NEWSPAPER

JANUARY 15, 1996

Business Insurance®

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

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London

Brokers

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Property/Casualty Renewal Time

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Updates

Judge declines to issue stay of CIGNA reorganization plan

HARRISBURG, Pa.—A Pennsylvania appellate court judge will not step into the fray between CIGNA Corp. and critics of its reorganization plan—at least for now.

Commonwealth Court President Judge James Gardner Collins on Thursday refused to issue a 15-day stay of any approval order by Pennsylvania Insurance Commissioner Linda S. Kaiser to allow an appeal before the plan is implemented. Some competing insurers and CIGNA policyholders fear that if the plan is approved, CIGNA immedi-

See **Updates** *on next page*

Buyers celebrate continued soft market

By MICHAEL BRADFORD and RODD ZOLKOS

The new year has started off as a happy one indeed for many risk managers who wrapped up their renewals at year-end.

Risk manager report

That is because they found only slight, if any, increases in many property/casualty rates and in most cases were able to negotiate flat or reduced rates.

In addition, insurers didn't haggle much over terms and conditions at renewals, risk managers reported.

Many risk managers said they were content to renew coverages at 1995 limits, sometimes increasing deductibles and retentions to save costs, and most think they got off to a good start with 1996 renewals.

"We just went through a property/casualty renewal Dec. 1 which was a non-event," said Linda M. Young, vp insurance and risk manager for CoreStates Financial Corp. in Philadelphia. "The market seemed to be pretty stable, which was interesting because we did anticipate some increases on the catastrophe side."

Liability coverage costs were "significantly less" for Perdue Farms Inc. in Salisbury, Md., according to Ron Fisher, director of risk management. He said the poultry processor increased its self-insured retention rather than insuring that exposure through a joint captive, as in the past, and also purchased an undisclosed amount of coverage above the re-

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tention.

While it's hard to pinpoint exact savings because of the increased retention, Mr. Fisher believes Perdue Farms shaved a total of about 15% off its automobile liability, general liability and workers compensation costs at year-end.

"There were no give-backs on terms and conditions," said Mr. Fisher, who noted there were even some slight improvements in that area.

The Port of Seattle was able to pocket savings of around $300,000 when it tied up renewals on property, marine liability and automobile liability coverages, according to Rita Mae Chappelle, risk administrator.

Loss control and an adequate retention are partly responsible for keeping costs down, she explained.

The port's marine liability coverage is inexpensive, she explained, because the port self-insures up to $100,000 per incident. "Most of our losses are under that."

The cost of directors and officers liability insurance fell for CoreStates Financial, according to Ms. Young.

Ms. Young said she was aware before the renewal season began that D&O costs were dropping

See **Buyers** *on page 4*

Market ready for continued competition

Insurers see capacity glut preventing rate increases

By MARK A. HOFMANN and MEG FLETCHER

Insurers complain that the commercial property/casualty market is like a snowbound car with an engine that just won't turn over—it shows no sign of moving out of a soft market that's lasted nearly a decade.

Capacity remains more than adequate for most risks, say insurers. Generally, rates are moving down, especially in directors and officers liability.

Insurer report

Increasingly sophisticated customers can take advantage of this buyer's market by demanding—and getting—enhanced loss control services and multiyear policies, insurers note.

Most insurers expect the relative tightness of the market for catastrophe-exposed property to continue. William Smith, senior vp-domestic general insurance at New York-based American International Group Inc., predicts a doubling of rates in catastrophe-prone areas.

But that assessment is not universal. Property rates are easing even in catastrophe areas, one insurer reports.

"In the last couple of years we have seen price strengthening, but that has mitigated at the Jan. 1 renewals, so prices are not rising as

See **Insurers** *on page 14*

1996 JANUARY RENEWALS

Brokers helping clients get more than best rate

By SALLY ROBERTS and MICHAEL SCHACHNER

Brokers renewing insurance policies in January are ringing in the New Year with lower property and casualty premiums for their clients.

A surplus of capacity has not been dented by the catastrophe-related losses of the past several years, brokers report, nor by the merger and acquisition activity of 1995.

Broker report

Excluding earthquake coverage in California and East Coast windstorm exposures, property rates are down and casualty rates are more depressed than ever, prompting some brokers to ask just how much further casualty rates can fall.

To survive the continued soft market, brokers are becoming more innovative. In addition, brokers are expanding existing or creating new products and services for risk managers.

See **Brokers** *on page 10*

London rates are softening

Renewals completed late as buyers seek best deal

By SARAH GODDARD

LONDON—It's happening all over again.

At January 1995 renewals, property and casualty rates in London softened following two strong years for insurers, setting the stage for another downturn in the ubiquitous insurance cycle. One year later, rates have plummeted and for those that are still working on their renewals, rates are continuing to fall.

While that's good news in the short-term for buyers of commercial insurance, it may be a harbinger of more problems down the road for the London market. The changes in pricing resemble the boom and bust cycle of the early 1990s, a cycle that led to high-profile collapses in the London company market and brought Lloyd's of London to its knees. Lawsuits by policyholders and investors trying to sort through those messes are still working their way through the courts.

London market report

Although rates remain stable—or are even rising—in some lines, the general trend is down. This hasn't particularly shocked to reinsurers and brokers, which have been predicting as much for months.

Brokers and reinsurers seem to have correctly predicted that the renewal season would start late as buyers waited for the best deal.

"Even by recent previous years, it started very late," said Stephen Riley, managing director of Swiss Reinsurance Co. UK Ltd. in

See **London** *on page 16*

Updates

Judge stays out of CIGNA fray

Continued from previous page
ately would split into an active operation for ongoing business and a runoff operation for its long-tail liabilities. That would make reversing the reorganization almost impossible, they said.

Judge Collins also refused to order courtroom-type hearings on the plan so critics could cross-examine CIGNA officials and actuaries. Ms. Kaiser, who could rule on the plan this week, held three hearings at which witnesses only read prepared statements.

The judge has not yet released a full opinion. The motions were filed last month by units of American International Group Inc., The St. Paul Cos. Inc. and Chubb Corp. (*BI*, Dec. 25, 1995).

CIGNA is pleased that regulators can make a decision the state Legislature "has deemed is theirs to make," a spokesman said.

The setback for critics, though, would not prevent them from seeking judicial relief, if necessary, after Ms. Kaiser's ruling, said Florence A. Davis, vp and general counsel for AIG in New York.

On Friday, the last day for public comment, several insurer and policyholder critics filed a statement with the department that distinguished CIGNA's plan from recent reorganizations of other insurers—like Home Holdings Inc. and Crum & Forster Inc.—as well as CIGNA's 1994 "mini-restructuring."

X.L. offers primary D&O cover

HAMILTON, Bermuda—Trying to attract policyholders that want all their directors and officers liability coverage from one source, X.L. Insurance Co. Ltd. is now writing primary coverage up to $50 million.

The broad form is only side A coverage, which applies to individuals, not side B coverage, which is for corporations, and it will be offered on a primary and a difference-in-conditions basis.

The primary coverage can be written in combination with X.L.'s excess coverage, which is $25 million excess of $20 million and includes side B coverage. But the maximum limit for primary and excess will be $50 million.

With new approaches to structuring programs and greater appetite for risk, more companies are focusing only on individual coverage, explained Jim Ansaldi, senior vp in the D&O department at X.L.

Other new offerings are: a simplified version of its following form lawyers professional liability policy; a $5 million sublimit for punitive damages on the lawyers policy; following form coverage on its other professional liability coverages; and new policies, with $5 million limits, to cover employment practice and outside director liabilities.

Lloyd's motives questioned

LONDON—Lloyd's of London's large underwriting capacity this year, mainly achieved by taking on more corporate membership, could be a sign that the market wants to discourage investment by individual names, a leading Lloyd's underwriting agency charges.

Lloyd's 1996 capacity of £9.85 billion ($15.2 billion) is "more than many think desirable," says Christie Brockbank Shipton Ltd. in its January market review, CBSL News.

"Given that some managing agents make little attempt to conceal their irritation with traditional names, one is tempted to speculate about a hidden agenda," the review said, referring to a possible attempt to dilute returns to drive out individual investors.

A spokesman for Lloyd's, which first allowed corporate capital in 1994, said both limited and unlimited liability investors are welcome.

Nationwide votes with its feet

COLUMBUS, Ohio—Nationwide Mutual Insurance Co. will cease writing all property/casualty business in Massachusetts and transfer its $23 million book of P/C business to Arbella Mutual Insurance Co.

Claiming that doing business there has become too difficult and expensive, Nationwide last week said Arbella, of Quincy, Mass., will take over its 34,000 policies, most of which are auto policies. No money will change hands in the deal.

Policies will be transferred gradually as they expire, beginning this quarter. Nationwide, which began doing business in Massachusetts in 1961, will continue to write life and annuity business there.

Arbella was formed in 1988 to cover the business of the Kemper Group when it pulled out of Massachusetts.

NAIC executive vp steps down

KANSAS CITY, Mo.—The National Assn. of Insurance Commissioners is searching for a new top staffer after Executive Vp David B. Simmons resigned unexpectedly, effective March 15.

Mr. Simmons, 46, had been with the NAIC for eight years, including four as general counsel. In an interview, he said the recent release of salary data for NAIC executives—including $165,000 for him—was not a factor in his departure. Mr. Simmons said he expects to join a law firm doing regulatory work, preferably in the Kansas City area.

Regulatory policy matters are being referred to Kevin Cronin, the NAIC's Washington counsel who is acting executive vp.

Briefly noted

President Clinton last week signed into law legislation that bars states from **taxing pensions** of retirees who no longer live in the state. It applies to benefits received after Dec. 31, 1995 (*BI*, Jan. 8). . . **Thomas Crawford**, former president and chief executive officer of Southern Heritage Insurance Co., has been named to those posts at Prudential Property & Casualty Co. in Newark, N.J. He succeeds **Larry Sundram**, who is returning to the marketing department. . . **John R. Berger** has been named president of USF&G Corp.'s F&G Re Inc. unit in Morristown, N.J., succeeding **Paul B. Ingrey**, who will become chairman.

D&O good times ending?

Current soft market may succumb to rising claims: Study

By DAVE LENCKUS

The softening directors and officers liability insurance market may not be able to withstand deteriorating claim costs after next year, even with the recent enactment of a federal tort reform law, the author of a new study warns.

Several insurers entered the D&O market last year, which helped boost market capacity, drive down premiums and allow most study participants to renew their policies with improved or unchanged coverage, according to study author Phillip N. Norton.

But, the cost of claims that were paid last year stabilized at more than $4.5 million on average, indicating that a significant increase in claim costs in 1994 was not a fluke, said Mr. Norton, a Chicago-based consultant responsible for the national D&O practice at Watson Wyatt Worldwide.

On top of that, defense costs and the percentage of survey respondents that face D&O claims continue to grow, according to the study, which is scheduled to be released this week.

If those trends continue, they likely will force the D&O market to harden after 1997, though any constriction probably will not match the market turn of the mid-1980s, Mr. Norton predicted.

The Securities Litigation Reform Act—designed to protect companies and their officers from frivolous claims—may not help curb claim costs much, he said. While the new law likely will lead to fewer claims, it also probably will prompt costlier settlements and judgments, he said, a view that many D&O market experts share (*BI*, Jan. 8).

Trending out current indemnity and defense costs, which totaled nearly $5.9 million last year, a D&O claim that is filed in 1995 and is not later dropped or dismissed will cost $11 million on average, Mr. Norton estimated.

D&O defendants also are disposing of officers liability claims in three years—two years sooner than they had been. That gives insurers less time to earn investment income off of their D&O premiums.

"It will take a while for some insurance companies to realize

See **D&O** *on page 45*

Analysts optimistic over HMOs

Earnings outlook better than 1995

By JUDY GREENWALD

Many HMO industry analysts are optimistic about 1996, despite last year's rising expenses, high utilization rates and disappointing earnings.

"Membership gains, which will be announced by the big commercial giants, will be pretty strong," said Thomas Snow, an HMO analyst with Buckingham Research Group in New York.

"I think the high utilization that was experienced in the first half of '95 might well be under control, and hopefully we won't have disappointments there. And commercial premium rates have stabilized" and may be up slightly, said Mr. Snow.

After a poor first half in 1995, HMO stocks rallied later in the year and were "among the very best industry groups by performance at year end," he said.

The eight HMO stocks tracked by the *BI* Industry Stock Report were off 6.6% as of Sept. 1, 1995, but by year end were up 19.9%,

See **Stocks** *on page 42*

Acquisition to expand WellPoint's size, reach

MassMutual unit bought for $380 million

By JOANNE WOJCIK

WOODLAND HILLS, Calif.—Acquiring the group life and health business of Massachusetts Mutual Life Insurance Co. would enable WellPoint Health Networks Inc. for the first time to compete for the business of large, multistate employers.

The proposed $380 million all-cash purchase would "enable us to compete where we had been at a disadvantage in the past," a WellPoint spokesman said. It would also make WellPoint the nation's second-largest publicly held managed care company, with nearly 4 million members in all 50 states. Only United HealthCare Corp. would be larger.

The deal also apparently satisfies disgruntled WellPoint shareholders. They had threatened to oust Chairman and Chief Executive Officer Leonard Schaeffer after the proposed merger with Health Systems International fell apart over a dispute between Mr. Schaeffer and his counterpart at HSI, Dr. Malik M. Hasan (*BI*, Dec. 18, 1995).

At a special Sunday meeting called to determine his fate, shareholders gave Mr. Schaeffer a unanimous vote of confidence. One day later, the deal with MassMutual was announced.

The acquisition, which requires the approval of Massachusetts and California regulators, would

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No U.S. pre-emption found of state suits on air bags

INDIANAPOLIS—Federal vehicle safety standards, which did not require airbags until 1990, do not pre-empt state law product liability suits based on the failure to include air bags in earlier year models, the Indiana Supreme Court has ruled.

The ruling last month allows the estate of a man who died in a 1988 crash of his 1986 Chevrolet to proceed with a suit against General Motors Corp.

GM, which would not comment on the ruling, had sought summary judgment, claiming the suit was pre-empted by the National Traffic and Motor Vehicle Safety Act.

In another air bag ruling, the New Hampshire Supreme Court let a liability suit proceed against Ford Motor Co. (*BI*, Sept. 25, 1995).

In reversing two lower courts, the Indiana Supreme Court unanimously ruled that Congress intended the safety act to allow state common law claims, "thereby providing additional impetus to manufacturers to choose the best safety system."

—By Sally Roberts

Inside

- Reason has prevailed in a ruling on excessive punitive damages, one of this week's editorials says. **PAGE 8**
- Insurers are losing the battle on underwriting, Perspective columnist Donald Holden says. **PAGE 27**
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Blizzard to cost billions but little of that insured

Storm cripples Northeast, but many companies were prepared

The "Blizzard of '96" is unlikely to be seen as the storm of the century as far as insured losses are concerned.

That's not to say that the unusually severe snowfall that blanketed the East Coast last week from North Carolina to New England was a non-event. On Friday, rain and sleet began falling in some areas, causing potential for more losses.

During the blizzard, roads became impassable, government agencies and businesses closed, airports shut down and more than 100 people died. Retailers estimate losses in the billions of dollars as stores closed and shoppers were stranded at home.

Insurers and risk managers alike credit adequate warning and careful preparation as key factors in keeping the blizzard's damage from being worse.

There are no official estimates of insured damage yet, though the American Insurance Services Group's Rahway, N.J.-based Property Claim Services division has classified the Jan. 6-9 storm as a catastrophe, meaning it caused at least $5 million in insured property damage.

Sean Mooney, senior vp and economist for the Insurance Information Institute in New York, measured the storm's possible impact on insurers against that of the "Blizzard of 1993" (*BI*, March 22, 1993).

"We go back in history, and the Blizzard of '93 resulted in $1.75 billion in insured property damage," said Mr. Mooney. He noted that the state that sustained the largest losses three years ago was Florida. But much of Florida's $500 million in damage was agricultural, and "this storm didn't hit that far south, so we'd anticipate less damage to agricultural areas," he said.

That earlier storm didn't paralyze major Northeastern metropolitan areas for days at time, like last week's blizzard. But that is mitigated somewhat by the fact that the 1996 snow is drier and therefore lighter than that of three years earlier.

While there is fear of water damage as the snow melts—the extent of which won't be known until the next thaw—Mr. Mooney said, "balancing it all, we could guesstimate losses lower than '93."

Individual insurers reported relatively few claims by late last week.

State Farm Group in Bloomington, Ill., will classify the storm as a "catastrophe," meaning it will produce at least 1,000 claims and $1 million in losses, but it won't be nearly as bad as the 1993 blizzard, said a spokesman.

"In 1993, between the frozen pipes and related losses, we paid out well over $200 million. This storm won't even

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Smiles among the piles? Logan airport risk managers are cashing in ....**page 46**

Who's watching the kids? Apparently not many blizzard-bound companies ...**page 46**

Wanna bet? Car dealership and insurer nearly lose their snow wager .....**page 46**

AP/WIDE WORLD

The Blizzard of '96 stalled government and businesses throughout the Northeast last week. While initial estimates of insured losses were relatively light, a second storm that hit the region late last week is likely to delay efforts to dig out from the storm and also add to the toll. A chart of other major winter storm losses is on page 47.

Texas comp rates too high: Bomer

Insurers ordered to justify or cut rates

By MICHAEL BRADFORD

AUSTIN, Texas—Seventeen Texas workers compensation insurers are primarily responsible for workers compensation policyholders being overcharged by 4% to 17%; and have until Feb. 1 to justify or reduce their rates, says the Texas Department of Insurance.

If they do neither, they face possible hearings on rate rollback requirements, says the department's chief property/casualty actuary in a letter to the chief executives of the insurers.

Study on costs of opting out of Texas comp. Page 35

The insurers—which through 74 operating companies wrote $290.8 million in 1994 workers comp premiums, or 14.7% of the Texas market—contend that their rates are appropriate and that Texas businesses are paying far less for coverage than in previous years.

Regulators counter that the rates are too high and do not reflect the effect of a 1989 reform law that the State Supreme Court upheld last year (*BI*, Feb. 13, 1995).

"These letters should come as no surprise to the insurance companies," said Insurance Commissioner Elton Bomer. "The carriers have known for months of my concern that workers compensation rates are too high, particularly for small businesses."

Some insurers did actually file rate reductions after Mr. Bomer asked insurers at May 1995 hearing why rates weren't falling faster. Others left rates alone and still others failed to respond to the commissioner's request for information. The department's "patience has worn thin and we're carrying out the responsibility the Legislature gave us to challenge excessive rates," Mr. Bomer said.

State data show that workers compensation losses have fallen sharply since the reform law took effect in 1991. Losses dropped 80.9% to $743.4 million in 1994 from $3.9 billion four years earlier, and over the same time the loss ratio for the line fell to 38.7% from 94.9%.

The insurance department contends that the 17 insurers are the main culprits keeping workers comp rates 4% to 17% too high, based on loss experience, for Texas businesses. Those figures are part of a recent analysis by the department's actuarial consultant, which also indicated that workers comp losses were between 52% and 57% lower than they would have been without reforms.

Under Texas law, workers comp insurers can use rates as soon as they are filed with the insurance department and the commissioner has the authority to disallow the rates after holding public hearings.

If insurers don't cut their rates or justify them to the insurance department, the next step could be hearings, according to a spokesman for the department.

Receiving letters were: Aetna Casualty & Surety Co., Allstate Insurance Co.; American States Insurance Co.; General Accident Insurance Co.; Great American Insurance Co.; Gulf Insurance Co.;

See **Texas** *on page 35*

Grants for work comp initiatives

Foundation seeks to fund medical cost control projects

By MEG FLETCHER

PRINCETON, N.J.—The largest U.S. foundation devoted to health care is seeking applicants for about $6 million in grants to support innovative projects to improve the quality and control the costs of workers compensation medical care.

The Robert Wood Johnson Foundation launched its Workers' Compensation Health Care Initiative program because of concern about workers comp medical costs, which now total $24 billion annually and have increased faster than general health care inflation rates since 1972.

The foundation is encouraged by the recently improved workers comp climate, with states legislating more managed care and insurers charging lower premiums for coverage, according to Program Director Jay S. Himmelstein, assistant chancellor for health policy at the University of Massachusetts Medical Center in Worcester, Mass. However, "the only way we can know what the best approaches are for controlling costs and improving quality is to test them," he said.

The foundation hopes to give away about seven demonstration grants averaging $250,000 over a three-year period.

Grant recipients will be programs designed to develop and implement new models for financing or delivering medical care for workers compensation beneficiaries or test new applications of successful models.

Public and private organizations are eligible to apply for grants, including insurance purchasing cooperatives, state governmental agencies and legislative commissions. An applicant must have "the leadership ability to plan and implement broad reforms in the medical component" of a state's workers comp system, the foundation says.

"Given the nature of the reforms contemplated, lead agencies also must form partnerships with other organizations," including employers, labor unions and health care providers, it added.

See **Grant** *on page 48*

The confidential challenge

Technology creates concern about medical confidentiality

By JUDY GREENWALD

Keeping employee medical information confidential is becoming a growing challenge for employers.

Benefit managers say that medical information is distributed strictly on a need-to-know basis within their companies. Case managers, for instance, may be the only ones to know the identity of a particular claimant.

But medical information rarely stays strictly within the company. The growing use of data bases, more frequent cost-benefit analyses of medical data, and the proliferation of third-party administrators and health maintenance organizations all have led to the wider distribution of employee medical records and the greater possibility that information could fall into the wrong hands.

At the same time, fear of being subject to a patchwork of state laws governing the confidentiality of medical records is leading some benefit managers to call for the establishment of federal standards.

Employers are already keenly aware of the need to keep medical information confidential, observers say. Large employers in particular "are pretty careful about this stuff, and I think they also have some pretty experienced and knowledgeable human resources people who treat any information they come into contact with confidentially by course," said John Hickey, principal with Kwasha Lipton L.L.C. in Fort Lee, N.J. "It's the nature of the human resources function," he added.

Employers are increasingly adopting different procedures to maintain confidentiality, though, said Richard Gisonny, a principal with benefits consultant Towers Perrin in Valhalla, N.Y. They also are becoming more diligent about obtaining employee permission to release medical data, he said.

Many companies are also setting up "Chinese walls" to make sure confidential information is not accidentally exposed, said Wendy Green Sibley, a technical consultant with Towers Perrin in Valhalla.

At First Chicago Corp., for instance, "managers are not given any access whatsoever to employees' medical records," said Robert L. Bonin, assistant vp, health plans. Records are stored electronically on an independent, separate network, with the

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Buyers

Continued from page 1

and broader coverage terms were available for organizations smaller than CoreStates. "We are fairly large—$23 billion in assets—so we weren't expecting that much of a reduction. But we had a fairly favorable renewal. There seems to be increased capacity for financial institutions."

Ms. Young said it is not easy for financial institutions to do a "full-blown kind of marketing" of their programs because the hard market of the mid-1980s got rid of all but about 10 or 15 insurers that focus on companies like hers.

However, she added, there is an increase in capacity among those insurers, and CoreStates does "periodically market our account because we have several carriers who have pieces of our program."

Still, Ms. Young stresses long-term relationships with insurers, saying such partnerships served her company well in the mid-1980s when coverage was expensive and hard to find.

And, she said that falling rates are not always the best news. Recent competition has given her a sense of deja vu of the period just before "the market completely fell apart" in the 1980s. "While you love to see premiums come down and down and down, you start to see the flip side of it, and maybe having stable rates and funding levels is a whole lot safer and a whole lot easier to budget for."

While "that memory kind of comes back," Ms. Young doesn't predict a drastic market hardening is on the horizon.

"Status quo," a term used by Keith Kovash, manager of risk management and benefits at The Montana Power Co. in Butte, Mont., seemed to be the catch phrase for many risk managers during this renewal season.

'While you love to see premiums come down and down and down. . .maybe having stable rates and funding levels is a whole lot safer,' says CoreStates' Linda M. Young.

Property and liability coverages were renewed at the same rates, limits and terms as the previous year, Mr. Kovash said.

The biggest change for Montana Power was in its dealings with its broker, Rollins Hudig Hall Group Inc., Mr. Kovash pointed out. "We've moved to a total fee-for-service with our broker."

The move is part of an overall effort by the utility to identify and reap added value from providers. "We are holding all our service providers to a higher standard," Mr. Kovash noted. RHH understands that aim and has cooperated with Montana Power's efforts, he said.

"It was pretty much status quo for us" when renewing global property coverages but for one significant exception, said Don Spurlock, manager of risk financing at Monsanto Co. in St. Louis.

He explained that Monsanto "spun off a business to a joint venture and sold another business," which helped bring the parent company's overall property risk financing costs down.

"I would say they were certainly in the higher risk category in terms of Monsanto's property risk profile," Mr. Spurlock said of the two businesses that represented around $1.5 billion of insurable property risk. "That represented 15% or so of Monsanto's total insurable risk and our premium reduction was a little bit more than that."

"We were pleased that our key insurers that we consider our partners in this recognized the reduction in our risk profile and that was reflected in our renewal more than anything else," according to Mr. Spurlock.

Payless Cashways Inc., a Kansas City, Mo.-based building materials retailer, renewed its property/casualty coverages with a slight increase in property costs that was more than offset by falling premiums in workers compensation and other casualty lines, said Peter Romano, risk manager.

Payless reduced its overall cost for coverage by 11%, he said.

"We put it out to market briefly, but our current insurer was very competitive," said Mr. Romano. "They came up with a program that no one could match."

Terms and conditions were unchanged on Payless' coverages, as were retentions and limits on primary and excess policies.

The Gillette Co. saw slight increases in property insurance costs, but not "anything that I would consider to be significant," said Tom Welgoss, manager of corporate insurance at the Boston-based company. "Basically we offset that increase by deciding to take a higher deductible."

Mr. Welgoss said Gillette's higher property insurance costs probably reflected "the overall operating results of our particular insurer, not market conditions, and it might be a result of our own loss experience."

"I wouldn't say it's a reflection of the overall market," he said.

Ms. Chappelle said the Port of Seattle restructured its property program to eliminate a number of sublimits. "We brought them all up to one limit."

And, she added, the port purchased contingent business interruption coverage for the first time this year.

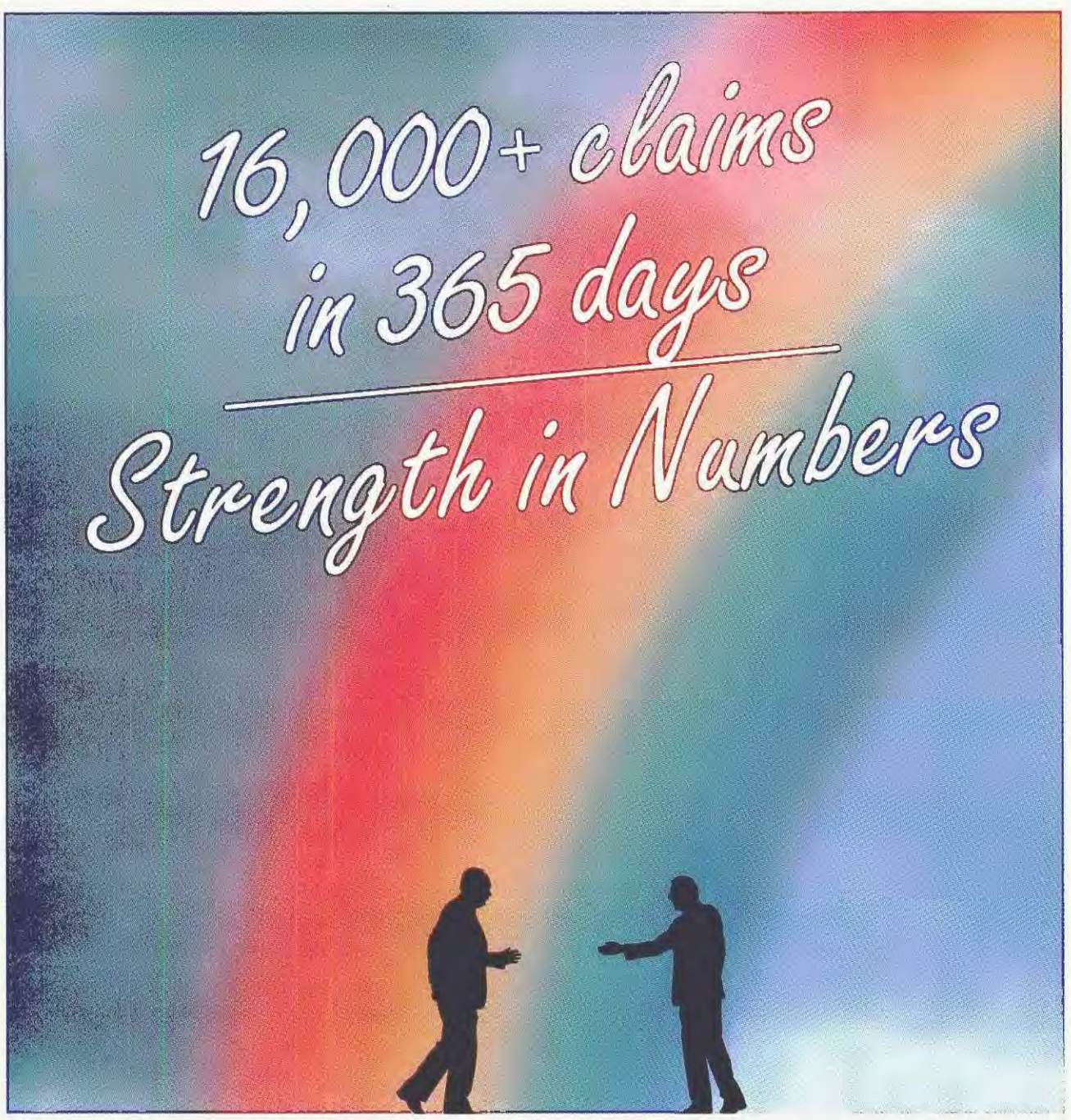
Risk managers say finding affordable coverage for earthquake exposures is still a shaky proposition.

