsizing or right-sizing, or even outsourcing various functions, and what's necessary to maintain competitive strength and meet strategic goals.

The providers who will be your partners in addressing your cost-of-risk issues need that information to help you determine your insured, uninsured and uninsurable risks and gauge the potential for significant loss due to either frequency or severity of a claim, injury or potential for financial and strategic loss.

What to expect from your brokers and consultants

When children discover the usefulness of a hammer, they quickly find many things around the house that need "hammering," e.g., toys, the dining room table, the dog.

Service providers, including insurance brokers, often fall into the trap of using a new "tool" or insurance product everywhere they can, hoping that if they "hammer" enough things, something positive will result.

The attribute most needed by insurance brokers/consultants for successful reduction of total cost of risk, though, is systemic understanding. Your insurance broker/consultant must be absolutely literate not only in your corporation's business, goals and strategies but also your corporation's systems and interrelationships.

Addressing a corporation's risk from a total cost of risk perspective involves these steps:

- **Discovery.** The insurance broker/consultant must ask questions to understand your corporation, the interrelationships among various departments or operations, and with their suppliers, buyers and distribution channels. This will enable it to recognize all cost components within your organization.

- **Analyze and measure impact.** The insurance broker/consultant then must acquire a thorough understanding of how various risks affect your corporation. This calls for analyzing all pure, speculative, insurable and non-insurable risks/exposures identified through the discovery process to determine how well they currently are controlled; to uncover opportunities for reduction; and to measure their impact on the corporation's overall financial condition.

This work can't be done in a vacuum but requires a working partnership with your operations, divisions, service providers, suppliers and all others who interact with the corporation to identify the most serious exposures.

- **Propose solutions.** Recommendations to address your risks must relate to your corporation's overall business strategy and financial goals. The broker/consultant should describe how the risks affect your corporation's financial picture and explain how its recommendations will control the cost of risk and support your business strategy.

In cooperation with your accounting/CPA firms, investment bankers and outside counsel, the broker/consultant may also be able to make suggestions that go beyond the traditional realm of insurance to improve your overall financial picture.

Because of the broad-based approach taken, total cost-of-risk analysis will yield recommendations that will be more justified and have wider impact on your corporation's bottom line.

- **Implement.** Some recommendations may require

the participation of all employees affected, division managers and outside providers/suppliers, so effective project management becomes a key to success.

This phase might also involve experimenting with different implementation approaches, such as team-based problem-solving.

Your broker/consultant may be able to help you select the most appropriate implementation procedures and processes. You should feel comfortable with the broker/consultant's plan, its use of resources and its ability to meet established timetables.

Your company's facilitators should start with a kickoff meeting to bring together individuals from various disciplines to form an implementation team.

They should lead the team by consensus and allow all affected parties to develop personal ownership for the project and the results.

- **Measure impact of solutions.** Measuring success in terms of reduced cycle time, improved efficiencies, reduced defect rates or other measures is natural in other parts of an organization—and logically should be in the risk management area as well.

Depending upon the project assignment, some of the metrics you may want to use in the risk management area include: customer satisfaction ratings, accuracy and timeliness of payment, accuracy of coding, speed of first call made by a third-party administrator to the claimant, minimization of loss due to natural hazards, satisfaction at conclusion of large property losses, minimization of political risk, ability to obtain business licenses in certain countries, reduction in auto claims, reduction in litigation rates, duration of disability, reduction in costs (premium, vendor, machinery, overall, etc.).

Your broker/consultant must be able to provide you with concrete measures of the success it has had on a project.

For example, if your organization is having a problem with product defects, the cost-of-risk work may revolve around the minimization of loss. You'd first have to determine the impact potential of trying to minimize this kind of loss and then be able to measure the success after some agreed-to period of time.

Communicate the results of your corporation's initiative to reduce total cost of risk, congratulate all involved in the process and celebrate the results!

- **Improve.** Next, you need to answer the question, "Where do we go from here?"

The total cost-of-risk process requires continuous improvement. Begin the process again, starting with the "Discovery" phase to set new priorities and identify additional areas to reduce the financial impact of risk.

There's no better time than now to think differently about your exposures and your risk management programs. Managing total cost of risk is not only purchasing the proper insurance coverage to ensure adequate protection against losses. It's an incredible opportunity to properly manage your organization's risk to enhance your corporation's bottom line. **BI**



Ms. Sauer



Ms. Ishoy

Susan M. Sauer is a senior vp with Johnson & Higgins Global Risk Control Services in Chicago. Kimberly C. Ishoy is an assistant vp with J&H University in Stamford, Conn.



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Reinsurers

Continued from page 3

Mr. Megna added that he has not seen much movement of cedents, though it could still occur.

"That categorically isn't the case" at American Re, Mr. Noonan said. "We grew very sharply at year end."

But some reinsurers are seeing evidence that cedents are shopping around.

"Our submissions are up 30% from this time last year," said Richard Cole, chairman and chief executive officer of Chartwell Reinsurance Co. of Stamford, Conn.

The market consolidation's message to reinsurers is, "You have to be larger," Mr. Cole said. He predicted smaller reinsurers, "those with under \$150 million of surplus, will have a tough time

seeing business that's being replaced."

He also predicted that, eventually, the reduction in the number of reinsurers and an inevitable increase in catastrophes compared with recent years will halt softening in reinsurance pricing and

Some reinsurers are dropping rates so much the business is almost certain to be unprofitable, says Heidi Hutter.

"bring some sanity to the market."

In the meantime, though, reinsurance premiums in all areas continue to fall.

Those who expected that fewer choices would mean decreased competition are "being proved resoundingly wrong," Ms. Hutter said. "We're seeing increased competition."

Noting that reinsurers' results have been good for a couple of years, she added that reinsurers have "started competing away the profits."

Reinsurers' good results over the past few years have led to a demand for lower rates by reinsurance buyers, said John Berger, president of F&G Re Inc. in Morristown, N.J.

"Buyers feel that they have been overpaying in the past, and now they see a chance to bring the prices down," he said.

"Rates have only gone up if the experience has been really bad or if the exposures have changed dramatically. The consolidation has not had any effect on rates," said Coby Van de Graaf, managing director and CEO of the reinsurance brokerage division of Towers Perrin.

"You want it, you've got it," summed up Steven Bolland, senior vp with reinsurance intermediary Gill & Roeser Inc. in New York.

Some reinsurers are dropping rates so much the business is almost certain to be unprofitable, said Ms. Hutter of Swiss Re.

"The thing that strikes me in this renewal, more than ever, is we're seeing a lot of quotes we've lost to someone else who has priced below burning cost," or the amount of an expected loss, not including administrative and other expenses, according to Ms. Hutter.

She asked why Swiss Re should compete for that business. "If we don't write that cover, we'll be richer a year from now than if we do."

With reinsurers clamoring for more premiums, programs are being placed easily and quickly, said Mr. Van de Graaf of Towers Perrin.

"We can place coverage today in 24 hours, whereas three or four years ago it would have taken a month," he said.

Notably, working layer coverages can be completed by visiting as few as two reinsurers, Mr. Van de Graaf said.

"And, you don't have to go to the bottom of the barrel; you can stay at the top of the barrel and still get it placed," he said.

The result is a new-look renewal season.

"I think it's busier later" as insurers take more time to hunt for bargains, Chartwell's Mr. Cole said.

Property and casualty reinsurance premium decreases vary by
See Reinsurers on page 36



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Reinsurers

Continued from page 34
line of business, but generally they are down 10% to 15%, said Gill & Roeser's Mr. Bolland.

For property catastrophe coverage, insurers with no losses were obtaining 10% to 20% premium decreases, said Chris L. Walker, president and CEO of reinsurance broker E.W. Blanch Co. in Minneapolis.

But, the rate decreases in catastrophe business were lower than expected, said Mike Schell, senior vp-North American underwriting at St. Paul Re in New York.

"There was a less than 10% reduction and, frankly, with the experience reinsurers had in 1996, I'd say that was reasonable," he said.

Regional U.S. accounts saw property catastrophe rates decline by as much as 12%, whereas pre-

miums for national accounts and non-U.S. accounts fell by up to 20%, said Guy Hengesbaugh, executive vp at LaSalle Re Ltd. in Bermuda.

Non-U.S. accounts attracted the most spectacular rate decreases, said Mr. Berger of F&G Re.

For example, one account in Mexico enjoyed a 50% rate cut, he said.

"Rates had been at a historically high level, and reinsurers' loss activity has been below normal levels, so the rates are coming down," Mr. Berger said.

California earthquake coverage "is significantly more competitive than it has been," American Re's Mr. Noonan said. Premiums are down 10% to 20%. "And, more importantly, there's a lot more capacity available," he said.

Also fueling the competitive reinsurance market in general and the property catastrophe market in

particular is Lloyd's of London, according to reinsurance executives.

Lloyd's has become a resurgent

is somewhat competitive "but not unreasonably so," said Mr. Noonan.

Premiums this renewal season

'Rates had been at a historically high level, and reinsurers' loss activity has been below normal levels, so the rates are coming down,' says F&G Re's John Berger.

force in the reinsurance market since its reconstruction and renewal plan was endorsed last year. Lloyd's underwriters have sought to reclaim much of the catastrophe business they lost to other markets during its troubled years in the first half of the 1990s.

Meanwhile, the property market

are down 5% to 10%, but the risk still is not underpriced, he said.

Reinsurers still can make a reasonable profit from property business. And, while they are lowering premiums for insurers with good experience, they still are able to impose some higher premiums on accounts with poor experience,

said Mr. Schell of St. Paul.

Casualty reinsurance is far less adequately rated, Mr. Schell said.

"Casualty clash pricing was off more than we thought it would be, and we withdrew from a lot of programs," he said. Casualty clash coverage protects an insurer when several policyholders sustain losses from a single event.

Premium reductions range from 10% to 20%, Mr. Megna said.

In addition, reinsurers are writing multiyear policies for the coverage, he said.

Other casualty business also is being renewed at lower premiums.

Pricing for umbrella and excess liability business "continues to be extremely competitive—so much so that we don't think it makes any sense," said Mr. Noonan. "There's no hope of making an underwriting or an economic profit on the business."

Broker market reinsurers are cutting premiums 10% to 20%, while direct writers are holding premiums more steady, he said.

Mr. Noonan also noted a second level of "discounting." He said some brokers are rebating as much as half their commissions to the ceding company in an effort to retain that business.

The larger retentions insurers began taking for both casualty and catastrophe business during the past several years also continue to help drive the soft reinsurance market.

Fewer insurers this renewal season hiked their retentions, but many retained the higher retentions they accepted during the past couple renewals, reinsurance market executives said.

While those insurers are "getting comfortable" with the higher retentions, Mr. Megna said they "could be playing with fire."

But, a subset of insurers that had assumed large retentions are trying to buy them down again because of their "bad pricing" moves with policyholders, Mr. Noonan said. They are "trying to lay off" the ramifications of that bad pricing on reinsurers now, he said.

One insurer tried to cut its \$10 million retention per policyholder to \$250,000, Mr. Noonan noted.

"It is similar to the early 1980s when rates got so soft that some insurers used inadequately priced reinsurance to compete," said Mr. Schell.

Meanwhile, coverage from capital markets continues to be more a topic of discussion than a reality for most reinsurers and reinsurance buyers.

While a few capital market deals continue to be completed, most reinsurance programs use traditional reinsurance.

"They've been slow to take off" for several reasons, Mr. Megna said. The traditional market has responded to capital market's interest; several Bermuda facilities have been created in the past couple years; and reinsurers have not been pounded by catastrophe losses in the past few years, he said.

"However, there's still work to be done in the cat area," Mr. Megna said.

He said capital markets could be "supplemental players" by providing protection for losses excess of \$20 billion to \$25 billion, or "excess of Andrew." Hurricane Andrew caused \$15.5 billion of insured damage in 1992.

Swiss Re's Ms. Hutter foresees more of a collaborative effort with capital markets to develop "efficient" products that would "fill in where reinsurance is not an efficient provider of risk financing." Some of those products may be introduced as early as this year, she said, without elaborating. **BI**

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Brokers

Continued from page 3

from 20% to 40% in rate levels for casualty policies, especially primary casualty, umbrella and excess liability.

And "workers compensation continues to experience unprecedented competition," said Gary Van der Voort, president of the brokerage service division of Arthur J. Gallagher & Co. in Itasca, Ill. While it was "the problem coverage four to five years ago, it is now the market's most competitive area."

Frank C. Witthun, president and CEO of Acordia Inc. in Indianapolis, said workers comp rates in California, however, are starting to level off after dropping as much as

60%.

"They're not going up, but clearly they're not going south," he said.

The only areas where brokers see real capacity and pricing problems are in the windstorm- and earthquake-prone locations.

"Coastal wind and earthquake exposures for large property buyers are extremely difficult to place," Mr. Van der Voort said. "Prices are not coming down and capacity is not increasing."

Mr. Brown said he is specifically seeing higher deductibles, less capacity and higher prices for property insurance in the Southeast, the Eastern seaboard, Florida and Texas.

Because of the market's competitive nature in all lines of business, brokers say underwriters more than

ever are willing to adhere to risk managers' specific program wants and needs.

It is this kind of atmosphere that

ers remains, "Whatever it takes to keep the renewal, I'll do," said Eric Hein, president of Willis Corroon of Maryland in Hunt Valley.

'Insurers are so hungry for premium dollars we will see more first dollar programs and lower deductibles as underwriters continue to chase premium dollars,' says Eric Hein.

is prompting brokers to recommend that their clients take down their retentions and develop contingency plans in case the market hardens.

"The rate of decline has slowed, but the attitude among underwrit-

"I've seen underwriters set a price for the business at or below expected losses," he said, referring mainly to liability policies. "It's absolutely astounding."

"Insurers are so hungry for premium dollars we will see more first dollar programs and lower deductibles as underwriters continue to chase premium dollars" in 1997, Mr. Hein predicted.

"The market continues to be competitive, but more importantly, most insurers have adopted a posture where they'd like to be challenged by a risk manager's wish list," agreed Larry R. Sorensen, executive vp-corporate marketing at Aon Risk Services Cos. Inc. in Chicago.

So now is the time for risk managers to step back "and design a program of their dreams," he said. "I believe they'll find one or two underwriters who will be willing to deliver a quality long-term program that meets their design."

While multi-year programs have been a hot topic among market players, brokers' experiences with them differ. Some say the multi-year program business is in demand, while others see little interest from risk managers.

"Everyone is looking at multi-year combined programs," said Gary Gatewood, managing director and head of Marsh & McLennan Cos. Inc.'s global brokerage operation in New York.

Some clients do want multi-year coverages because they want to lock in rates, Acordia's Mr. Witthun said, noting this is especially happening in the placement of high-risk coverages.

"Anyone who wants a multi-year deal just needs to ask for it," added Mr. Hein of Willis Corroon.

But Sedgwick's Mr. Ruoff said multi-year policies have not taken hold as he thought they would.

In general, risk managers "do not want to put all their eggs in one basket. They like to keep their options open," he said.

Mr. Van der Voort also has not seen growth in the multi-year programs.

"I haven't seen an overwhelming interest because buyers are seeing their renewals coming down year after year," he said.

Expanding the multi-year program, Aon's Mr. Sorensen said risk managers also are asking for blended programs with a single limit under a multi-year period.

Generally with financial institution and major corporate clients, Mr. Sorensen said he has seen success in blending property and casualty programs as well as professional indemnity programs with directors and officers liability, fiduciary liability and employment practices liability coverages.