Gillette has found that rates for the coverage continue to be expensive in California. "The high cost of earthquake insurance continues to plague us since we do have some operations in that state," said Mr. Welgoss. "The limits are there, but it's a question of whether you want to pay a high premium for limits you might not need." Mr. Welgoss said he believes underwriters are "concerned about losses in high-risk areas and are requiring premiums that reflect those exposures."

Gillette, he added, is paying greater attention to those exposures and is working with insurers to reduce those risks. "If we can sufficiently reduce that exposure, perhaps in the future we might decide to self-insure a greater portion of that risk instead of paying that high cost."

There's still pressure on insurance rates for international earthquake risks as well, according to Gary E. Bird, director of risk management at Phelps-Dodge Corp. in Phoenix. The mining and

See **Buyers** *on page 6*



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Buyers

Continued from page 4

manufacturing company has operations in quake-prone areas of South America.

Mr. Bird said Phelps-Dodge was able to keep costs down for catastrophe coverage by increasing retentions for those exposures.

Phelps-Dodge renewed all its international and domestic property coverages for 55 locations with the same insurers and at the same limits, said Mr. Bird. "Prices were flat, generally speaking."

The company's international and domestic property programs are led by Allianz Insurance Group, American International Group Inc. units, Swiss Reinsurance Group and CIGNA Corp.

Mr. Bird said each Phelps-Dodge operation has property coverage of more than $250 million.

Terms and conditions remained practically unchanged, Mr. Bird reported. "We used pretty much the same form."

He said Phelps-Dodge moved its renewals to year-end from July 1 in order to coordinate the process with the end of its fiscal year.

Aside from earthquakes, windstorms are another potential catastrophe that make insurers nervous.

Ms. Young of CoreStates said she found prices up for coverage in windstorm-prone areas like the New Jersey shore and other stretches of the East Coast. Overseas, windstorm exposures in Taiwan and Tokyo saw rate increases. "It was very select—and for us very minor—because our offices there are very small."

Overall, risk managers are finding themselves in a fairly predictable insurance market.

"The general environment seems to be very stable," said Mr. Welgoss. "Of course a lot of changes are taking place with regard to insurers in terms of their own financial condition, and there's a lot of restructuring taking place. With the assistance of our brokers, we need to continue monitoring those changes that are taking place."

'A lot of changes are taking place with regard to insurers in terms of their own financial condition,' says Tom Welgoss.

Some risk managers are getting used to new relationships with insurers in the wake of several mergers that have taken place during the past two years.

Ms. Young said CoreStates is dealing with such a change because of the merger of CNA Insurance Cos. and Continental Insurance Cos.

"Our renewal was right at the point of the merger last year so our renewal this year will be handled by a different office and different people. So we'll get our first experience with the restructuring," she said.

Risk managers looking ahead to renewals refer to the property market as the biggest uncertainty on the horizon.

"I'm kind of keeping an eye on the property market," said Daniel J. Pliszka, director of insurance and risk management for Charlotte, N.C., Mecklenberg County and the Charlotte/Mecklenberg school system.

Large property losses, including the fire at Malden Mills Industries Inc., could cause rates to rise, he suggested. A fire destroyed the major manufacturing facility at the Lawrence, Mass., textile mill (*BI*, Dec. 18, 1995).

"As I understand it, just about every reinsurer took a hit on that thing," said Mr. Pliszka. "So I would expect that's going to do something."

"It's a similar situation to what has existed for a while," said William J. Kelly, senior vp at J.P. Morgan & Co. in New York. "The only problematic coverage has been property catastrophe."

Mr. Kelly said most of J.P. Morgan's renewals are springtime dates. "I try to avoid the year-end. It's a little too exciting."

Other risk managers agree that year-end is the wrong time to schedule renewals.

"Underwriters have so many issues to deal with, and on the back of all that they're negotiating reinsurance treaties," said Debra Schramm, director of risk management at Consolidated Freightways Inc. in Portland, Ore.

Her company has moved renewals to summer and fall, she noted.

By the time underwriters finish negotiating their reinsurance treaties and can start to address year-end renewals, a client can find itself in "an 11th-hour kind of situation," Ms. Schramm said.

"We just made a conscious decision to try and get away from all that." BI

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Opinions

Showing the court the way

AT LONG LAST, the business community has won an influential court opinion that excessive punitive damage awards violate the Constitution.

Last month, a panel of the 8th U.S. Circuit Court of Appeals ruled that a punitive damage award can be so large in comparison to actual damages that it violates the guarantee of substantive due process that courts have long found in the Constitution (*BI*, Jan. 8).

We hope other courts nationwide follow the 8th Circuit's guidance and limit businesses' exposure to runaway punitive awards, which drive up the cost of goods and services.

Ultimately, though, we believe the Supreme Court also must adopt this interpretation if these awards are to be truly reduced.

In the case before the 8th Circuit, *Thaddeus C. Pulla vs. Amoco Oil Co.*, a man sued his employer for invasion of privacy.

A U.S. District Court jury awarded him $2 for pain and suffering but $500,000 in punitive damages, or 250,000 times more than actual damages.

The appeals court panel ordered the lower federal court to reconsider the amount of punitive damages that were awarded.

"While the Constitution does not impose any precise formula or ratio between the amount of punitive and actual damages, the amount of punitive damages must bear 'some proportion' and a 'reasonable relationship' to the harm that actually occurred," wrote retired U.S. Supreme Court Justice Byron White, who serves on the panel. "We hold that the 250,000-to-1 ratio between punitive and actual damages is excessive, unreasonable and violative of due process."

It's about time.

Businesses have long argued that excessive punitive awards were unconstitutional. Courts—including the Supreme Court—have hinted as much but have avoided actually ruling on this contentious issue. Many decided that as long as the award had been subject to judicial review it was appropriate.

Now, however, an influential jurist and court have ruled that the judicial review was flawed and spelled out a process by which the court should assess the reasonableness of the punitive award.

We hope other courts, including the Supreme Court, follow the 8th Circuit's guidance on this important issue.

Indeed, the high court has an excellent chance to apply this reasoning in a case now before it, *BMW vs. Gore*, in which an automaker was hit with a punitive award 1,000 times greater than actual damages for a flawed paint job.

Though the punitive award was halved on review, even that award size appears to have been arbitrarily selected and is still 500 times greater than the actual damages were.

We hope the justices of the high court finally use this opportunity to bring greater fairness to the tort system. Thankfully, the 8th Circuit and a former colleague have shown them the way.

A benefits lobbying coup

CAN LOBBYING by employers on benefit issues make a difference?

Absolutely.

One of the latest examples of how employer groups successfully influenced lawmakers in Washington is the recent enactment of legislation banning states from taxing pension benefits of former residents.

As we recently reported, about a dozen states have laws on the books that give them the authority to tax pension benefits of former residents, California being the most aggressive in enforcing its law (*BI*, Jan. 8).

Certainly, we understand the motivation of the states in seeking to tax pension benefits. Former residents are an easy target. They don't vote, for the most part, in their former states, and as a result, lack political clout.

Rather than exaggerate the issue, employer groups as well as individual retirees sought relief from Congress with an argument as old as the nation itself: taxing former residents amounted to taxation without representation.

Employers and retirees, though, did more than raise the issue of basic fairness. As a practical matter, such laws—had they been allowed to multiply—also would have presented employers and retirees with some sticky administrative problems.

Consider, for example, an employee who during the course of a 30-year career with one employer worked and lived, because of frequent corporate transfers, in half a dozen states. Imagine the real-world problems for that retiree and his employer of apportioning a defined benefit pension for tax purposes among those states.

Fortunately, that is one problem that no longer will happen. Under legislation President Clinton signed last week, the only state that can tax a retiree's pension benefits is his or her current official state of residence.

That's only fair, as Congress agreed, in a rare display of overwhelming bipartisanship.

We can only hope that this unanimity on one benefit issue extends to others in the months ahead, such as simplifying the nation's overly complex pension laws and wiping out a 1993 law—a symbol of regulatory overkill—that requires every employer to remit to the federal government health care coverage enrollment information on every employee.

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Brokers

Continued from page 1

In addition, brokers say instead of dealing solely on price, insurers are eager to negotiate terms, expand coverages and work on deductibles.

"It's a positive environment for risk managers," summed up Lawrence E. Burk, chairman and CEO of Alexander & Alexander Inc. in New York. "There is capacity available and a commitment on the part of insurers, through their consolidation efforts, to reduce costs and a commitment on the part of brokers to become more efficient operations. This efficiency will be passed along to risk managers in the form of reduced costs, a more efficient distribution system and a greater amount of services," Mr. Burk said.

"Risk managers are doing a great job driving down prices and increasing coverages," said Charles N. Fiske, group broking director for Sedgwick James Inc. in Memphis. "I don't know how much further rates can go. But if a risk manager has something he or she has wanted to do, but has been afraid to try it in the past, now's the time to put (those terms and conditions) out on the table because you'll probably get good concessions in 1996," Mr. Fiske said. "It's a buyers market."

One area brokers said did not have an impact on year-end renewals was the flurry of merger and acquisition activity during the past year, which saw CNA Financial Corp. merge with Continental Corp., Zurich American Insurance Group acquire most of Home Holdings Inc. and Travelers Corp. acquire Aetna Life & Casualty Co.'s property/casualty operations.

'There is not one liability coverage that is not softer today than it was six months ago, and six months ago they were softer than six months before that,' says Eric Hein of Willis.

Consolidation has had an "unappreciable impact on the commercial market," said John O'Sullivan, a managing director with Marsh & McLennan Cos. Inc. in New York. "For the most part, the companies involved have complimented each other, especially in the case of Travelers and Aetna. There may be slight contractions in capacity resulting from the other deals, but it's too small to notice."

Robert H. Hilb, chairman and CEO of Hilb, Rogal & Hamilton in Glen Allen, Va. said, "Capacity now isn't a problem, but you have to wonder if that could change if consolidation continues. You're seeing it every day among insurers and in the broker ranks, and it looks like it will go forward."

The recent consolidations are "a big win" for risk managers, according to Eric Hein, president of Willis Corroon of Maryland.

Consolidation brings stronger, more financially secure markets, more cost-efficient organizations that offer products and services for lower costs and larger companies that are better positioned to meet customers' needs, he said. "That, to me, is why buyers should not just feel good about '96, but about the prospects beyond," Mr. Hein said.

J. Hyatt Brown, chairman and CEO of Poe & Brown Inc. in Tampa, Fla., has a different view. "These mergers won't result in anything except lost jobs."

Brokers say the excess capacity in the casualty marketplace prompted even lower premium rates during year end renewals.

"The casualty market place is dropping like a rock," said Dave Laabs, executive vp of Willis Corroon of Michigan. "Price drops exceeded our expectations" this renewal season.

"During the last week in December, we had some general liability renewals down 30%," Sedgwick's Mr. Fiske said.

"There is not one liability coverage that is not softer today than it was six months ago, and six months ago they were softer than six months before that," Mr. Hein said. "We're still plumbing the depths to see how far the bottom is, and we're not at the bottom yet."

Willis Corroon's Mr. Laabs said within the past two months he has seen some insurers walk away from liability accounts because the prices were too low and at the same time, "others have literally written a program for two-thirds of the past three years average losses," he said.

One area in which rates are flat to down and capacity is plentiful is workers compensation.

Workers comp is a "phenomenon," Mr. Fiske said. "Two to three years ago, workers comp was devastating even to consider. Now, insurers are killing each other for it," he said.

Rates in such states as California and Florida are decreasing in double digits and Texas is on the brink of double digit decreases, he said. States tend to become very competitive one year after enacting legislation that curtails losses and reduces large pay-outs, he explained.

However, Frank C. Witthun, president and chief operating officer of Acordia Inc. in Indianapolis, said California comp rates, which have dropped between 30% to 40% over the past couple of years, are on the rebound.

"I was just in California last week and it appears a floor's been made on workers compensation rates," he said. California comp rates actually increased 8% to 9% over the last year, but "it clearly it is not back to where they were before open-rating."

Outside of California, comp rates are flat, he added.

Not only are casualty rates decreasing, but property rates are also on the decline, with the exception of earthquake coverage in California and windstorm coverage on the East Coast, brokers report.

Property rates are decreasing anywhere from 5% to 20%, Mr. Fiske said. "It all goes back to too much surplus for too little business."

"Ever since the hurricanes and earthquakes, it's been based on location," added Dave McGurn, corporate vp with Arthur J. Gallagher & Co. in Itasca, Ill. "In the bad areas, the layers of coverage are small and costly."

Given the fact the market continues to remain soft, it is incumbent on brokers and policyholders to explore what else besides price

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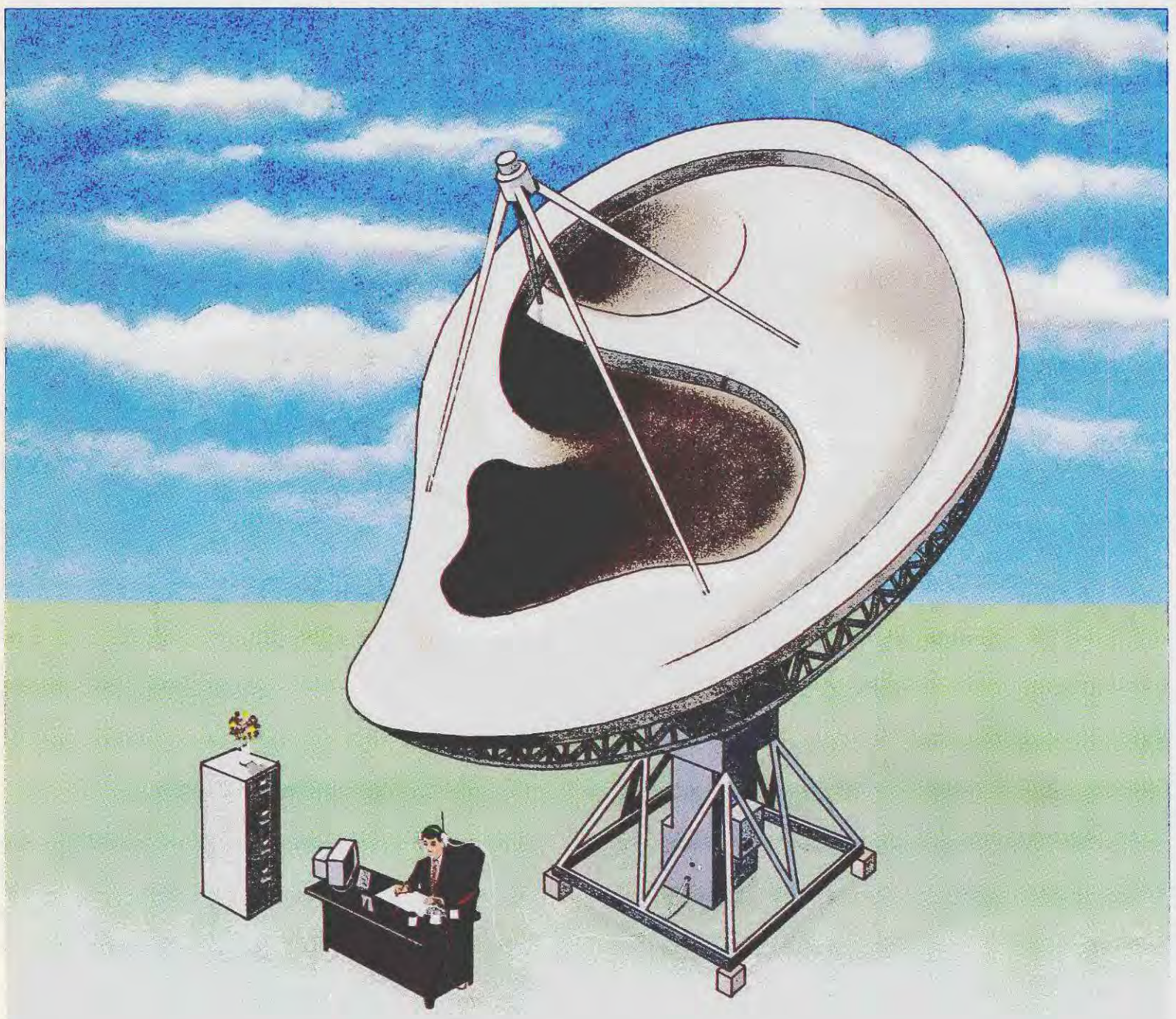

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Brokers

Continued from previous page
insurers can offer, brokers say.

One such program gaining popularity in the market is long-term risk financing programs, which not only takes the pressure off of annual renewals, but reduces transactional costs for risk managers, brokers say.

"These types of programs are growing in frequency. We've done maybe 35 this time around, which may not sound like much until you compare it to previous years," said John Deitchman, a director and casualty practice leader with Johnson & Higgins in New York. "Most are multiline programs that span five to 10 years in duration."

Annual renewals provide a "great source of uncertainty" for risk managers, brokers and insurers, which is ironic because risk managers purchase insurance to add certainty, said Mr. Hein of Willis Corroon. "Entering long-term agreements adds stability and does what insurance is intended to do," he said, adding the Willis Corroon unit set up more multi-year deals last year than ever before.

Alexander Capital Consultants, an Alexander & Alexander Services Inc. unit, and Swiss Reinsurance Co. are also bracing for the trend with their new three-year excess property and liability product, cording to Norman Barham, executive vp and global practice leader for Johnson & Higgins in New York. "The facilities are good, as are the underwriters. You talk to them and they listen. You can get a program written in two days when you present it properly and they like it."

"Bermuda continues to be active for the coverages they were installed for. But now they're on to much more," said Mr. O'Sullivan. For example, he said A.C.E., a traditional excess liability writer, is now into satellite coverage.

Robert Meyers, principal and global property practice leader with J&H in New York, added that "creativity" is what defines Bermuda. "For the Global 500, Bermuda has become a fixture. They have an appetite for solutions. While it may not be exactly like Lloyd's, it is similar is some ways. Capacity is their freedom." BI

'We will get clear answers in '96' about the future of Lloyd's, says Frank Withun of Acordia.

dubbed "Beta" (*BI*, Jan. 8)

After years of consulting work with large organizations, "it was very clear that not only risk managers, but (chief financial officers) and treasurers, were voicing a consistent theme with their insurance—frustration with the annual renewal process," said William J. Anderson, managing director of ACC.

Beta is the outgrowth of "listening long and hard to the needs of clients," he said.

In addition to offering new products in 1996, brokers agree the year will also see Lloyd's of London's future determined.

While brokers say they are still placing business with Lloyd's, they are uneasy about its stability as a market.

"Lloyd's is still a questionable market," said Acordia's Mr. Withun. "We will get clear answers in '96" about its future, he said. Whether it is successful in transferring all its old liabilities into Equitas Ltd. or ending litigation between Lloyd's members, "it will be the big story of '96," he said.

From a placement perspective, Mr. Hilb said he's still using Lloyd's, "because sometimes they're the only writers. But we look for alternate markets whenever possible. This year will be tell-tale. I'd love to see them get back on their feet."

Gallagher's Mr. McGurn said the problems at Lloyd's have been remedied by domestic insurers who aren't relying on that market for much reinsurance any more. "It could be that insurers have replaced Lloyd's or reduced their reliance on Lloyd's by using Bermuda and other options like simply retaining more business."

Bermuda catastrophe companies are one market brokers are bullish about.

"It's a major marketplace," ac-

Cost-effective alternatives sought out by some buyers

New approaches to risk financing on the rise, J&H observes

By MICHAEL SCHACHNER

Insurance buyers' growing interest in managing the total cost of risk is leading to more customized, hybrid risk management programs and is gradually transforming the traditional insurance marketplace, Johnson & Higgins says.

Though standard insurance remains the most cost-effective way to protect certain risks, sophisticated buyers are more frequently seeking alternatives, the New York-based broker asserts in its "1996 Insurance Market Review and Forecast."

Despite the persistent soft market, alternative markets have been growing substantially, J&H points out in its annual report, which is to be released tomorrow. Captives, self-insurance and finite risk coverage are all gaining prominence as risk financing tools and large companies will continue to use them to fill shortfalls in capacity in the traditional market, J&H predicts.

Taking what the report calls a "holistic" approach, more and more risk managers are realizing that "a $100 million loss from a wrong bet on interest rates is just as painful as a $100 million loss from a plant fire," the report said.

Even the way risk managers buy traditional insurance is changing. Buyers and insurers today are not always negotiating on a risk-by-risk basis every year but are discussing multiline, multiyear programs with single aggregate limits, J&H says.

As risk financing options expand, the relationship between

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Oct 14	Reinsurance Brokers
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Alternative

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large clients and brokers is becoming increasingly complex, and for brokers to add value to their clients' operations, they must fully understand each client's business, the report said.

For property insurance, J&H expects catastrophe rates to level off this year after two years of severe price escalation, while there also will be several other major changes over the next two to five years.

"Capacity is improving, but it's not up 50%. It's still a tough market," said Norman Barham, an executive vp at J&H in New York.

Meanwhile, over the next two years, rates for non-catastrophe property coverage will be "notably lower as the result of heated competition and additional capacity." Large retentions will become more common on property risks, and retention levels will more frequently be tied directly to company financial performance.

'The race to access the capital markets is on, and even if it does not produce the Big Solution, it will spin off a whole new series of products and services,' J&H says.

J&H also forecasts the proliferation of multiyear and multiline products that blend property and casualty coverages for a broad scope of policyholders, as well as the decline of blanket limits in favor of per loss limits.

Over the next five years, J&H anticipates that the first financial derivative products tied to property losses will be traded at the retail level, while virtually all large companies will protect catastrophic exposures through some combination of alternative risk financing products.

By the year 2000, multiline insurance products that include property will be commonplace, J&H said, and banks and other financial institutions may very well enter the field of insuring property risks.

On the casualty side of the fence, historical market cycles have vanished because underwriters have access to far more data on loss development than before. In the past, underwriters were often unaware of deteriorating results until well after those results were beyond repair. Thus, when insurers became aware that a change was needed, they would overreact, according to J&H.

But the casualty market of today and the future is different. Large-deductible programs on scaled-back insurance products are now the norm. These programs have become more popular than self-insurance because commercially insured companies can more readily obtain aggregate stop-loss protection and can negotiate letter of credit and surety requirements with underwriters rather than having to meet state standards.

For casualty accounts, J&H reports that insurers today are locking in more multiyear programs at fixed premiums and are allowing policyholders to pay up front or throughout the contract period.

While these programs have become very popular, J&H still warns buyers against getting too comfortable with these contracts. "Underwriters have budgets to meet, so they may not adjust prices unless they feel competitively threatened. Thus, to get the best price possible, it is often necessary to market programs periodically."

In the next five to 10 years, J&H anticipates that ample capacity and the lack of substantial losses will keep the casualty market soft. But as insurers locked in a competitive market attempt to distinguish themselves from one another, they will be forced to bring new products to the market. Those might include derivative-based products that tie a policyholder's retentions, limits and premiums to profitability, or coverages that are activated only when the policyholder is having an off year, letting the buyer absorb the loss in strong years or when investment income is up, such as 1995.

For excess liability, J&H recommends that companies balance out programs by utilizing a blend of capacity from the United States, London and elsewhere in Europe and Bermuda, rather than relying on one or two markets. Furthermore, buyers should seek to combine professional liability and excess coverage into multiline programs, and develop multiyear plans as a means of achieving further cost savings.

In the future, J&H expects that more consolidation among insurers will result in a smaller number of "mega-insurers" capable of offering large blocks of excess capacity and coverages that transcend current definitions of insurable risks.

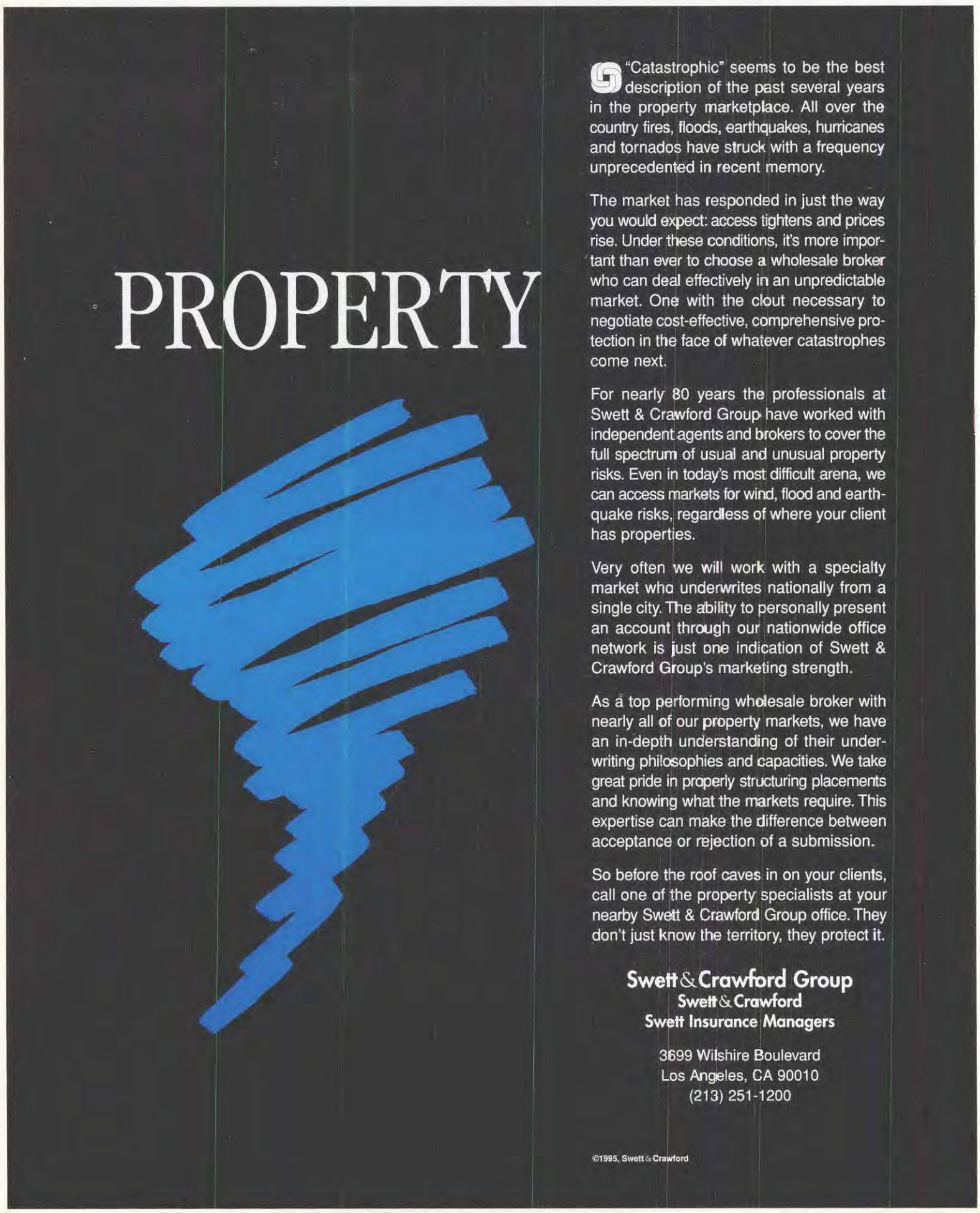
In addition, the role of Lloyd's of London in the excess liability market will continue to erode, according to J&H, especially for long-tail risks, regardless of what happens with proposed runoff reinsurer Equitas Ltd.

With insurers concerned about what might become the new asbestos or pollution-related liability, environmental impairment liability coverage will continue to be written on a stand-alone basis, although a few insurers may choose to offer combined general liability and pollution liability policies.

J&H assessed the directors and officers liability market as "generally positive." Future D&O coverage will be issued not only for directors and officers, but also for the corporate entities, the broker predicts.

In the D&O liability markets and the insurance market overall, everything could be thrown out of sync if brokers and buyers ever "crack the code" of accessing the capital markets for risk financing needs.

With the total surplus of the U.S. property and casualty market at about $200 billion, J&H asks, "Is it any wonder, then, why many in the industry are investing millions of dollars to find a way of directly accessing the capital markets? Unfortunately, no one yet has figured out how to crack the code. . . .The race to access the capital markets is on, and even if it does not produce the Big Solution, it will undoubtedly spin off a whole new series of products and services that will enable companies to identify, analyze, and price risk in ways never before contemplated." BI



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Insurers

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much in areas with catastrophe exposures," said Kathryn Lovaas, vp-technology underwriting for St. Paul Fire & Marine Insurance Co., a unit of The St. Paul Cos. Inc. in St. Paul, Minn.

The other exceptions to the rule are specialty property risks, according to several insurers, and even there the changes aren't dramatic. Rate hikes in the low double-digits are possible for specialty property, such as oil equipment, Mr. Smith said.

"There's a lot of competition, particularly for the more attractive accounts," said Michael L. Downs, senior vp at Hartford Steam Boiler Inspection & Insurance Co. Only about 10% of Hartford Steam Boiler's business renews in January—primarily large industrial accounts, risks that include property and machinery breakdown coverage, he said. Competition does not appear more pronounced on a geographic basis except for California and earthquake risks, which are less competitive, he added.

Among industries, property rates for less hazardous enterprises like pharmaceuticals and semiconductor makers are much more competitive than large chemical plants or large integrated pulp and paper mills, he said.

"We are ending what I would consider the ninth year in a soft market cycle, which is essentially unprecedented in recent history," said Wolfgang Friedel, senior vp at Arkwright Mutual Insurance Co. in Waltham, Mass. Because of the amount of insurance available and Bermuda reinsurance's increasing independence from U.S. and London markets, it is not likely to improve, he said.

"Cat exposures continue to be a concern. But for the most part, insurers and reinsurers have a pretty good handle on their cat exposures," he said. "Arkwright introduced a variety of software products last year to help us manage the losses a lot better than it had in the past. As a result, in the most active hurricane season in history, our hurricane losses were below $10 million."

The highly protected risk market remains "pretty level, stagnant, about the same as it's been for the last couple of years," said Jim Black, executive vp and chief operating officer of Protection Mutual Insurance Co. in Park Ridge, Ill.

"I think there's a short-term situation where, as more competitors come into the marketplace, there's going to be more pressure on it," said Michael McIntyre, senior vp of Allendale Mutual Insurance Co. in Johnston, R.I.

Hartford, Conn.-based Industrial Risk Insurers shed some business and "gave up some premium, and we think that has served us well," said Gale Norstrom, president of the property underwriting pool. As a result, IRI now insures about one-third fewer accounts—but with less than a 4% reduction in premium—than it did a year ago, he said.

"The traditional commercial property business continues to be pretty soft," said Frank Patalano, president of Schaumburg, Ill.-based Zurich-American Insurance Group's diversified products division.

He said capacity remains relatively scarce for major account business with catastrophe covers, though $250 million can be put together on a layered basis.

The property market has undergone a change in underwriting strategy, Mr. Patalano said.

"Traditionally, the whole market has been a rate-on-line pricing process, where they issue limits and they charge a percentage of that limit as the rate. What we're moving toward is understanding what the exposure is and charge for the peril, rather than doing aggregate pricing," he said.

This could include separating out the cat cover and pricing that based on exposure and then doing the same with the more traditional components such as fire coverage.

The fact that 1995 didn't experience spectacular natural catastrophes has led to some downward pressure on property rates, which is "short-sighted," said David McDonald, chief underwriting officer for Royal Insurance Group in Charlotte, N.C.

Meanwhile, the overall commercial casualty market "is highly competitive and driven by the fact that loss costs have slowed," said AIG's Mr. Smith.

"It's a very soft market. It's competitive everywhere and its gotten more competitive in 1995, compared with 1994, and I would expect it will remain competitive in 1996 as well," said Dale Lauer, vp-commercial lines underwriting at SAFECO Insurance Cos. in Seattle.

Generally, rates are flat for high-hazard liability and surety and bankers bonds, several insurers say.

Again, there are a few exceptions to the rule.

AIG is getting "substantial" double-digit rate increases for accountants that do audit work, though rates for non-auditing accountants are flat, said Mr. Smith.

High-layer or cat excess liability insurance is seeing "modest" increases in the low single digits, said Keith Fisher, a senior vp at X.L. Insurance Co. Ltd. in Hamilton, Bermuda, who handles general liability.

General liability rates remain flat, though Dick Wratten, president of Commercial Insurance Services, a division of CIGNA Property & Casualty in Philadelphia, reported very modest primary-layer increases that average 3% to 5%.

But the directors and officers liability market "is extremely soft, probably as soft as it has ever been, for both rates and conditions," said Jim Ansaldi, senior vp at X.L. who handles D&O and errors and omissions liability insurance. Reductions of 30% on excess layers are common for all but high-tech risks.

Rates for D&O generally are down 5% to 10%, though financial institutions dropped even further to an average of 10%, said John Kearney, vp-underwriting for Executive Risk Management Associates in Simsbury, Conn.

Rates for E&O coverage for computer software developers and hardware manufacturers are dropping by single digits, said St. Paul's Ms. Lovaas. Low-layer excess liability rates are also seeing a 10% cut, she said.

Lawyers' professional liability is a mixed bag.

"There is a lot of capacity (for lawyers) and rates are dropping rapidly in this class, probably in the range of 20%," said Mr. Ansaldi.

"In the lawyers' market, we are definitely seeing rate declines of 10% to 15% average," said Mr. Kearney.

But AIG's Mr. Smith described rates for lawyers as "modestly" higher, with single-digit increases.

"There is more capacity in the industry right now than ever before," said Edward Troy, executive vp-national markets for Boston-based Liberty Mutual Group.

While there's no sign the capacity glut will end, reinsurance is no problem, either.

Insurers are divided on the role Lloyd's of London will play, however.

"I think Lloyd's still has serious problems," said CIGNA's Mr. Wratten. CIGNA became less reliant on

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Introducing:

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Lloyd's for reinsurance several years ago, he said.

Executive Risk uses Lloyd's for reinsurance and Mr. Kearney said the firm is "very comfortable" with the long-term relationships it has had with the syndicates it uses.

The continued soft market means that consolidation among primary insurers is certain to continue, agreed many underwriters, though some downplayed its short-term importance.

For example, Mr. Troy said that neither the acquisition of Continental Insurance Co. by CNA Financial Corp. nor Zurich Insurance Group's acquisition of much of The Home Insurance Co.'s business has significantly bolstered the acquiring companies' ability to compete.

"We see consolidation continuing to occur. I think we need it, we need the efficiencies in the market. Also, even though risk managers might view it as narrowing their choice, it could bring some stability on the loss side," Zurich's Mr. Patalano said.

Citing CIGNA's proposed reorganization, AIG's Mr. Smith said, "We are quite concerned about this trend by some competitors to attempt to disregard their old liabilities and leave policyholders in the lurch in favor of shareholders." If policyholder claims aren't paid, such activity will "discredit the entire industry," he said.

A few companies, such as SAFECO and Liberty Mutual, emphasized that they were "investing" rather than cutting costs to better serve customers.

SAFECO has made a "significant" investment in computer services to make communication between underwriters, loss control specialists and clients more productive. For example, they can review policy, claims and billing information online more quickly, Mr. Lauer said.

Insurers are also offering new products and applying new tools to meet the soft market's demands.

SAFECO's new SAFECOM electronic communication program allows communication with agents and clients, Mr. Lauer said. For example, agents can report claims online, view policy and claims information, and customers can send e-mail to agents and the insurer.

Executive Risk expects to offer a stand-alone employment practices policy by the end of January. It currently offers such coverage through a separate endorsement to a D&O product, says Mr. Kearney. It has already launched several new products, including: D&O for small private companies—those with up to $100 million in revenues—with employment practices liability coverage that includes a duty to defend; general partners liability coverage for any type of general partnership; an E&O policy for managed care organizations; and an "employed lawyer" policy to protect in-house counsel from E&O claims.

X.L. has raised limits on some policies and established a reinsurance subsidiary, Mr. Ansaldi said.

Customers are, of course, seeking ways to make the most of the market, and that includes marketing their programs, said several insurers.

CIGNA's Mr. Wratten was the contrarian, saying, "We are seeing less shopping by insureds" and "renewals are being ordered earlier."

Liberty Mutual's Mr. Troy said more and more clients are challenging the industry with requests for: performance guarantees; "gain sharing," which includes the possibility for both credits and penalties; and longer-term contracts of three to five years.

"Everybody wants an easier renewal process. . .including multiyear policies," said John Cavoores, executive vp and co-chief underwriting officer at Chubb & Son Inc. in Warren, N.J.

Mr. Kearney agreed that "we are seeing a greater number of multiyear policies.

Policyholders are also relying more on self-insurance despite the soft market.

Fortune 500 companies seem to trend toward larger retentions, either through deductibles and other forms of risk financing, said Arkwright's Mr. Friedel. More companies are realizing that trading of dollars in the lower level is a very expensive transaction and that the firms can manage that lower level if they do it internally, keeping in mind that for every dollar paid by an insurer there's 35 to 50 cents in "frictional" costs associated with it, he said.

Some customers are also turning to sophisticated programs like concentric risk integration devised by Norwest Corp. (*BI*, Jan. 9, 1995).

AIG's Mr. Smith said, "We are seeing a tremendous increase in this type of program."

X.L.'s Mr. Ansaldi said he is waiting to see how such a program sustains a major claim.

Policyholders want more and better services, noted several insurers.

Customers seek loss prevention services that are tailored to their specific industry, said Allendale's Mr. McIntyre.

But risk managers are in one way no different than the customers for any other service, he noted. "Essentially what the market will require is all those things that you read about any other industry, that the service be top-notch, that the costs be reasonable and competitive, and then you'll still have to be sure that you're back again tomorrow doing the job over again and better," he said.

Customers are requiring much higher levels of engineering value added to their coverage, said Hartford Steam Boiler's Mr. Downs.

This is particularly true regarding loss control, he said. Customers are looking to prevent losses, not just contain them.

Many companies are downsizing their corporate loss prevention groups and relying more on their insurers to augment their own capabilities to a greater degree, agreed IRI's Mr. Norstrom.

For risks in IRI's toughest classes—operations that involve chemicals, basic steel, woodworking—and for the pool's largest risks, the insurer is conducting two loss control surveys per year rather than one, he said, adding that IRI has probably increased its engineering staff by 10% to 15%.

The insurer is also making improvements to its electronic data processing platforms and emphasizing notebook computers for field engineers. "If we have a client that would like us to do more, we're prepared to do more," he said.

Among Fortune 1000 companies, customers are still willing to assume more risk, larger deductibles, larger self-insured retentions, and to implement loss control programs, said Chubb's Mr. Cavoores. "Risk managers for Fortune 500 companies are now being viewed as profit centers by their companies," he said.

Buyers are far more astute in terms of their insurance needs than 10 years ago, "and we created that phenomenon. Businesses are going to be more willing in the future to accept a bigger share of risk," said Royal's Mr. McDonald.

"There's a continued pressure on the part of the broker or insurer to provide added services at a reduced cost, and it is going to be incumbent upon the insurer or the broker for those that survive that duplication of services currently provided by those two parties are going to be eliminated, the buyer is demanding that, and rightfully so," he said. BI

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London. He attributed this partly to buyers' expectations that if they held out they would get better terms and rates, and also to the fact that some buyers hadn't necessarily decided in advance what they wanted to buy.

Late starts of renewals are no particular surprise and are in the nature of the "mating ritual" of London renewals, said Victor Blake, chairman of CNA International Reinsurance Co. Ltd. in London. Buyers expected rate cuts at renewal, though insurers had been trying to talk rates up; therefore, brokers held out for better coverage terms, Mr. Blake explained.

'Catastrophe risks and hard to place or high hazard risks are getting coverage in London,' says Neil Woods of Nicholson Leslie North America.

That sentiment comes after buyers were hit during the past few renewals with huge rate hikes, higher retentions and tighter conditions, while the level of insured catastrophe losses was lower. Put alongside the increased capacity across all lines, 1996 renewals represent a buyer's market.

General non-marine reinsurance rates were down as much as 15% or 20%, depending on location of the risk, according to broker Alexander Howden Group Ltd. For example, U.K. multiline insurers found catastrophe reinsurance premiums reduced by 15%, though terms and conditions are pretty much unchanged from last renewal season, while Continental European insurers' rates were down 20%, and in some cases more.

Catastrophe reinsurance rates in the London market fell about 15% for U.S. risks and more for non-U.S. risks, said Richard Keeling, underwriter for syndicate 362, which is managed by Murray Lawrence & Partners Ltd.

"It's because of fear and greed," he said, citing competition with monoline underwriters outside the Lloyd's market that are aiming to fill their premium budgets.

Swiss Re's Mr. Riley calculated that non-U.S. catastrophe reinsurance rates were down about 10% on average—"what was expected has happened," he said.

But he was concerned that the pricing pressure in commercial lines, both on primary and facultative reinsurance business, was forcing rates to a level where underwriting could be unprofitable.

"Although the loss experience has been better than expected over the past two or three years and rates are still higher—probably—than they were five years ago, we now don't want to see any more price reductions," said Mr. Riley, who added: "Although I expect them to carry on."

But Neil Woods, executive director of London-based Nicholson Leslie North America corporate risks, said he has seen rating stability in his part of the market, as well as an influx of U.S. business. This, he said, is because buyers cannot get the catastrophe coverage limits they require in the U.S. domestic market. "Catastrophe risks and hard to place or high hazard risks are getting coverage in London," he explained. "And earthquake capacity in critical areas is still at a premium."

Increased market-wide capacity in London accounts for much of the lowering in rates, though much depends on a risk's claims record.

But the added capacity isn't coming from new capital entering the market for the first time. Rather, it's insurers and reinsurers already in the market increasing their capacity, influenced primarily by buyer demands for top-flight security.

Over the last year, a number of market players have upped the amount of capital dedicated to London-based underwriting. Big names such as Swiss Reinsurance Co., Copenhagen Reinsurance Co. (U.K.) Ltd. and Sphere Drake Insurance P.L.C. have injected extra capital into their London market operations, while other outfits like Mid Ocean Reinsurance Co. Ltd. have opened branch offices

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in London (*BI*, Oct. 23, 1995).

"Security is a serious issue for any buyer," said an Alexander Howden spokesman. Ceding insurers have instructed their brokers as to which are the "preferred reinsurers" they want to reinsure their risks, he said.

"The big security boys are getting bigger and wanting to be bigger," said CNA Re's Mr. Blake. "They are prepared to write more and the bigger players have been able to absorb lines."

One big player getting bigger in the overall market is Munich Reinsurance Co., which in 1995 raised 580 million DM ($403 million) in a shareholder offering.

Following the emergence in prior years of competition from the Bermudian reinsurers, this renewal season has seen the Continental European reinsurers aggressively chasing business—and rates down.

With existing reinsurers "more aggressive" and with "bigger appetites," there is downward pressure on rates, admits Robert Wallace, underwriter for Lloyd's syndicate 386, which is managed by Janson Green Ltd. and specializes in employers liability, professional indemnity and general liability coverages, including product liability. He said, though, that his syndicate generally has been retaining business at the same rates.

Many policyholders have been with the syndicate for 10 to 15 years and value the "continuity and loyalty" of the relationship, he explained. Disastrous results in the overall Lloyd's market do not seem to be hurting his business, said Mr. Wallace, adding that generally only syndicates that write primarily U.S. business have had their security called into question.

By contrast, CNA Re's Mr. Blake said buyers this renewal season are evaluating all syndicates individually rather than accepting the Lloyd's name as blanket security. Size and rating agency assessments of syndicates are central in their decisions, though buyers will "probably take comfort if a particular syndicate is aligned with a major reinsurer," since the reinsurer will have performed a due diligence test, said Mr. Blake. "This may become more important in the future."

Another Lloyd's underwriter, syndicate 362's Mr. Keeling, said his syndicate hasn't seen business withdrawing this season over questions of security.

Aside from increased capacity, another factor in the pricing pressure at renewals was strong investment performance in 1995.

Higher returns have increased capacity and could soon lead to overcapitalization, said Nick Bunker, insurance analyst with ABN Amro Hoare Govett in London.

Overall he didn't find the renewal pattern "surprising or worrying" given the profitability of the market over the last few years. "Provided deductibles remain firm, it is not particularly alarming," he said of lower rates. But a jump in inflation could threaten to boost claims levels, which have been relatively "well behaved" in recent years, he noted.

Also, Mr. Bunker warned that Lloyd's, with capacity of £10 billion ($15.5 billion) in 1996, is substantially overcapitalized, which may put pressure on underwriters to write more business at inadequate rates. "I am slightly perturbed that the authorities at Lloyd's have slipped back in a 1980s way of thinking," he said.

Their delight at capacity holding up so well, probably because of traditional names at Lloyd's continuing underwriting when it was anticipated they would not want to or would not be able to afford to, was out of place, Mr. Bunker said. "Lloyd's needs a maximum of £9 billion ($13.95 billion) gross capacity," he said.

Alexander Howden's spokesman described Lloyd's 1996 capacity as far more than realistically expected, though he added that "Lloyd's has a lot of mouths to feed."

Not all syndicates reported consistent downturns in rates.

Property rates this renewal season are off 10% for U.K. risks, but have increased in the rest of the world, said Mr. Keeling of syndicate 362.

Among the few casualty lines seeing rate increases, U.K. personal injury liability coverage has seen some of the highest rate hikes, according to Janson Green's Mr. Wallace, with average rate increases of 20%. This is a direct result of liability insurers' anticipation that the Ogden Tables—actuarial tables used to calculate awards for personal injury cases —will be brought into play later this year, potentially raising the awards for a number of pending court cases as well as future claims.

Clive Archer, senior casualty underwriter at Employers Reinsurance International Ltd. in London, echoed Mr. Wallace's sentiment on the effect the Ogden Tables are going to have on U.K. personal liability. "Rates are on average up about 20% across the programs on layers above £1 million ($1.5 million)," he said, adding that he thought this would be an inadequate increase and next year the programs would see even greater hikes.

The general consensus is that the more prevalent rate declines may be keeping many insurance buyers with the London market.

"The market's been fairly stable, with no big moves," confirmed Mr. Riley of Swiss Re. But business retention has not been at all costs—risks are being individually assessed and rated, he said. "We have certainly been selective in what we do," he said. "We are not following the market down if we think it has got to the point where it will make losses."

That view is echoed across the London market, though the competitive spark may yet light a fire for further reductions.

"There has been a lot of consolidation and merger activity driving the desire for companies to be bigger and better," explained CNA Re's Mr. Blake. The attitude is changing to one of market share, being in the "top ten in the business," he added. BI

'I am slightly perturbed that the authorities at Lloyd's have slipped back in a 1980s way of thinking,' says Nick Bunker, an insurance analyst with ABN Amro Hoare Govett.

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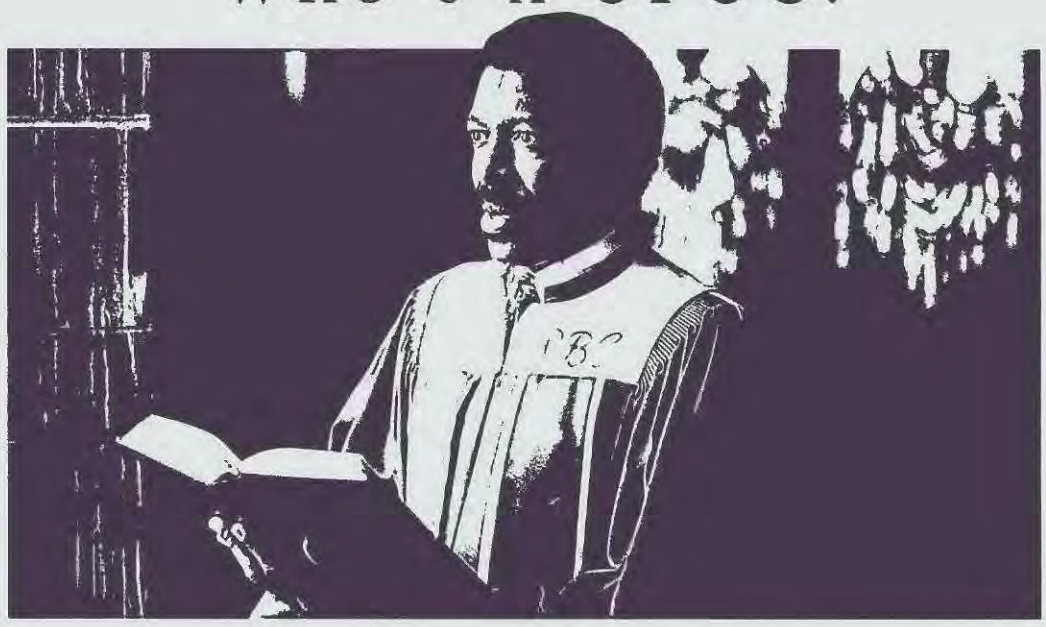

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Cedants holding upper hand in global reinsurance market

Reinsurers cutting rates in nearly all coverage areas

By DOUGLAS McLEOD and GAVIN SOUTER

There's no reason for reinsurance buyers to beware.

With only a couple of exceptions, prices are falling for virtually everything from property catastrophe reinsurance to casualty treaty coverage, with reinsurers also yielding ground on other terms and conditions.

Many covers are renewing late as buyers hold out to the last moment for the lowest possible price, reinsurance brokers report.

"The market is a lot softer. If there's something that particularly irks you (in a program), you can change it. (Reinsurers) are getting very adaptable," said Steven Bolland, senior vp with reinsurance intermediary Gill & Roeser Inc. in New York.

"There is just no resistance on the part of reinsurers at all," said another intermediary who asked not to be identified. "Some things are just irresponsible."

The catastrophe market has softened rapidly as the hurricane season has drawn to a close.

Pricing has remained relatively firm for large ceding insurers that require big limits from worldwide markets, as well as for insurers suffering big losses, brokers and reinsurers say. Otherwise, prices are falling, with U.S. regional insurers and European ceding companies seeing reductions ranging from 10% to 50%.

"I have not seen a single contract, other than those that suffered large losses in the Caribbean, that has renewed at the same price for the same cover," said Paul Ingrey, president of F&G Re Inc. in Morristown, N.J.

Rates for national insurers were down 10%, while regional reinsurers had reductions of 15% or more and international insurers received average decreases of around 15%, he said.

And those insurers that suffered losses are still only receiving single-digit increases, he said.

Some large national insurers are getting 10% to 15% reductions, while regional companies that require less than $100 million in capacity may see reductions of between 20% and 40%, said Edmund Megna Jr., managing director with intermediary Guy Carpenter & Co. Inc. in New York.

The competition "reminds me of what I saw in the early 1980s," Mr. Megna said, the key differences being that today's market consists of a more sophisticated pool of buyers and sellers and a vastly smaller number of reinsurers offering much larger lines.

Worldwide catastrophe capacity is back in a big way and is one of the forces driving the rate reductions.

National ceding insurers can easily get $300 million to $350 million in catastrophe limits, and this could increase to more than $500 million for a program that is broken into regional segments, Mr. Megna said.

Even with the rate reductions, reinsurers are still able to generate adequate profits, Mr. Ingrey said.

"When you have a worldwide spread of catastrophe business you can absorb another Hurricane Andrew and still make an underwriting profit," he said.

Catastrophe rates still accurately reflect the exposures, agreed Jean-Pierre Fillebeen, vice chairman and chief executive officer of SAFR Reinsurance Corp. of the U.S. in New York.

"We use our modeling system, and although there is some softening in the catastrophe programs, the price is still correct," Mr. Fillebeen said.

Bermuda reinsurers looking for a worldwide spread of risk have focused on writing programs for non-U.S. insurers and U.S. regional companies and have shown less interest in large U.S. national accounts, brokerage sources say.

Reinsurer report

Michael A. Butt, chairman and CEO of Mid Ocean Reinsurance Co. Ltd. in Bermuda, reported that rate reductions on U.S. business were moderate and that there were some increases for insurers that had large losses.

Outside the United States, there is greater pressure on rates, he said.

"Competition in Canada is very aggressive. There is much too much capacity. . .The local companies of the international groups are all madly defending their turf," he said.

In Britain, rates are decreasing by between 10% and 12.5%, Mr. Butt said.

However, rates in Britain increased substantially more than rates for U.S. insurers between 1991 and 1993, he said.

In Germany, competition between reinsurers has heated up as the local companies try to guard their business in a market in which both Employers Reinsurance Corp. and General Reinsurance Corp. substantially increased their holdings in the past year, Mr. Butt said.

And Latin American rates have fallen as more reinsurers try to diversify their portfolios and seek additional business outside of the major markets, he said.

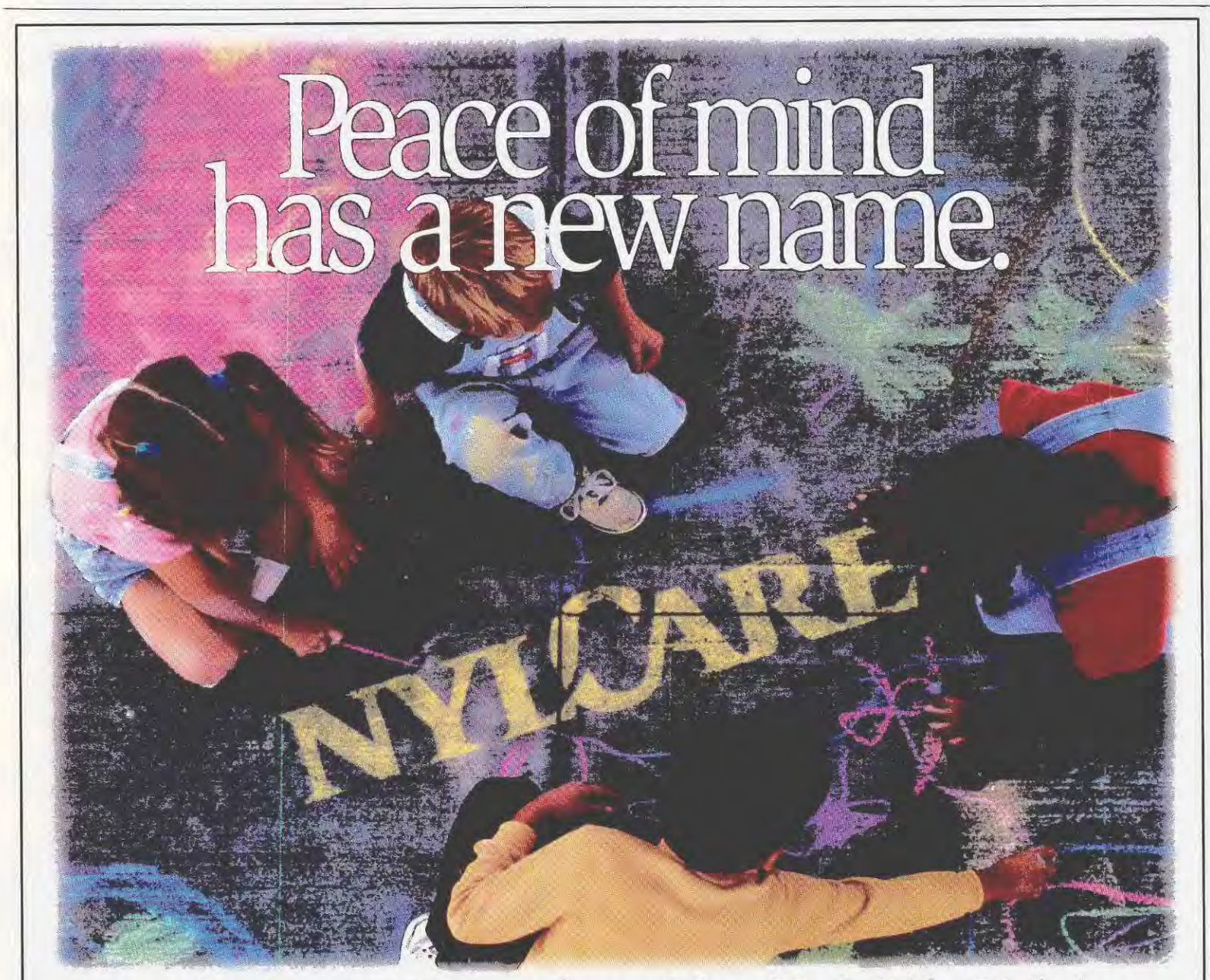
Meanwhile, catastrophe reinsurers are offering other concessions besides rate reductions.

The so-called "hours" clause—typically defining an event as occurring within a 72-hour period—is being expanded in some cases, according to Mr. Megna.

This means that a ceding insurer might not have to absorb more than one retention for an event lasting longer than 72 hours.

Continuing a trend of the last year or more, reinsurers are also allowing ceding insurers to pay what amounts to a reduced upfront rate for a reinstatement of limits, rather than waiting until

See **Reinsurers** *on page 22*



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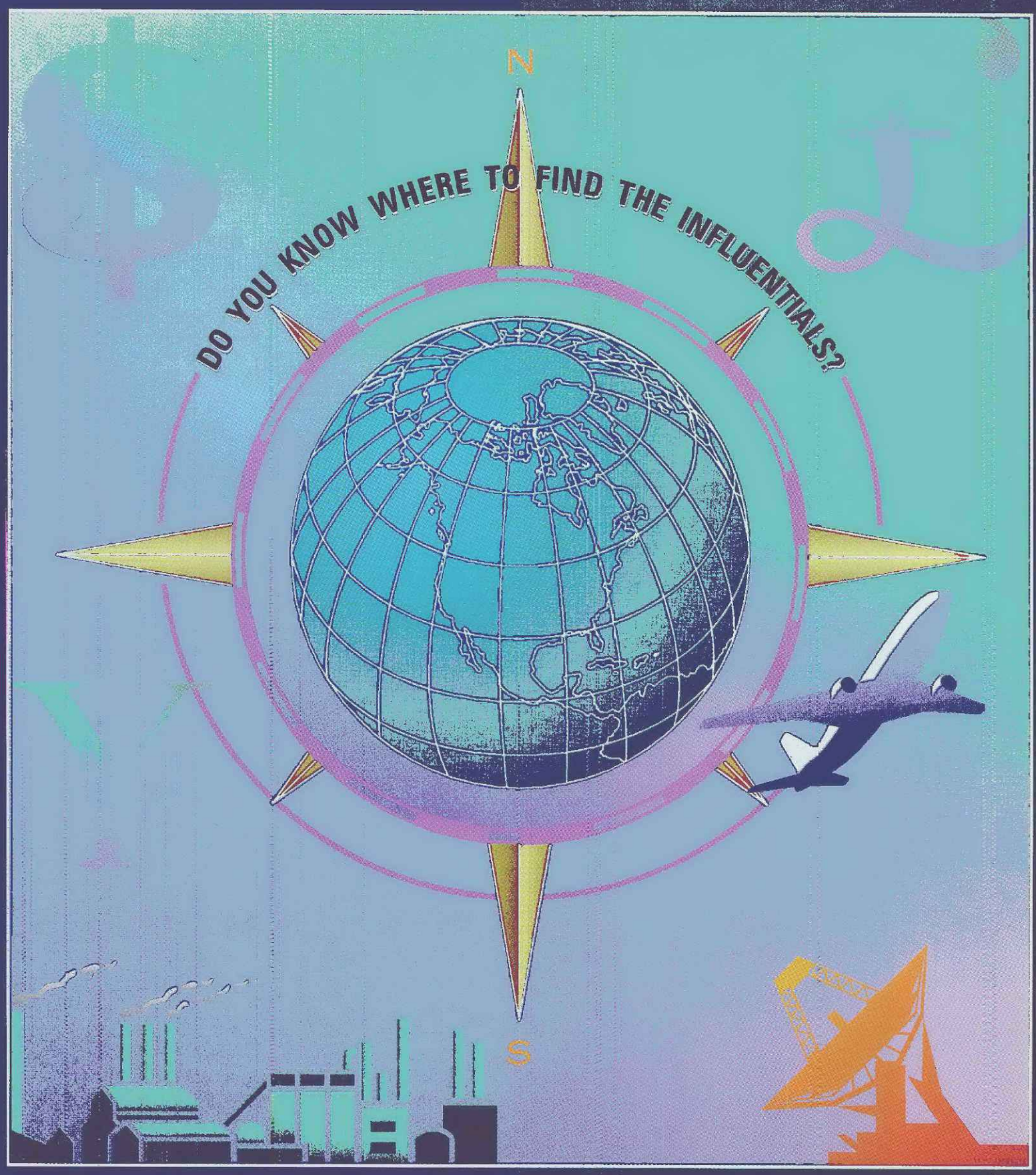

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Reinsurers

Continued from page 20

after the limits are exhausted to reinstate them, brokers say.