The alternative market, alternative risk financing strategies and the use of capital markets to hedge risks continue to be hot topics for risk managers, brokers report.

"The alternative market is still a very viable alternative for large buyers, and group captives and group purchasing programs are an attractive alternative to middle market buyers," Mr. Van der Voort

said. "Risk managers are looking beyond traditional insurance risk categories," added Mr. Ruoff of Sedgwick James. They are beginning to look to banks and other financial institutions to transfer or hedge their risks.

Mr. Ruoff is particularly bullish about the capital markets. "I think that by the year 2000, it will be a \$5 (billion) to \$6 billion market."

"We're seeing insurance programs that are becoming more specifically responsive to our clients' financial goals," said Mr. McBurnie of J&H.

For instance, one new innovation involves retentions that fluctuate automatically as clients' profit margin varies with certain commodities, he said.

The goal is to find "more innovative and creative approaches" that tie in closely with the client's business. Increasing the amount of understanding and interaction between broker and client creates "true financial partners in risk."

As the trend continues, Mr. Hein said the pace of convergence among insurance, securities and banking markets will accelerate.

Eventually, risk managers will move from pre-loss funding through insurance premiums to post-loss funding through a debt loss payment to a loan facility, he predicts.

The favorable buyer's market is prompting some brokers to recommend that clients lower their retentions.

"We've spent the last five years looking at increasing retentions; it's now time to look at the other side of the coin," Mr. Hein said.

"It's hard to get buyers to go to higher retentions, but when they're there, it's even harder to get them back down," he said. But "that's exactly what we're looking to do. We talk to people about doing that all the time. We tell them to take advantage of the market. We absolutely are seeing it."

While some risk managers maintained their retentions and took a price reduction, Mr. Ruoff said he has seen other risk managers cut their retentions on property and casualty accounts to \$250,000 from \$500,000 while paying the same premium.

"Risk managers are lowering their retentions because the market is offering terms more favorable," he said.

But how long can this environment last?

"There has to be a bottom, but we're still plumbing the depths to look for it," Mr. Hein said.

"Risk managers are so much more informed about their risks today than five years ago," he said. And the more informed they are about their losses and risks, the more retention they assume, therefore leaving less premium for insurers. With fewer premiums in the market to write, the more insurers compete for them.

"It's a self-fulfilling spiral," Mr. Hein said.

But if one looks at programs today and where prices have gone and where loss levels are, "there is not a lot more to squeeze out of this thing," he said. "If you look logically and you see underwriters setting prices below expected losses, you have to say, 'Can it get any lower?'"

"If I were concerned about getting close to the bottom, and if I were a buyer I would be, I would get a three-year program" that locks in rates, he said.

Indeed, Mr. Ruoff said now is the time for risk managers to develop a contingency plan in case of a market change.

"It's a good time in terms of avail-

See Brokers on next page

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Issue of January 13

Reader Service #	Advertiser	Page #	Reader Service #	Advertiser	Page #
—	Admiral Insurance	24	14	Insurance Overload Systems	34
1	AIG Corporate	14-15	15	Kemper Insurance Companies	42
2	American Institute for CPCU	49	16	Lexington Insurance	27
3	Ameritas Life Insurance Co.	34	17	Liberty Mutual	56
4	AON Re Worldwide	25	18	McLarens-Toplis	47
5	Burnham Systems	51	19	McWilliams Risk Mgmt. Inc.	51
—	Business Insurance	21,36	20	NAC Reinsurance Corp.	10-11
6	Caronia Corporation	51	21	PMA Reinsurance Corp.	6-7
7	Carvill America, Inc.	26	22	Protection Mutual Ins. Co.	16-17
—	Chubb Group of Insurance Co.	9,39	23	Pyramid Services Inc.	44
—	Commercial Risk	12	24	RLI Corp.	52
8	Core Insurance Holdings	20	25	Swett & Crawford Group	40
9	Deloitte & Touche	4	26	Swiss Re America	22-23
10	ECS Underwriting Inc.	41	27	Tri-Arc Financial Services	48
—	First State Management Group	43	28	Underwriters Service Co. Inc.	33
11	Frontier Insurance Co.	48	—	United healthcare/Optum	30
—	General Casualty	38	—	Wausau Insurance Company	5
12	General Reinsurance	18-19	29	Wexford Underwriting Mgrs.	28-29
—	Great Lakes American Re	26	—	Winterthur Reinsurance Corp.	13
13	Inphoto Inc.	46	—	Zurich-American Specialties	35



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16	17	18	19	20	21	22	23	24	25	26	27	28	29	30
31	32	33	34	35	36	37	38	39	40	41	42	43	44	45
46	47	48	49	50	51	52	53	54	55	56	57	58	59	60
61	62	63	64	65	66	67	68	69	70	71	72	73	74	75
76	77	78	79	80	81	82	83	84	85	86	87	88	89	90
91	92	93	94	95	96	97	98	99	100	101	102	103	104	105
106	107	108	109	110	111	112	113	114	115	116	117	118	119	120
121	122	123	124	125	126	127	128	129	130	131	132	133	134	135
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Brokers

Continued from previous page
ability," he said. But "it's very important for risk managers today, while the seas are calm, to think about their strategy in the long term if the market does change."

Consolidation is one area that while heavy in activity has yet to effect a market change. Instead, brokers say it is more of a boon for risk managers.

If anything, acquisitions have resulted in "greater specialization, new services and more product development," said Aon's Mr. Sorensen, whose company was involved in the largest broker acquisition on record late last year.

After buying Bain Hogg Group P.L.C., the world's 11th-largest broker, in October, Aon bought Alexander & Alexander Services Inc., the world's fourth-largest broker, in December (BI, Dec. 16, 1996).

On the heels of the Aon deal, London-based JIB Group P.L.C., the world's 10th-largest broker, announced plans to merge with Lloyd Thompson Group P.L.C. (BI, Dec. 23/30, 1996).

One only has to look to the reinsurance market last year to find even more merger and acquisition activity.

"As far as any effect on renewals, it will not come about until there is a bit more consolidation," Mr. Ruoff

said. "There are still choices around. It is when those choices become more limited that renewals will be affected. There is less competition when there are fewer participants."

While insurance buyers may have fewer choices due to the acquisitions, "they have more financially sound companies to choose from because the weaker ones are being merged or acquired," Mr. Hein said.

"As long as there are three firms, it's enough to create a market," he contends. And those three firms will "be better capitalized with more resources and a better understanding of cost. We don't need 2,000 property/casualty insurers in the U.S."

While the property/casualty market remains the same, risk managers can look forward to a more financially sound Lloyd's of London.

Lloyd's announced in July its first profits in five years, and in September Lloyd's reconstruction and renewal plan was approved.

"Now that (the R&R plan) is behind Lloyd's and it appears to have a probable strong future, the buyer's interest in Lloyd's will be enhanced," Mr. Van der Voort said.

"There has probably been a sense of relief experienced by many loyal customers that valued Lloyd's expertise, particularly in aviation, marine, reinsurance and (excess and surplus)," Mr. Sorensen said.

Lloyd's will "be a lot more active in '97," Mr. Ruoff predicted. "It will keep the market competitive." **BI**

European brokers and underwriters see rate cuts across the board

By STACY SHAPIRO

Brokers and underwriters in London and continental Europe are licking their wounds after a grueling year-end renewal season dominated by rate cuts in almost all classes of business in almost all parts of the world.

Policyholders called the shots and waited for the right price, extending



the renewal season much later than usual. Spurred by substantial overcapacity, underwriters were writing business for market share and generally met policyholders' demands.

This typical soft-market scenario forced brokers and underwriters in London and continental Europe to do some tough negotiating through the Christmas and New Year holidays to come up with deals acceptable to buyers. The lion's share of activity took place during the last half of Decem-

ber, and the streets around Lloyd's of London and the London Underwriting Centre were packed with brokers.

This fierce competition resulted in some prices falling lower than predictions prior to year-end. For example, according to interviews with executives in London and continental Europe:

- Property catastrophe reinsurance rates worldwide fell on average by about 10% to 20%, with some programs receiving cuts as high as 50%.

- Property risk excess reinsurance rates worldwide fell 10% to 20%, and some policies included provisions to give policyholders large premium rebates if no claims are filed during the policy periods.

- Property facultative reinsurance rates fell as much as 30%.

- North American casualty treaty reinsurance business saw an unspecified squeeze on profit commissions and ceding commissions.

- Industrial fire insurance in Europe saw rate reductions of as much as 40%.

Meanwhile, the International Group of P&I Clubs is expected to receive at least a 40% rate reduction in its liability reinsurance program of \$2 billion when it renews in February (BI, Jan. 6). The protection and in-

demnity clubs, which are shipowner mutuals for general liability and pollution liability risks, buy what could be the single largest reinsurance program in all classes of business.

Some pockets of coverage have seen rates remain flat, such as U.K. auto reinsurance, where claims have not been as good as expected, and U.K. liability reinsurance, because underwriters are concerned about the increase in personal injury lawsuits in the country. U.K. employer liability insurance rates actually may go up this year as a result (BI, Dec. 23/30, 1996).

But overall, the worldwide insurance and reinsurance markets have softened for the third year in a row.

"Competition is fierce," said Victor Blake, non-executive chairman of the reinsurance operations of CNA Insurance Group. "No rates are going up."

In the catastrophe reinsurance business, for example, certain companies tried to keep rate reductions to about 10% from last year, said Mr. Blake. "That's reasonable," because underwriters have been making money and can afford it, he said.

However, "some underwriters haven't heeded the lessons of the past" and are cutting rates even more to win new business or try to get business back on the books, he said. Mr. Blake said he hopes buyers will see that this type of approach means "the underwriters won't be around long."

"There's been substantial reductions in just about every line of business," summed up John Pelly, chairman of non-marine reinsurance for Willis, Faber & Dumas Ltd., the reinsurance arm of Willis Corroon Group P.L.C. "It's very bloody out there, dog-eat-dog."

The year-end renewal season was "diabolical," added one Lloyd's of London catastrophe underwriter. Although a lessening of rates was expected before year-end, "I was surprised by the amount of reductions going on." Several months ago, the underwriter thought rates would be off by 10 points, "but it was more than that. The clients pushed."

Some underwriters compared the softening of the market with 1983, but "it smells like 1989 to me," said the underwriter, referring to the last major soft market.

Another Lloyd's underwriter described his competitors as having "a lemming instinct"—both in Lloyd's and the wider London market—though another pointed out some were wearing life jackets and would most likely survive despite their actions this renewal season.

The renewal season was "at least 10 days to two weeks later than last year," said Ross McKenzie, chief executive officer of all non-marine operations of Alexander Howden Group Ltd. in London. Few orders were placed before Christmas, but most deals were completed by last week. "Buyers wanted rate cuts and they wanted lower pricings. . . It's weird. Last year was late enough. This year's later than last year."

"The market in general is very competitive, more so over here (in Europe) than in the States," added Dirk Lohmann, a member of the executive board of Hannover Re Group of Hannover, Germany.

Prices are coming down for property catastrophe coverages outside the United States, and rates can be off by as much as 40%, said Mr. Lohmann. However, there still is a shortage of capacity for some of the major U.S. ceding companies, so prices there remain steady, he said.

"The market is very, very weak and reductions on some single accounts

Continued on next page

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Continued from previous page
are bigger than we thought," said Benito Pagnanelli, deputy general manager of Assicurazioni Generali S.p.A. in Trieste, Italy. "Everyone is trying to get market share, and no one is interested in profitability."

In particular, commercial fire insurance rates in continental Europe have dropped as much as 40%, which is "illogical, unjustifiable," said Mr. Pagnanelli.

Major companies like Generali try not to follow the market down and be aggressive in rating, but "we have to react" to show a "sign of vitality," he said.

"On average, rates will be lower in 1997 than in 1996," said Jacques Blondeau, chairman of SCOR S.A. in Paris. Unlike most executives, Mr. Blondeau thought the renewal season confirmed what underwriters predicted at the Rendez-Vous de Septembre. Some classes are seeing drops in rates—such as marine and aviation and natural catastrophes particularly in Europe, he said.

"The market is pretty competitive," acknowledged Philip Marcell, chairman and chief executive of Unionamerica Insurance Co. Ltd. and chairman of the London International Insurance & Reinsurance Market Assn. Despite rate decreases of between 10% and 20% for the past three renewal seasons, Mr. Marcell anticipates further decreases.

Dec. 31 and Jan. 1 are the traditional dates for many insurance and reinsurance renewals around the globe.

Most executives in London and continental Europe said at least half of their books of business are renewed at year end, particularly in Asia, South America, the United States and Europe. There are other big renewal seasons—such as April 1 in Japan and July 1 in Australia—but year end sees the largest amount of business at any one time.

Usually renewal seasons see a cyclical pattern, where the markets are hard for a few years and then soft the next five to seven years. No one has really talked of a hard market in the United States for many years, since the collapse of the casualty market in the mid-1980s.

However, poor catastrophe results from 1988 to 1990, coupled with the collapse of the retrocessional market, crushed the London and continental Europe markets in the early 1990s, leading to a sharp drop in capacity for property catastrophe coverage worldwide.

Many markets have taken up the slack, which led to rates softening at the beginning of 1995 and 1996.

Meanwhile, there have been few major catastrophe claims since 1992, resulting in significant profits for new and old underwriting capital. For example, LIRMA saw gross premiums rise 15% for 1995, the last year reported, to £3.4 billion (\$5.28 billion), while gross claims dropped 13% in that period to £1.9 billion (\$2.95 billion), statistics show.

With new capital and few losses, there is now a huge amount of capacity that needs to be fed, and traditional markets are on the mend. For example, Bermuda now has \$5 billion in capital that wasn't available in the last cycle and competed hard for U.S. business this renewal season, according to executives. Sydney, Australia, also is trying to set up an international reinsurance market and competed for business this renewal season, said Mr. McKenzie.

London also is on the mend now that Lloyd's of London has completed its reconstruction and renewal program. Lloyd's this year has increased its capacity 3% to £10.3 billion (\$17.64 billion), of which 44% will be provided by cor-

porate members. Competition as a result was fierce between company markets and Lloyd's syndicates this renewal season.

In addition, the two largest reinsurance companies in the world, Munich Reinsurance Co. and Swiss Reinsurance Co., have been very aggressive during this year's renewal season and have been fighting for market share, many executives commented.

Swiss Re in Zurich did not return calls. A spokesman for Munich Re in Munich said the markets are now "in a more competitive environment and, as No. 1, we're forced to follow developments without damaging ourselves."

"There have been no catastrophes of any consequence since 1992, so reinsurers have had a number of profitable years when rates rose" and there were good investment income returns, said Mr. Pelly of Willis Corroon. "So reinsurance

balance sheets have been substantially repaired."

"Supply and demand has turned around 180 degrees" from the early 1990s because of the combination of all these factors, said Mr. Pelly. "We

'If demand remains constant and supply increases, inevitably the price goes down,' says Philip Marcell.

are going into another very competitive cycle in the marketplace that will ultimately hurt (some companies)."

The fierce competition during the recent year-end renewals also was fueled by a number of major mergers of both insurance and reinsur-

ance companies in the past few years, "so appetites become bigger," said Mr. Pagnanelli.

These mergers and acquisitions coupled with new underwriting entities "are generating overcapacity. You have to wonder how long it will continue. . . (It's all about) premiums and losses, (and) a big catastrophe will occur one day."