In another development, Mr. Megna noted that some retrocessional protection is becoming available to catastrophe reinsurers after a period in which the retro market virtually dried up.

The coverage is being offered in some cases by insurers rather than reinsurers, and there is no softness in pricing or other conditions, he said.

"We are not back to the LMX days at Lloyd's," Mr. Megna said, referring to the London market excess-of-loss spiral of the late 1980s. "But there is some retro capacity, and it's growing."

The market for other property and casualty reinsurance covers, meanwhile, remains in the soft state it's been in for several renewal periods, most brokers and reinsurers say.

Pricing for working-layer property covers depends largely on loss experience, while the market for upper layers is generally competitive, except where worldwide capacity is needed, Mr. Megna said. Small commercial property programs are having the easiest time, he noted.

"Unless you've had losses, it's just going to be easing off some," Gill & Roeser's Mr. Bolland said of this season's modest property rate reductions.

Non-catastrophe property rates are flat or a fraction lower, reflecting fewer losses for reinsurers, agreed John Lombardo, president and CEO of Munich American Reinsurance Co. in New York.

"They were already down as low as they could get, so there weren't any more decreases," he said.

Casualty renewals are also proving easy work for most ceding companies.

Clash covers, triggered when two or more casualty policies are involved in a single occurrence, are seeing rate reductions of 10% to 15%, liberalized reinstatement provisions and other loosening of insuring conditions, according to Mr. Megna.

"It's very similar to what's going on on the property side," he said.

"There's definitely more capacity," he added, estimating that $50 million to $60 million in clash limits are available.

The casualty treaty market is flat to competitive, market sources report.

"It's extremely, extremely soft," said Salvatore D. Zaffino, president of Sedgwick Payne Co./Crump Re in Hartford, Conn., adding that he has seen rate reductions from 10% to 25% off last year's reduced rates.

An intermediary who did not want to be identified said some casualty business is being renewed at "burning cost"—pure loss cost—or less, a development he labeled "irresponsible."

However, Richard Cole, chairman and CEO of Chartwell Reinsurance Co. in Stamford, Conn., said the casualty reinsurance market seems to have "bottomed out."

"Most of our casualty business has renewed as is," and rates have increased for some business with poor claims experience, Mr. Cole said.

"In the past couple of years you would lose the business to competitors if you tried to increase the rates, even if it was bad business," he said.

Casualty reinsurance rates should continue to hold up, he added.

"Other forces will affect it. There will be more consolidations and that will take some more players out of the market and the deterioration of known loss reserves will make the market realize that it can't go down any further," he said.

Nevertheless, several observers say there are no signs of tightening in most areas of the market.

"I don't see any companies saying, 'The market is stupid, we're going to walk away,' " Mr. Bolland observed. "Anything is negotiable."

Even niches within the property/casualty reinsurance market like surety or ocean marine have given way to competitive pressure, he added.

"The herds have discovered the niches at the same time," Mr. Bolland said.

Despite the abundance of willing capacity for most programs, many renewals—particularly property cat programs—are running late as buyers hold out for the best price, several observers say.

"Buyers of catastrophe reinsurance probably felt that prices would go down and the later they got in to the market, the better they would do," Mr. Ingrey said.

"When everything is soft, you always hope the next quote to come in is the best," Mr. Bolland said. "This is a good year to be late."

"It's probably very irritating for the underwriters," he added, "because they were sitting around early in the year and now they're swamped." BI

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Groundbreaking market softness

Early surplus lines activity was unheard of only two years ago

By DAVE LENCKUS and DEBORAH SHALOWITZ COWANS

How soft is soft?

In the non-admitted property/casualty insurance market, the answer may be reflected best by stabilized earthquake coverage rates for many risks and the reappearance of some risk managers who long have self-insured their exposures.

There still is an overall shortage of earthquake capacity. And, those few self-insured risk managers with large engineering firms and colleges who have re-emerged to seek quotes in the surplus lines market on professional, legal and employers liability rates are only window shopping right now. But, both scenarios were unheard of just a year ago, when market executives wondered how much softer the market could become.

The year-end renewal season answered that query without any doubt: Insurers still are striking sweet deals for most property/casualty lines.

Indeed, "we've even seen stock companies significantly undercut their own surplus lines companies," observed Warren S. Stanley, president and chief executive officer of Swett & Crawford Group, the Los Angeles-based wholesale brokerage unit of The St. Paul Cos. Inc.

As a result, retail brokers increasingly are shopping around for the best deals, sometimes for as long as 60 days, compared with 30 to 45 days two years ago, said Paul L. Genecki, senior vp of The Schinnerer Group Inc. of Chevy Chase, Md., the underwriting manager unit of Marsh & McLennan Cos. Inc. "It's making every renewal, every piece of business harder," he said.

"We're trying to figure out the next stage after paranoia," observed David Hartoch, president of Sherwood Insurance Services, the San Francisco-based wholesale brokerage unit of Aon Corp. "Everybody is nervous about their business and their clients."

Surplus lines insurers that lose large accounts often cannot understand how other underwriters can afford to cover those risks at such reduced rates. "You never know if the other underwriter is seeing the same information," said Chuck Seymour, vp-medical products for the specialty division of Zurich-American Insurance Group in Schaumburg, Ill.

Smart shoppers will find that insurers will cut rates for many casualty risks by 10% to 20%. Property rate cuts in the surplus lines market often are close behind.

However, not all risk managers are taking the cheapest rate after they finish shopping.

"In an effort to distance yourself from another quotation, there seems to be a great emphasis placed on giving the insured an incentive to make the decision on something other than price," agreed Kevin Brooks, president of General Star Indemnity Co., in Stamford, Conn., a surplus lines unit of General Re Corp.

One example is offering umbrella liability coverage with a personal umbrella extension for the owner of the business, especially on large accounts or with program business, he said.

In other cases, the quality of risk management services counts more than obtaining the cheapest rate, Schinnerer's Mr. Genecki said.

Pockets of problematical pricing remain, though, including general liability for construction firms and professional liability for real estate agents.

Surplus lines report

Overall, though, casualty rates are "just as soft as they could possibly be," Sherwood's Mr. Hartoch said.

Non-admitted insurers are cutting rates for high excess liability coverage 10% to 25%, wholesale broker executives estimate. Rates for low-layer excess coverage are falling 10% to 15%, they said.

General liability rates in the non-admitted market are flat at worst and 15% cheaper at best, broker executives said.

Even the few competitors that write product liability coverage for manufacturers of medical products and pharmaceuticals are dropping rates 2% to 5%, Zurich-American's Mr. Seymour said.

Those product liability insurers also are more willing to offer occurrence-based coverage than they have been historically, he said.

Competition also is heating up for directors and officers liability risks, but market executives are split over whether that has translated yet into rate cuts.

Surplus lines insurers still largely write that coverage, but an influx of markets has boosted capacity and spurred competition, driving rates down about 10%, Mr. Hartoch said. D&O and miscellaneous professional liability rates are "going the same way as casualty rates."

Swett & Crawford's Mr. Stanley said that D&O rates have come under major pricing pressure during the past six months.

Referring to non-profit D&O and errors and omissions coverage, Vickie Kartchner, president and chief operating officer of TIG Excess & Surplus Co. in Phoenix, said, "There are a lot of carriers that want to get into those lines," so for the short term the market is disrupted and prices are falling.

However, the insurers that are not familiar with this area will not stay in it long, she predicted.

Others say D&O rates are flat.

"I think the price has just gotten to the point where carriers that are offering the coverage are standing back a bit and considering their exposure-to-premium-level equation," Schinnerer's Mr. Genecki said.

More surplus lines markets are competing for professional liability business, as well, said Marcus Payne, president and chief operating officer of Dallas-based

See **Surplus** *on next page*

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Surplus

Continued from previous page

wholesaler Crump Insurance Services Inc., the largest unit of holding company Price Forbes North America.

The surplus lines market has expanded similarly for employers liability coverage, according to Sherwood's Mr. Hartoch. A dozen insurers now offer that coverage, compared with one or two only a few years ago, he said.

Standard admitted markets are beginning to entertain some employers liability risks, which they would not touch just a few years ago, Mr. Genecki said. Surplus lines insurers, though, still write the bulk of that line of business.

Mr. Genecki expects that standard markets next will begin challenging surplus lines insurers for pollution, hazardous waste cleanup and asbestos abatement liability business.

Not all risk managers with liability exposures, though, will find deals from surplus lines insurers, even in this soft market.

General liability for contractors, particularly in California, remains a tough risk.

Also in California, real estate brokers have been hit with 12% rate hikes for professional liability coverage, Mr. Genecki said.

Though professional liability rates for real estate agents in other urban areas are stable now, they likely will climb 5% to 10% this year because the frequency of claims is climbing, he said.

Many of those claims have been filed by property sellers who claim agents promised high selling prices so they could land the accounts. The plaintiffs claim that those agents failed to deliver, though, because of depressed market conditions that the agents knew existed, Mr. Genecki said.

In addition, primary general liability coverage rates for residential health care facilities, like nursing homes, increased modestly for the most part nationwide, said Tom Mulligan, senior vp of underwriting and marketing for Western World Insurance Co. in Ramsey, N.J.

And, some long-term care facilities in the Texas and Louisiana area faced rate hikes of as much as 10%, he said.

On the property side, rates for non-catastrophe coverage "are just like casualty," Mr. Hartoch said. "They're just as soft as they can be."

Mr. Stanley agrees property rates are soft, but he does not see them abating as much as casualty rates.

Still, risk managers can expect better deals on property risks.

General Star's Mr. Brooks said property rates typically are falling 10% to 15%, though large accounts can negotiate even better deals.

Only risk managers who have reported losses recently or who have catastrophe exposures are seeing rate hikes, which generally do not exceed 10%, said Paul McCain, vp of Crump subsidiary Crump Insurance Services of Texas Inc.

Even the earthquake market is "fairly stable now" compared with a year ago, when underwriters were commanding 10% rate hikes, Mr. McCain said. However, he added, there still is no standard market competition for this business.

Mr. Stanley described the earthquake market as "marginally better" because there is more capacity. Overall, though, there still is inadequate capacity, he said.

Deductibles also have stabilized, though they still are much higher than they were a few years ago, he noted.

With the Northridge, Calif., earthquake two renewal seasons removed, earthquake accounts in general are renewing "close to as is," he said.

Still, some risk managers cannot obtain the coverage because of the age of their buildings or their location in particularly vulnerable areas, he said.

Sherwood's Mr. Hartoch said that the market for earthquake and difference-in-conditions coverage "is very firm, especially in California."

Rate increases for that coverage range from 10% to 20% in California, concurred Mr. Hartoch and Bob Cohen, vp of marketing for United National Insurance Co. in Bala Cynwyd, Pa.

Mr. Hartoch said he will be interested in how various Bermuda-based catastrophe facilities fare this year in juggling their premium guarantees to their treaty reinsurers and their coverage limitations in various geographic zones.

If competition prevents them from meeting their premium guarantees, it "could be very expensive" for those facilities, he said.

So far, the Bermuda facilities have had a minimal effect on the surplus lines market, Mr. McCain said.

The windstorm market also is somewhat schizophrenic.

Some risk managers with wind exposures in Florida are negotiating rate decreases because standard lines markets again are writing more of that business, Mr. McCain said. The most successful risk managers have obtained 25% to 50% rate cuts, he said.

However, other windstorm risks face 10% to 20% rate hikes, United's Mr. Cohen said.

Surplus lines executives are split over how the non-admitted market will be affected by the ongoing consolidation of admitted companies and the problems that Lloyd's of London is battling.

Some say the upheaval in the admitted market and at Lloyd's already has sent much new business to the non-admitted market.

The consolidation "creates a lot of confusion in the marketplace," Mr. Brooks said. Particularly before a deal is approved by regulators, risk managers have some uncertainty about the insurers involved in the deal. As a result, risk managers "shop the account with more intensity than they otherwise might have."

In addition, when admitted insurers consolidate, they cast off coverage if they do not have a critical mass in that area, and some of it has flowed to the surplus lines market, said TIG's Ms. Kartchner.

Others, though, say they have seen little or no impact but that they expect more business to move from those consolidated companies to the surplus lines market.

Besides the increased shopping by retail brokers, surplus lines executives also are dealing with growing client demands for improved technology that would facilitate policy issuance and billing and that would allow direct online access to claims, accounting links and electronic mail.

"There is a conceptual desire for more automation, but a lot of them (clients) are struggling with what that means day to day," said Britton Glisson, president and chief operating officer of Essex Insurance Co. of Glen Allen, Va. Clients want one seamless system, but it is difficult to build a consensus on one system for all insurance companies, he said. BI

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ILLUSTRATION BY ROGER SCHILLERSTROM

Insurer Topics

The future is now for insurance on the Web

By SALLY ROBERTS

Online site offers consumers information and some direct purchasing capabilities

Insurers have long heard forecasts that the future of insurance distribution would be consumers purchasing insurance via their personal computers.

That future has arrived in the form of InsWeb, a World Wide Web site that consumers can access to obtain in-depth insurance information and resources to assist them in making informed buying decisions.

Not only can potential buyers obtain a direct line to agents, brokers and insurers via InsWeb, but they can also, in limited ways, obtain quotes and purchase insurance policies over the Web site.

InsWeb brings the insurance industry and consumers closer together, according to Gordon Gaddy, director of InsWeb, which was launched by Burlingame, Calif.-based Strategic Concepts Corp.

Whereas insurance companies traditionally "do not have an outstanding reputation for providing customer-oriented services," InsWeb provides "a more efficient way to communicate" and a means to enhance relations between insurers, brokers and consumers, Mr. Gaddy said.

"We've created a direct line between companies and customers where agents are still involved," he said.

It is also a means for insurers to become part of what forecasters describe as the distribution medium for the 21st century.

While consumers currently only can buy auto insurance in the state of Utah and personal watercraft insurance via InsWeb, the site plans soon to set up other pilot programs in automobile insurance, term life, accidental death and dismemberment and short-term medical insurance.

Since InsWeb went online last October, more than 100,000 people have visited the site, Mr. Gaddy said.

"On our first day online, we had 40,000 to 50,000 hits," Mr. Gaddy said, referring to the number of people who visited the site.

When user access InsWeb at http://www.insweb.com, they are welcomed to "The Internet Gateway to the Insurance Industry." Here, consumers can click on a variety of listed sites, which

range from ones that answer frequently asked insurance questions, to ones that locate an agent in a specific city for a specific product, or even a page of insurance industry terms defined.

Consumers can also click on InsWeb's insurance company listings and, from that list, another click will access an insurer's individual home page with information about their product offerings.

Currently, 11 insurers have set up home pages as part of InsWeb. They are: CAMICO Mutual Insurance Co., Commercial Life Insurance Co., Coregis Group, Employers First Insurance Co., Great States Insurance Co., Grocers Insurance Group, Kemper Life Insurance Co., Pacific Specialty Insurance Co., NORCAL Mutual Insurance Co., Workmen's Auto Insurance Co., and Westchester Specialty Group.

InsWeb is a central market place that millions of people with different insurance needs can access, according to Mr. Gaddy.

In some situations, people will know exactly what they want and be able to access the information right away, whereas other people might know they need insurance but not know exactly what they need.

Thirty minutes on InsWeb "won't solve all their problems, but they can do a lot of things in a short amount of time," Mr. Gaddy said.

George Nevitt, president of Workmen's Auto Insurance Co. in Los Angeles, said the Internet is very useful in reaching people whom the insurer would not normally contact.

He gave a hypothetical example of a 15½-year-old boy who, after telling his dad he wants to learn to drive, is told to first find out how much more it would cost to insure him. The com-

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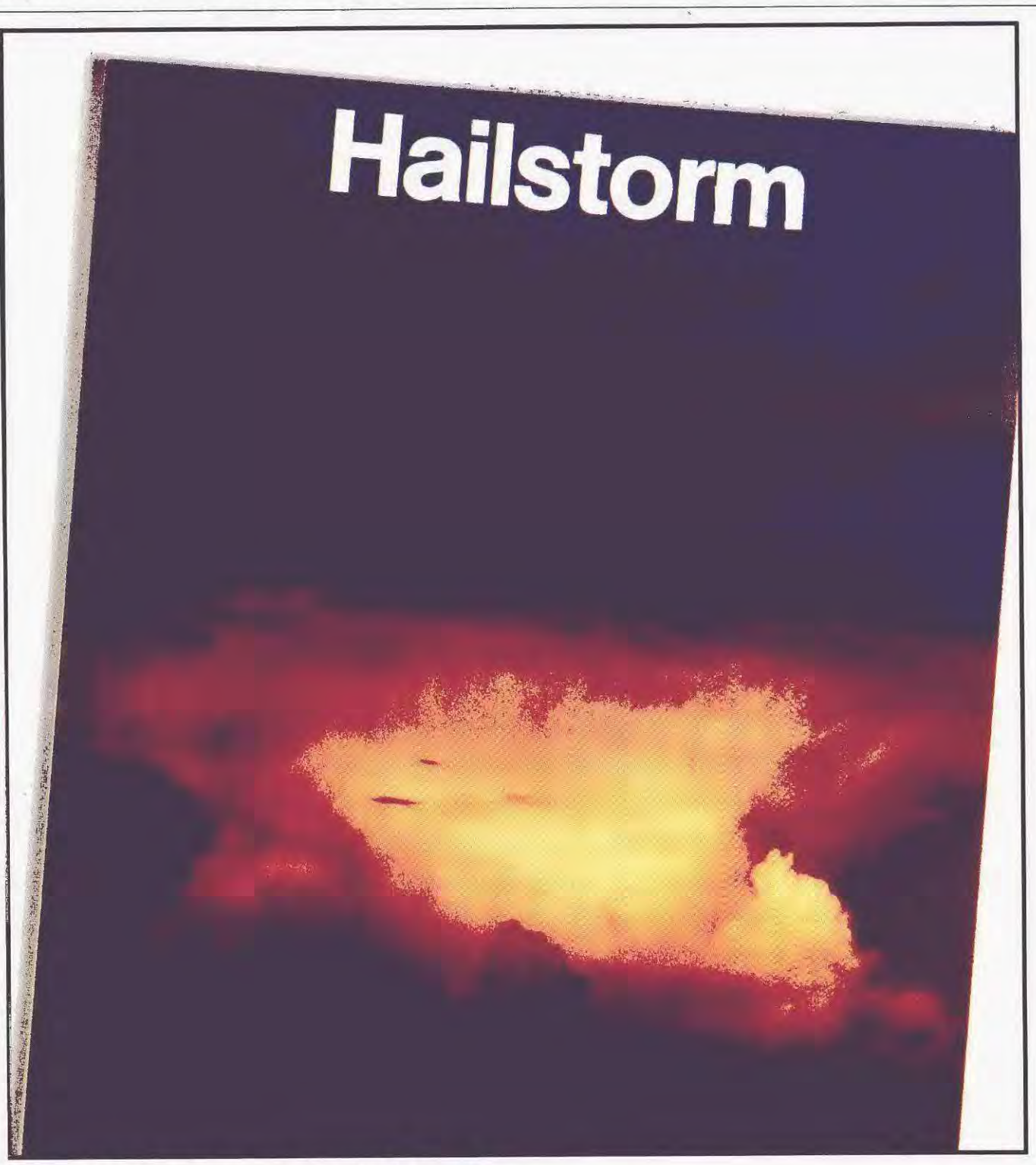

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Continued from previous page

puter-literate boy, while browsing the Internet, finds Workmen's home page on InsWeb nd gets a quote.

"It's a definite improvement in ommunication for us, espeially in Utah," Mr. Nevitt said, eferring to the auto insurance ilot project being distributed on nsWeb, which Workmen's is nderwriting. "We do a lot of usiness in the country areas here it can be difficult to reach eople," said Mr. Nevitt.

ance Services. This is the only coverage actually offered for sale at InsWeb.

Mike McGraw, chief operating officer of Menlo Park, Calif.-based McGraw, views the Internet site as "another avenue to get our message out to consumers."

While McGraw has yet to sell a policy over the Internet—"We feel right now, consumers are too uncomfortable giving credit card numbers over the Internet"—it is optimistic about its future.

We feel right now, consumers are too uncomfortable giving credit card numbers over the Internet,' says Mike McGraw of McGraw Insurance Services.

Now, "they can just get on the nternet and do some shopping," he said.

In addition to Utah residents aving direct access to Workman's for quotes on their auto nsurance via InsWeb, consumrs across the nation also can obain quotes.

Customers could also apply for personal water craft insurance olicy on the InsWeb site hrough McGraw Group Insur-

In past years, consumers had been hesitant about buying goods with a credit card through consumer catalogs, Mr. McGraw said. Now, people do not hesitate to call and give out their credit card numbers over the phone.

Buying insurance via the Internet will evolve in the same way, he predicted.

Right now, "for customers who like the Internet, this works well for them and it will grow more in the future," Mr. McGraw said.

Insurers wanting to set up a home page on InsWeb pay at least $350 per month for five pages with fee increases depending on the number of pages after that.

Insurers also pay a one-time set up fee of $15 per page and pay an extra fee per month for search functions.

Insurance agencies and brokerages pay anywhere from $12.45 per month to $57.45 a month to maintain a home page in addition to a one-time set-up fee, which varies from $20 to more than $350.

Fees vary depending on the level of customization the home page entails.

For instance, a basic home page might include an Internet address, geographic location search capabilities and the company's logo.

A premiere package, on the other hand, might include three-color illustrations, custom graphics and multiple pages of content.

For more information about the InsWeb site, phone Carolyn Grossman at 415-373-0200, or reach her by e-mail at cgrossman@insweb.com. BI

New Web site targeting commercial business

Access to be limited to insurers, brokers

By SALLY ROBERTS

Starting in March, a new World Wide Web site will enable insurers to obtain policy and risk information from brokers more efficiently, while potentially increasing

business.

But unlike other insurance-related Web sites, InsureWeb is only for commercial lines insurers and brokers.

Typically, brokers will obtain information about a potential commercial risk and send the underwriting information to a number of prospective insurers.

"It occurred to me it would be more efficient to send (the information) to one place," said Jack Scheinuk, founder of InsureWeb and owner of Scheinuk Agency Inc., a commercial lines agency in New Orleans. "A web site is an ideal mechanism."

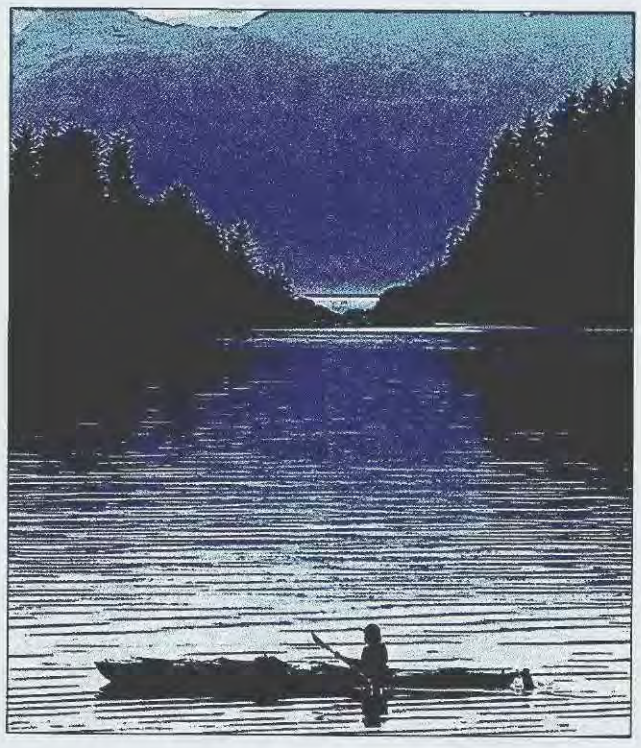
At the InsureWeb site, registered insurers around the globe can choose between the commercial risks that registered agents and brokers have posted by premium range and general classification. Insurers either can send back a quote, an inquiry or a note saying they are not interested to the agent or broker.

"It's going to be a very efficient way to offer business to a large market," he said.

The factor that will either make or break InsureWeb is security, said Mr. Scheinuk, who added that InsureWeb's "security is solid."

Registered brokers will be unable to see each other's risk offers and will be able to limit their risk offers to one or more insurers, he explained. Insurers, agents and

See **InsureWeb** on next page



GET THE BROADER VIEW...

InsureWeb

Continued from previous page
brokers that are not registered on InsureWeb will be denied access.

Further security comes in the form of SecurID—an electronic card with a six- to eight-digit code that changes every 60 seconds.

To access InsureWeb, insurers must enter the code showing on the card at that time plus enter a personal identification number.

Unlike insurance companies, agents and brokers have the option either to buy SecurID or to use just an identification number—either selected by them or assigned.

SecurID costs $75 every three years above annual or monthly registration costs. Insurers pay $500 per year to become registered InsureWeb members, while agents and brokers pay $10 per month.

Mr. Scheinuk said insurance companies pay more because the benefits and maintenance costs of InsureWeb are greater for them.

Currently, insurers and agents can access InsureWeb—at http://insureweb.com/insureweb/—and see a working preview of some of the features, Mr. Scheinuk said.

He said the site's graphics are best viewed with a Netscape Web browser.

While no brokers have registered, two insurers, New York-based American International Group Inc. and Philadelphia-based Reliance National Insurance Co., will be on the site when it is up and running, Mr. Scheinuk said.

To obtain further information about InsureWeb, send requests via electronic mail to Mr. Scheinuk at insureweb@insureweb.com. BI

There some gambles you can't afford to lose. Property, marine and aviation reinsurers learned that lesson once again during the terrible years of 1988-1992, when so many retrocessional programs proved inadequate and loss-stunned retrocessionaries fled the markets.

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Protecting policyholder information

By GAVIN SOUTER

You are more likely to suffer a credit card fraud when you buy a meal in a restaurant than when you buy an insurance policy on the World Wide Web.

Or so some technology experts say.

Customers, though, don't buy that. And to overcome their misgivings about doing business on public computer networks, insurers will need to convince consumers that hackers will not be able to access their personal information.

One company with security measures in place is Strategic Concepts Corp., which set up an Internet site called InsWeb (http://www.insweb.com.), which is sponsored by several insurers where individual consumers could actually buy a limited number of insurance policies (see story, page 24B). None has actually been sold this way, though.

"A lot of customers' fears are overstated. People are willing to give their credit card to a stranger in a restaurant and have them walk into the back room with it, and that is more dangerous than giving it out over the Internet," said Darrell Ticehurst, president of the Burlingame, Calif., firm.

Mr. Ticehurst does not claim that his site is completely secure, merely that it would take so long for an outsider to breach it that network operators would be tipped off about the intrusion.

Most insurer Web sites cannot handle actual transactions. Consumers can receive information about coverages, but to actually buy a policy, they still have to contact the company by traditional means.

Currently, most insurance companies do not offer the security that customers would want over the Web, said Scott Joyner, assistant vp-advanced technology at the National Assn. of Independent Insurers in Des Plaines, Ill.

"In the future, they will have to work on an encryption system that will allow most people to have a secure transaction," Mr. Joyner said. Once that happens, insurers will have to reassure customers that the system actually works, he said.

Insurers will have little choice. The sheer pressure of commerce

Continued on next page

Continued from previous page

will force them to, he said. "There's so much force to do business over the Internet that insurers will overcome the security fears."

And they will have to act quickly. With so many potential consumers being exposed to the World Wide Web portion of the Internet, many insurers probably will have to solve security problems and win customers over by the end of 1996, said Gene Hengel, director of strategic technology at IVANS Inc., the insurance industry electronic communications organization in Tampa, Fla.

The only insurer currently offering to sell policies via InsWeb is McGraw Group Insurance Services in Menlo Park, Calif.

The insurer runs an ad for personal watercraft insurance in "Personal Watercraft," one of the hundreds of pages "published" on the World Wide Web. By clicking a mouse on the ad, readers are sent to the InsWeb site. Once there, they can use a credit card to apply for coverage, explained Mike McGraw, chief operating officer of the insurer.

Actual policies would then be mailed out several days later.

"We have gone a step further than other advertisers and consumers can click on and immediately purchase our services," he said.

Not that all customers are ready to take that step. Those who don't want to give personal information out on the Web are directed to the nearest insurance agent who sells the McGraw policies, Mr. McGraw said. "We found that people are leery of buying insurance online and they like to go through agents."

So leery, apparently, that McGraw, which has been offering the policies via the Web for two months has yet to sell one that way. "I'd be concerned about that if it continues when the weather turns, but nobody is really buying Jet Skis at the moment," he said.

Customers will first have to become used to the idea of buying products over the Internet in general before sales really take off, Mr. McGraw said.

The best customer relations tool that insurers will have will be word of mouth, he said.

When mail order "started, people were worried about sending out their credit card number to people they didn't know, but some people did and they told their friends that the goods really did turn up and it took off," he said.

Even within the insurance community, there is a difference of opinion on whether business transactions over the Web are secure.

ITT Hartford Group Inc., for instance, does not offer policies for sale over the Web.

Though it is no less secure than other means of communications, one breach of the security system could enable thousands of individuals to access sensitive information, said a spokeswoman for the Hartford, Conn.-based insurer.

"Before we would consider using it we would have to feel that the risk is small enough and our customers would have to trust that it is secure," she said.

By contrast, Mr. Ticehurst insists that the security measures taken by the organizers of InsWeb are sufficient to allay any fears of losing information.

"Because the problem is overstated we have to overreact in terms of security and reassuring people," he said.

First, users are informed that they can encrypt any data they wish to transmit and that nothing is transmitted onto the Web until the users say so, Mr. Ticehurst said.

Then to prevent hackers entering the system, Strategic Concepts uses three computer systems as firewalls and three different software packages to cover separate tasks in the process. "Plus there are other security measures that I can't talk about," he said.

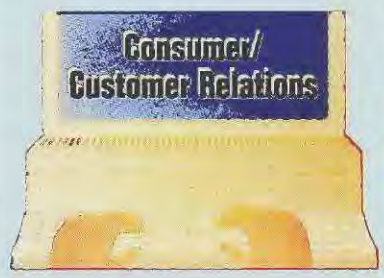
The object is to make unauthorized access to the system so time consuming that hackers would be deterred or discovered before any damage is done, he said. BI

Marketing via home page expected to reap rewards

Everyone online seen as a potential buyer

By REGIS COCCIA

There's no place like a home page for insurers to introduce themselves to potential customers browsing the World Wide Web.



Colorful graphics and concise text in a home page, like a merchant's store window display, can coax browsers to take a more in-depth look at what's available.

Web sites allow insurers to "provide a non-intrusive method of making first contact with potential customers, making available product information and gathering underwriting data online," notes a marketing overview at a Web site called Insurance Net.

Insurance Net—http://www.insurancenet.com—is run by Nexus Analytical, a Richardson, Texas-based organization of insurance and communication professionals, and offers consumers a list of links to other insurance industry Web sites.

As interest in the World Wide Web portion of the Internet grows, insurers with an online presence can get the attention of the growing number of consumers who are "surfing the 'Net."

"Online connections are growing at a rate of 15% per month. Everyone who goes online is an insured of some kind, owns a car, is a homeowner, etc.," pointed out Tim Higham, president of Insurance Resource Center Inc., a Charlotte, N.C.-based insurance industry consulting company specializing Internet development. For insurers, having a presence online "is very

See **Sites** *on next page*

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Insurer Topics

Sites

Continued from previous page
important."

Taking advantage of the Internet, however, requires insurers to go beyond just setting up a home page, Mr. Higham advised.

Most insurers that develop Web sites do so to keep pace with competitors that are already online. But unless the online strategy is thought out fully and merged with the company's business strategy, "the home page turns out to be an online advertisement," he said.

"If you are going to build something, you have to decide who's going to see it," he said. "Unless they're online, they're not going to see (your home page)."

For that reason, IRC recommends insurers make an effort to get their agents and customers—whatever parties the insurer hopes to reach via the Internet—on the Internet, too. The consulting company has developed an Internet access network called Insurance Link specifically for the insurance industry.

IRC, founded two years ago, works with hundreds of clients, including: Hartford, Conn.-based Aetna Life & Casualty Co., which was one of the first insurers to set up a home page; Short Hills, N.J.-based Associated Aviation Underwriters, which did so earlier this month; and the CPCU Society of Malvern, Pa.

Most insurers use their Web sites to offer similar kinds of information, like company overviews, product descriptions and information on how to contact the insurer, either by phone or electronic mail—a convenient feature that browers can use while they're visiting the company's Web site. Many sites also provide electronic forms that enable visitors to send comments or questions to the company's e-mail address.

Beyond such basic information, insurer Web sites are as varied as the companies themselves.

Some insurers, like Paul Revere Life Insurance Co. and Reliance National Insurance Co., also give users a way to visit other Web sites.

For example, Paul Revere's home page—at http://www.paulrevere.com—offers an option called "Internet Starting Points," which lets users view a list of links to other Web sites, ranging from insurance industry groups to games and entertainment.

Reliance National also offers a list of insurance-related Web sites that users can access from its home page, http://reliancenational.com.

The Philadelphia-based insurer's Web site features three main options: a company overview, a product guide and CHOICEs. By clicking on "CHOICEs," users can read an online copy of the insurer's quarterly newsletter, check Reliance National's most recent stock price or access other insurance industry Web sites.

Prudential Insurance Co. of America's Web site, at http://www.prudential.com, asks visitors to help Prudential "customers" pictured on the screen answer questions on financial planning. The insurer's interactive display informs consumers by involving them in different scenarios.

While Web sites can be good sources of consumer information, Mr. Higham sees Web sites as just the beginning for insurers.

"The online medium definitely will change the way insurance is transacted," Mr. Higham said.

Although only "one or two companies are selling insurance directly online, most insurance sales on the Internet are done the traditional way," by contacting the company for a quote and the insurer follows up with the customer, Mr. Higham explained. That will change, though, in the future, he predicted.

"In a year's time, it will be old-hat to say, 'I've got a Web site,'" Mr. Higham said.

Insurers that already have a presence on the Internet should decide whether it's working and "build it into the overall business strategy," he advised. "For those who don't, get one as fast as possible." BI

Insurers reaching out to help baby boomers plan for their future

By RODD ZOLKOS

As it has in other markets, the baby boom generation is becoming an ever more significant force in the market

for insurance products and financial services.

So much so, in fact, that while newspaper accounts document the first of the baby boomers turning 50, some insurance companies are recognizing the need to develop new marketing approaches to relate most effectively to this unique generation.

"What we have learned about the aging baby boomers is they want to be involved in the decision-making and they want to be approached on an educational basis," said Pamela Kennedy, second vp of personal markets at The Principal Financial Group in Des Moines, Iowa.

"The old 'back up the hearse and cover the customer with a sheet' approach to selling life insurance doesn't work," Ms. Kennedy said. "The idea is to both approach the baby boomers differently and to approach them on an educational basis."

"It is the trend, I think," said Drew Lawton, managing director of Aetna Retirement Services in Hartford, Conn. "It is sort of where the industry is heading and hopefully we're a little bit ahead of that."

Following market research that showed fewer Americans plan to retire in a traditional sense, Hartford, Conn.-based Aetna Life Insurance & Annuity Co. created Aetna Retirement Services as part

Continued on next page

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GLOBAL FOCUS — 1996

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Continued from previous page
of a major initiative late last year, focusing its products, marketing and services on Americans' changing retirement needs.

The company is piloting the new retirement services unit's marketing effort in Tampa, Fla., and Rochester and Syracuse, N.Y.

The company hasn't yet identified which additional markets it will enter this year, though Mr. Lawton said the program will be rolled out in "several" additional cities in 1996.

The Aetna program is based on helping the aging baby boomers meet their expectations for a nontraditional retirement.

As part of its effort to improve its relations with baby boom customers, Principal has created a program called "Dreams and Priorities."

In partnership with Age Wave Inc., an Emeryville, Calif.-based consulting firm, Principal has developed a seminar package to introduce customers to the realities of living longer and their financial options.

The two-hour multimedia seminar includes a discussion of how people are aging differently and how baby boomers will enjoy a longer "middle age" than previous generations and an examination of the financial implications of those differences, focusing on financial protection, accumulation and communications.

Principal also has teamed with Age Wave to sponsor a 60-minute documentary titled "Middlescence and Beyond" to be shown on public television, which also examines issues related to baby boomers' aging.

Dave Seems, general manager of the Rio Grande Agency, the Principal's Albuquerque, N.M., agency, is using "Dreams and Priorities" and "Middlescence" in presentations he makes to local organizations.

One such presentation came Jan. 10 to a group of about 100 local businesspeople gathered for a regular Albuquerque Chamber of Commerce program called "Curbstone Conferences."

Noting that most of those attending are baby boomers, Mr. Seems said the information is valuable to them personally as well as in shaping their thinking on how their own businesses can market to the baby boomer population.

Aetna Retirement Services also is using Aetna's agent force as a key part of its marketing, with the company providing educational software and printed materials that agents can use in working one-on-one with clients.

Principal also is trying a new concept in relating to the needs of baby boomer customers through a recently opened retail outlet in Nashville, Tenn.

Joe Schmitt, field vp at Principal in Des Moines, who was instrumental in developing the concept, likened it to General Motors Corp.'s Saturn automobile.

"What I started with was, 'Could we build a user-friendly insurance agency,' " he said.

Researching that question through about 30 focus groups around the country, the Principal found the group that most needed the services such an outlet could provide was middle-income America—mostly baby boomers.

At the same time, though, those working on the project could see the Principal neither had enough staff nor enough time to provide those customers the service they wanted on a face-to-face basis.

Using software developed for the Principal, customers to the PrinSource Financial Center work at terminals called "Gateways," researching ways they can address such prime concerns as building a nest egg for emergencies, and providing for a college education for their children and retirement for themselves.

The Principal also offers regular seminars on those topics at the financial center, in addition to sessions on buying a home.

Open into the evenings and on Saturdays, the PrinSource Financial Center features a glass-enclosed toy room where kids can play while their parents examine ways to meet their families' financial needs. Once customers are ready to make an actual product decision, they can meet with an agent at the center. But they only schedule a meeting when they're ready, bringing documents printed out from their Gateway research sessions.

Customers can spend as much time as they want on the computer, visiting the center as often as they'd like.

It's a different approach than most financial planners offer, Mr. Schmitt said.

"We're not doing any fancy stuff. We're not doing tax planning or estate planning. We're staying right in our middle-income niche." BI

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Insurer Topics

Pay/performance link continuing for CEOs

Trend focusing on company value, study finds

By BETHANY PENDLETON

Insurance companies are maintaining the trend of linking pay for top executives to corporate performance, according to a recent study.

"The trend has been getting stronger since the late 1980s" and will continue in the future, said Richard A. Furniss Jr., a principal at management consulting firm Towers Perrin in New York who conducted the "1995 Top 25 Insurance Company Executive Compensation Study."

In 1994, insurer chief executive officers' pay varied dramatically, reflecting a year of mixed results for insurance company earnings, Towers Perrin's study found.

Top executives' annual cash compensation levels ranged from a decline of 20% to an increase of more than 48%. Overall, the study found that CEOs' median total direct compensation reached $2.07 million in 1994, down slightly from the median figure of $2.3 million of 1993.

'Pay for performance in insurance is here to stay for the long term,' says Chubb Corp.'s Donald B. Lawson.

The study found that the pressure to continue linking executives' pay with performance comes from media, shareholders, government and boards of directors.

Mr. Furniss said one of the benefits of this pay/performance linkage is that it will help in "focusing executives on building value for shareholders."

"There's no question that pay for performance in insurance is here to stay for the long term," said Donald B. Lawson, senior vp of compensation and benefits at the Chubb Corp., one of the insurers in the study.

"The company executive compensation program is designed to align shareholder interest with business strategy, company values and management initiatives," Mr. Lawson said.

Towers Perrin's study examined the 1995 proxy statements and 1994 annual reports of the 25 largest publicly held insurers in the United States, as measured by total assets.

"The continuing trend is to emphasize bonuses, not salaries," said Mr. Furniss.

"Barring unforeseen changes on the legislative or regulatory front, we expect that modest growth in base salaries will continue, in tandem with ongoing emphasis on the variable elements of pay, especially the long-term portion."

In 1994, the median value of long-term compensation for the CEO was $872,000, a considerable drop from the previous year's figure of $1.2 million.

Despite this decrease, long-term incentive awards remain the largest element of direct compensation, with the 1994 median grant at 123% of base salary.

The most common long-term incentive is stock options, which is used by slightly less than 85% of the companies examined, the study found, while 25% provide stock with certain restrictions on the holder, and 30% pay out in cash or stock.

The study found that the 1994 median total shareholder return was down 6.6%. Total shareholder return varied for different companies:

- For life insurers, shareholder return dropped 11%.
- For property/casualty insurers, it rose 5%.
- Multiline companies' shareholder return grew 6%.

Although the study only focused on the 25 largest insurers, Mr. Furniss said the pay-for-performance trend is spreading throughout the industry.

"Where smaller companies are adopting this policy, they are doing so very aggressively," he said.

Mr. Lawson said this compensation plan would work particularly well for small insurers because while "they don't have the resources to compete in base salaries, they can find annual cash bonuses but not necessarily yearly raises, depending on performance."

Insurers in the study were: Aetna Life & Casualty Co., AFLAC Inc., Allstate Corp., American General Corp., American International Group Inc., Aon Corp., Chubb Corp., CIGNA Corp., Cincinnati Financial Corp., CNA Financial Corp., The Equitable Cos. Inc., GEICO Corp., General Re Corp., Jefferson-Pilot Corp., Lincoln National Corp., Progressive Corp., Provident Life & Accident Insurance Co. of America, Providian Corp., SAFECO Corp., The St. Paul Cos. Inc., TIG Holdings Inc., Torchmark Corp., Transamerica Corp., UNUM Corp. and USF&G Corp.

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For more information on Towers Perrin's "1995 Top 25 Insurance Company Executive Compensation Study," call David Fridling at 914-745-4179.

IBS schedules '96 programming

The Insurance Broadcast System Inc. has released a list of scheduled insurance television programs for 1996.

IBS, a Los Angeles-based television service that delivers programs via satellite to insurance industry subscribers, expects to launch its TV programming March 1.

According to Dennis N. Richard, IBS chairman and chief executive officer, the Insurance Broadcast System plans to offer the following programs:

- "Worldwide Insurance News" on property/casualty and life/health insurance issues.
- "The World of Insurance," hosted by Herbert E. Goodfriend, director of insurance analysis at KPMG Peat Marwick L.L.P. in New York.
- "Legal and Regulatory Issues," hosted by Joseph P. Decaminada, executive vp and general counsel of New York-based Atlantic Mutual Insurance Co.
- "Public Policy Issues," hosted by Mavis A. Walters, executive vp at the Insurance Services Office Inc. in New York.
- "Let's Talk Risk Management," hosted by Gregory W. Hidden, director-risk and insurance services at American General Hospitality Inc. in Dallas.
- "Broker's World," hosted by Carl A. Modecki, president of the Washington-based National Assn. of Insurance Brokers.
- "Effective Loss Control," hosted by Charles H. Morgan, manager of the Risk Engineering Services division of Zurich-American Insurance Group in New York.
- "Educational Forum" on property/casualty and life/health issues, hosted by Jack M. Nelson of the New York-based College of Insurance.
- "Agent's World," hosted by George Nordhaus, chairman of Insurance Marketing & Management Services Inc. in Santa Monica, Calif.

Other programs IBS is planning include specials on reinsurance, alternative dispute resolution, claims and insurance fraud.

IBS will broadcast live news and educational programs Monday through Friday from 8:30 a.m. to 5 p.m. Eastern Standard Time. Each broadcast day will feature two hours of original programming that will repeat throughout the day.

For information on subscribing, call Andrew M. Witt, vp-marketing, at 503-232-5569. For other information, contact Al Footnick, executive vp-production and broadcast, 310-820-3303; or visit IBS on the World Wide Web at http://www.ibstv.com.

—By Regis Coccia

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Issue of January 15

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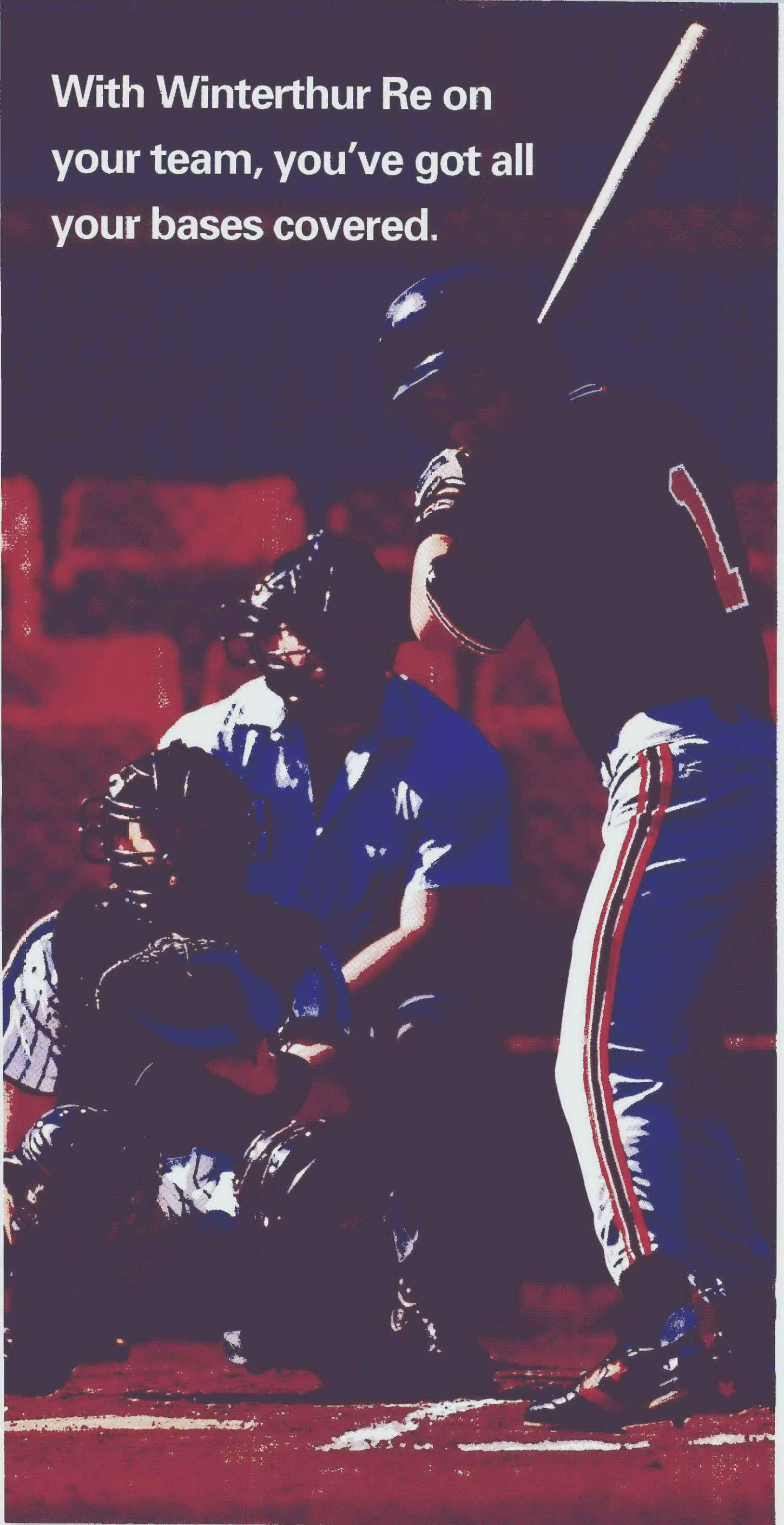

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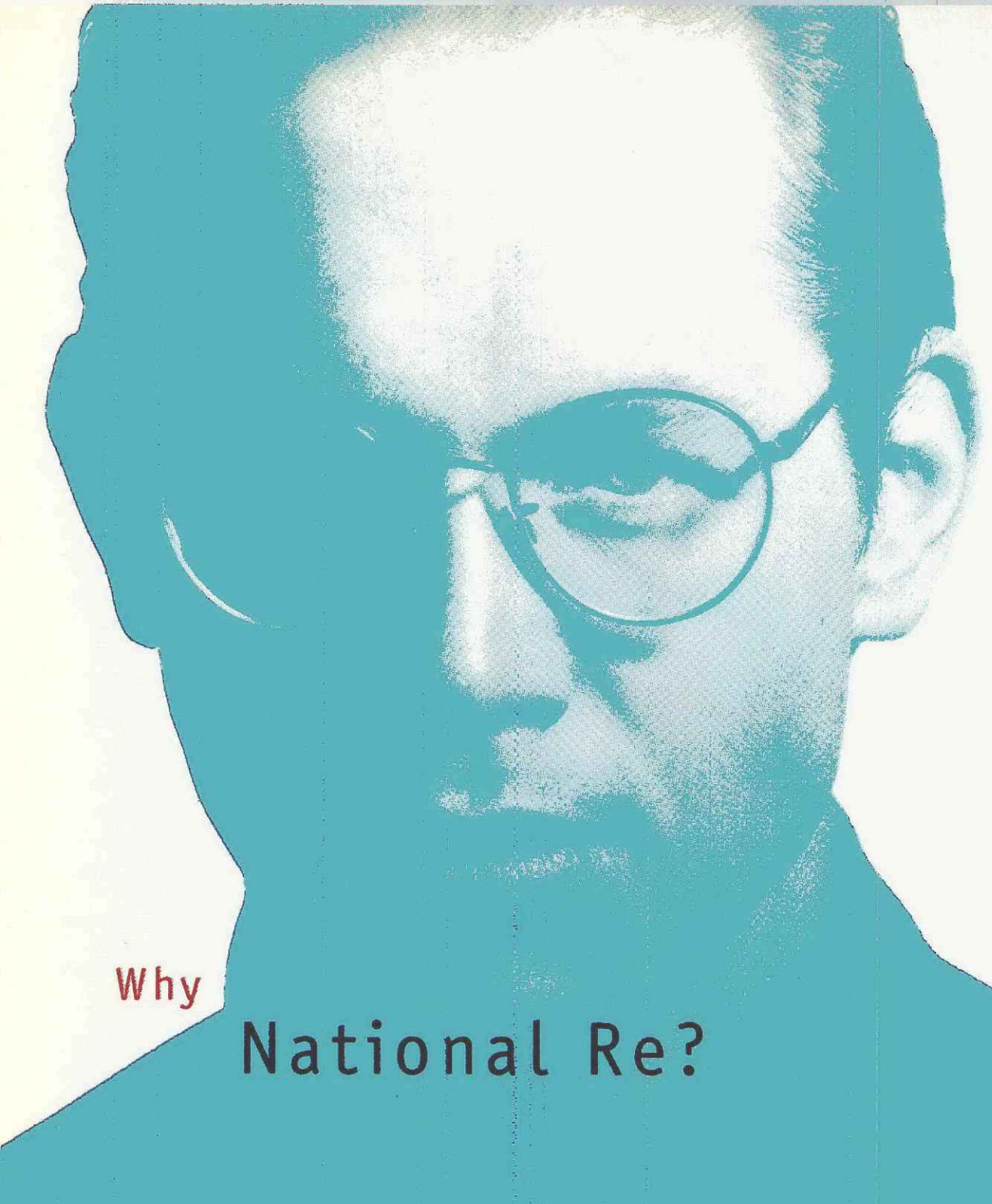

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ASK A RISK MANAGER

Q **My employer operates several retail outlets across the country. A disturbing trend in our liability claims experience appears to be a marked increase in physical assault incidents. Are you aware of this trend extending on a national basis and what can we do to protect our companies from this serious exposure?**

A The organization I work for also operates several hundred retail outlets on a national scale and I agree that assault-related incidents are on the increase. And, of particular concern to any employer should be those cases where the employee is a willing participant in such violent, anti-social behavior.

The serious exposure you refer to originates from various sources. For starters, insurance protection does not always apply because of the "intentional acts" and "punitive damages" exclusions. And, defense costs associated with these incidents can be a big ticket item because of the complex discovery process required to adequately manage the case. In many instances, the insurance agreement may extend to the employer but not the employee. This situation leads to further problems since defense work must be coordinated between two different law firms. Sure sounds like the beginning of a big headache, right?

A common reaction when we talk about employee-related assaults is for us to shake our heads in dismay, express our concerns about the many social ills and then prepare to wrestle with the next set of problems. However, with the number of these cases escalating and gaining national attention we simply cannot afford to treat this behavior as a sign of the times. The correct way to deal with it is by adhering to

Minimizing liability exposure for acts of employee violence

a careful employee selection process, developing and implementing continuous employee training programs that are aimed at keeping our employees focused and motivated to perform their jobs professionally. As employers, it is our responsibility to communicate to our workforce that we have a zero tolerance for violent behavior in any form.

The employee selection process should include a background check and a motor vehicle record check if employees are required to operate a vehicle as part of their job. Many employers are also utilizing a variety of aptitude tests which help identify certain "bad behaviors" before an employee is recruited. Those organizations that do not expend the effort to weed out the undesirables will pay a heavy price sometime down the road. Employee training programs should focus not only on technical abilities but include sensitivity skills that heighten our awareness of the feelings of others.

Although this sounds like basic "stuff" it is too often ignored in a culture that is driven by a desire to expand market share and increase profit margins. Remember the comment about intentional acts being excluded from general liability coverages. An employer is definitely at risk when it decides to do nothing to influence the behaviors of its workforce through the above measures.

Regarding the subject of insurance protection you should carefully read your comprehensive general liability policy and make certain that exposures for employee vs. employee incidents are covered. Also, pay particular attention to wording in the intentional acts exclusion. Yet another aspect to consider is the fact that assault claims are likely targets for media attention since the public has an insatiable appetite for stories with a "sensational" flavor. Part of your risk control strategy, therefore, should include knowing how to communicate with the press on such matters. If your company is identified as having problems with violence, its ability to survive (be profitable) could definitely be at stake. After all, "perception is everything" in today's business climate!

To wrap things up, the best means of protecting your company from being victimized by assault-related incidents is by taking an active role in the employee selection process and then offering workers the necessary tools and skills to handle every job. Investing time and energy into these processes are the best deterrent to controlling acts of violence. BI

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

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

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

Is selling insurance at a loss a way to gain?

By Donald Holden

"I KNOW OF NO OTHER INDUSTRY or market in the world where people will knowingly or continuously sell products at a loss and take solace in the fact that they lost less than someone else." Thus spoke H. Edward Hanway, president of CIGNA Worldwide, in September 1992, the lowest point of the all too recent soft market; on what he referred to as, "that well known charity, the insurance industry."

Recently the climate has been more favorable and the last three years have given welcome relief to a lot of balance sheets. However, insurance rates have now leveled off and even started to fall within some sectors and one senses an air of helplessness among those who presumably feel unable to control their destinies.

Not everyone feels so powerless, however. A year or two before Mr. Hanway made his statement, at least one U.S. reinsurer executive in apparent anticipation of coming events took his team aside and told them he was giving them all an extra week of vacation that year—"not through benevolence," he stressed, but on the basis that "if you're writing bad business, I want you all to know it's in the company's interest for you to go and play golf."

The week of extra vacation was probably due to be awarded anyway. However, this executive was not one to pass over a unique opportunity to make a decidedly unambiguous point about underwriting bad business. It also looks to be the statement of a man confident of his strategy, rather than the type of panic reaction that presages some truly awful results three or four years later.

What is there about insurance that leads seemingly intelligent people to patently irrational behavior—and what have others picked up that has enabled them to anticipate the situation and avoid paddling their canoes over the waterfall?

Mr. Hanway deserves great credit for an excellent attempt to bring reality to the market and with that purpose his statement could not have been better phrased. However, strictly speaking he is wrong!

A soft market is purely and simply a price war. All industries have price wars and most end up selling products at a loss from time to time. So in this respect, as insurers, we do have the scant consolation of being in good company.

On the second count, however, we are on our own, and here our actions are less excusable. To knowingly sell products at a loss, one needs to master

What have others picked up that has enabled them to anticipate the situation and avoid paddling their canoes over the waterfall?

management accounting at least up to the high school level. A refresher:

Costs can be split into variable and fixed costs. Fixed costs are those that don't change with output, for example the rent on the building and the managing director's salary. Variable costs increase directly with output, such as raw material costs for a manufacturer. A firm has to sell each unit at a price that is high enough to cover the variable costs and make a contribution to fixed costs; it also has to sell enough units for the fixed costs to be covered by all of the individual contributions. Whatever is left after that is the profit.

If in a price war, a firm reduces sales prices to maintain market share, the first effect is that the profit per unit drops. If it drops the price further, it makes losses. At first, it is still better off continuing to produce, at least in the short term, because every unit sold is making a contribution toward fixed costs, if not enough to cover them. But there comes a point at which if the price drops further, every unit sold would actually make us poorer, because the price is so low that it doesn't even cover the variable costs.