Competition will continue, particularly in London, for just these reasons, added Mr. Marcell of Unionamerica. "If demand remains constant and supply increases, inevitably the price goes down," said Mr. Marcell. "Insurers can afford to let the price go down" as a result of the gentle claims activity, he explained.

But the question is whether to let rates drop too far. Andrew Elliott, underwriter at Liberty Syndicate Management Ltd., thinks some of the lessons that should have been learned from the past have been ig-

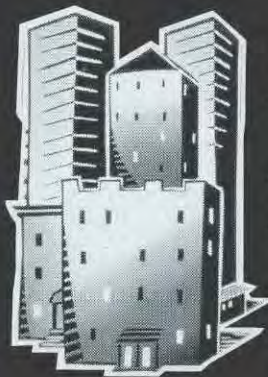
nored. "Looking at most reinsurance figures, there have been five years with no claims." That, he says, is longer than most people's memories, particularly of those new to the market.

David Mann, Lloyd's underwriter at DP Mann Underwriting Agency Ltd., described the current market as "grudgingly competitive," one in which powerful competitors are forming long-term strategies and taking very long-term positions.

Mr. Mann sees no evidence of a soft market ending. The period between 1993 and 1996 was "remarkable" for its lack of claims, particularly on property business. As a result, "it would take tremendous upheaval in terms of the loss cost (for rates) to change. . . The next few years are going to be a real test of all our skills," said Mr. Mann.

Sarah Goddard contributed to this report.

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Soft conditions spell buyer's market: J&H

By MICHAEL PRINCE

In trying to adapt to a soft market flush with capacity, insurers are covering more risks and creating new and innovative products, Johnson & Higgins says in a new report.

These new products, which include multi-line and multi-year products, along with continued low costs, have slowed the growth of alternative risk financing from the capital markets.

"For most lines, insureds can look forward to even lower prices, higher limits, and more coverage enhancements at negligible added cost," states a report to be released tomorrow by the New York-based broker entitled "1997 Insurance Market Review & Forecast."

"Long-term contracts and the ability to enhance protection for risks that were historically uninsurable" were the most important developments in 1996, Norman Barham, president of J&H, said in an interview. He compared the long-term relationships between buyer and insurer to a marriage, in which both sides win or lose together.

The soft market, however, is not without its risks. "When insurers offer highly attractive terms and conditions, they are making a wager that premiums will cover losses, but competition that drives prices downward can drive them so far that it creates market security problems," the J&H report states. "Concerns about price or reserve adequacy translate directly into

concerns about market security and, therefore, claims-paying ability."

"Security will become one of the big concerns in our business" in the long term, Mr. Barham added.

The continued soft market has reduced demand for alternative risk financing from the capital markets, and insurers instead are providing innovative risk financing products.

"Today's alternative market encompasses a broad spectrum of risk financing options, most from very traditional sources," the report states.

Continuing a trend existing since 1978, U.S. property/casualty insurers posted an underwriting loss in 1996, with all profits coming from investment income. In the past two

years, the strong stock market has buoyed insurers' profit margins, contributing to record levels of surplus.

Looking at claims, 1996 did not see the catastrophic losses of prior years. However, an increase in the number or severity of catastrophic losses in the future, combined with a downturn in the stock market, could lead to a hard market. Accurate predictions of stock market fluctuations or weather events are equally elusive, the J&H report states.

One sign of an impending hard market, according to the report, will be a reduction in the industry's level of policyholder surplus. A decline in surplus preceded the past three hard markets of 1970, 1975 and 1985. Only 1973's slight drop

in surplus failed to lead directly to a hard market.

On the casualty side, the report predicts the soft market will continue through 1997 with greater reductions in prices anticipated for lead umbrella markets than for higher excess layers. Also, Bermuda insurers will be less likely to reduce prices compared with U.S. insurers, despite risking loss of market share.

The report also says Lloyd's of London will play a more prominent role in the future, especially in niche markets, such as professional liability, aviation, marine, oil, gas and petrochemicals, and reinsurance.

In response to buyers' demands and to maintain market share, insurers will offer an increasing array of new risk transfer products. These include multi-year and multi-line policies, the inclusion of non-insurable business risks and sliding deductibles.

"There is no better time than now for insureds to demand the types of risk transfer solutions that meet their needs," the report states. "Carriers are eager to differentiate

There is no better time than now for insureds to demand the types of risk transfer solutions that meet their needs,' J&H says.

themselves from the herd and are more ready than ever to consider a client's wish list."

Also, 1996 saw more companies looking at their total cost of risk. "1996 was a year for total cost of risk. Buyers said, 'Let's take a look at what we got,'" in terms of exposures, said Robert Meyers, senior vp and head of J&H's global property practice.

An example of successfully applying the total cost of risk concept to lower costs occurred with workers compensation, said John Deitchman, director and global practice leader for J&H. A few years ago, workers comp rates were sky-high, he said.

"Now it's a money-maker for insurers, and client costs are way down," he said. This was done through a combination of legislative reforms and a determined effort by employers and insurers to lower workers comp costs.

Buyers can apply these efforts to other areas. "If you focus on where the costs are coming from and address them, you can produce some significant results," Mr. Deitchman said.

The report states that workers compensation rates fell during 1996 and will fall in 1997, largely as a result of cost-reduction efforts and competition in the workers comp market.

1996 saw faster-than-predicted rate and coverage term flexibility for directors and officers liability insurance. Because of favorable loss experiences, coverage is plentiful and rates will remain competitive.

As a result of the Private Securities Litigation Reform Act passed in late 1995, the number of federal securities suits has dropped significantly. This drop, however, is offset by increases in state court suits, which could potentially harden the market.

For environmental impairment liability insurance, 1997 should see

See Forecast on page 42

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Forecast

Continued from page 40

expanded coverage and premiums reduced by 15% to 20%, J&H says. Global programs and multi-year policies also will become more prevalent this year. Increasingly, companies demand that insurance carriers assume greater amounts of risk for environmental liability and clean-up costs. To accomplish this, insurers have created new products to keep their clients. Some of these include coverage for business interruption resulting from a pollution release, an integrated brown-fields development product and multi-year programs.

Insurers also have created new products for employment practices liability to keep up with growing demand from employers, J&H says. To meet demand, insurers are expanding capacity and new insurers are entering the market. The report

predicts that insurance will continue to grow, eventually reaching the point where "the majority of Fortune 1000 companies will treat employment practices risk management as an integral part of their overall risk management strategy."

One area seeing limited capacity is high level product liability for pharmaceutical companies. In 1995 and 1996 premiums jumped for this coverage, and modest increases are forecast for 1997. Capacity has expanded, easing rate increases, through the introduction of new products called PharmaCat and MedExcess, both designed for limits up to \$1 billion in excess of \$650 to \$750 million (*BI*, Oct. 21, 1996; Aug. 19, 1996).

The other area of tight capacity and higher premiums is earthquake insurance for California and Japan. Windstorm coverage for Florida facilities also will remain tight. **BI**

Datebook

JANUARY

JAN. 20-22. Advanced Pension Conference in Orlando, Fla., sponsored by Corbel; \$650. Education Services, Corbel, P.O. Box 47720, Jacksonville, Fla. 32247; 800-326-7235 ext. 1139.

JAN. 21. Advanced Risk Financing Techniques: Understanding the Options seminar in Worcester, Mass., sponsored by the CPCU Society; \$75 for members, \$85 for non-members. CPCU, 720 Providence Road, P.O. Box 3009, Malvern, Pa. 19355-0709; 610-251-CPCU.

JAN. 22. Assn. of Professional Insurance Women Inc.'s Luncheon with speaker Jeffrey W. Greenberg in York, sponsored by APIW, \$50 for members and guests. Assn. of Professional Insurance Women, P.O. Box 98, Church Street Station, New

York, N.Y. 10008; 212-574-8362.

JAN. 22. Fundamentals of Risk Management & Advanced Risk Financing Techniques seminar in New Orleans, sponsored by The CPCU Society; \$124. Also **Feb. 10** in Overland Park, Kan.; **Feb. 11** in St. Louis; **Feb. 12** in Omaha, Neb.; and **March 3** in Scottsdale, Ariz. CPCU, 720 Providence Road, P.O. Box 3009, Malvern, Pa.; 610-251-CPCU.

JAN. 22-24. Delivery System Integration conference in McLean, Va., sponsored by the Partnership for Delivery System Integration, CentralLink and the Institute for Behavioral Healthcare; \$995. CentralLink-I, 4370 Alpine Road, Suite 108, Portola Valley, Calif. 94028-7927; 415-851-8411.

JAN. 22-24. 1997 Products Liability Seminar: Dealing with the Tuff Stuff in San Diego, sponsored by Defense Research Institute Inc.; \$520 for members, \$555 for non-members. DRI, 750 N. Lake Shore

Drive, Suite 500, Chicago, Ill. 60611; 312-944-0575.

JAN. 22-24. Financial Analysis: Life/Health Insurance seminar in Philadelphia, sponsored by Fells Road Group Inc./Michael Conn Associates Inc.; \$1,250. Also **March 5-7** and **May 12-14**. Fells Road Group Inc./Michael Conn Associates Inc., 271 Route 46 West, Suite D-207, Fairfield, N.J. 07004; 201-227-5955.

JAN. 23-24. Portable Health Care Coverage: Achieving Compliance—Integrating Eligibility & Benefits—Developing New Products conference in Arlington, Va., sponsored by CambridgeHealth Resources; \$1,295. CambridgeHealth Resources, 1037 Chestnut St., Newton Upper Falls, Mass. 02164; 617-630-1330.

JAN. 23-24. Managing Your Environmental Costs in San Diego, sponsored by Business Development Associates Inc.; \$995. BDA Inc., 8601 Georgia Ave., Suite 205, Silver Spring, Md. 20910; 800-394-9390.

JAN. 23-24. The 14th Annual Insurance, Excess and Reinsurance Coverage Disputes conference in New York, sponsored by Practising Law Institute; \$795. PLI, 810 Seventh Ave., N.Y. 10019-5818; 800-260-4PLI.

JAN. 26-29. 1997 ABA National Security, Audit & Risk Management Conference in Atlanta, sponsored by the American Bankers Assn.; \$880 for ABA members, \$1,095 for non-members. ABA, P.O. Box 79129, Baltimore, Md. 21279-0129; 202-663-5274.

JAN. 27-28. Identify, Implement and Leverage the Latest Innovations in Corporate Risk Financing forum in New York, sponsored by the Institute for International Research, Risk Management Division; \$1,295. IIR, 708 Third Ave., 4th Floor, New York, N.Y. 10017-4103; 800-999-3123.

JAN. 27-28. Compliance Management 2000 symposium in Orlando, Fla., sponsored by The American Society of Safety Engineers; \$445 for members; \$545 for non-members. ASSE, 1800 East Oakton St., Des Plaines, Ill. 60018-2187; 847-699-2929.

JAN. 27-29. Integrating Health and Disability Resources: The Productivity/Productivity Connection conference in San Diego, sponsored by Integrated Health Management Associates; \$995. NMHCC Inc., P.O. Box 360034, Boston, Mass. 02241-0634; 800-872-0094.

JAN. 28. Fundamentals of Risk Management & Advanced Risk Financing Techniques seminar in Clive, Iowa, sponsored by the CPCU Society; \$75 for members, \$85 for non-members. CPCU, 720 Providence Road, P.O. Box 3009, Malvern, Pa. 19355-0709; 610-251-CPCU.

JAN. 28-29. The 1997 P&I Defined Contribution/401(k) Conference in New York, sponsored by Pensions & Investments and International Business Forum; \$1,195. International Business Forum, 7 Penn Plaza, Suite 901, New York, N.Y. 10001; 212-279-2525.

JAN. 29. Business Income Coverages seminar in Boston, sponsored by the CPCU Society; \$80 for members, \$90 for non-members. CPCU, 720 Providence Road, P.O. Box 3009, Malvern, Pa. 19355-0709; 610-251-CPCU.

JAN. 29-30. Financial Integration of Workers' Compensation, Group Health & Disability conference in San Diego, sponsored by National Managed Workers' Compensation Institute Ltd.; \$1,295. Conference Administrator, NMWCI Ltd., 151 West 19th St., 8th Floor, New York, N.Y. 10011; 212-366-3219.

JAN. 29-30. Voluntary Insurance at the Worksite conference in Boston, sponsored by International Business Communica
Continued on next page

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Continued from previous page
 tions; \$1,295. IBC USA Conferences Inc., 225 Turnpike Road, Southborough, Mass. 01772-1749; 508-481-6400.

JAN. 29-31. Performance Measurements in Workers' Compensation Managed Care conference in Atlanta, sponsored by The Healthcare Institute, Institute for International Research; \$1,295. IIR, 708 Third Ave., 4th Floor, New York, N.Y. 10017-4103; 800-999-3123.

JAN. 30. Behavior Modification Approach to Safety symposium in Los Angeles, sponsored by The CPCU Society; \$115. CPCU, 720 Providence Road, P.O. Box 3009, Malvern, Pa.; 610-251-CPCU.

JAN. 30-31. Sixth Annual Employers Health Conference: The Quality Imperative in Managed Care in Sarasota, Fla., sponsored by the Florida West Coast Healthcare Coalition, \$295. Florida West Coast Healthcare Coalition, 6637 Superior Ave., Suite C, Sarasota, Fla. 34231; 941-923-1697.

JAN. 30-31. Corporate and Insurance Claims Litigation Management Seminar in San Francisco, sponsored by Defense Research Institute Inc.; \$510 for members, \$560 for non-members. DRI, 750 N. Lake Shore Drive, Suite 500, Chicago, Ill. 60611; 312-944-0575.

JAN. 30-31. Financing & Strategic Alliances for Emerging Health Information Systems Companies Conference & Exhibition in San Francisco, sponsored by Global Business Research Ltd.; 1,295. Global Business Research Ltd., 151 West 19th St., 8th Floor, New York, N.Y. 10011; 212-366-3219.

FEBRUARY

FEB. 2-13, APRIL 14-24, JUNE 9-13. 10th Executive Program in Managed Care in Kansas City, Mo., sponsored by National Center for Managed Health Care Administration; \$8,250. Sharon Dake, University of Missouri-Kansas City National Center for Managed Health Care Administration, Bloh School of Business, Room 214, 5100 Rockhill Road, Kansas City, Mo. 64110; 816-235-1478.

FEB. 3-4. Property & Casualty Insurance Fraud: Prevention, Detection & Investigation conference in Miami, sponsored by American Conference Institute; \$1,195. ACI, 175 Fifth Ave., Suite 2182, New York, N.Y. 10010; 416-927-7936.

FEB. 4. Insurance Through the Internet: Consumer, Company and Regulatory Issues interactive satellite broadcast, sponsored by The CPCU Society; \$85 for members, \$99 for non-members. CPCU Society, 720 Providence Road, P.O. Box 3009, Malvern, Pa. 19355; 610-251-CPCU.

FEB. 5-7. The Future of Healthcare Delivery conference in San Francisco, sponsored by Healthcare Provider Strategies; \$495. Healthcare Provider Strategies, 7700 Irvine Center Drive, Suite 800, Irvine, Calif. 92618; 714-753-2865.

FEB. 6-7. RIMS Atlanta Chapter 1997 Educational Conference: "Celebrating 40 Years of Excellence" in Atlanta, sponsored by Risk & Insurance Management Society Inc. Atlanta Chapter; \$125 for RIMS members, \$150 for non-members. Bob Bridges, c/o Randstad Staffing Services, 2015 South Park Place, Atlanta, Ga. 30339; 770-937-7061.