Some lines of insurance, such as motor or personal lines, are typified by large volumes of similar policies where statistics allow profitability to be determined by more or less standard methods. However, in many lines—and particularly in reinsurance—variable costs are mostly comprised of claims that are erratic and cannot be neatly calculated in terms of man hours or yards of nylon cloth.

Catastrophe coverage, for example, can be written for next to nothing as long as there is no catastrophe, and catastrophes are unpredictable. Because of the inconsistency of the losses, statistics are not as helpful as we would like them to be. In manufacturing (or motor insurance) the profitability of a unit sold is a valuable piece of information. In catastrophe reinsurance—or, to take another example, industrial insurance—losses can be so much greater than the premium that the fact that a policy is sold at a profit (though it may make us feel warm inside) gives little clue to whether it was correctly priced or not.

We cannot use this as an excuse to ignore the facts. We still have variable costs and if we cannot calculate them, our profitability will be dependent on how well we estimate them.

Fixed costs on the other hand are as straightforward in insurance as in any other industry.

See **Competition** *on next page*

Competition

Continued from previous page

Their three most significant elements are generally office space, salaries and systems, in varying proportions. It is vital to survival to know them, live them and breathe them. It is also vital to survival to know, live and breathe the fixed costs of competitors, a practice commonly known as benchmarking. As in other industries, finding them out is not always straightforward and may involve some imaginative thinking, but then good business practice never has been easy.

Let us take an example of a line on Florida catastrophe cover. An underwriter may ask for $50,000, and be comfortable that over four years that will be profitable. Underwriters on the whole are quite good at knowing what prices should be, but not so good at knowing how they are made up.

So in our example, in a price war there may still be some benefit in writing the risk for perhaps $40,000. But if this equals the expected long term value of claims (variable cost), this is the limit and below that there will be no profit and no contribution to fixed costs except through short-term luck. If we then write it for $35,000, we are giving away $5,000 of shareholders' capital just as though we had written out the check. The risk may run loss free for one, two or 10 years. But in the long run, it is an inescapable fact that we would give better service to our shareholders if we left the $5,000 in the bank, and much the same service if we put it on the roulette wheel.

The depth of market cycles shows clearly that on the whole, underwriters have not overcome the difficulties of applying these principles to specialist areas of insurance. Added to the difficulties in costing, there are aspects of insurance economics which other industries don't have to put up with. Losses are random to a point, but the actions of underwriters can and do influence them.

Let us take another theoretical example. Consider a responsible client with five loss-free years on record and an appropriately low premium. In the sixth year he has a few claims amounting to, say, 20% of premium. Normally this would warrant a modest increase in premium or increase in deductible because the immaculate record has been slightly tarnished. However, it happens to be a soft market and all our accounts are vulnerable to price competition. We take what seems a very reasonable decision to hold responsible clients. To do this we are obliged to maintain the existing rate or even give a reduction.

On face value this may still be one of the better risks on our portfolio. But what are we telling our client by this action? We are telling our client that losses don't matter. And we can be sure that as he has pressing problems of his own, he will pay less attention to loss prevention. We have not just reduced the premium, we have increased the risk.

Similarly, in tough conditions it is all too conveniently forgotten that the purpose of deductibles is not to reduce the amount we have to pay on a loss, but to impose responsibility on the policyholder. When we reduce them, or for that matter broaden the terms of cover, we are reducing the responsibility that we impose on the client as his side of the bargain. The consequences of these actions, though inevitable, may take a year or two to filter through. Of course when the market hardens all this gets redressed—often in a somewhat brutal manner that causes resentment and accentuates the cycle still further. Until then we should expect loss ratios to increase, not only because of lower rates but also because of higher losses.

These phenomena are unique to insurance and have resulted in our soft markets being softer than others. But there is yet another difference between insurance and other industries which works against us and ironically ought to be a blessing: we have an easy ride with cash flow.

Manufacturers selling below cost will rapidly run out of cash, so their price wars have a necessarily limited duration. But in insurance, we can be deluded by cash pouring in for years on end, and it generally takes a major disaster or more to bring us back to reality. Many in business would give an eye to have our cash flow profiles, but in soft markets many insurers have somehow managed to turn an advantage into a liability and the result is that our soft markets are longer than they would otherwise be.

Adding these factors up, it is an economic fact that soft markets in insurance are not only softer but also longer than those of other industries. So what can we do to survive them?

If we can understand where we have gone wrong in price wars by looking at other industries, we can also look to them to understand the strategies of those who have remained profitable—a key strategy being to compete on issues other than price. In consumer business, non-price tactics are very apparent—advertising, free air miles, and many others. But it is now becoming accepted in centers of business expertise that the long and the short of it is that the ones that can stand the pain the longest are invariably the ones with the lowest overall costs. Other strategies can win battles but on the whole they don't win wars because they can mostly be copied. Deep pockets can help, but how long can they last if you are giving away money with every unit sold, while your competitors are breaking even?

A maxim often used in respect of consumer products is "never compete on price (profitability generally comes from having reasons other than price to distinguish your product) but always compete on cost." When applied to insurance, the emphasis has to be on cost because product differentiation is difficult.

Variable costs/claims can be controlled to some extent by good underwriting, but as even the best risks have claims, there comes a point beyond which it is low fixed costs that count.

In manufacturing (and in many service industries) the importance of costs is very apparent and so the concepts are well understood in those realms. When I moved from industry to insurance it was natural to question some of the salaries and expenses that were approved without an evaluation of benefit. The answer: "Insurance is about security, so credibility is important and consequently you need a respectable office; when you're dealing with large sums of money, you must have good accountants; an underwriter can take half a million dollars of premium in a day, you have to have the best."

This line of thinking is difficult to argue against until the realization dawns that it is often about establishing comfort zones. I don't think the danger of this can be overestimated, but the real damage is worse: it provides a smoke screen to the true competitive aspects of the industry.

Salaries commonly make up 50% or more of fixed costs of insurers. How should they relate to premium volume? A million dollars of premium might equate to a billion dollars of liability. Is that a million dollar book or a billion dollar book? When considering pay increases, we should keep in mind that in terms of profit it is likely to be less than $100,000. A small rise for the team of people required to service the book can easily take this up and of course makes it more difficult to compete on price.

What about the need for prestigious offices? A company that stands out perhaps above all others as being able to name its terms when selling insurance is Berkshire Hathaway Inc. I am told, though, that their offices are "nothing special to look at." What Warren Buffet does in setting their strategy is look after his capital and keep his prices above the variable cost of his product. His success suggests this matters to both clients and stockholders more than marble in the entrance hall. That is not to deny that there may often be good business sense in prestigious offices, but it can just as often be a weak tactic to make up for not having the fundamentals right. Anyone looking at benchmarking would do well to match Berkshire Hathaway.

However, is it not worth paying whatever it takes to get a good underwriter? Underwriting is about avoiding losers rather than picking winners. Underwriters do not have the potential which, for example, fund managers have of identifying star performers that will make a portfolio shine even when the market as a whole is uncompetitively priced. Underwriters offering insurance below the variable cost will always be reduced to Mr. Hanway's problem of "taking consolation in losing less than anyone else."

It is a manager's duty to employ competent staff; but maintaining comfort zones at the expense of obtaining value for money is surely breaching the trust bestowed by the shareholders.

With the benefit of hindsight, that reinsurer executive's method of saving money by sending his underwriters out of the office is patently obvious. Though he didn't actually drive them out of the building, he did make it unequivocally clear that he was prepared to sacrifice premium volume and was not prepared to take on underpriced business.

Interestingly, when David Rowland assumed the chairmanship of Lloyd's of London, he wasted no time in attacking costs, particularly salaries—not only those of underwriters but throughout the system. With combined losses of the past five years threatening to break the £8 billion ($12 billion) mark, many argued that this inherently unpopular move was irrelevant.

I don't think it is coincidental that David Rowland was formerly a broker.

Brokers, like manufacturers, work on tight margins and understand their costs. So as we all nervously watch the movement of rates, some people—including many in Lloyd's and I assume at that U.S. reinsurer—are anticipating a reduced work load, if not some time outdoors.

For the rest of us, the time to engineer a competitive position is now. BI

Donald Holden is currently working on a management audit at Lloyd's of London. His responsibilities at Lloyd's include work on the reconstruction and renewal program.

Accidental death benefits denied in overdose

Legal Briefs

A felonious-activity exclusion in a group health insurance policy barred coverage for accidental death benefits for a policyholder's drug overdose, according to the Court of Appeals of Texas.

Marion Marshall, a state employee, was enrolled in a group insurance program which included accidental death and voluntary accident insurance policies. Both policies excluded losses occurring while engaged in any felonious activity. In November 1990, Mr. Marshall died of methadone and cocaine intoxication. Selena Cash, Mr. Marshall's widow, filed a claim for accidental death benefits. The insurers denied the claim on the basis that the death was not accidental and that the policies' felonious-activity exclusion precluded coverage. Ms. Cash sued.

The trial court concluded that the mere presence of illegal drugs in the blood did not constitute substantial evidence that the insured was engaged in felonious conduct causing his death. Thus, the trial court awarded Ms. Cash death benefits.

The appellate court said that it is undisputed that possession of either cocaine or methadone without a valid prescription is a felony offense. According to the court, Ms. Cash presented no evidence that her husband held a valid prescription for methadone or that he ingested the drugs involuntarily or accidentally. The court denied benefits.

Employee Retirement System vs. Cash, Court of Appeals of Texas, Aug. 30, 1995, Rehearing Overruled Oct. 11, 1995 (*BI*/02/F.-$10) BI

These abstracts were prepared by Mayo H. Stiegler. Copies of these decisions are available by sending a $10 check payable to Mayo H. Stiegler, to Business Insurance, 740 N. Rush St., Chicago, Ill. 60611-2590. List the number for each opinion.

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Directory deadlines near

Deadlines are approaching for two *Business Insurance* directories.

The Feb. 19 issue will contain the annual directory of utilization review providers and case managers.

To be listed, your company must provide utilization review services or case management services directly to employers.

The deadline for utilization review firms/case managers to return the completed questionnaire to *Business Insurance* is Jan. 19.

The March 4 issue will contain the annual directory of risk management consultants. To be listed, your company must generate at least $250,000 of its gross revenues from risk management consulting, and that figure must be reported.

The deadline for returning risk management consulting questionnaires is Feb. 2.

The directories are published as an editorial service; there is no charge to be included. However, a questionnaire provided by *BI* must be completed.

If your company has not received a questionnaire for either of these directories, please request one from Assistant Directory Editor Rich Trout, who can be reached in the Chicago office at 312-649-5483.

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Datebook

JANUARY 1996

JAN. 22-24. The Fifth Annual P&I Defined Contribution Conference in New York, sponsored by International Business Forum; $1,095. IBF, 7 Penn Plaza, Suite 901, New York, N.Y. 10001; 212-279-2525.

JAN. 23. Exploring New Insurance and Risk Management Concepts in Cyberspace seminar in San Jose, sponsored by Rollins Technology Brokers; no charge. Julie Davis, assistant vice president, Rollins Technology Brokers, 100 Park Center Plaza, Suite 506, San Jose, Calif. 95113; 415-512-6117 or 408-535-2815.

JAN. 23-24. Disaster Planning and Preparedness seminar in San Antonio, sponsored by Factory Mutual Engineering and Research; $495. **Also Jan. 25-26** in Las Vegas; **Jan. 29-30** in San Jose, Calif.; **Mar. 12-13** in Nashville, Tenn.; and **Mar. 14-15** in Columbus, Ohio. **May 9-10.** in Milwaukee; **May 20-21.** in Minneapolis; **May 22-23.** in Chicago. FME&R's Insured Education, 1151 Boston-Providence Turnpike, P.O. Box 9102, Norwood, Mass. 02062; 617-255-4606.

JAN. 23-24. The New Wave of Long-Tail Torts conference in New York, sponsored by American Conference Institute; $995. American Conference Institute, 175 Fifth Ave., Suite 2182, New York, N.Y. 10010; 416-927-7936.

JAN. 24-26. Behavioral Healthcare Delivery System Integration conference in Washington, sponsored by the National Community Mental Healthcare Council and the Managed Care Technical Assistance Group; $1,195. CentraLink-I, 4370 Alpine Road, Suite 108, Portola Valley, Calif. 94028; 415-851-8411.

JAN. 28-FEB. 3. Security, Audit and Risk Management Conference in New Orleans, sponsored by American Bankers Association; $805 for ABA members, $1,005 for non-members. ABA, 1120 Connecticut Ave., N.W., Washington, D.C. 20036; 800-338-0626.

JAN. 29-30. Directors' and Officers' Liability: Critical Legal and Insurance Issues conference in New York, sponsored by American Conference Institute; $1,095. American Conference Institute, 175 Fifth Ave., Suite 2182, New York, N.Y. 10010; 416-927-7936.

JAN. 29-30. D&O Liability: Critical Legal and Insurance Issues conference in New York, sponsored by American Conference Institute; $695 for government employees and academics, $1,095 for others. ACI, 175 5th. Ave., Suite 2182, New York, N.Y. 10010; 416-926-8200.

JAN. 30-31. Private Placement Investing 1996 conference in New York, sponsored by International Business Forum; $1,095. IBF, 7 Penn Plaza, Suite 901, New York, N.Y. 10001; 212-279-2525.

JAN. 31-FEB. 2. The Public/Private Behavioral Healthcare Summit Regional Winter Symposia in St. Petersburg, Fla., sponsored by CentraLink; $695. CentraLink Media Division, 1110 MarWest St., Suite E, Tiburon, Calif. 94920; 415-435-9879.

JAN. 31-FEB. 2. Advanced Pension Conference in Orlando, Fla., sponsored by Corbel; $595. Craig Hoffman, General Counsel, Corbel, P.O. Box 47720, Jacksonville, Fla.; 800-326-7235.

FEBRUARY

FEB. 1. Securities Litigation Loss Prevention seminar in New York, sponsored by PRMS Inc.; no charge. **Also Feb. 28** in Atlanta and **April 24** in Chicago. PRMS Inc. 3401 Enterprise Parkway, Suite 430, Beachwood, Ohio 44122; 216-766-5416.

FEB. 4-7. Professional Insurance Mass-Marketing Assn. 22nd Annual Meeting in Palm Beach, Fla., sponsored by PIMA; $675 for members, $825 for non-members. PIMA, 4733 Bethesda Ave., Suite 330, Bethesda, Md. 20814-5228, 301-951-1260.

FEB. 5. The Environmental Insurance Information Exchange forum in San Francisco, sponsored by ECS Underwriting Inc.; no charge. **Also Feb. 6** in Newport Beach, Calif. and **Feb. 7** in Los Angeles. ECS Marketing, 520 Eagleview Blvd., P.O. Box 636, Exton, Pa. 19341-0636, 800-ECS-1414.

FEB. 5-7. Collection Procedures Institute in Bal Harbour, Fla., sponsored by the International Foundation of Employee Benefit Plans; $685 for members, $775 for non-members. Registrations Department, International Foundation of Employee Benefit Plans, P.O. Box 69, Brookfield, Wis 53008-0069; 414-786-6700, ext. 257.

FEB. 7-9. The Third Annual Executive Conference Integrating Health Managed Care & Disability Programs in Coronado, Calif., sponsored by UNUM, Associated Claims Management Inc., International Business Communications, Infoline, Integrated Health Management Associates; $1,195. IBC USA Conferences Inc. 225 Turnpike Road, Southborough, Mass. 01772-1749; 508-481-6400.

FEB. 12-14. The Essentials of Medical Case Management conference in Aspen, Colo., sponsored by Reed Group Ltd. $895. Stacey Grace, Reed Group Ltd. The Citadel, Suite 650, 3200 Cherry Creek South, Denver, Colo. 80209; 800-367-7443.

FEB. 12-14. WCRI Annual Issues & Research conference in Cambridge, Mass. sponsored by Workers Compensation Research Institute; $375 for WCRI members, $475 for non-members. WCRI, 101 Main St., Cambridge, Mass. 02142; 617-494-1240.

FEB. 21-23. Insurance Seminar: Extra Contractual Claims—Bad Faith—Punitive Damages—First Party and Third Party Claims in Tampa, Fla., sponsored by the Defense Research Inc.; $445 for DRI members, $495 for non-members DRI, 750 N. Lake Shore Drive, Suite 500, Chicago, Ill. 60611; 312-944-0575.

FEB. 22-23. Behavioral Healthcare Provider Profiling conference in New Orleans, sponsored by Global Business Research Ltd.; $1,195. Conference Administrator, Global Business Research, Ltd. 151 W. 19th St., New York, N.Y. 10011 212-645-4226.

FEB. 26-MARCH 1. Fundamentals of Industrial Hygiene course in New Orleans, sponsored by American Industrial Hygiene Association; $955 for members, $1,095 for non-members. **Also July 15-19** in Williamsburg, Va.; and **Sept. 30-Oct. 4** in San Antonio, Texas. AIHA Continuing Education Department, 2700 Prosperity Ave., Suite 250, Fairfax, Va. 22031; 703-849-8888.

FEB. 28-MARCH 3. Seventh Annual Work Injury Management '96 National Conference & Exhibit in Dallas, sponsored by Work Injury Management News & Digest and Managed Health Resource Inc.; $445. Managed Health Resource Inc., 3417 Timberline, Eugene, Ore. 97405-1274; 503-484-5853.

MARCH

MARCH 5-6. Environmental Necessities-Permitting & Compliance course in Long Grove, Ill., sponsored by National Loss Control Service Corp.; $300. NATLSCO, K-4, 1 Kemper Drive, Long Grove, Ill. 60049-0075; 708-320-4091.

MARCH 6. The Future of Lloyd's and the London Insurance Market: How Recent Developments Affect Your Clients program in New York sponsored by sponsored by the Practising Law Institute; $995. PLI, 810 Seventh Ave., New York, N.Y. 10019; 800-260-4PLI.

MARCH 6-7. ERISA Compliance Seminar in Las Vegas, sponsored by Pellerino Consulting Services Inc.; $735. Randee Talmadge, Pellerino Consulting Services Inc., 115 Union St., Marine City, Mich. 48039; 800-882-2496.

MARCH 7. OSHA Compliance in the 90's course in Long Grove, Ill., sponsored by National Loss Control Service Corp.; $195. NATLSCO, K-4, 1 Kemper Drive, Long Grove, Ill. 60049-0075; 708-320-4091.

MARCH 7. Violence in the Workplace course in Long Grove, Ill., sponsored by National Loss Control Service Corp.; $250. NATLSCO, K-4, 1 Kemper Drive, Long Grove, Ill. 60049-0075; 708-320-4091.

MARCH 7-8. Advanced ERISA Litigation conference in New York, sponsored by American Conference Institute; $895. American Conference Institute, 175 Fifth Ave., Suite 2182, New York

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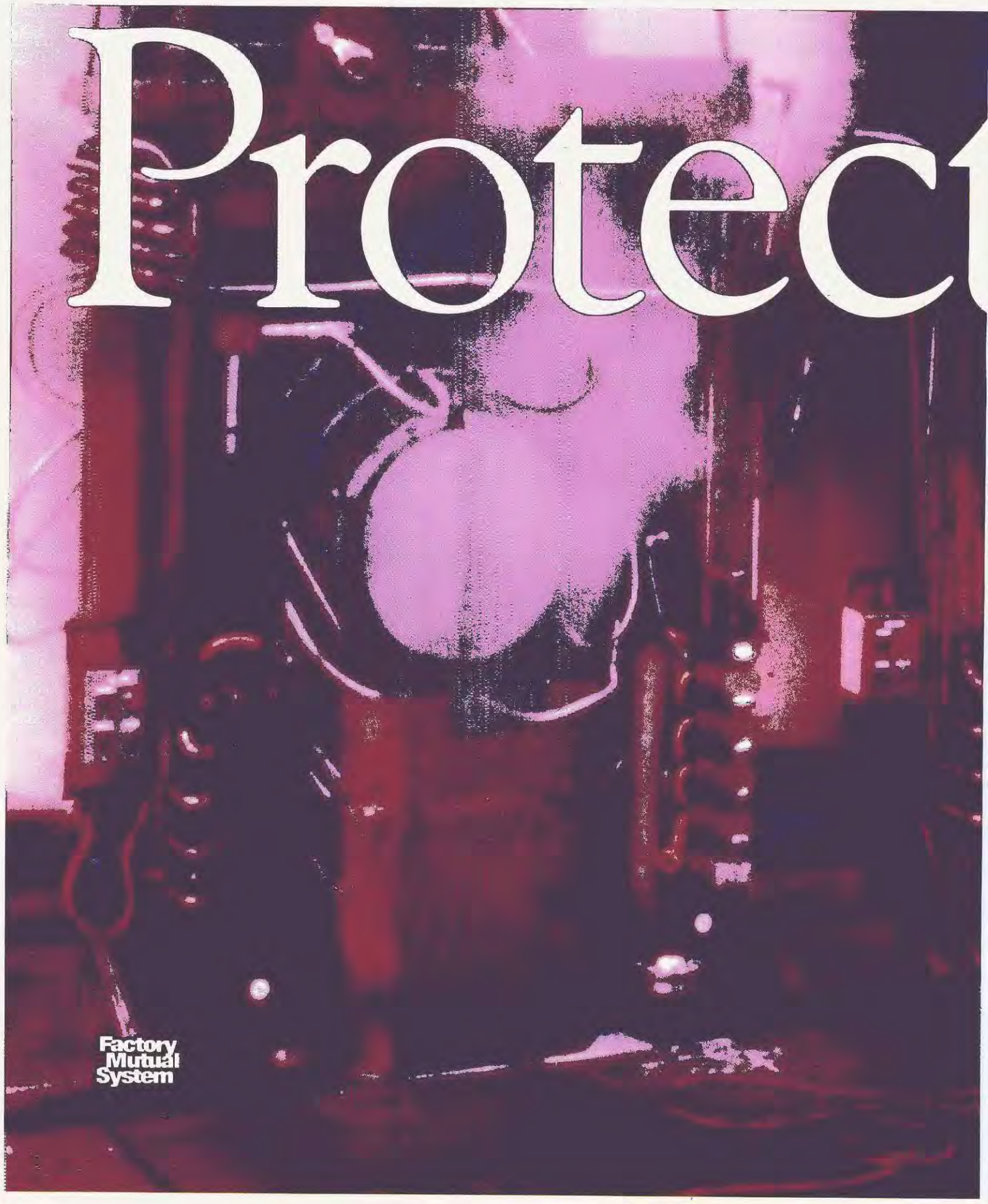

Continued from previous page
N.Y. 10010; 416-927-7936.

MARCH 7-8. London/New York/Bermuda Reinsurance Symposium in New York, sponsored by American Conference Institute; $1,095. American Conference Institute, 175 Fifth Ave., Suite 2182, New York, N.Y. 10010; 416-927-7936.

MARCH 7-8. Innovative Techniques to Resolve Complex Tort Litigation in San Francisco, sponsored by American Conference Institute; $995. American Conference Institute, 175 Fifth Ave., Suite 2182, New York, N.Y. 10010; 416-927-7936.

MARCH 10-12. Eighth Annual National Risk Retention Assn. Conference in Washington, sponsored by NRRA; $495 for members, $595 for non-members, discount for 2 or more from the same company. NRRA, Box 1740, 3421 M Street N.W., Washington, D.C. 20007; 800-999-4505.

MARCH 11-12. Benefits Outsourcing Summit in Coral Gables, Fla., sponsored by ManagementCircle Inc.; $1,095. Conference Coordinator, ManagementCircle Inc., 150 E. 58th St., 18th Floor, New York, N.Y. 10155; 800-338-3004.

MARCH 11-13. Low Back Pain Prevention, Control & Treatment Symposium in St. Louis, sponsored by Travelers Insurance and The Ohio State University Biodynamics Laboratory; $485. Georgann Roche, Travelers Insurance, 1 Tower Square, 4GS, Hartford, Conn. 06183; 800-842-0282.

MARCH 25-28. Quantitative Industrial Hygiene course in Cleveland, sponsored by American Industrial Hygiene Assn.; $855 for members, $995 for non-members. AIHA Continuing Education Department, 2700 Prosperity Ave., Suite 250, Fairfax, Va. 22031; 703-849-8888.

APRIL

APRIL 1-2. The 1996 Annual Workers Compensation Issues Symposium in Orlando, Fla., sponsored by the National Council on Compensation Insurance; $495 for attendees, $750 for exhibitors. James Wolfe, NCCI, 750 Park of Commerce Drive, Boca Raton, Fla. 33487; 407-997-4749.

APRIL 18. APIW Luncheon in New York, sponsored by APIW; $35 for members, $40 for non-members. Paula Gould, 212-345-6526.

APRIL 21-26. The 34th Annual Risk & Insurance Management Society Inc. conference in Toronto; full-week until Feb. 16: $695 for RIMS members; $795 for non-members; after Feb. 16: add $100. Risk & Insurance Management Society Conference Department, 655 Third Ave., New York, N.Y. 10017-5637; 212-286-9292.

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The Datebook is compiled from notices sent to Business Insurance. Notices should be sent at least eight weeks in advance to Datebook, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611-2590. Please include the cost, if any, to attend and information on registration. Business Insurance reserves the right to select meetings of interest to readers and cannot guarantee that notices will be printed.

Innovative plan funds going on life support

Interest lags on lifecycle fund options

By CHRISTINE WILLIAMSON
Crain News Service

The latest defined contribution plan investment innovations—lifecycle or lifestyle funds—have been slow to attract the assets of plan participants.

Between 0.5% and 1% of defined contribution plan assets are invested in these asset allocation funds, surveys by Access Research and the Profit Sharing/401(k) Council show. Consultants cite the newness and short performance history of these funds, along with participant inertia, as reasons the investment option isn't more popular.

Still, consultants say that an increasing number of plan sponsors plan to offer asset allocation funds.

Both kinds of funds offer participants a portfolio of stocks, bonds and cash, generally designed to meet certain age or risk tolerance goals. Lifecycle funds typically offer participants an asset mix based on their age, while lifestyle funds are constructed according to risk tolerance, said Robert Cummisford, a consultant with Ibbotson Associates in Chicago.

Some 401(k) plans, like that of Donrey Media Group in Fort Smith, Ark., have had a relatively strong response to lifecycle funds.

The 4,000 participants have allocated about 28% of their $95 million in assets to the five age-weighted "Lifepath" options offered by plan administrator Wells Fargo Nikko Investment Advisors in San Francisco.

Participants seem to be generally investing in the funds as they were designed to be used, committing all of their account balances and future contributions to the funds, said Don Lehman, human resources director.

"People are either choosing the Lifepath funds and putting 100% of their assets into the fund, or they are using the separate asset class mutual funds we also offer," Mr. Lehman said.

But the funds are not gaining popularity. "The percentage (of employees) using the funds has stayed pretty much the same," said Mr. Lehman. "I think we gained most of the users of the funds when we first introduced them two years ago."

He noted during last year's down market that participants investing in the lifecycle funds were more likely to leave their assets in the selected Lifepath fund and stick with their investment plan than employees who used separate mutual funds and tried to time the market.

New Donrey employees, who mostly are younger, generally are opting to create their own asset allocations using the plan's other eight investment options. "The younger employees are showing greater willingness to invest their own assets, but as they age, I expect they will gravitate toward the Lifepath funds. It's a simpler approach," Mr. Lehman said.

But the Donrey employees might be the exception.

Consultants and other plan sponsors report widely differing use of the funds by participants. Many employees don't transfer entire account balances over to the options. Some direct future contributions to the lifecycle or lifestyle funds but don't transfer existing money.

Some 10% of plan sponsors now offer such funds, but only 1% of defined contribution plan assets are invested in them, Access Research Inc. of Windsor, Conn., found in a 1995 survey.

Similarly, a Profit Sharing/401(k) Council of America survey that covered 377 plans with 1.3 million participants found that only 0.5% of assets were allocated to the funds.

About half of the companies that offer lifestyle or lifecycle

See **Funds** *on next page*

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No: 007621 of 1995

In the High Court of Justice
Chancery Division

IN THE MATTER OF
KOBE REINSURANCE COMPANY SA
AND
IN THE MATTER OF THE INSOLVENCY ACT 1986

Notice is hereby given that by an Order dated 14th day of December 1995 made in the above matter Philip John Singer of Coopers & Lybrand, Plumtree Court, London, EC4A 4HT and Mark Pearce Riley of Clark Whitehill, 25 New Street Square, London, EC4A 3LN were appointed Joint Provisional Liquidators of the above Company.

Dated this 18th day of December 1995

Funds

Continued from page 31

funds offer a series of three options, generally with conservative, moderate and aggressive investment profiles.

Typically, those who put their money in asset allocation funds put in about one-third of their plan assets and contributions, said Gerry O'Connor, research director at Access.

That's what happened at the $380 million 401(k) plan of Consolidated Freightways Inc. in Portland, Ore.

Few employees are moving existing account balances into the funds, which are managed by T. Rowe Price Associates Inc. in Baltimore, said Dick Preston, manager/retirement plans.

"We anticipated that employees would either use one of these funds or construct their own portfolios. There's nothing wrong with this," he said. "If people are putting 50% to 60% of their retirement money in a well-balanced portfolio that they don't have to worry about and then play a little with the remainder, they are still going to be better off than if they remained invested in conservative options."

Consolidated Freightways is finding the lifestyle funds are popular with new employees.

"We introduced these funds because a lot of our employees, at all levels, don't have a lot of investment experience. We specially designed them with T. Rowe Price for undereducated investors. We are finding that the approach is appealing to new employees, where we are seeing more allocation to these funds," said Mr. Preston.

"This whole movement is still very nascent," said Dave Nadig, managing director-market strategies at Wells Fargo Nikko.