FEB. 6-7. Financial Analysis: Property/Casualty Insurance in Philadelphia, sponsored by Fells Road Group Inc./Michael Conn Associates Inc.; \$1,050. **Also March 20-21, June 5-6, Sept. 25-26, and Oct. 30-31.** Fells Road Group Inc./Michael Conn Associates Inc., 271 Route 46 West, Suite D-207, Fairfield, N.J. 07004; 201-227-5955.

FEB. 7. Risk Management and Insurance Industry Event at Disneyland in Burbank, Calif., sponsored by Risk and Insurance Management Society Inc.'s Los

Angeles chapter; \$30 includes parking. Janis Pate, c/o The Walt Disney Co., 500 S. Buena Vista, Burbank, Calif. 91521-7238.

FEB. 10. The Internet for Insurance Professionals workshop in Phoenix, sponsored by the Society of Insurance Research; \$275 for members, \$325 for non-members. Stan Hopp, the Society of Insurance Research, 691 Crossfire Ridge, Marietta, Ga. 30064; 770-426-9270.

FEB. 10-11. Integrated Construction Risk Management conference in Dallas, sponsored by Institute for International Research and National Underwriter; \$895. IIR, 708 Third Ave., 4th Floor, New York, N.Y. 10017-4103; 800-999-3123.

FEB. 11-12. Strategic Risk Management to Maximize Shareholder Value conference in New York, sponsored by International Communications for Management; \$1,295. ICM, 303 E. Wacker Drive, 20th Floor, Chicago, Ill. 60601; 312-540-3010.

FEB. 12-13. The Internet and the Insurance Industry conference in Toronto, sponsored by American Conference Institute; \$1,199. **Also Feb. 24-25** in New York. ACI, 175 Fifth Ave., Suite 2182, New York, N.Y. 10010; 416-927-7936.

FEB. 18-21. Bermuda Insurance Symposium III in Bermuda, sponsored by the College of Insurance and the Bermuda Insurance Institute; \$695 for risk managers, chief financial officers and treasurers, \$925 for others. Bermuda Insurance Symposium III, The Whitfield Building, 61 Front St., Penthouse, P.O. Box HM 2550, Hamilton HM KX, Bermuda; 441-292-6386.

FEB. 20. Commercial Crime and Financial Institution Bonds: Insuring the Crime Exposure workshop in Bethesda, Md.; sponsored by The CPCU Society; \$95. CPCU, 720 Providence Road, P.O. Box 3009, Malvern, Pa.; 610-251-CPCU.

FEB. 20-21. Understanding the Annual

Statement: Life/Health seminar in Philadelphia, sponsored by Fells Road Group Inc./Michael Conn Associates Inc.; \$950. **Also Aug. 12-13.** Fells Road Group Inc./Michael Conn Associates Inc., 271 Route 46 West, Suite D-207, Fairfield, N.J. 07004; 201-227-5955.

FEB. 23-25. Setting the Agenda for Quality Health Care: AAHP Policy Conference in Washington, sponsored by American Assn. of Health Plans; \$1,045 for members, \$1,245 for non-members. AAHP, Conference Office, 1129 20th St., NW, Suite 600, Washington, D.C. 20036, 202-778-3269.

FEB. 23-26. Leading and Succeeding in the New Millennium: PIMA's 23rd Annual Meeting and Exhibition in Phoenix, sponsored by the Professional Insurance Mass-Marketing Assn.; \$675 for members, \$825 for prospective members. Professional Insurance Mass-Marketing Assn., 4733 Bethesda Ave., Suite 330, Bethesda, Md. 20814-5228; 301-951-1260.

FEB. 24-25. Western Regional CPCU Educational Conference in Las Vegas, Nev., sponsored by the CPCU Society; \$175 for members, \$225 for non-members. CPCU, 720 Providence Road, P.O. Box 3009, Malvern, Pa. 19355; 610-251-CPCU.

FEB. 24-25. Distribution and Marketing: Pan-Asian Summit 1997 in Hong Kong, sponsored by Institute for International Research; \$1,695. IIR Ltd., Customer Service Dept., 20/F Siu On Centre, 188 Lockhart Road, Wanchai, Hong Kong; 852-2586-1777.

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Bombs

Continued from page 1

Washington bureau of the London-based Arabic-language newspaper Al Hayat in two different mail deliveries during the same day. The discovery of the bombs by an Al Hayat reporter led to the evacuation of the National Press Building, which houses *Business Insurance's* Washington bureau.

A fifth mail bomb addressed to Al Hayat was intercepted at a Washington post office. Three other mail bombs bore the address of "parole officer" at the federal penitentiary in Leavenworth, Kan., where they were intercepted Jan. 2 and Jan. 3.

Although Al Hayat published a report last week claiming the bombs had originated in Libya, the Libyan government has denied any involvement in the mail bomb campaign, and no group has taken responsibility

for the bombs found in Washington and Leavenworth, all of which bore postmarks from Alexandria, Egypt.

Businesses already are responding to the perceived increased exposure.

and the 1996 arrest of a suspect alleged to have carried out the Unabomber's 17-year mail bomb campaign against businesses and universities have heightened awareness of the exposure, he said.

'Generally, they are designed to injure or harm the person who opens it,' not to destroy a structure, Bill Daly says. 'It's made so it only goes off when you open the package.'

"We have seen an interest in learning how to screen for packages," said Bill Daly, a managing director of Kroll Associates, a New York-based investigative consulting firm partly owned by American International Group Inc.

This year's flurry of mail bombs

Mr. Nudell noted that the sheer volume of mail makes it impossible for the postal service to screen everything. As a result, "you should take some measures to protect against the possibility that it could happen to your organization," he said.

One step is to centralize mail and package delivery at any given site, he said.

"That gives you the ability to concentrate your screening measures." Centralization also holds down costs, he said. For example, an employer only has to pay for and maintain a single X-ray machine rather than have them scattered throughout a facility.

Training a core of people who handle mail and packages to recognize suspicious signs also is critical, said Mr. Nudell. The training should include the procedures that need to be followed once the people encounter a suspicious package.

Kroll's Mr. Daly emphasized that the training should not necessarily be confined to mail room personnel. Other people, including secretaries and high-profile employees such as public relations spokespeople who appear in the media and who might provide a mail bomber with an en-

tering target, also often need to be trained, he said.

The training should be bolstered by such actions as posting lists of potential indications of mail bombs in the mail room or delivery room, said Mr. Daly.

The U.S. Postal Inspection Service has posted a list of some characteristics of mail bombs on its Web site. These include:

- Mail bombs may have excessive postage. Generally, a bomber does not want to mail a parcel over the counter and have to deal face-to-face with a window clerk.

- The return address may be fictitious or non-existent.

- The postmark may show a different location than the return address.

- Mail bombs may bear restricted endorsements, such as "personal" or "private." This is particularly important when the addressee does not usually receive personal mail at the office.

- Mail bombs may display distorted handwriting, or the name and address may be prepared with homemade labels or cut-and-paste lettering.

- Parcel bombs may be unprofessionally wrapped with several combinations of tape used to secure the package, and may be endorsed "Fragile—Handle with care" or "Rush—Do not delay."

- Letter bombs may feel rigid or appear uneven or lopsided.

- Package bombs may have an irregular shape, soft spots or bulges.

- Mail bombs may have protruding wires, aluminum foil or oil stains, and may emit a peculiar odor.

It was this last characteristic—protruding wires—that alerted the reporter at Al Hayat that the "Christmas cards" arriving at his office contained explosives.

A suspicious letter or package demands careful treatment, according to the postal inspectors. It should not be opened but should be isolated. It should not be put in an enclosed space, such as a drawer, or in water. If there are windows in the immediate area, they should be opened to vent any potentially explosive gases. And, of course, local police need to be called immediately.

The decision on "how to evacuate and whom to evacuate" rests with management, said Mr. Daly. "It really needs to be handled with the utmost discretion."

Mail bombs are anti-personnel devices rather than anti-property devices, he pointed out. "Generally, they are designed to injure or harm the person who opens it," not to destroy a structure. "It's made so it only goes off when you open the package," he said.

"You're always balancing what you believe the actual level of risk is against the lives of the people there, but you don't want to unduly alarm or hamper those who are not at risk," Mr. Nudell pointed out.

"Sometimes when you do an evacuation, people can get hurt as you try to help them," he said.

Even worse, there have been cases, though none yet in the United States, where bombs have been reported at one location by terrorists who knew people would be evacuated to a second location where the actual explosives were planted. The result can be fatal, he said.

Mr. Nudell said the evacuation of the National Press Building after the discovery of the mail bombs went a little more smoothly than might have been expected in a Washington winter, as occupants savored near-spring-like temperatures while they waited to return to the building.

"We were lucky; the bad guys picked good weather in which to have their letter bombs arrive," he said. **BI**

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INTERNATIONAL

Cold freezes European shipping

Insurers expect weather-related claims

By DON LEWIS KIRK

DUISBURG, Germany—Freezing cold and lack of insurance may bring some European transport companies to their knees.

With temperatures in some areas reaching 30 below zero Fahrenheit, many inland rivers have become impassable, causing shipping losses estimated at 3 million DM (\$1.9 million) a day in Germany alone. The cold spell began Dec. 20, with the most serious cold beginning Dec. 30. Rivers remain frozen, and warming is not expected until this week at the earliest.

The German insurance association said it expects property damage to exceed 300 million DM (\$191.9 million) compared with 40 million DM (\$25.6 million) in normal winters.

More than half of Germany's 3,000-ship inland fleet has been marooned since Dec. 28, says Axel Mauersberger,

director of the Assn. of German Inland Shipping, a business association and lobby for German inland shipping companies.

With his prediction of losses for each company ranging from 2,000 DM (\$1,279) to 5,000 DM (\$3,198) per day, Mr. Mauersberger expects many transport businesses to go broke. "A devastating winter last year has left companies with no reserves. It's going to be bad for them," he said.

Mr. Mauersberger was critical of insurers for the limited availability of affordable business interruption coverage for companies whose business is frozen.

Inland river transports can buy coverage against the loss of business from frozen waterways, but rates are "astronomical," he said.

So far, no companies have lost barges to ice. Marine insurance would

See Cold on next page



AP/WIDE WORLD PHOTOS

Extreme cold temperatures throughout Europe have frozen shipping channels and are expected to lead to numerous weather-related claims.

France considering private pension funds

By MARIA KIELMAS

PARIS—Both houses of France's Parliament are scheduled to hold a second round of deliberations this month on a bill that would permit private-sector employers and employees to contribute to private pension funds.

Under the proposal introduced in the lower house of Parliament, called the National Assembly, employers and employees would be able to contribute a total of 5% of an employee's gross salary to private pension funds that would supplement government-sponsored pensions.

Employers could contribute up to 4% of payroll, which would not be regarded as taxable income to the employee as long as the total contribution to both state and private plans does not exceed the social security base annual salary of 164,620 francs (\$30,932).

Arnaud Jacquillat, managing director of NSM Pensions, said this limit implies that an employee could earn a salary of up to 700,000 francs (\$131,530) annually before he or she would pay any tax on the contributions.

Participation in the private pension funds can be decided by either the employee or the employer.

French insurance companies, brokers and banks are preparing for an expected boost to their pension business if the law is approved.

The new legislation would cover about 14 million private-sector employees, because state-sector employees and the self-employed are already able to contribute to supplementary private pension plans.

At present, private-sector workers get a basic government pension and must contribute to a state-run supplementary system. The private funds would provide a third tier of pension contributions.

The total payments into the state pension system amount to 20% of an employee's gross salary, with the employer contributing 60% of that total and the employee contributing 40%. The final pension is based on the average salary over the last 16 years of employment and comes to about 40% of this average salary.

The workings of France's state pension plan and each company's system

of employee benefits are governed under a collective bargaining agreement, known as "convention collective," between the employer and either labor unions or professional associations.

Claude Vala, manager of the Paris office of Buck Consultants Inc., says that this gives significant influence to the unions and professional organizations in how pensions work, and these organizations have been reluctant to cede such power to private fund managers.

The proposed law gives unions and employee representatives places on boards which will supervise the management of the new funds. Insurance executives say that this provision is likely to be hotly contested.

Insurance companies and banks have forecast that initial contributions to private funds could total between 30 billion and 50 billion francs (between \$5.64 billion and \$9.4 billion), "but we expect it to be slightly lower than that and grow," said Mr. Jacquillat of NSM Pensions. "It could take five years." NSM Pensions is a newly created division of Paris-based bank Neufilze, Schlumberger, Mallet, part of ABN-AMRO Bank B.V.

But other forecasts are not so bullish. Mr. Vala said the premiums generated from the new private funds could be only some 15 billion francs (\$2.82 billion). Total pension contributions to both state and private plans amount to 800 billion francs (\$150.3 billion).

NSM Pensions will begin trading once the law is passed and the company receives government approval to conduct the business, Mr. Jacquillat said.

France's largest mutual insurer, La Mondiale, announced last December that it has created a pensions subsidiary, La Mondiale Fonds d'Epargne Retraite.

But executives say they are not celebrating imminent new business yet. "The law is still under debate," said Mr. Vala.

Mr. Vala mentioned that political debate continues in France on how the funds would be managed and regulated, and their effect on the present state social security system. "We still have to decide, do we want the (state-run) pay-as-you-go system or (private) pension funds a la francaise," he said. **BI**

Tanker spill costs still being tallied

LONDON—Insurers last week still were trying to assess the likely costs of the oil spillage from the Russian tanker Nakhodka after the vessel broke in two soon after the start of the year during severe storms in the Sea of Japan.

The biggest potential insurance claims are likely to fall on the vessel's liability insurers, The United Kingdom Mutual Steam Ship Assurance Assn. (Bermuda) Ltd., known as the UK P&I Club. The club insures the vessel's owners, the Russian shipping company Prisco Traffic Ltd., for the costs of pollution damage, cleanup and fines.

However, Graham Daines, who heads the London-based claims department at the club's managers, Thos. R Miller & Sons (Bermuda), said last week that those costs still were being assessed.

More than two-thirds of the 19,000 metric tons of oil had already leaked into the sea from the two sections of the ship, and the cleanup operation is expected to take several weeks. Initial hopes that the crude would be dispersed at sea using detergents before it reached shore were dashed by continued bad weather and rough seas.

Reports from Japan's Maritime Safety Agency said that by last Tuesday the oil had reached the shore near the fishing port of Mikuni, in Japan's Fukui prefecture. At least 188 miles of shoreline were affected, which included important fish farms, fishing ports and tourist resorts. An improvement in the weather Wednesday enabled government workers and local volunteers to start cleanup work, but the P&I club still was awaiting word of

Liability insurers are expected to bear the brunt of claims from oil spillage from the Russian oil tanker Nakhodka, which broke in two off the Japanese coast earlier this month.

AP/WIDE WORLD PHOTOS

how successful these measures would prove.

A statement Wednesday from the London-based International Tanker Owners Pollution Federation said that Prisco has contracted the Japan Disaster Prevention Center to undertake cleanup operations using its own equipment and manpower resources and those of a network of local contractors.

The owners have also obtained equipment from the Petroleum Assn. of Japan, which includes containment booms, skimmers, vacuum units and temporary storage units. The JDPC and its contractors are using this equipment to collect floating oil and to protect sensitive areas.