"We are seeing that many of our clients are finding that it is their new employees who are using the funds most and that among existing employees, it's mostly a move to re-direct future contributions, rather than the whole account balance," he said.

"There's a whole lot of inertia to overcome in trying to get participants to move existing money, especially since the U.S. equity markets have been so good this year," said Mr. Nadig.

'There's a natural bias built in now against these funds,' says Edmund Martinez of Merrill Lynch.

Part of the reason for the slow movement of existing account balances into lifecycle/style funds is that they often are an add-on to an established lineup of investment options, according to Mr. Nadig.

The relative youth of most lifecycle/style funds is also contributing to the lack of enthusiasm by participants.

Many were established just a year or two ago. For participants being educated to look at long-term performance history in fund selection, the lack of a track record may be an impediment.

"It's very difficult now with almost any asset allocation fund to convince participants of the wisdom of investing in such an option. There's a natural bias built in now against these funds because they are limited by short performance records," said Edmund Martinez, senior manager of investments at Merrill Lynch Group Employee Services in Princeton, N.J.

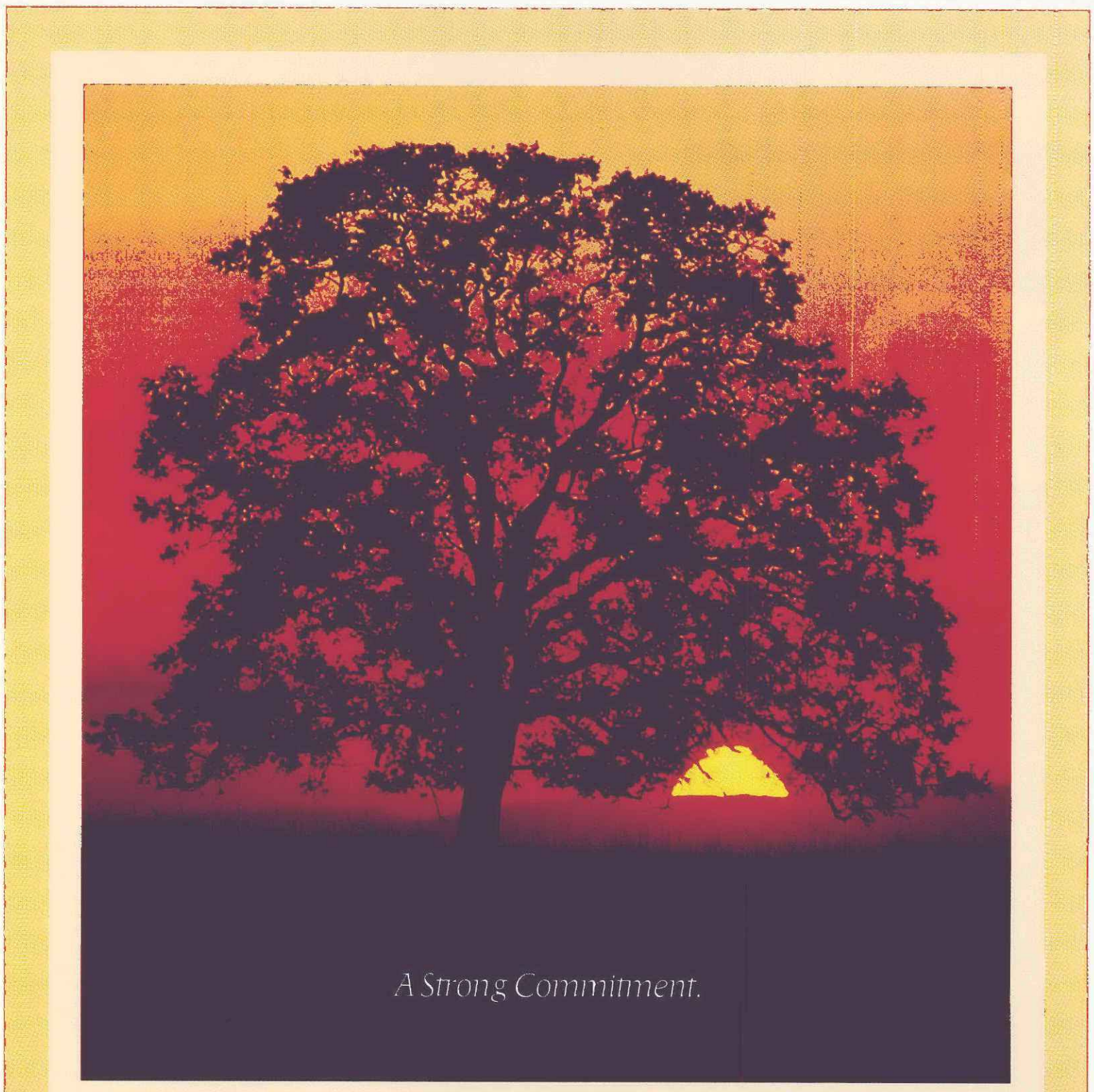
Timberland Co. is now converting its $6 million 401(k) plan to a bundled service with State Street Bank & Trust Co. of Boston.

During the pre-conversion enrollment process, plan participants directed 35% of assets to three asset allocation funds within a new lineup of seven core options and a self-directed brokerage option.

The quick acceptance of the Life Solutions funds might be the result of the education program before conversion, said Jeff Porter, senior benefits analyst with the Stratham, N.H.-based shoe and apparel company.

But like participants in other companies' plans, Timberland employees are being cautious and not transferring all assets to the asset allocation funds.

"We've seen a good mix of people who are dabbling to see what these funds are about and are only putting a little money into them and those who are willing to move it all. I think time and performance may convince more to move later to these funds," Porter said.



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Confidential

Continued from page 3

data encrypted.

Older records that are still on paper are kept in fireproof, padlocked cabinets in a securely locked area within the medical unit, Mr. Bonin said. "Only doctors, nurses and psychologists have access to records."

Even beneficiary designations are kept confidential, except for benefits staff.

"We take this very seriously, and we've never had a complaint about confidentiality," Mr. Bonin said.

Other employers say the issue of confidentiality has a high priority at their company, as well. "It's of great concern, of course," said Roger Krantz, health plan administrator for Duluth, Minn.-based Minnesota Power & Light Co., which has a self-insured, self-administered plan.

"We have always told our people when they visit their physician they should be assured. . .that it's confidential between them and the doctor," Mr. Krantz said.

"If anyone ever hears of anything being said, I want to know immediately and (the person divulging information) won't be around very long. If there was a breach of confidentiality internally in our department, that person would be terminated," he said.

"We cannot get, nor do we want to get, information about individual patients," said Helen Darling, manager of health care strategies and programs at Stamford, Conn.-based Xerox Corp.

Xerox's programs are handled by Prudential Insurance Co. under an administrative services only contract, she noted. "They don't give us information."

While Xerox may get a list of cases that cost more than $100,000 during a particular quarter, for instance, it does not receive any specific details, she said. "In terms of my getting hold of or being able to access records, I never would ask, but I would be turned down if I did ask," said Ms. Darling.

"The company has no desire, need, or interest for particular information on all our employees," said Jim Margerum, human resources benefits strategist for Arizona Public Service Co.

Arizona Public Service, a Phoenix-based utility, has health care plans that are self-insured and self-administered.

"We do things very consistently with most other organizations and respect that privacy and do whatever we can to maintain that," Mr. Margerum said.

As for outside the company, "I think clients rely pretty heavily on whomever is the claims payer to ensure that their confidentiality is treated with due respect," said Kwasha Lipton's Mr. Hickey.

"I think it's there where the most potential exists for some confidential information about various ailments or whatever coming to the front."

However, "most large insurance carriers and TPAs are very careful about that stuff," Mr. Hickey added.

"We've never had any employers, plan sponsors or employees complain," said Robert Parker, president of Columbus, Ohio-based Harrington Services Corp., a TPA.

Claims are sent to Harrington directly by the employee, and "the employer does not typically have any involvement with those," he explained.

'If there was a breach of confidentiality internally in our department, that person would be terminated,' says Minnesota Power & Light Co.'s Roger Krantz.

"Employers get various types of reports, but the reports are not identified specifically" as to the individuals involved, he said.

Furthermore, individual information is handled "only by people who have a need to access that information," said Mr. Parker.

Despite such policies, others say the issue of confidentiality is of concern. And many who believe the issue is now under control worry that may not hold true in the future.

"The system as it exists today,

See **Confidential** *on next page*

No: 007622 of 1995

In the High Court of Justice
Chancery Division

IN THE MATTER OF
DAI ICHI KYOTO REINSURANCE COMPANY SA
AND
IN THE MATTER OF THE INSOLVENCY ACT 1986

Notice is hereby given that by an Order dated 14th day of December 1995 made in the above matter Philip John Singer of Coopers & Lybrand, Plumtree Court, London, EC4A 4HT and Mark Pearce Riley of Clark Whitehill, 25 New Street Square, London, EC4A 3LN were appointed Joint Provisional Liquidators of the above Company.

Dated this 18th day of December 1995

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Confidential

Continued from previous page

in my opinion, is ripe for abuse because there are so many different sources of confidential information in use and it's by name of employee and by name of dependents," said Jack Doerr, group benefits practices leader for Sedgwick Noble Lowndes in Chicago. While progress has been made in this area in recent years, "I think there's quite a ways to go."

"I think that the administrators' distribution of information has to be more sensitive than it is, and that employers receiving that information in the distribution have to be even more sensitive than they are right now," said Mr. Doerr.

More of the claims data should have employee's names removed, he suggested.

But utilization review, whether it is for an HMO or a traditional indemnity plan, provides more people with access to confidential information and therefore more opportunities for its misuse, according to Dr. Stephen Rosenberg, director of clinical services for Cooper & Lybrand's human resources advisory group in New York.

You hear all sorts of anecdotal "horror stories" involving clerical employees in hospitals or insurance companies announcing, "I know that name. That's my next door neighbor Mary, and it looks like she's a nut," Dr. Rosenberg said.

More large employers are becoming actively involved in case management, and there is an increasing awareness that a small proportion of people account for a large percentage of health care expenditures. Specific medical histories are necessary to adequately analyze those high-cost cases.

Furthermore, there is a need at the employer level to bring information from separate vendors together into a single data base, and to do that "you need to know individual specifics," said Suresh Malhotra, managing director with William M. Mercer Inc. in Chicago.

"It's an issue that I don't believe employers have faced up to now" because good standards have not been developed as to how employers can deal with the issue of confidentiality, "yet get the information that is necessary to manage the plans effectively," Mr. Malhotra said.

Some observers worry that even following rules could cause problems.

Employers may keep the information confidential in the sense that they do not disclose it to a third party, and insurers may not disclose it to those who do not have the proper authorization, "but that doesn't mean someone isn't going to be adversely treated by the insurer or that employer," said Mark A. Rothstein, director of the Health Law and Policy Institute at the University of Houston.

Observers also point to the greater use of data bases.

"I think a lot of us are getting a little bit concerned about confidentiality based on some of the data bases that are being developed to assess health care within the states," said Minnesota Power's Mr. Krantz.

The concern about individuals' files becoming public "has everyone seeking to find the best safeguards possible," he said.

"As we become more immersed within the data bases and information, it's a little bit like the credit card companies," where it seems everyone has your name and credit information, he said. "There has to be a factor of privacy for the individual, and we have to have some way to assure personal information is not available to everyone who may want to sell them a medical gimmick cure all for all their problems."

Mr. Krantz said he is bothered by calls he has already received at home from people seeking to sell him health care-related products.

A bill introduced in the U.S. Senate by Sen. Robert F. Bennett, R-Utah, in October would establish uniform, comprehensive federal rules governing the use and disclosure of identifiable health information about individuals.

The proposed Medical Records Confidentiality Act, co-sponsored by Sen. Patrick Leahy, D-Vt., would replace the patchwork of conflicting confidentiality laws that now exists in 34 states, according to Sen. Bennett's office. The bill, which is now in the Senate Labor and Human Resources Committee, is expected to have some modifications, according to a spokesman for Sen. Bennett.

'I think that the administrators' distribution of information has to be more sensitive than it is,' says Jack Doerr of Sedgwick Noble Lowndes.

Among its provisions, the bill specifies the responsibilities of those who collect, use and maintain health information about individuals and defines individuals' rights with respect to health information. It also sets limits on how health information can be used and disclosed.

The bill has come under fire from some critics, however, who say it does not go far enough to insure patient confidentiality.

And some observers say they see no need for such federal legislation.

First Chicago's Mr. Bonin, for instance, said he has a "general philosophical objection to legislation from Washington that's designed to cure an abuse that may exist in a tiny fraction of cases and suddenly the whole world has to comply with this legislation."

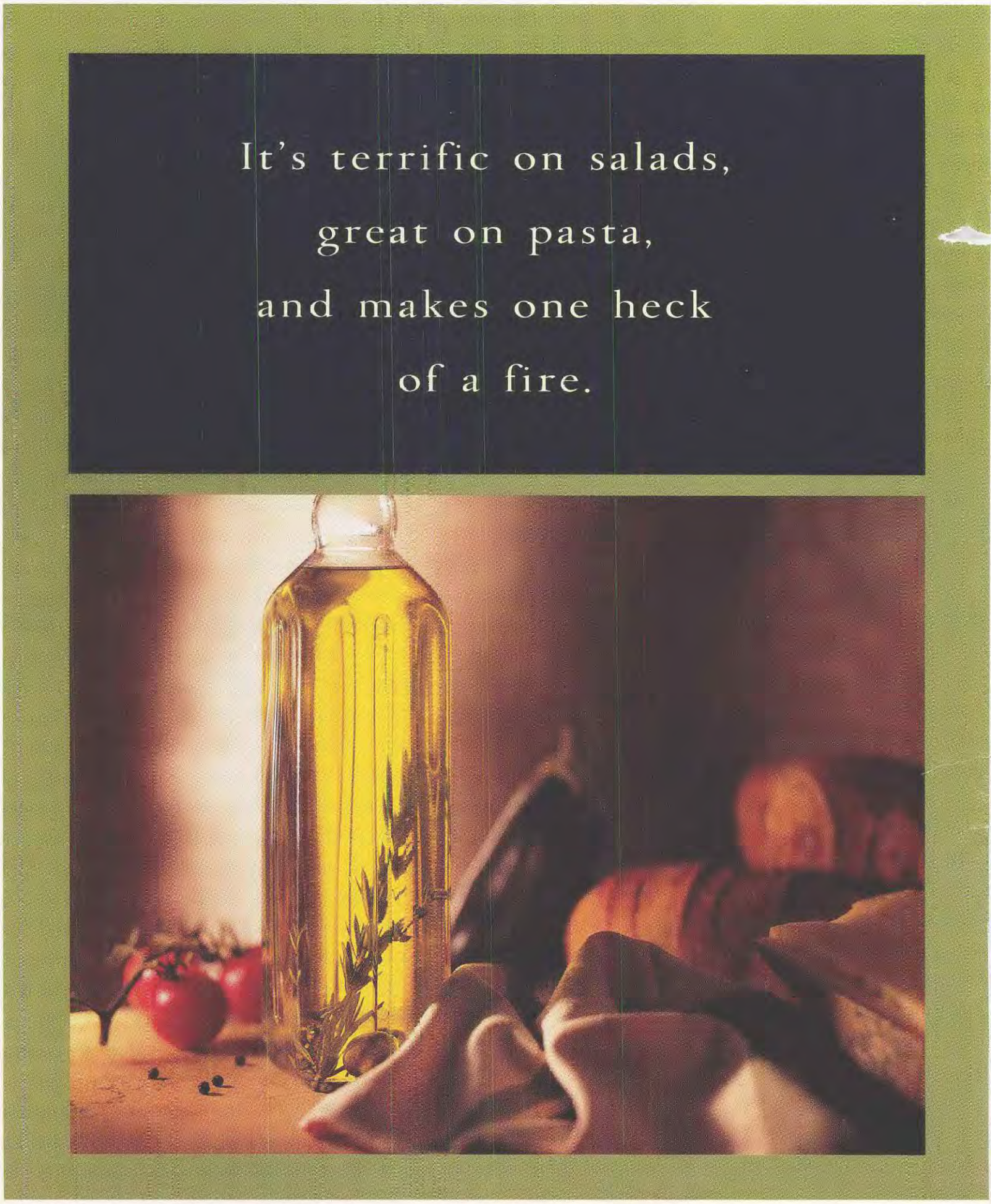
The probability of a significant problem right now is small, acknowledges Dr. Don E. Detmer, senior vp at the University of Virginia in Charlottesville.

"The technology, however, continues to move forward," he said.

"If we don't do it fairly soon, it will become more difficult to try to handle later, and there will be more potential for abuse as more of these data are developed in digital form." Dr. Detmer sees a need for federal standards and describes Sen. Bennett's proposal as basically an "excellent bill."

Without necessarily endorsing Sen. Bennett's bill, other observers agree there is a need for federal standards. "You wouldn't want 50 different confidentiality approaches," said Fred Hamacher, vp-compensation and benefits for Daytor-Hudson Corp. in Minneapolis.

"There should be a national standard, and it should be for the right reasons, too," he said. BI



Texas

Continued from page 3

Houston General Insurance Co.; Indiana Lumbermens Mutual Insurance Co.; Nationwide Mutual Insurance Co.; Old Republic International Corp.; Reliance National Insurance Co.; Royal Group Inc.; Sentry Insurance Co.; State Farm Mutual Automobile Assn.; Tokio Marine & Fire Insurance Co.; Unitrin Inc.; and Zurich-American Insurance Group.

Insurers say rates are lower as a result of the reforms and businesses are paying far less for coverage unless their loss experience calls for a higher rate.

"I would be very surprised if these companies' rates are very far from current market prices," said Rick Gentry, regional vp of the Insurance Information Institute in Austin. "Everybody knows that the workers comp market today in Texas is very competitive. If you don't stay pretty close to the pack, you won't have any customers."

Mr. Gentry said published rates can be deceiving because they don't reflect discounts that many large companies receive. Companies "generating as much as $100,000 a year in premiums are probably paying 40% to 50% less than what they were two or three years ago, unless their loss experience is just plain terrible," he said.

Small companies, however, aren't generally eligible for the same kinds of discounts as big buyers.

"A lot of (small) companies have seen a flattening or lowering of rates, but as the commissioner correctly pointed out, those decreases have not been in step with the dramatic decreases in costs," said Pam Beachley, president of the Business Insurance Consumers Assn., an Austin-based coalition of trade associations representing about 60,000 Texas companies.

Ms. Beachley said small employers aren't screaming about high workers comp rates because the steady prices they have seen in recent years are a relief from double-digit increases they experienced before the reforms were passed. Employers may become more vocal now, however, as they become aware of the insurance department's figures showing workers comp insurers' loss ratio at 38.7% in 1994, she added.

"We applaud Commissioner Bomer for taking this step," Ms. Beachley said. "Given the numbers they have, we don't think he could sit back and let insurers continue to charge the rates they are charging. They clearly couldn't be justified as reasonable."

However, one of the insurers targeted by the department's letter said its small policyholders are getting a break.

Aetna's Farmington Casualty Co. subsidiary recently chopped workers comp rates for small business policyholders in Texas, an Aetna spokesman said. "Seventy-five percent of our small business comp in Texas is written in that company."

Other Aetna insurers have not cut workers comp rates in Texas because there is no indication that one is warranted, the spokesman added.

He said all Aetna's rates in Texas can be supported by actuarial data.

State Farm also implemented a rate reduction before the letter was mailed and the insurance department is studying that filing to determine whether the cut is deep enough, the spokesman said.

Mr. Gentry said he expects all the insurers will respond promptly to the insurance department's letter and "I anticipate that each of them will pretty much tell the same story. That is, rates are lower than they have been in years and the 1989 reform law is working as expected." BI

At Allendale Insurance, we believe that most property loss can be prevented. But that means asking some very tough questions, and looking for risk in some unlikely places. For example, take vegetable oil in plastic bottles. Conventional wisdom has been that warehousing this very high flashpoint liquid presented no more of a hazard than storing ordinary combustibles. Yet tests conducted through our ownership of Factory Mutual Research revealed that even sprinkler systems arranged for high hazard commodities could not control fires of this type. Further tests revealed that this was no ordinary combustible. Once heated by the fire in their cardboard packaging, the plastic bottles leaked and the preheated vegetable oil burned with the intensity of a flammable liquid. And once the fire spread from the cardboard to the liquid, the fire was uncontrollable. This led to the development of a strategy aimed at replacing conventional in-rack sprinklers with the quick response model, and spacing them closer together. As a result the fire is suppressed in its earliest stages when it's limited to the cardboard. This solution is easy to implement and uses the sprinkler piping and water supplies normally in place in grocery warehouses. Plus, it doesn't interfere with normal warehouse materials handling. The truth is, this is but one example of how we never stop looking at commodities and the hazards they pose. In fact, for over a century and a half, we've never stopped asking the kind of difficult questions that lead to the cost-effective solutions our clients need to minimize risk. Even if that means looking in places as surprising as, yes, a salad.

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Texas comp opt outs report success

Safety high priority among firms: Study

By JOANNE WOJCIK

Texas employers that opt out of the workers compensation system are likely to have higher injury rates than their insured counterparts, but those injuries are likely to be less severe, resulting in less lost time.

And even though employers that opt out of the workers comp system run the risk of unlimited tort liability, their overall lost worktime and legal costs appear to be about the same as other employers'.

Those are the findings of a recent study by University of Minnesota researchers of the cost of work-related injuries for insured and uninsured employers in Texas, where about 44% of employers have chosen to opt out of the workers compensation system. Besides Texas, only New Jersey and South Carolina permit employers to opt out, and few employers in either of those states have taken the step.

"Employers that opt out are more safety conscious than those who buy insurance," concluded the study's author, Richard J. Butler, a professor of industrial relations in the Carlson School of Management.

Employers that have opted out of the system have slightly higher injury rates than those within the system, he concedes.

For example, in 1994, the number of lost-time accidents per employee in the mining and construction fields was 0.091 for companies outside the system; the rate for companies within the system was 0.042. Similarly, in food manufacturing, the injury rate was 0.140 for non-covered employers and 0.068 for covered employers.

But employees covered by workers compensation insurance spend 10% to 50% longer off work after an injury than do employees not covered, according to the study, which examined Texas Workers Compensation Commission data for 1992, 1993 and most of 1994.

Also, companies outside the system "report fewer strains and sprains than those firms with workers compensation insurance," he said.

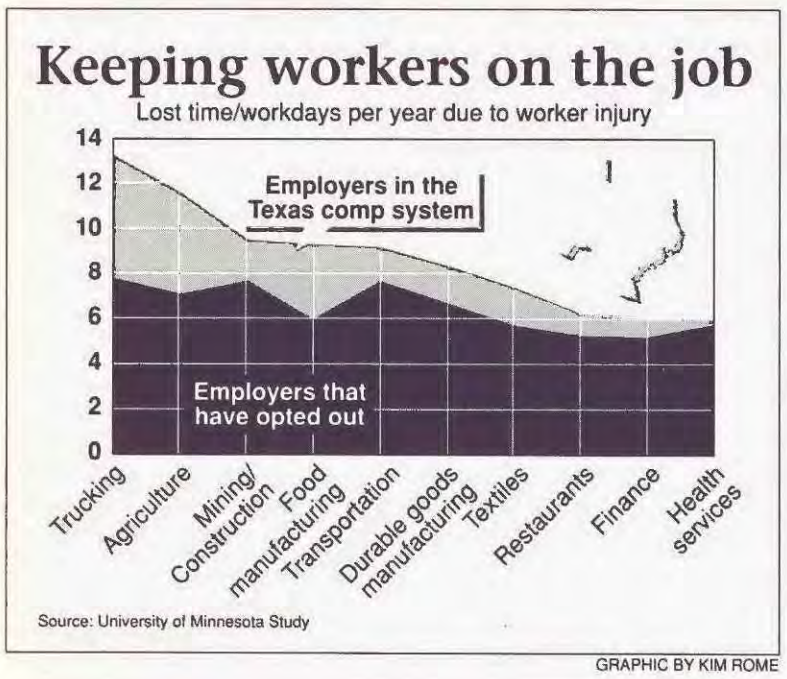
One major reason employers outside the system report higher accident rates, he explained, is that they usually offer temporary total disability benefits to injured employees from the first day of injury.

Under the Texas workers comp system, employees generally must wait a week before receiving TTD benefits.

But average claim severity is greater for those companies in the system since very few employers outside the system pay permanent partial benefits, according to Mr. Butler.

In some cases, employers that opt out of the Texas workers compensation system provide more

See **Texas comp** *on next page*



GRAPHIC BY KIM ROME

Texas comp

Continued from previous page

generous disability benefits than the state requires of employers within the no-fault system.

For example, Jostens Inc., which has 300 employees in a plant just outside Dallas, pays injured workers 85% of their usual wages for total temporary disability benefits. State workers compensation rules require only 66.7%.

Still, Josten's work-related injury costs are about half the level they were when it purchased workers compensation insurance in Texas, according to Gerald Ciardelli, risk manager for the Minneapolis-based manufacturer of class rings, yearbooks and other products.

"We're probably saving $250,000 a year in Texas," Mr. Ciardelli said. And even though by opting out the company gives up a shield from civil tort liability, "we have not had one claim in litigation," he boasted.

Jostens opted out to get better control over medical costs, Mr. Ciardelli explained.

"We also don't have to pay residual market charges," he pointed out.

But once it opted out, Jostens implemented an aggressive safety program, requiring employees to report the first signs of pain or discomfort to supervisors.

"Before people didn't come to us until after they were injured," which often resulted in higher medical costs, Mr. Ciardelli explained.

Josten's also now has control over employee choice of doctor. In the workers compensation system, by contrast, employees can choose to see whichever health provider they desire.

"Now the employee has to go to our company doctor, or to a doctor on referral to our company doctor," he said. And "our company doctor is an occupational medicine specialist familiar with our company. His first course of action is not surgery, but to rehabilitate."

Even though Josten's decision to opt out of the Texas comp system has paid off, Mr. Ciardelli is cautious about urging others to follow suit.

"Josten's is a 'responsible' nonsubscriber," Mr. Ciardelli said. "I would only prescribe non-subscribing to companies with a proactive management team. It doesn't work with traditional management."

In fact, Josten's delayed for one year its decision to pull out of the Texas comp market so that it could implement a team-based management approach that fostered workplace safety and early injury intervention, Mr. Ciardelli explained.

"Employers that opt out are extremely motivated to provide a safe workplace," agreed Steve Bent, executive director of the Texas Assn. of Responsible Nonsubscribers, an organization of employers that have opted out of the workers compensation system.

To show what a disincentive to safety workers comp insurance is, Mr. Bent recounts the experience of a loss control specialist he knows.

"When he hadn't heard from one of his employer clients in a while, he called and asked what was up. They replied: 'We've gone back into work comp and we don't need safety anymore.' "

The objective of Mr. Bent's organization is to provide a viable alternative to purchasing workers compensation coverage in a state where rates have gotten out of hand, he explained.

Employers in Texas who opt out of the system are under no obligation to provide health and disability benefits to employees, but employers must provide a minimum level of this coverage to be a member of TXANS.

TXANS has approximately 1,200 employer-members that employ 375,000 workers in the state. While 70% of employers that opt out of the workers compensation system in Texas have fewer than 15 workers, TARN members have an average of about 400 employees.

The organization also is lobbying the legislature to limit the liability of employers that provide medical and disability benefits to their injured workers.

But "our primary roadblock is people who profit from the work comp system," Mr. Bent said.

Indeed, one such service provider who asked not to be identified was highly critical of Texas' opt-out system, which has been in place since before workers compensation was instituted in 1915.

"When employers opt out of work comp, the cost of injuries don't go away, they just go somewhere else—to HMOs, Medicare, other welfare benefits, tort litigation," he said.

"As a hard-working taxpayer, I'd rather not pay higher taxes to support deadbeat employers who don't meet their legal and/or moral obligation to pay their work comp premiums," he added.

But the study's author asserts that such is really not the case in Texas.

The study was financed by Zenith Insurance Co., a San Francisco, Calif.-based workers compensation insurer. BI

Suit questions legality of Aetna's capitation

Mother says ERISA bars fee change

By ROBERT KAZEL

NEW YORK—Aetna Health Plans contends a lawsuit alleging that it has violated federal benefits law by introducing capitated reimbursement of physicians is without merit.

The New York-based managed care company is the target of a lawsuit filed by a woman who contends capitation will push her doctor out of the HMO and force her and her children to hunt for a new doctor.

Although complaints by patients and doctors in newly capitated markets are not uncommon, the suit is unusual in that it claims the disruption of a patient/doctor relationship that may result from the introduction of capitation constitutes a violation of the Employee Retirement Income Security Act of 1974.

The lawsuit was brought last month in U.S. District Court in Brooklyn by Mara Maltz of North Bellmore, N.Y., both of whose children suffer from a chronic intestinal disorder. The Maltzes have been covered by an Aetna group managed care plan, through Ms. Maltz's husband's employer, for a year and a half.

The children have been treated by a North Bellmore pediatrician for the past 16 years and developed a close relationship with him, the suit states. However, the doctor recently was notified by Aetna that to remain in its network he would be required to switch from fee-for-service pricing to capitation, with the doctor to receive between $4.86 and $6.45 a month per patient.

According to court papers, the pediatrician told Ms. Maltz he could not remain her family's doctor under the Aetna HMO because of the change in payment method and because he and his partner were opposed to a "physician's incentive fund" from which Aetna would pay bonuses for lower hospitalization rates and other cost savings.