The tanker, which was built in 1970, was insured for only \$1.8 million, the hull value, with the Russian insurer Zascita, and 85% reinsured with Black Sea & Baltic General Insurance Co. Ltd., a London-based unit of Russian insurer Ingosstrakh.

The Nakhodka was on a voyage from China to Russia at the time of the incident. The 31 crew members were saved, but the captain was reported missing.

—By Edwin Unsworth



INTERNATIONAL

Cold

Continued from previous page
cover such a loss, but only if the ship did not attempt to move when ice is on the river.

Insurers admit they are reluctant to insure Germany's inland fleet for business interruption. Only a few mutual insurance companies offer business interruption cover-

'It's nearly impossible to calculate risk of this kind,' Hartmut Redes says of the inland shipping interruption.

age to inland shipping companies. "It's nearly impossible to calculate risk of this kind," said Hartmut Redes, an executive board member of Hamburg-based insurer Nord-Deutsche Versicherungs A.G.

As a result, shipping companies fear bankruptcy should the winter weather continue.

The German Office of Shipping and Hydrography expects more ice in the North Sea and the Baltic Sea where coastal ice is now more than 10 inches thick. The northern German harbors of Toenning and Scaleswig are closed and several islands are now inaccessible by water. For the first time in 33 years, the Main River—a major German tributary—near Frankfurt threatens to freeze.

Meanwhile air, sea and rail services have also been disrupted in many countries. In Italy's Alpine region, temperatures fell to minus 30 degrees Fahrenheit. Roads, including the main highways north from Rome, were blocked by snow and flights were delayed by freezing rain and snow at the Rome's central Fiumicino Airport.

A total of 288 flights have been canceled due to ice and snow since the cold spell began. While international flights remained unaffected, cancellations affected many domestic flights and inner European flights. Airlines and airports do not have business interruption coverage.

In France, 30 trains were stopped when overhead electrical lines froze. On Jan. 3 the train service between Marseille and Lyon was canceled due to ice. Service resumed Tuesday.

Bad weather claims in the United Kingdom currently are running at normal levels for the time of year, said a spokeswoman for the Assn. of British Insurers, but while the freeze continues, claims most likely will remain steady. U.K. insurers are anticipating numerous claims after the thaw, she said, though there are no indications how much it will eventually cost.

Deaths have been reported in nearly every country in Europe, from Russia to Spain.

Temperatures in Poland fell as low as 35 degrees below zero. In Poland more than 40 people have died. The total European death toll has reached 169. **BI**

Irish regulators question product's legality

Health insurer may lose license

By SARAH GODDARD

DUBLIN, Ireland—A recently launched health insurer is in danger of losing its license to do business unless it changes some of its products.

Fermoy, Ireland-based BUPA Ireland, a wholly owned subsidiary of U.K. health insurer British United Provident Assn., is facing questions from regulators as to whether two of its insurance products contravene Irish law.

Ireland's Department of Health has questioned whether BUPA Ireland's products fall outside the Health Insurance Act 1994, particularly the required use of "community rating" on health care products. Community rating means that everyone pays the same premium for their coverage, irrespective of age, state of health or previous claims history.

"This principle must, in the common good, be maintained through whatever means are necessary, and I am fully committed to this principle," said Irish Health Minister Michael Noonan.

A BUPA spokesman said the organization was confident that its products complied with community rating. The dispute, he said, centered on the linking of two products, the Essential Hospital Plan, which is community-rated, and a cash plan, which is not. BUPA offers the prod-

ucts on both an individual and group basis. Although the current BUPA Ireland marketing literature contains the two products in the same brochure, they are not linked and therefore do not break the Health Insurance Act, according to the spokesman.

"The Department of Health is concerned about the perceived link between the Essential plan and the

age-rated. Despite intensive discussions in recent weeks, it has not been possible so far to resolve the difficulties."

BUPA Ireland, formed in summer 1996, has signed up several thousand policyholders since its products were officially launched Jan. 1 and is continuing to accept new policyholders while the discussions are in progress. If the minister of health decides to

The principle of community rating 'must, in the common good, be maintained through whatever means are necessary,' says Health Minister Michael Noonan.

cash plan," he explained.

The cash plan is exempt from community rating because it pays out cash—for any purpose—based on the number of days a patient stays in a hospital, rather than specifically covering medical care.

"I want to see BUPA develop its business here but, as regulator, I do have a problem with the package they have launched," said Mr. Noonan.

"It appears that they are seeking to sell as an integrated package an indemnity product which is community-rated and a cash plan which is

deregister BUPA Ireland, it will have 21 days to appeal the decision, which could ultimately reach the Irish High Court.

Sean Cullen, a higher executive officer at the Department of Enterprise and Employment, which authorizes insurance companies, said the DEE is keeping an eye on the situation.

BUPA Ireland is supervised by the U.K. Department of Trade and Industry under the cross-border trading provisions of the European Union's Third Life and Non-Life Insurance Directives. **BI**

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INTERNATIONAL

Natural cats caused \$60 billion in '96 damages

By DON LEWIS KIRK

Worldwide natural catastrophes caused about \$60 billion in damages last year, but only about 15% of that was insured, a leading reinsurer says.

Insurance density was relatively low in the regions hit hardest by natural catastrophes last year, according to Munich Reinsurance Co.

The Munich, Germany-based reinsurer released some initial figures in advance of its annual survey on global natural catastrophes, which will be available to the public in March.

Munich Re bases its survey on reports of catastrophe losses in the news media, such as wire services, and other publications, which it compiles for analysis each year.

Major catastrophes in 1996 brought total losses for the year to more than \$60 billion, a third of 1995's record high \$180 billion.

Flooding along the Yangtze River in China was 1996's costliest natural disaster, causing about \$26 billion in damage, of which only \$400 million was insured. This was significantly lower than the approximately \$100 billion in overall losses and \$3 billion in insured losses caused by 1995's costliest catastrophe, the Kobe earthquake (*BI*, Oct. 9, 1995).

In 1996, insured cat losses worldwide amounted to \$9 billion compared with \$14 billion in 1995 and \$17 billion in 1994, Munich Re found.

The costliest insured loss of 1996 was Hurricane Fran, which caused \$1.5 billion to \$1.6 billion in insured damage and overall damage of \$3 billion (*BI*, Sept. 16, 1996).

Other notable events included a cyclone in Andhra Pradesh, India (*BI*, Nov. 18), with a total loss of \$1.5 billion, but essentially no insured damage, and U.S. winter storms and frost damage, which caused \$1.5 billion total damage and an insured loss of \$753 million, according to Munich Re.

Munich Re recorded a record-tying 600 major natural catastrophes in 1996, which claimed 11,000 lives. The 600 catastrophes in 1995 claimed 18,000 lives.

Despite a reduction in losses, Munich Re contends that the trend toward more and costlier catastrophes continues. More than five times the number of catastrophes occurred last year than in 1960. Total losses for 1996 were eight times higher and insured losses 15 times higher than inflation-adjusted figures from 1960, Munich Re reported.

Munich Re attributes the trend to increasing concentration of population and value in cities—which are often located in high-risk zones—and in the greater susceptibility of modern industrial societies to disruptions in infrastructure.

Copies of the survey will be available in March by contacting the public relations department of Munich Re A.G., Public Relations Department, Christian Jakobi, Koeniginstr. 107, 80802, Munich, Germany.

Japanese insurer sets up Lloyd's syndicate

By SARAH GODDARD

LONDON—International insurance capacity in Lloyd's of London has taken a new step forward with last week's announcement that Tokyo-based insurer Nissan Fire & Marine Insurance Co. Ltd., part of the Dai-ichi Kango Bank Ltd., has set up the first corporate syndicate backed by Japanese money.

Through its subsidiary Nissan Lloyd's Underwriting Ltd., NFM is providing £10 million (\$16.9 million) capacity for 1997 underwriting on a new syndicate 2323. The number 23 translates as "Nissan" in Japanese. In addition, NFM is investing £3.4 million (\$5.8 million) in Lloyd's on a spread vehicle basis—across a num-

ber of different syndicates—this year. NFM was one of the first Japanese insurers to provide corporate capacity to the Lloyd's market, with a £3.2 million (\$5.4 million) investment in 1995.

Yuichiro Chikaraishi, managing director of NLUL, said the new corporate syndicate will enable NFM to participate in Lloyd's Japan Inc., a Tokyo-based Lloyd's service company, which will accept business on behalf of Lloyd's underwriters, passing the risk on to the syndicates it is acting for. Lloyd's Japan is due to start business April 1. Last week, Lloyd's Japan received the 20 licenses necessary for it to start writing domestic Japanese insurance business later this year.

Syndicate 2323 has no specific

plans for the amount of Lloyd's Japan business it will write, said David White, underwriter for the syndicate who previously has been underwriter for other syndicates. Its primary focus is NFM-related business, he said, where "the syndicate will offer greater flexibility in certain areas." But he refuted the idea that the operation was essentially a "captive" syndicate, saying the business written will spread beyond the NFM client base as the parent becomes more comfortable having a Lloyd's syndicate.

Forming the corporate syndicate is one of NFM's long-term strategic issues, said Mr. White. "Nissan believes that as the (Japanese) market becomes deregulated, it is going to need access to different underwriting skills," Mr.

White said.

Other Japanese insurers have recently been expressing an interest in becoming involved in the Lloyd's market, said Mr. White. "There are varying degrees of interest," he added.

Syndicate 2323 will write marine and non-marine business, though its focus will be on international property. It is managed by Murray Lawrence Corporate Ltd., which also provides services to two other corporate syndicates.

In a statement, NFM President Ryataro Sato said, "We believe that the syndicate will greatly help (NFM) to service our international clients throughout the world and we look forward to a close business relationship with Lloyd's for the future." **BI**



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Adoption

Continued from page 2
 say consultants. "These are relatively low-cost programs that are very much appreciated by employees," Ms. Rose said.

And for employers that have programs in place or are considering setting up adoption assistance programs, the IRS has provided answers in Notice 97-9 to questions that have cropped up since Congress passed legislation last year giving adoption assistance benefits tax-favored status.

Some of the questions that have cropped up and the answers provided by the IRS include:

How long will the new tax breaks

for adoption expenses remain in effect?

In the case of a regular adoption, the tax break expires after Dec. 31, 2001. However, the tax-favored status of employer reimbursement for adoption expenses for children with special needs has no expiration date.

What are considered qualified adoption-related expenses?

Qualified adoption expenses include reasonable and necessary adoption fees, court costs, attorneys' fees, traveling expenses and other expenses directly related to the legal adoption of a child.

What is an eligible child and a child with special needs?

An eligible child is any individual who is under 18 at the time an

adoption expense is paid or incurred or is physically or mentally incapable of caring for himself or herself.

A child with special needs must

meet two additional requirements. A state must have determined that the child cannot or should not be returned to the parents' home and the child cannot be placed with adoptive parents without adoption assistance because of a specific factor or condition.

The tax break expires after Dec. 31, 2001, for a regular adoption, but the tax-favored status of employer reimbursement for adoption expenses for children with special needs has no expiration date.

meet two additional requirements. A state must have determined that the child cannot or should not be returned to the parents' home and the child cannot be placed with adoptive parents without adoption assistance because of a specific factor or condition.

Examples provided by the IRS of a special factor or condition include the child's ethnic background, membership in a minority group, medical condition or disability.

In addition, a child with special needs must be a citizen or resident of the United States.

What special requirements apply to employer adoption assistance programs?

Employers are required to provide employees with a written description of the plan.

In that description, the employer must explain to employees the terms and availability of the program.

In addition, an adoption assis-

stance program must benefit employees generally and eligibility requirements may not discriminate in favor of highly compensated employees.

Can employers reimburse all employees—regardless of employee income—for adoption-related expenses on a tax-free basis?
 No. Tax-free reimbursement can be provided to all employees with adjusted gross incomes of \$75,000 or less. For those with incomes of between \$75,000 and \$115,000, the tax breaks decrease as income rises. The IRS has set up a special formula to calculate how much in employer-provided adoption assistance benefits is to be included as taxable income for employees with adjusted gross incomes of between \$75,000 and \$115,000. The tax breaks are not available for employees with adjusted gross incomes at or above \$115,000.

Are the \$5,000 and \$6,000 caps on tax-free employer reimbursement per child or annual limits?

The caps are per-child limits. Take the situation of an employer that reimbursed an employee for \$2,000 in adoption-related expenses incurred in 1997, when the adop-

tion effort commenced, and \$3,000 of expenses incurred in 1998, when the adoption was completed.

In that situation, the \$2,000 of employer-provided reimbursement in 1997 would be excluded from the employee's taxable income that year, while the \$3,000 provided in 1998 would be excluded from the employee's 1998 taxable income.

However, if the facts were slightly changed and the employee received \$5,000 in employer reimbursement in 1997 and \$2,000 in 1998 the \$2,000 in employer reimbursement would be included in the employee's 1998 taxable income.

The new law also allows individuals to take up to a \$5,000 tax credit—or up to a \$6,000 tax credit for a child with special needs—for adoption-related expenses. Can an employee claim both a credit and an exclusion of employer-provided reimbursement paid in connection with the adoption of a child?

Yes, but only if the credit and reimbursement are for different expenses. For example, assume an employee paid an adoption agency \$5,000 in connection with the adoption of a child. In addition, the employee's company reimbursed the employee for \$5,000 of legal expenses the employee paid to an attorney and which were reimbursed by his company.

In that situation, the employee could claim a \$5,000 tax credit, while the \$5,000 in employer-provided reimbursement could be excluded from the employee's taxable income because the credit and exclusion were not for the same expenses. **BI**

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San Diego wrap-up honored in contest

By JOANNE WOJCIK

SAN DIEGO—A groundbreaking wrap-up insurance program for a San Diego sewer improvement project has lowered the city's insurance costs, reduced its workplace accident rate and won it honors in a national contest.

The city is expected to save more than \$20 million in insurance coverage for the greater portion of a \$1.56 billion sewer improvement project by using the owner-controlled insurance program assembled by Sedgwick James of California Inc.

San Diego also is expected to reap additional savings in workers compensation costs since the introduction of open rating in California in 1995 permitted it to convert to a loss-rated plan from a retrospectively rated plan, according to Dan Danilewicz, senior vp in Sedgwick's San Diego office.

The city won one of 10 honorable mentions in the 1996 Technology Achievement Awards competition in the area of finance for a submission titled "Owner Controlled Insurance Program for the Metropolitan Wastewater Department."

"It has to be a team effort. You don't just do it by placing insurance and hoping that you get the savings," Dan Danilewicz says.

The submission was one of 265 entries in this year's contest, sponsored by the National League of Cities, the National Assn. of Counties and the International City/County Management Assn; *Governing* magazine; and Compaq Computer Corp.

The award was the icing on the cake for Jerry Johnson, claims and insurance manager for the city of San Diego, who worked for three years to change the California Government Code to allow the wrap-up.

"We co-sponsored a bill with the city of Fresno to permit the wastewater treatment wrap-up," he recounted. The bill was passed in January 1995.

Mr. Johnson's lobbying efforts won the attention of other municipalities, which banded together to seek passage of additional legislation last year that would allow wrap-up programs for all public construction projects valued at \$125 million or more.

Before these two amendments to the California Government Code were enacted, public entities were not permitted to assemble owner-controlled insurance programs, also known as "wrap-ups."

Wrap-ups have grown in popularity because of the cost savings they can provide, Mr. Johnson explained.

For example, the city of San Diego will save more than \$22 million in construction costs by providing a single policy to cover the more than 300 contractors participating in a portion of the wastewater project valued at nearly \$1 billion.

Under a construction wrap-up program, contractors usually receive workers compensation, general liability, builders risk and excess liability coverage under a single insurance policy purchased by the project's owner.

This allows the contractors to subtract the cost of insurance from

their bids. The project owner then collects premiums from the contractors to pay for the wrap-up policy, which costs far less than the contractors would pay for such coverage on their own.

Additionally, dealing with one insurance company allows "strong, centralized claims handling," Mr. Johnson said.

The Los Angeles Metropolitan Transportation Agency assembled a similar wrap-up program for its downtown subway project, and the Bay Area Regional Transit Authority in San Francisco used one to provide insurance to contractors that built the subway there (*BI*, Sept. 20, 1993).

Both of these entities had to lobby by the California Legislature for exemptions to the Government Code's ban on wrap-ups.

The San Diego OCIP provides the city with \$100 million in total liability coverage underwritten by Argonaut Insurance Co., Agricultural Insurance Co., USF&G Corp., Federal Insurance Co. and Royal Insurance Co.

Argonaut, the primary liability insurer, also serves as the work comp insurer.

Estimated premiums for the current year on primary coverage are \$1 million for builders risk, \$1.1 million for workers comp and \$1.3 million for general liability.

All of the coverage is written on an admitted basis in California.

Besides providing insurance, the San Diego OCIP, which began in July 1994, also includes a comprehensive risk management program that has reduced contractors' work injury incident rate to 3 or 4 per 100 employees per year, far below the normal incident rate of 14 to 15 per 100 employees for similar projects.

By implementing the wrap-up, the city "is currently realizing lower insurance costs due to volume discounts, control, broader coverage, higher limits, elimination of overlapping coverages, a better managed safety and claims management program and return of premiums to the city," wrote William J. Hanley III, deputy director of services and contractors management for the city of San Diego, in his submission to the Public Technology Achievement Award competition.

And, "since the insurance program covers all subcontractors, this makes it easier for minority- and women-owned businesses to qualify for the work, thereby encouraging minority and women participation," he said.

Furthermore, the city has significantly more control over its construction program because with the central claims handling under a wrap-up, the contractors are required to provide incident reports and other claims-related information to the construction manager, who in turn forwards it to the broker and the primary insurer rather than directly to state authorities, Sedgwick's Mr. Danilewicz explained. And with the cost savings, the city has more resources to apply to staff functions such as safety and loss control monitoring, he added.

"This is definitely a team effort involving the client, the construction manager, the consultant, the insurance carriers and the broker," Mr. Danilewicz said.

"We all work together, we have committee meetings once a month. It has to be a team effort. You don't just do it by placing insurance and hoping that you get the savings." **BI**

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Long joins Travelers/Aetna as vice chairman

Stanton F. Long, former president of AIG Claim Services Inc., has joined Travelers/Aetna Property Casualty Corp. as vice chairman with responsibilities for the company's claims and related customer service functions. **Anthony J. Galio**, former chief operating officer, succeeds Mr. Long at AIGCS.

Other supplier changes:

Karen P. Gordon joined Alburger Basso de Grosz Insurance Services in Belmont, Calif., as vp in charge of the corporate risk services department, with responsibility for managing all national and international consulting on directors and officers liability, professional liability and employment practices liability programs.

Healthcare Recoveries Inc., the Louisville, Ky.-based provider of subrogation services to the health care payer industry, announced several new appointments: **Douglas R. Sharps** named executive vp with responsibilities for HRI's legal, finance, accounting and operations support areas; **Debra M. Murphy** named senior vp-sales and marketing; **Bobby Tokuu** named senior vp-systems; and **John R. Combs** named senior vp-operations.

Scott E. Ziemba joined the Chicago office of Watson Wyatt Worldwide as a senior health care consultant and Midwest region practice director for the group and health care benefits practice.

Barton W. Bracken, former vp of United HealthCare Corp. and president of its Integrated Health and Disability Services business unit, named president and chief executive officer of Reed Group Ltd., the Denver-based provider of disability management products and services.

Sandy Shrader named senior vp-client services for CorporateFamily Solutions in Nashville.

Kevin Kelly, founder and senior consultant of Enlightened Influence Inc. in Blauvelt, N.Y., named senior vp-marketing, sales and strategic relations for Insurance Technology Services of America Inc. in Peabody, Mass.

Howard Golden has joined William M. Mercer Inc. in New York as a consultant and attorney. Previously, Mr. Golden was a principal at Kwasha Lipton L.L.C.

Janet Grace joined the Phoenix office of Buck Consultants Inc. as principal and compensation consultant.

Comings & Goings

Theresa J. Boggus has joined Workplace Medical Solutions, an Atlanta-based workers comp management company, as vp-sales and marketing.

A. Stephen Alexander named senior manager-human resources strategies group at Deloitte & Touche L.L.P. in Los Angeles.

Ralph D. Rambach named vp-finance for the Blue Cross & Blue Shield Assn. in Chicago. Previously, Mr. Rambach was vp and chief operating officer of Columbia LaGrange Memorial Hospital in LaGrange, Ill.

Lamar Alexander, former U.S. Secretary of Education, named vice chairman of CorporateFamily Solutions in Nashville.

Maria W. Grant named a principal in the human resources strategies group of Deloitte & Touche L.L.P. in Minneapolis.

Insurers

Michael S. McGavick named president of Chicago-based CNA Financial Corp.'s CNA Commercial Insurance business unit. He replaces **Thomas J. Grzelinski**, who retired in April.

Mr. McGavick will be responsible for running the day-to-day operations of the unit and will report to Carolyn L. Murphy, president of CNA Commercial Operations. Previously, Mr. McGavick was executive vp and senior financial officer of CNA Commercial Insurance.

In other insurer changes:

Joel P. A. Thompson joined New York-based Reliance National Insurance Co. as vp in charge of the health care division with responsibility for such products as medical, provider, prescription drugs and mental health substance abuse stop loss.

Also in Reliance's health care division, **Lindsay Rossano** joined as vp-health care technologies. Previously, Ms. Rossano was vp and founder of CNA's advanced technology unit.

Thomas W. Devine named vp and chief financial officer of GAN North America in New York.

Christine M. Modie named to the newly established position of senior vp and chief information officer of Travelers Life & Annuity Co. in Hartford, Conn.

Daniel McCormick joined National American Insurance Co. of California as vp-marketing in Rancho Dominguez, Calif. Previously, Mr. McCormick was vp-marketing for Golden Eagle Insurance Co. in San Diego.

Travis Lee Brank named vp-product management for The Seibels Bruce Group Inc. in Columbia, S.C.

Stuart G. Sadwin named vp and associate actuary at General Accident Insurance Co. in Philadelphia, with responsibilities for the commercial lines pricing area of the actuarial/data management/state filing division.

Kevin M. Quinley has been promoted to senior vp-risk services for Hamilton Resources Corp., a subsidiary of MEDMARC Insurance Co. Inc., both in Fairfax, Va. Mr. Quinley takes the newly created post after serving as vp-risk services. He directs MEDMARC'S risk management, loss prevention and claims management services.

Agents/brokers

Aon Risk Services Inc. of Illinois announced several appointments in its Chicago office: **Frank Burke** and **Ruth Joplin** named executive vps; **Dan Chrisman**, **Pat DeLeonardis**, **Tom Deneen**, **Ed Dulli**, **Tom Joslin**, **Joe Klein** and **Rose O'Brien** named senior vps; and **Maggie Biri**, **Tom Fitzgerald**, **Kristine Fletcher**, **Rebecca Gilman**, **David Glenn**, **Karen Kozik**, **Kathy Kulak** and **Tom Lentz** named vps.

In other broker changes:

Myles A. Murakami named senior vp of Johnson & Higgins of Hawaii Inc. in Honolulu.

Winston L. Howell named executive vp and branch manager of Kaye Insurance Services of California Inc. in Beverly Hills. Mr. Howell formerly was vp-special programs for Arthur J. Gallagher & Co. in Denver.

David B. Nichols named senior vp and chief operating officer of Palmer & Cay of Virginia Inc. in Richmond. Also, **Glenn Mozingo**, vp, named manager of the commercial insurance division, and **William J. Miller** and **Ronald W. Studer** named vps.

Bart Bates joined Near North Insurance Brokerage as vp-national accounts in Chicago. Previously, Mr. Bates was vp-global brokering for Marsh & McLennan Cos. Inc. in Chicago.

\$114.25 each on Dec. 2, and now directly and indirectly holds 3,086 common.

Frank J. Hoenemeyer, director, purchased 112 shares of common at \$114.25 each on Dec. 2, and now directly holds 13,139 common.

Dean P. Pypers, director, purchased 112 shares of common at \$114.25 each on Dec. 2, and now directly holds 9,369 common.

AIG stock closed at \$108.50 a share on Jan. 3.

Berkshire Hathaway Inc.: **Malcolm Greene Chace**, director, indirectly sold 570 shares of class A common at \$32,800 each from Nov. 13 to Nov. 26, and now directly and/or indirectly hold 501 class A common and 20 class B common.

Berkshire Hathaway stock closed at \$33,700 a share on Jan. 3.

Chubb Corp.: **Douglas A. Batting**, vp, exercised an option for 2,100 shares of common at \$15.11 each on Nov. 27. To cover expenses of the transaction Mr. Batting turned in 591 of them for \$53.89 each on Nov. 27 and now directly and indirectly holds 13,919 common.

Randell G. Craig, vp, exercised an option for 8,095 shares of common between \$33.38 and \$41.78 each on

Nov. 21. To cover expenses of the transaction Mr. Craig turned in 5,480 of them for \$54.06 each on Nov. 21 and now directly and indirectly holds 10,671 common.

Robert P. Crawford, vp, indirectly sold 800 shares of common at \$51.00 each on Nov. 8, and now directly and indirectly holds 30,040 common.

David S. Fowler, vp, exercised an option for 4,095 shares of common at \$17.50 each on Nov. 8. To cover expenses of the transaction Mr. Fowler turned in 1,400 of them for \$51.19 each on Nov. 8 and now directly and indirectly holds 27,996 common.

Donn H. Norton, vp, sold 1,44 shares of common at \$49.88 each on Nov. 1, and now directly and indirectly holds 10,392 common.

Chubb stock closed at \$56 a share on Jan. 3.

Insider Trading, compiled by Investor/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.

Reinsurers

John G. Bidwell, president and CEO of Winterthur Reinsurance Corp. of America, will retire from the New York-based company March 31. **Robert C. Wood**, senior vp and COO, will succeed Mr. Bidwell.

Pete Bellisano joined Swiss Re Atrium Corp. as vp-information technology in New York. Previously, he was vp-MIS development at Centre Reinsurance.

James E. Shuell named vp-domestic insurance company operations/treaty.

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Secretaries, Treasurers, controllers and other Financial Personnel	2,827
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	17,307
Sub-total	29,775
Associations	301
Government, Unions and Educational Institutions	969
Commercial Consumers	31,045
Insurance Agents and Brokers	8,664
Insurance Companies	7,831
Accountants, Actuaries, Attorneys & Consultants	3,148
Adjusters, Appraisers, TPA's, Captive Managers & Health Care Providers	1,880
Others Allied to the Field	630
Total Qualified	53,248
Non-qualified	12
Single Copy Sales	40
TOTAL CIRCULATION	53,300

* Source Business/Occupational breakdown of qualified circulation, May 27, 1996 Issue, as submitted to BPA for June 1996 BPA Publisher's Statement

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Insider Trading

American International Group Inc.: **Lloyd Bentsen**, director, purchased 112 shares of common at \$114.25 each on Dec. 2, and now directly holds 2,260 common.

Pei Yuan Chia, director, purchased 112 shares of common at \$114.25 each on Dec. 2, and now directly holds 1,224 common.

Marshall Cohen, director, purchased 112 shares of common at \$114.25 each on Dec. 2, and now directly holds 2,025 common.

Barber B. Conable, director, purchased 112 shares of common at \$114.25 each on Dec. 2, and now directly holds 5,175 common.

Martin S. Feldstein, director, purchased 112 shares of common at \$114.25 each on Dec. 2, and now directly and indirectly holds 12,343 common.

Axel I. Freudmann, vp, exercised an option for 797 shares of common at \$21.38 each on Nov. 8, and now directly and indirectly holds 5,524 common.

Carla Anderson Hills, director, purchased 112 shares of common at

Recall

Continued from page 2

The dolls have mechanical mouths, powered by batteries, intended to eat plastic food that comes with the dolls. In at least 100 instances, though, children's fingers and hair have been caught in the moving mouths. No serious injuries have occurred, though.

"We have no idea how many will come back," said John G. Pinner, assistant treasurer for the El Segundo-based toy manufacturer. "It could end up being a considerable amount of money. I can't think of anything

this size over the 30 years that I've been here that has happened. It certainly hurts, but it's part of the cost of doing business," he said.

Product recall coverage that would have covered Mattel's costs is available, but Mr. Pinner considers the coverage "not very prudent" for Mattel, considering its track record of product safety and the price of the coverage.

Instead, Mattel, which reported \$3.21 billion in 1995 revenues, will retain the entire cost of the recall, incurring the expenses as a charge against earnings.

The recall "is strictly something we're doing because of the fact we

feel it's the proper thing to do," Mr. Pinner said. "There have been absolutely no serious injuries," he stressed.

"Nonetheless, we remain deeply concerned with the satisfaction of all our consumers and in maintaining their long-standing confidence in the safety and value of our toys," Jill E. Barad, Mattel's chief executive officer, said in a release.

Risk management experts agree the recall was a good move that will reduce public relations exposures.

"I don't see (the doll) as a major product liability exposure," said Ron Nichols, president of Countrywide Services Corp., a product liability

claims management firm in St. Louis. "It's more of a public relations exposure simply because when you

'It's very expensive to recall. To me, they are doing the right thing,' says J. Steven Hunt of Sedgwick James Inc.

think of Mattel, you think of the premier toy company in the U.S. You don't think of toys that cause hair to

be pulled out or bruised fingers or any other problems that result in complaints."

Indeed, pulling the product back "does not make sense from a risk standpoint" because the risk of serious harm is not great, said Richard S. Betterley, president of Betterley Risk Consultants Inc. in Sterling, Mass. It makes sense from a business standpoint, though, "because the damage it causes by leaving the product so suspect in the minds of consumers."

Overall, "I would salute them," said J. Steven Hunt, managing director of corporate risk control consulting at Sedgwick James Inc. in Columbia, S.C.

"It's very expensive to recall. To me, they are doing the right thing," he said. Manufacturers that try to cover up incidents or try to downplay them "are just asking for trouble from a liability standpoint," he said.

However, some risk management experts question why the risk of hair or fingers being caught in the doll's mechanical mouth was not detected during pre-market testing.

"From a product liability perspective, if you are a manufacturer putting a product out to be used by young children, the degree of responsibility increases substantially in respect to making sure the product is safe," said Mr. Nichols of Countrywide. "The big question here is whether (Mattel) fully complied with the added degree of responsibility they had.

"It seems to me, since it became such a big problem all of a sudden, if they had done testing as they say they did, they should have discovered it," Mr. Nichols said.

"The funny thing is, it just didn't occur to someone," said Mattel's Mr. Pinner. The doll was market tested by 3- to 5-year-old children as well as engineers, and "nothing came out of those tests."

"It's a good exercise in how the inability to see the future can come back to haunt you," commented Mr. Betterley.

Experts disagree on the adequacy of Mattel's initial decision to put warning labels on the packages as opposed to recalling the dolls when the incidents first gained media attention.

A Mattel spokeswoman said the labels were put on the packages to make parents aware of how to turn the doll off if needed, and to warn parents to take extra precaution if a child has long hair.

The warning label, while logical, was "the wrong step," according to Mr. Betterley. Manufacturers should "get a product off the shelf immediately when it begins to get (negative) attention by the national media," he said. A warning label "does not make a damaged reputation go away."

"One thing that I thought was a little unusual was once it became obvious there was a problem, (Mattel) was a little slower to address it specifically with a recall," agreed Mr. Nichols. "What good do warnings do when the product is used by a 2-year-old child who can't read" or a neighbor's kid who plays with the doll and whose parent has not warned him or her about the danger?

"I don't think a warning label is the answer," he said.

Sedgwick's Mr. Hunt, however, said, "The nature of the case merits (a warning label)."

In contrast, he said, "if the first case was a death case, I would have gotten on T.V. and told people to pack it up and send it back."

Warning labels are a "classic thing to do," he said. "Obviously children can't read. But parents supervise children, and that's a way to educate parents to use the doll in the intended fashion not unintended." **BI**

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Storms

Continued from page 1

buildings, according to Jeff Gullickson, managing executive of Sedgwick James of Washington Inc.'s Yakima office.

"We've had some definite damage in the central part of the state from building collapses," he said.

So far, Sedgwick's Yakima office has received 30 claims and anticipates receiving 50 more. Most of the claims are expected to be filed by fruit and hop storage facilities, and commercial property insurance would cover much of these losses.

Not including business interruption losses, Mr. Gullickson estimates claims from those facilities alone will exceed \$50 million.

Overall, insured damage from the storm is estimated at \$135 million, about half of the total winter storm losses now expected in the five-state area.

Audio equipment manufacturer Carver Corp. last week reported that a roof section at its manufacturing and corporate headquarters in Lynnwood, Wash., north of Seattle, collapsed. The collapse is hindering its ability to accept and ship orders during one of the busiest times of the year, which is expected to have a negative impact on revenues, the company said.

"Fortunately, no one was injured when a section of our roof collapsed and virtually none of our finished goods inventory was damaged," said Stephen M. Williams, president and chief executive officer. "The company is fully insured for losses caused by an interruption to its business and damage to its property."

So far, 29 claims totaling \$34 million have been filed by apple processing plant operators in Washington's Columbia River Valley with agribusiness insurer Mutual Service Insurance Co. of St. Paul, Minn.

Approximately 70% of the losses will likely be related to property damage, while the remainder will include lost inventory and business in-

terruption losses, a spokeswoman for the insurer said.

To mitigate the losses, Mutual Service has sent an apple marketing expert to Yakima to meet with policyholders.

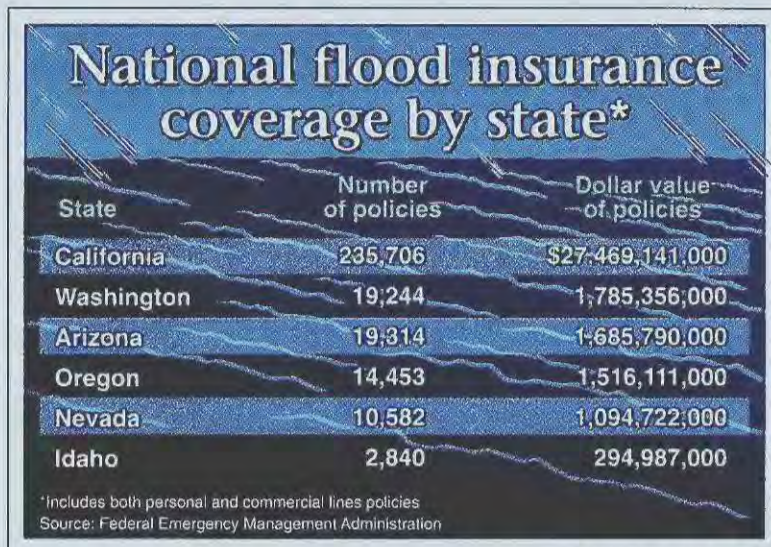
"We've got an apple expert talking to them about what to do from a marketing perspective, whether to flood the market with apples now or to move them and store them elsewhere," the spokeswoman said.

"I've got a feeling that juice prices will go way down, but apple prices will go way up" later in the year, she said.

Many farmers also have suffered severe property damage from the flood waters. Floods have damaged barns, fences, tractors and other expensive farm equipment. Wells, pumps and irrigation equipment also have been damaged.

And flood damage could limit the operation of California farms for months as farmers cope with damage to their farms, homes, land and equipment, the spokesman pointed out.

"Long-term effects may depend on how long the land remains flooded," he said.



GRAPHIC BY TONY BUCCINI

While the floods in Northern California came during the dormant season between harvests, there are some crops at risk, according to a spokesman for the California Farm Bureau Federation in Sacramento.

For example, as much as 10% of the winter wheat crop could be lost due to flooding, he said.

In addition, some dairy farmers have lost livestock in the flood waters, and the stress of moving surviving cows to higher ground could lower their milk production, according to the spokesman. Losses related to the herd or yield reductions would be covered only under flood coverage.

Few California farmers purchase flood insurance, he said, so the losses are likely to be passed on to consumers in the form of higher milk and produce prices.

Since the growing season hasn't yet started in flood-soaked Northern California, growers for San Francisco-based Del Monte Corp. suffered no crop damage.

"If the rains were in March or April we'd be in much, much tougher positions," said Ed Frackiewicz, director of risk management in San Francisco.

However, the food packaging and canning company did have a small

loss in Washington, where a warehouse developed a small leak in the roof because of the snow and ice buildup.

Fortunately, everything in the building was in cans, and those cans were not dented or damaged. But they might have to be re-labeled, which will cost between \$25,000 and \$30,000, Mr. Frackiewicz estimated.

That cost will fall within the company's \$250,000 self-insured retention. Del Monte's property insurer is Allianz Insurance Co. of Burbank, Calif.

Meanwhile, Del Monte is talking with the building contractor to investigate the cause of the leak, because the structure is only one year old.

Del Monte has two plants in Washington state and six or seven in California.

Dole Food Co. also had no insured losses from either the flooding in California or the snow in Washington, because it's between harvests, according to Ruth Chapman, corporate risk manager in Westlake Village, Calif.

Dole purchases insurance on crops only after they've been purchased from growers, she said.

But Dole is concerned with the weight of the snow on the roofs of the company's new, state-of-the-art apple storage buildings in Washington, she added.

Company workers have been clearing snow off the roofs, and contractors have been summoned to examine the buildings' structural integrity, according to Ms. Chapman.

Because California walnut trees are in their winter dormant stages right now, they are not expected to be damaged by the flooding, said Sam Keiper, vp of member services for Diamond Walnut Co. of Stockton, Calif.

"Now the trees can tolerate a lot of flooding that won't hurt them in the short term," he said.

Walnut trees can be damaged by floods in two ways, he explained: Either by soil erosion from the inflow of water into the fields, or, "probably more devastating is a soil-borne or-

ganism brought in by the flood waters."

This root rot organism that causes disease and destroys the trees over the course of three to five years occurred after the floods of 1983 and 1986, according to Mr. Keiper.

"Probably the biggest loss won't show up right away," he said.

Walnut growers purchase their own insurance during the growing season, but Diamond covers the crops after purchase.

Mr. Keiper said he was planning to meet with growers late last week to gauge damages.

Although the majority of flood losses will be uninsured, flood insurance purchases have increased 16% since the January 1995 floods that hit several parts of the country, according to a spokesman for the Federal Emergency Management Agency, which administers the National Flood Insurance Program.

"There's a renewed interest in flood insurance each time there's a big flood that catches their attention," he said. "Gradually, more and more people are coming to realize that their comprehensive homeowners policies don't cover floods."

In addition, FEMA launched a public education program in the fall of 1995 to acquaint businesses and individual property owners of the need and availability of flood insurance.

Businesses can purchase up to \$500,000 in primary flood insurance for structures and \$500,000 in content coverage from the Federal Insurance Administration.

Premiums vary by risk and by the size of deductible.

Premiums set by FEMA fund flood insurance claims and program operating expenses. Coverage is available from any licensed insurance agent or broker.

If losses exceed the program's resources, FEMA has the authority to borrow funds from the U.S. Treasury. But it must pay back the loan with interest out of future premiums. **BI**

Dear

Continued from page 1

"We had a stormy period at the beginning" of that Congress in 1995, he said.

Legislation to overhaul the agency was introduced in both the House and Senate, and a measure drafted by Rep. Joel Hefley, R-Colo., would have abolished OSHA altogether.

Restrictions were placed on what OSHA could and could not do, specifically regarding a controversial proposed ergonomics standard that the House initially banned OSHA from even researching—let alone promulgating.

However, by the end of the 104th Congress last fall, OSHA's budget was increased 7%, the ban on ergonomics research was dropped and the Occupational Health and Safety Act remained unamended.

Mr. Dear said the fact that OSHA ultimately remained untouched by congressional reform vindicates its reinvention efforts.

In addition, "I think OSHA's stakeholders believe the new direction we started is worth pursuing," said Mr. Dear.

He noted that Vice President Albert Gore Jr. remains committed to the effort and that the man who selected Mr. Dear to head OSHA—President Clinton—will also choose his successor.

Last Thursday, outgoing Labor Secretary Robert Reich praised Mr. Dear for having made OSHA

"a model of reinvention" as he announced that Gregory R. Watchman, the deputy assistant secretary in charge of OSHA, would serve as acting OSHA chief effective Jan. 11.

Before joining OSHA in 1995, Mr. Watchman had served on the staffs of the Senate Labor and Human Resources Committee and the House Education and Labor Committee.

At a conference in Chicago last week, Mr. Watchman said that he

the least, to create standards," Mr. Dear said.

He said that the original effort was like the Clinton health-care initiative in a "microcosm."

It was a sweeping initiative for which there wasn't any appetite and, according to Mr. Dear, there is no question that the controversy over the ergonomics draft was a setback.

Looking at what lies ahead for his yet-to-be-named full-time successor, Mr. Dear said that the

idea of using third parties to certify OSHA compliance, which was promoted in the last Congress by Sen. Judd Gregg, R-N.H., is "an emerging idea."

"It's a big idea. Sometimes it takes a while for big ideas to be feasible," said Mr. Dear.

Among the questions that will have to be answered is what liabilities are assumed by employers that contract with third parties, what role insurance will play, who will accredit the third-party inspectors and how the independence of the third-party inspectors can be guaranteed, Mr. Dear said.

At the end of the briefing, Mr. Dear was asked to assess OSHA's performance.

"It continues to get better, but it could get better faster. That's the challenge I leave to my successor," he said. **BI**



'(OSHA) continues to get better, but it could get better faster. That's the challenge I leave to my successor,' Joe Dear says.

would continue to push Mr. Dear's reinvention initiatives, including helping employers comply with OSHA regulations, emphasizing results rather than red tape and promoting common-sense regulation.

Mr. Watchman also said ergonomics would remain a focus of OSHA.

Mr. Dear said that the agency would press forward on developing an ergonomics standard, though it would not start with the controversial draft standards released in 1995 (BI, March 27, 1995).

"It's going to be difficult, to say

Lloyd's bans Merrett from underwriting

By SARAH GODDARD

LONDON—Former Lloyd's of London underwriter and Deputy Chairman Stephen Merrett has been banned from underwriting at Lloyd's and will double an interim payment to members of his loss-making syndicates as part of a settlement negotiated by Lloyd's to end member litigation.

Mr. Merrett personally paid £500,000 (\$847,300) as part of an interim payment to the Merrett 418 (1985) Names Assn. ordered last February by the High Court (BI, Feb. 26, 1996). This amount, which has sat in escrow, will be doubled by Mr. Merrett as part of a recent agreement the Merrett Names Assn. reached with Lloyd's, said John Mays, the group's chairman.

The settlement payment is subject to several conditions, according to Mr. Mays, including the approval of the Merrett Names Assn. The group will hold a general meeting of its 1,930 members at the end of January to vote on the offer.

In addition, the deal between Mr. Merrett and Lloyd's, struck Dec. 31, bars him from working in Lloyd's or holding shares in Lloyd's-related companies. Nevertheless, he is allowed to continue as a member of Lloyd's and is registered as a member for 1997.

The deal also calls for Mr. Mer-

rett, along with Merrett Syndicates Ltd. and Merrett Underwriting Agency Management Ltd., to drop any appeal of an October 1995 High Court judgment that found Mr. Merrett and the agencies deliberately concealed information from members (BI, Nov. 6, 1995). The February 1996 interim payment stemmed from this suit.

The two agencies have agreed to pay Lloyd's about £2.2 million (\$3.7 million) as their share of agents' contribution to the reconstruction and renewal settlement. They earlier had withdrawn from the settlement offer when Mr. Merrett was specifically excluded, according to a Lloyd's spokesman.

In return, Lloyd's has dropped its internal inquiry into both Mr. Merrett and the agencies. Under Lloyd's regulations, Mr. Merrett could have received an unlimited fine and a complete ban from the market.

Mr. Merrett is believed to still owe Lloyd's £90,000 (\$152,500) to settle his personal losses. He was placed on a restricted list last year of Lloyd's members whose agencies made huge losses or who individually discredited the market. The 134 market executives on the list generally were barred from receiving full shares of reconstruction and renewal settlement money.

KFC

Continued from page 2

demands and are not under a duty to surrender their property to protect third persons from possible injury.

"Moreover, we have no basis upon which to conclude that compliance actually prevents injury to robbery victims," he wrote in agreement with KFC and an amicus brief filed by American International Group Inc. AIG declined to comment.

Dissenting Justice Joyce L. Kennard wrote that a general duty of reasonable care exists for the safety of customers. Jurors should decide if reasonable care has been met, she said. Justice Kathryn Mickle Werdegard agreed.

Justice Stanley Mosk called the majority opinion harsh and unjust. He said that under the decision, no matter how insignificant a business owner's property, or how slightly it is jeopardized, the business is never required to subordinate its property regardless of how many customers are involved or how gravely they are threatened.

Retailers say the ruling relieves them of a legal burden in cases where they also are victims of crime.

"That is good news because court rulings have gone against retailers, property owners, motel owners (and others) who have a violent act occur on their property," said Kathryn T. McGuigan, director of risk management and benefits for Los Angeles-based restaurant operator Sizzler International Inc. "We have been trying not to get stuck with that liability."

"There are cases in California where (courts have) gone as far as stating that if you expect someone will be parking in a parking lot across the street from your establishment to come to your establishment, even though you don't own or operate that parking lot, you would still have a duty to provide security and make sure that person got to their car," she said.

In the KFC restaurant robbery, the thief shoved a gun in a customer's back, took her wallet and demanded that an employee empty the cash register.

The worker hesitated and said she had to retrieve a cash register key from the back. The robber grew agitated and shoved the gun harder into the customer's back. The customer, Kathy Brown, screamed for the employee to comply, according to the court. The employee eventually complied, and the robber fled with the loot.

Ms. Brown's attorney, Richard F.G. Thomas, did not return a telephone call for comment.

Ms. Brown sued for emotional distress, medical expenses, loss of wages and earning capacity, according to the court. She claimed KFC failed to provide proper security and properly train its employees in how to respond to crime.

KFC moved for summary judgment, arguing it did not owe Ms. Brown a duty to protect her against the violent acts of unknown third parties on its premises. KFC also argued it did not fail to provide proper security or employee training. The superior court denied the motion and KFC appealed.

The California Court of Appeal, 2nd Appellate District, found

against KFC, concluding that a duty to comply would protect patrons from increased risk and harm created by "misguided attempts to resist or overwhelm an armed robber."

The high court disagreed.

"We are pleased with the outcome as we believe we did everything within reason in the particular scenario involving Kathy Brown, including properly training our employees to deal with robbery and holdup situations," said Chris Mandel, director of risk management for KFC Corp. in Louisville, Ky.

Despite the lessening of its potential liability, KFC will continue training employees in emergency response, a company spokeswoman said.

Irvine, Calif.-based Taco Bell and Los Angeles-based Atlantic Richfield Co. filed amicus briefs on behalf of KFC.

"(Retailers) are no longer subject to legal liability if they tell their employees do what they think best," said Roy Weatherup, an attorney with Haight, Brown & Bonesteel in Santa Monica, Calif. He represented Atlantic Richfield and Taco Bell.

"The court of appeals decision was quite alarming to many retailers because it imposed a legal duty to comply with the demands of an armed robber," he said. "If that had stood, then employers would have to tell their employees do whatever the robber says, regardless. That might be good advice in some situations and not in others."

Kentucky Fried Chicken of California Inc. vs. The Superior Court of Los Angeles County, No. S051085.

Oklahoma

Continued from page 1

ment, according to the agreement.

The agreement, announced last week by Oklahoma Insurance Commissioner John P. Crawford, is limited to employers with self-funded health care plans that are administered in Oklahoma. The state Insurance Department estimates the agreement could affect as many as 1,000 self-funded plans covering about 100,000 employees and dependents.

Commissioner Crawford hailed the agreement as pro-plan participant.

"Hopefully, we will be able to help more of our citizens. What this means to the average person is that they will now have a place to go locally with disputes with their self-insured companies over health care benefits," he said.

Labor Department officials also welcomed the agreement.

"This seems like a win-win-win situation," said PWBA Regional Administrator Bruce Ruud. "They (the Oklahoma Insurance Department) are giving us a hand," he added.

Commissioner Crawford said in 1995 he approached—with support from the Oklahoma congressional delegation—Labor Department officials for a pilot program to enable the department to help employees with claims disputes from employers with self-funded plans.

The commissioner said he was frustrated because when employees in self-funded plans had claims complaints, the department could not intervene, even to obtain basic plan information.

That is because under the Employee Retirement Income Security Act, states are pre-empted from

regulating employee benefit programs. That authority rests with the federal government, principally the U.S. Department of Labor.

"We had no authority to help resolve problems, because by law, that has been the sole domain of a federal agency. So, when people called us to complain, all we could do was refer them to Washington

'While on its face the agreement seems innocuous, I still have a problem with the whole thing,' says Mark Ugoretz.

or Dallas. It was very frustrating for all concerned," Commissioner Crawford said.

With last week's agreement of mutual assistance—the first of its kind and authorized under Section 506 of ERISA—Commissioner Crawford says he will be as aggressive as possible in investigating and resolving health care claims disputes.

Federal officials, though, caution that the agreement does not give the Oklahoma Insurance Department authority to legally resolve claims disputes, such as by filing suit.

"The Insurance Department cannot take legal action," said Mr. Ruud, the PWBA regional administrator in Dallas. If litigation action is necessary, the Labor Department would file suit, he said.

Similarly, the state of Oklahoma would have no authority to impose state-mandated benefit requirements on self-funded plans.

Despite the limited nature of the agreement, which federal officials describe as one centered on giving

the Oklahoma Insurance Department greater ability to get health care plan benefit information from employers—not a delegation of investigative or legal authority under ERISA—employer benefits lobbying organizations and others are concerned the agreement could lead to state interference with employee benefit plans.

"While on its face the agreement seems innocuous, I still have a problem with the whole thing. Who wants an insurance commissioner banging on your door every time there is a complaint?" said Mark Ugoretz, president of the ERISA Industry Committee, a Washington-based benefits lobbying group representing large employers.

While the Oklahoma program is a pilot and is for only two years, Mr. Ugoretz worries that such agreements could spread, significantly complicating benefit administration for multistate employers.

"What if there were 50 of these and each of the 50 insurance commissioners interpreted its authority (under Labor Department) agreements differently? That could raise many of the same problems employers would have under a 50-state regime" of regulation, Mr. Ugoretz added.

Another employer group—the Assn. of Private Pension & Welfare Plans in Washington—says the agreement could be "innocuous, or it could indicate a very significant encroachment by states into the regulation of self-insured plans."

Both the Labor Department and the Oklahoma Insurance Department say that at a minimum the agreement will provide policymakers with important information about the volume, type and resolution of complaints involving self-funded health care plans. **BI**

Updates

Lowndes in merger talks

LONDON—Lowndes Lambert Group Holdings P.L.C. is in merger talks with Fenchurch P.L.C.

The two brokerages announced Friday the "possible merger of the companies" after market speculation Thursday led to a 6 pence (9 cent) rise in Fenchurch stock to 58 pence (98 cents) per share.

"We're in discussions which may lead to a merger," Lowndes Lambert Chief Executive David Margrett said last week. More details are expected in a few weeks.

Stock analysts say the merger is likely to be a takeover of Fenchurch by Lowndes Lambert following Fenchurch's poor performance in its fiscal year ending Sept. 30. Fenchurch's operating profits dropped 22% to £6.3 million (\$9.9 million) from £8.2 million (\$12.8 million), and pretax profits after exceptional items dropped 43% to £4.8 million (\$7.5 million) from £8.4 million (\$13.1 million).

Fenchurch's gross revenues including investment income rose 10% to £40.3 million (\$63.1 million) from £36.2 million (\$56.7 million).

The merged company would have gross revenues this year of £143.4 million, which at average exchange rates could push Lowndes to No. 11 in the *Business Insurance* ranking of the world's 20 largest brokers, with revenues of about \$224.5 million.

That potential ranking takes into account recent merger and acquisition activity.

Lloyd's analyst foresees profits

LONDON—Lloyd's of London is on course to earn record profits for the 1994 underwriting year, analyst Chatset Ltd. predicts.

Results for the 1994 account, which closed at year-end 1996 and will be reported in early summer, should exceed the record £1.08 billion (\$1.68 billion) profit set in 1993, Chatset says.

The analyst forecasts Lloyd's will post a global profit of £1.18 billion (\$1.99 billion) for 1994, a trend that will continue in 1995 and 1996 accounts.

"1994 and 1995 are both excellent years," said Chatset Director Charles Sturge, "and 1996 is surprisingly good."

Chatset is predicting a 1995 profit of £985 million (\$1.53 billion) and a 1996 profit of £716 million (\$1.21 billion).

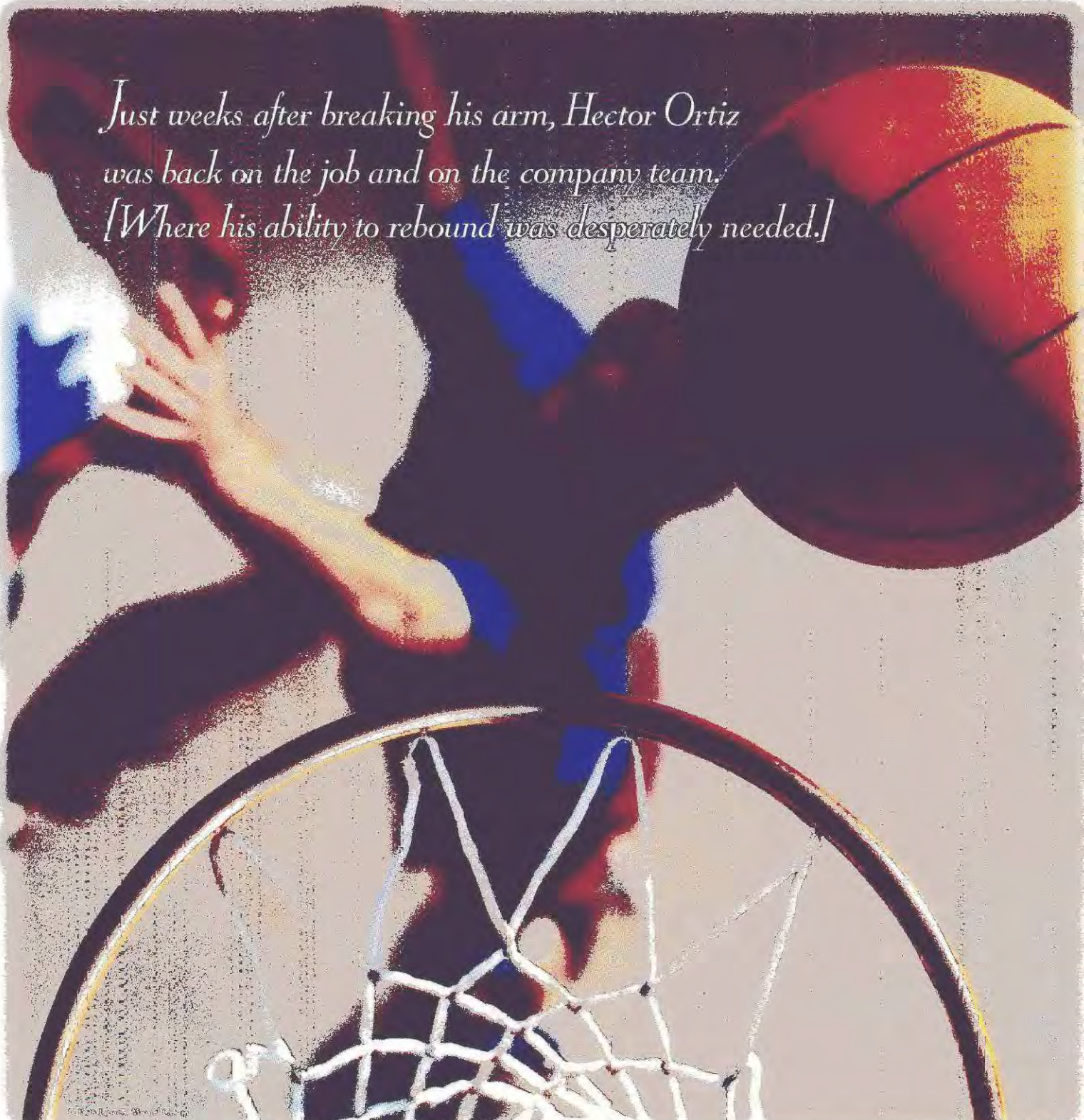
But the effect of decreasing insurance rates will be felt in the future because of the increasing use of multi-year contracts, and he warned that 1998 and 1999 could be lean years for Lloyd's earnings.

Now that Equitas Ltd. has assumed a proportion of syndicate reserves, some underwriters may decide that the 1994 profits could be put to use in strengthening their reserves, artificially deflating the profits distributed to members, said Mr. Sturge, particularly long-tail syndicates that rely on investment income.

Briefly noted

The U.S. Supreme Court next month will hear oral arguments on whether the Employee Retirement Income Security Act pre-empts a New York law that imposes taxes on revenues received by medical facilities operated by a union health care plan. . . . The Texas Senate this week will begin considering **managed care bills**, including one that would hold managed care organizations legally responsible when the denial of medically necessary treatment results in injury to a plan enrollee. . . . Sir David Rowland has been re-elected **chairman of Lloyd's of London** for this year. His deputy chairmen are underwriters John Charman and Ian Agnew. Mr. Agnew replaced John Stace, who completed his term at the end of 1996. . . . Policyholders of the failed **Executive Life Insurance Co.** who declined to participate in the company's rehabilitation plan will receive 92.5% of their account values—far greater than had been expected. In announcing the final asset distribution of \$193.4 million last week, California Insurance Commissioner Chuck Quackenbush said ELIC policyholders who participated in the rehabilitation plan and were fully covered by guaranty associations will receive 100% of their policy values. . . . California's Office of Administrative Law has disapproved the state's controversial **new ergonomics standard** on the grounds it was disorganized and short on crucial details. The move forces state regulators to revise the standard, which also has been criticized by employers and labor as too vague (*BI*, Nov. 18, 1996). . . . Maine employers could pay \$20 million less for **workers compensation insurance** this year. The Maine Bureau of Insurance has approved the average 12.5% reduction in advisory loss costs recommended by the National Council on Compensation Insurance. . . . **Texaco Inc.** was expected to file a definitive agreement last Friday with the U.S. District Court in White Plains, N.Y., to settle its discrimination suit with former African-American employees. The \$176.1 million settlement could be effective as early as March. Texaco also will allow the U.S. Equal Employment Opportunity Commission to monitor the company's employment programs and policies for the next five years. . . . Federal legislation, H.R. 109, introduced last week by Rep. William Clay, D-Mo., would extend the **Family and Medical Leave Act** to employers with 25 or more employees. The 1993 FMLA, which requires employers to offer employees up to 12 weeks of job-protected leave because of various family situations and medical problems, currently only applies to companies with at least 50 employees. . . . **James R. Fisher**, senior vp and chief financial officer of American Reinsurance Corp. and president of American Re Financial Products, will resign effective March 31 to pursue other interests. . . . The U.S. Supreme Court last week upheld a decision last spring by the 6th U.S. Circuit Court of Appeals that would allow the court overseeing **Dow Corning Corp.'s Chapter 11 bankruptcy** case to take control of breast implant litigation against Dow Corning's parent companies, Dow Chemical Co. and Corning Inc. . . . **Blue Cross & Blue Shield of Ohio** and Columbia/HCA Healthcare Corp. have put off the deadline for finalizing their merger agreement until March 31. A key variable in completing the deal will be whether the national Blue Cross & Blue Shield Assn. successfully persuades a court to strip the Ohio plan of its Blues trademark, making a merger less desirable.

WITH OUR POLICYHOLDERS WE ARE ENGAGED IN A GREAT MUTUAL ENTERPRISE. IT IS GREAT BECAUSE IT SEEKS TO PREVENT CRIPPLING INJURIES AND DEATH BY REMOVING THE CAUSES OF HOME, HIGHWAY AND WORK ACCIDENTS. IT IS GREAT BECAUSE IT DEALS IN THE RELIEF OF PAIN AND SORROW AND FEAR AND LOSS. IT IS GREAT BECAUSE IT WORKS TO PRESERVE AND PROTECT THE THINGS PEOPLE EARN AND BUILD AND OWN AND CHERISH. ITS TRUE GREATNESS WILL BE MEASURED BY OUR POWER TO HELP PEOPLE LIVE SAFER, MORE SECURE LIVES.



*Just weeks after breaking his arm, Hector Ortiz
was back on the job and on the company team.
[Where his ability to rebound was desperately needed.]*

Liberty Mutual's managed care is as fast as Hector's fast break. After his accident, Hector's employer called our 24-hour claims service hotline. We found the right doctor to treat him, at the right price. A rehabilitation nurse coordinated a return-to-work plan. And through our on-site rehabilitation program, a therapist worked to help Hector properly do his job and avoid reinjury, so today Hector is back on the job (and on the boards) leading a safer, more secure life.

➤ *There's more information we'd like to share. So please call John Ryan at (617) 574-5842 or visit our website at <http://www.libertymutual.com>*

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