"Why should I have to switch my pediatrician after 16 years after they have developed a rapport with them? He has their whole history. For me to start with a new pediatrician, I wouldn't feel comfortable with that," Ms. Maltz said in an interview. "How can a pediatrician take care of your child at $6 a month? I'm really trying to take a stand because I think this is really unfair."

Her suit alleges that Aetna is liable for breach of fiduciary duty under ERISA, because the federal benefits law specifies that the actions of an insurer must be "solely in the interest of the participants and beneficiaries," not merely in its own economic self-interest. The suit also claims that beneficiaries were assured in plan documents that they would be able to choose any doctor, which means that a change that prompts doctors to leave is a restriction of that choice.

The suit is asking the court to enjoin Aetna from interfering with existing physician contracts and to enjoin the insurer from using its physician incentives "to reduce benefits and limit care." Aetna is now rolling out capitation in New York to those doctors with large numbers of HMO patients.

Ms. Maltz is not seeking damages but is asking to recover attorneys' fees and costs.

An Aetna spokesman in Hartford, Conn., said the suit ignores the fact that capitation not only is legal but has been shown not to adversely affect quality of care.

"Basically, our feeling is the suit is an attempt to use the courts to attack managed care and we believe the lawsuit is without basis," he said. "We've changed the way her (Ms. Maltz's) physician is compensated. We're not throwing anyone out of the network."

An attorney and benefit expert said she has a tough case to prove.

"I don't think she has much likelihood of success ultimately," said Fred Rumack, director of taxation and legal services at Buck Consultants Inc. in New York. "It would be hard to see any company being enjoined from making changes in its benefit program merely because of the incidence of cost." BI

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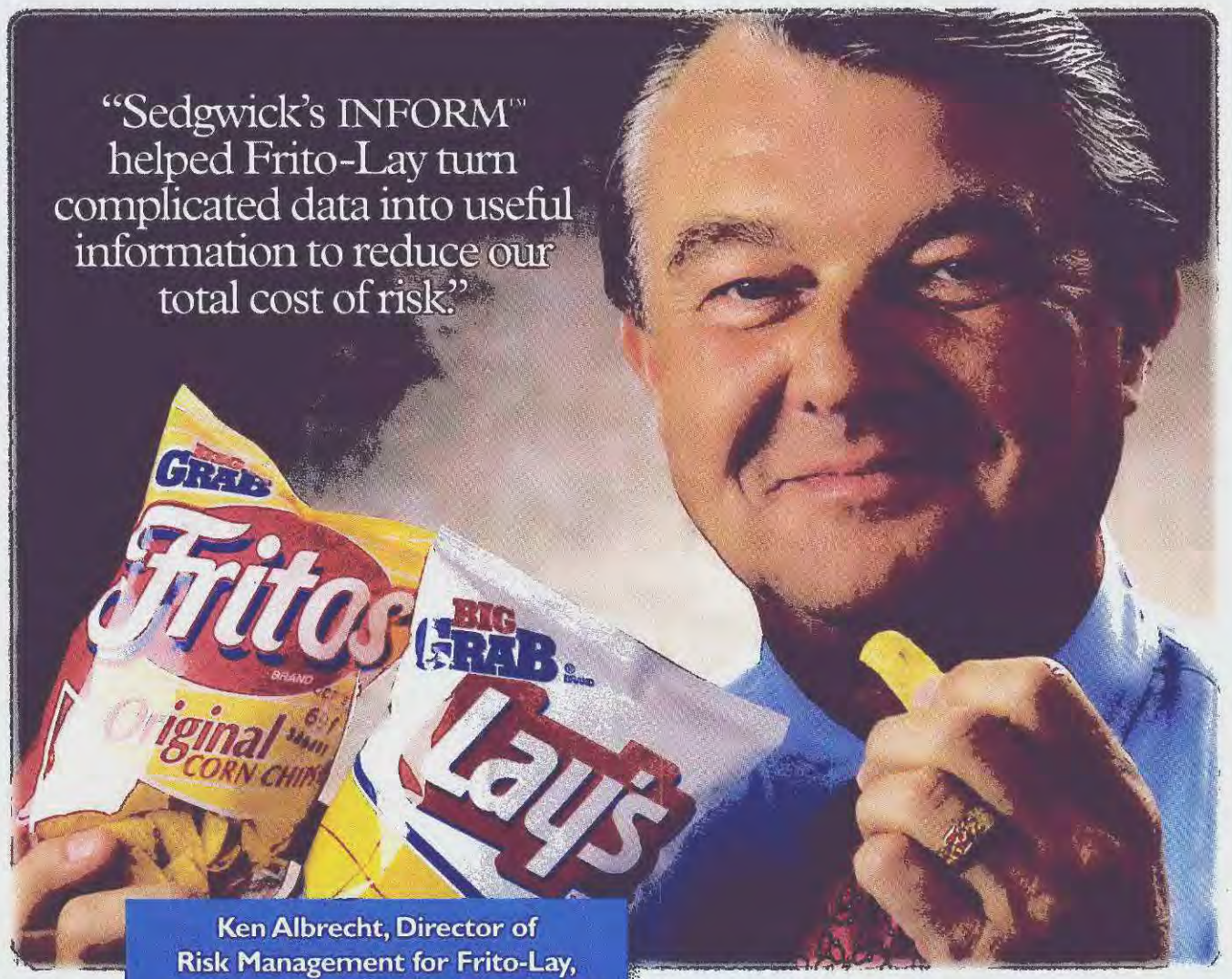

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New York Life revamps health business

Markets

NEW YORK—New York Life Insurance Co. has reorganized its health care business into a national company unified by a single brand name but emphasizing local responsibility for marketing and service delivery in each of 11 regional operations.

The move calls for Sanus Corp. Health Systems, New York Life's managed care subsidiary, to merge with New York Life's group health department. In addition, various regional brand names, such as Sanus, Health Plus and Ethix, are being united under the new NYLCare name.

"It's a strong signal that opposed to what a lot of other carriers are doing, New York Life is not exiting the business. In point of fact, New York Life intends to make it a strong business," said Joseph Lynaugh, president and CEO of NYLCare Health Plans Inc., the new parent company for New York Life's health insurance business. "The creation of NYLCare is a reaffirmation that this is a core business of New York Life."

NYLCare Health Plans will offer traditional and managed indemnity plans, point-of-service, HMOs or various hybrid plans, and PPOs to both large and small groups.

The company also will offer such ancillary benefits as dental, vision, life and disability insurance; mental health, substance abuse and pharmacy benefit programs; and flexible benefits administration.

"The future is going to belong to those who have a full product line. This means the indemnity and the managed care and every mix and match you can think of," Mr. Lynaugh said. "To do it right you've got to get them all together under one framework."

While the regional divisions will be able to take advantage of administrative systems support and quality assurance from the central operation, the 11 regional operations will be responsible for marketing and managing the delivery of all NYLCare products, Mr. Lynaugh said.

"We really have passed down the profit and loss responsibility not only for the HMOs but also for the indemnity business into 11 regions around the country," he said.

"That's a big lesson we learned through the whole HMO experience, that the only way you can run these things is locally. We've transferred that to the indemnity world," said Mr. Lynaugh.

The new company will have estimated 1996 revenue of $2.5 billion, will cover about 3.5 million people, including 1 million in health maintenance organizations, and will offer indemnity plans nationwide and preferred provider organizations in 41 states.

Beginning in mid-February, NYLCare will be based in new offices in New York, bringing together 700 employees from New York Life's group department offices and Sanus' headquarters in Fort Lee, N.J.

E.W.Blanch and InsGroup

SAN ANTONIO, Texas—E.W. Blanch Wholesale Insurance Services Inc. has reached an agreement to acquire Denver-based InsGroup Services Co., an association of more than 85 independent property-casualty insurance agencies located around the country.

Terms of the transaction, which was expected to close today, were not disclosed.

San Antonio-based E.W. Blanch Wholesale Insurance Services is a wholly owned subsidiary of Minneapolis-based E.W. Blanch Holdings Inc.

The insurance agencies in InsGroup had a total premium volume of about $2.7 billion in 1995 and have a combined total of about 3,500 employees.

New SAFR Re unit

NEW YORK—SAFR Reinsurance Corp. of the U.S. has started a new property facultative department.

The new operation offers up to $25 million in limits and will specialize in highly engineered technical risk business.

The underwriters that are staffing the department have engineering backgrounds as well as underwriting experience with major insurers of large property risks.

For more information call 212-432-3500.

Aetna elects Charity First

SAN FRANCISCO—Aetna Casualty & Surety Co. has selected Charity First, a San Francisco-based marketer of non-profit insurance, as its exclusive agency for non-profit organizations in the United States.

Charity First, which markets comprehensive liability and property insurance to educational, religious and charitable organizations, began writing all new and existing accounts through Aetna Jan. 2.

An online connection to Hartford, Conn.-based Aetna's home office computer system enables Charity First to issue policies and endorsements directly from its San Francisco office.

Comprehensive insurance programs provided by Charity First are distributed by independent insurance agents and brokers.

For more information call 415-536-8560.

Near North division

CHICAGO—Near North National Group has opened a new brokerage division, Near North Entertainment Ltd., in London.

Derek Townshend has been named managing director of the new division, and will develop the new office's business in the film, television and related businesses and provide service in London and other European markets.

Chicago-based Near North is also a joint venture limited partner with Fireman's Fund Insurance Co. and motion picture film completion bond company International Film Guarantors.

For more information on Near North Entertainment Ltd. in London call 011-44-193-256-2611. BI

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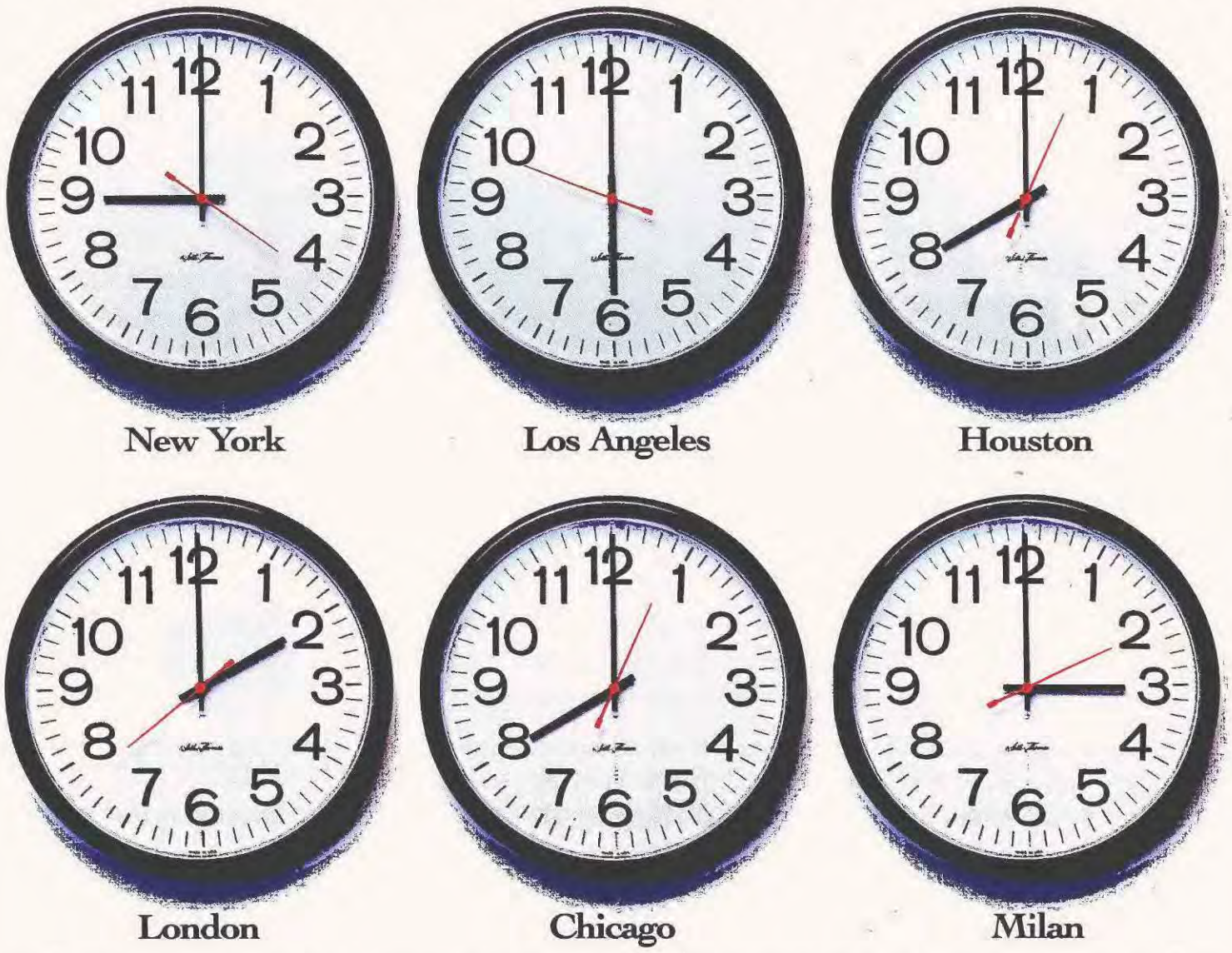

[United States, United Kingdom, Venezuela, Colombia, Peru, Guatemala, Mexico, Argentina, El Salvador, Indonesia, Italy]

INTERNATIONAL

Learning from Lloyd's

P&I clubs urged to follow lead in liability caps, other areas

By SARAH GODDARD

Protection and indemnity clubs can learn many lessons from the problems that have beset Lloyd's of London in recent years, says a new report.

To begin with, the tradition of unlimited liability for the shipowners that are P&I club members may be coming to an end. "Such exposure is increasingly coming to be regarded as an anachronism," says the 1995 annual review issued by the West of England Ship Owners Mutual Insurance Assn.

Lloyd's underwriters have found an answer to the same problem in the form of limited liability corporate capital; for the P&I clubs, proposals for a limit on coverage offered last spring by the International Group of P&I Clubs, an association of 14 mutual insurance companies for shipowners, could be the best solution.

These proposals, which would limit catastrophe exposures to 20% of a shipowner's reserve, or limitation, fund—placing the aggregate exposure for members of the International Group at about $20 billion—are being implemented by some P&I clubs for next month's renewals but do not have universal support.

The steady escalation of P&I losses over the past 10 years, as well as "more onerous legislation and compensation scales," are a threat, the report said. And, because reinsurance protection of the clubs is finite, larger claims are eating up a bigger portion of members' retentions.

But, West of England endorsed the proposals for a 20% cap on the basis that "at the very least it set a financial limit on club cover, albeit at an unrealistically high level. . . .In the opinion of the board and the managers, this would be better than no limit at all."

The Greek shipowning community has displayed a similar opinion of the proposed limit, lobbying for the limit to be dropped from 20% to 1% or 2% (*BI*, July 17, 1995; July 3, 1995).

"The argument is that shipowners should not be forced to participate in the underwriting of risks, remote though they may be, at levels which they believe they cannot. . .sustain as underwriters," West of England said.

Litigation brought by Lloyd's members against their underwriters has shown the P&I clubs that courts "require more of the reasonably competent underwriter," said the review.

Three central underwriting principles have been at the heart of the Lloyd's litigation, the review contends. To avoid liability, an underwriter:

- Must have a plan, and the underwriter must adhere to it.
- Must develop and follow a policy about the exposure of club members or Lloyd's names.
- Must keep principals informed of decisions.

"In today's litigious world, should catastrophe strike, the P&I clubs will not expect to be immune from the type of litigation which has so bedeviled the Lloyd's market over the past few years," the report warned.

This can be prevented by ensuring club underwriters stick to the principles, it says, but adds that without a realistic coverage limit, claims that exceed available reinsurance will lead to suits.

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Free copies of the report are available from Ken Norman, West of England Ship Owners Mutual Insurance Services Ltd, Tower Bridge Court, 224-226 Tower Bridge Road, London SE1 2UP United Kingdom; 171-716-6006.

IMAGE BANK

Ho Chi Mihn City is only one of the several Asian cities experiencing new interest from foreign insurance companies.

More foreign firms enter Asian market

Vietnam, Thailand give green light to insurance ventures by CU, Swiss Re

By EDWIN UNSWORTH

LONDON—Foreign insurers continue to make inroads into the growing Asian market, as two new joint ventures win approval from the Vietnamese and Thai governments.

Vietnam's first operating license involving foreign insurers was granted to a joint venture insurance company in which London-based Commercial Union Assurance Co. P.L.C. and Tokio Marine & Fire Insurance Co. of Tokyo each hold 24.5% stakes. Bao Viet, the Vietnamese state insurer, will hold a 51% stake in the company.

The new insurance company, Vietnam International Assurance Co., based in Ho Chi Minh City, is expected to concentrate on general industrial, commercial and marine cargo business and also on the insurance needs of foreign investors in Vietnam, which typically place their insurance offshore.

VIA, which is capitalized at $6 million, still requires an investment license before it can begin underwriting, but this is expected to be granted within three to four months. Mike Ridding, CU's overseas director, said he hoped VIA would begin underwriting by the second quarter.

Mr. Ridding said he expects premium volume to reach approximately $10 million during the first three years of operation, which compares with total premiums in the Vietnamese insurance market of $100 million.

Commercial Union's venture will be the first to compete with Vietnam's state-owned insurers.

Although Vietnam passed legislation in 1994 to open up its financial services industry to foreign investors, the operating license granted to VIA would make

See **Vietnam** *on page 41*

Rumors fly amid SBJ layoffs

Broker to cut 40 London staffers, denies it's for sale

By EDWIN UNSWORTH

LONDON—U.K. insurance and reinsurance broker Steel Burrill Jones Group P.L.C. is laying off 40 staff in its London headquarters.

Although a company spokesman declined to comment on the layoffs, a staff member confirmed the number of people let go.

The reduction in staff for the troubled brokerage house—which last autumn disclosed that it had broken off merger discussions with potential buyers—was not unexpected (*BI*, Sept. 18, 1995).

Separately, there were rumors in the London market last week that SBJ was involved in talks that could lead to its acquisition by HSBC Gibbs, a London-based insurance broker subsidiary of the Hong Kong & Shanghai Banking Corp. Neither SBJ nor HSBC Gibbs would comment about the reports, though HSBC Chairman George Puttergill said, "We are not in the market to make an acquisition."

Prior to the layoffs, SBJ's leading protection and indemnity reinsurance specialist, John Garthwaite, left to join Lloyd's of London broker Lloyd Thompson Ltd. Last September, the firm also lost David Forcey, director of brokerage subsidiary Meacock Samuelson & Devitt, to reinsurance broker Alexander Howden Group Ltd. Ten members of Mr. Forcey's team left Meacock Samuelson & Devitt at the same time.

For the first six months of 1995, SBJ reported pretax profits of £3.8 million ($6.1 million), which was unchanged from the same 1994 period, though below market expectations. Gross revenues at midyear dipped to £21.9 million ($34.9 million) from £22.9 million ($35.9 million) in the year-earlier period.

SBJ had been ranked by *Business Insurance* as one of the world's 20 largest brokers as recently as 1993, based on 1992 gross revenues, though it fell from the ranking in subsequent years as revenues declined. BI

Social security reform

France to make health care spending cuts, increase taxes

By MARIA KIELMAS

PARIS—Having backed down on its proposal to reform public sector pensions in the wake of a 24-day strike last month, the French government is pressing ahead with tax increases and health care spending cuts to reduce its social security deficit.

"We should not expect any progress on public sector pensions, but the core elements of social security reform to get the deficit down are still there," says Jochen Feld, French economic analyst at investment bank Goldman Sachs & Co. in Frankfurt, Germany.

The imposition of a new 0.5% tax on all income, known as the *remboursement de la dette sociale*, or RDS, will take effect Feb. 1, instead of Jan. 1 as planned. The government projects that the tax will cut the country's 61 billion French franc ($12.37 billion) social security deficit to about 20 billion French francs ($4.06 billion) by the end of the year and will result in a surplus by the end of 1997.

The government is also pressing ahead with planned efforts to limit increases in health care spending. It has imposed a 2.1% ceiling on health care spending increases for 1996. This is roughly the rate of inflation and, thus, spending is frozen in real terms, Mr. Feld said.

These limits on spending increases have been opposed, however, by physician organizations in France.

"The doctors are not happy with the cap because it cuts their income growth," according to Mr. Feld.

Mr. Feld noted, however, that the current measures to get the deficit under control are only short-term solutions.

Additional long-term cuts in government spending must be made if France is to meet the Maastricht criteria for European monetary union, one of which stipulates a budget deficit of no greater than 3% of gross domestic product.

Goldman Sachs forecasts a 1995 fiscal deficit of 5.2% GDP, or about 400 billion French francs ($81.12 billion). Of this, about 320 billion French francs ($64.98 billion) is due to central government spending and the remainder is due to local government spending and the social security shortfall.

To reduce costs further, pension reforms are expected to be reintroduced.

"No one doubts that pension reform is absolutely inevitable, " said Nicolas Davenport, managing director of Willis Corroon France in Paris. But he noted that the current popular feeling in France on the matter is one of "it's all right for everybody else except me."

Although analysts say there is little appetite at present for resuming labor union protest of the government's reform program, tensions among sides in the dispute are rising.

Mr. Davenport explained that a key aspect of strike settlements in France is that the employers—in this case public entities—often agree to pay employees a portion of wages for the days they were striking.

"Part of the deal to return to work is that strike days are paid for. This is being negotiated now," he said.

However, given the ill feeling that the public workers' strike generated among private sector workers, whose benefits have been progressively cut in recent years, and public sector workers—who still oppose any effort to reduce their generous benefits—there are doubts that the unions will win payment for strike days, he said. BI

U.K. freeze loss at £350 million

LONDON—U.K. insurers may face more than $500 million in claims from recent freezing weather, a loss adjuster estimates.

Nicholas Balcombe, chief executive of Balcombe Group P.L.C. in London, estimates losses at £350 million ($542.5 million).

A week of freezing in late December, followed by a rapid thaw, caused pipes to burst, flooding shops, offices, factories and homes. Scotland and northeast England were badly hit. Broken pipes so strained the water supply that many businesses were asked not to reopen immediately after the Christmas break.

Claims for property damage, lost inventory, damage to sprinkler systems and business interruption are being filed, said Norwich Union Insurance Group. Multiline insurers say it is still too early to assess losses.

—By Sarah Goddard

Mexican market remains soft

By ROBERTO CENICEROS

MEXICO CITY—Now that foreign insurers and reinsurers have intensified their presence in Mexico, the ensuing grab for market share, a capacity glut and tough economic times are making the country a tough place for insurers to turn a peso.

"Now we are living in a soft market," said Roberto Islas, a director of Skandia International Latin America in Mexico City. "It started in '93, but '95 was the worst for the soft market and renewal was incredible—very, very soft. It's not an easy market now."

Eduardo J. Sobrino, president of Chubb de Mexico said he expects "tremendously soft" conditions for property and liability risks to continue through 1996. But eventually, low premiums and higher claims are bound to catch up with insurers, causing a market turn, possibly in 1997, he predicted.

For now, commercial buyers are shopping for the best property/casualty rates.

"Because right now there is this soft market and a tremendous amount of capacity available, the client is taking tremendous advantage in looking for price," Mr. Sobrino said. "It's totally a price-driven market and most commercial accounts request from their broker or from brokers up to five or six quotations because they know that there is capacity out there and they know they can get a better price."

Despite the low rates, some companies in Mexico that were hurt financially by the peso crash of December 1994 are forgoing property/casualty insurance coverage altogether.

In addition, demand for liability coverage among Mexican companies is not as great as with U.S. businesses because of a lower exposure to lawsuits.

Government deregulation of the industry in recent years, some of it made as part of the North American Free Trade Agreement, has brought many foreign insurers and reinsurers to Mexico. Indeed, insurers and analysts generally see a huge potential for premium growth in Mexico.

To date, however, the country's premium "cake is small," said Skandia's Mr. Islas. So the insurers and reinsurers vying for a limited piece of that cake are offering buyers lower rates and higher limits.

For example, some insurers say they once again are underwriting earthquake business interruption policies, referred to as "loss of profit" coverage. Such policies had become prohibitively expensive for many companies after the devastating 1985 earthquake in Mexico City and a tightening of reinsurance later in the decade.

But the recent soft conditions have meant a renewed availability of the coverage, with many companies now able to afford it, Mr. Islas said.

Some market observers predict insurers and reinsurers could have a tough time paying business interruption and property loss claims if Mexico were to face a large-magnitude catastrophe.

Mexico is susceptible to earthquake, volcano and windstorm activity, among other natural perils.

But competition led underwriters to throw some of their caution to the wind.

"Many reinsurers are trying to establish a market here, many (foreign insurance) companies are trying to establish here and the traditional Mexican companies are trying to keep market share. If you combine that with the soft reinsurance market, you have a price war on your hands," Mr. Sobrino said.

Yet, despite the generally favorable conditions, there are still some reasons for risk managers to tug at their hair as they struggle through renewals. For example, risk managers in the consumer products business report difficulties finding acceptable terms and conditions for transportation coverage of goods bound for retailers.

Truck hijackings and robberies in Mexico's metropolitan areas have driven insurers to increase deductibles and premiums for transportation policies, said Miguel A. Arriaga, technical manager for property lines for Asociacion Mexicana de Instituciones de Seguros, or AMIS, an insurer trade association.

Some risk managers have had success in reducing their losses and the cost of transportation policies.

Cigarette manufacturer Cigatam S.A. outfitted its trucks with satellite tracking systems in 1993, but the thieves quickly learned how to disable them, said Nora Leal, Cigatam risk manager in Mexico City.

Ms. Leal is also president of the Mexico risk management association, known as Instituto Mexicano de Administradores de Riesgos A.C., or IMARC.

In August 1994, the company began hiring armed guards to ride in chase cars that follow the contracted carriers hauling Cigatam's products.

That has worked well, Ms. Leal said. In 1994, the company paid about $2.5 million for its transportation policy, but in 1995, premium dropped below $1 million for similar coverage. Under the conditions of the policy, Cigatam must meet with underwriters every three months for a review of losses.

Ms. Leal said she is also working with the risk managers of other companies that manufacture consumer goods and trying to form truck convoys for self-protection.

"The amount companies have to pay (for protection) is really high, but it's lower than the cost of an insurance policy," Ms. Leal said. "And it gets products to market, which is more important than getting a loss paid for."

As for the insurers in Mexico, they say they are committed to the market regardless of current soft pricing woes.

"I think the foreign companies, such as ourselves, who are already here are very committed to the market," said Chubb's Mr. Sobrino. "And we feel that it may take longer to grow and be profitable, but we are here for the long term. We are not here to make a fast buck. We are here. We are positive. We feel this is just a stumbling block along the way and things will go on.

"I think some companies who, prior to December of last year,. . .were looking very seriously to coming down here may now be holding back and saying, 'Let me wait,'" Mr. Sobrino added. BI

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Rowland is formally re-elected at Lloyd's

Governors of market also choose Stace, Charman as deputy chairmen

By SARAH GOODARD

LONDON—David Rowland will continue at the helm of the storm-battered Lloyd's of London insurance market for another year.

At its first meeting of the year last week, the Council of Lloyd's—the ruling body for the market—formally re-elected Mr. Rowland to his post as chairman of Lloyd's.

Mr. Rowland was first elected chairman of Lloyd's in 1992, after heading up a task force that recommended wide-ranging changes in the market (*BI*, Aug. 3, 1992). He previously was chairman of broker Sedgwick Group P.L.C.

Also last week, the Council re-elected John Stace, chairman and chief executive officer of Lloyd's members' agency, Stace Barr Underwriting Agencies Ltd., deputy chairman.

The market's other deputy chairman post was filled by John Charman, underwriter for syndicate 488/2488 and managing director of Charman Underwriting Agencies Ltd. Mr. Charman was elected to the Council for the first time at the end of last year.

In addition, two nominated members of the Council were appointed to fill vacancies created last year by the departure of Miles Rivett-Carnac and Robert Owen.

Brian Pomeroy, senior partner with London accountant Touche Ross, who has previously served on Lloyd's Council, and retired stockbroker John Young are the newest nominated Council members.

Nominated Council members are typically individuals drawn from the top ranks of U.K. business and their appointment must be approved by the governor of the Bank of England. Their role on the Council is equivalent to that of non-executive director on a company's board.

Mr. Pomeroy has also been appointed a deputy chairman of the Lloyd's Regulatory Board, under the chairmanship of Sir Alan Hardcastle, who is also a deputy chairman of the Council.

Sir Alan was castigated by a House of Commons Treasury and Civil Service Select Committee for "drawing a veil" over members' allegations of concealment of long-tail losses last year (*BI*, May 29, 1995).

Both the Lloyd's Regulatory and Market Boards have new members in addition to the newly elected Council members.

The Market Board has gained working member Colin Spreckley, underwriter for syndicate 1007, managed by Spreckley Viller Burnhope & Co. Ltd., and external name Richard Lewy.

Corporate capital providers are now represented on the Regulatory Board in the guise of investment manager Anthony Townsend.

Ralph Sharp, managing director of Archer Group Holdings P.L.C., and newly promoted group managing director of Wellington Underwriting Holdings Ltd., Julian Avery, have been appointed to the regulatory board from the ranks of working members.

Separately, the Lloyd's Insurance Brokers' Committee has elected new officers for 1996.

Anthony Howland Jackson, chairman of Bain Hogg Group, has been appointed chairman of the LIBC, taking over from Dieter Losse, chairman and chief executive of Greig Fester International Ltd. Max Taylor, chief executive officer of Willis Corroon P.L.C. and Michael Kier, chairman of C.E. Heath P.L.C., have been elected deputy chairmen of the committee. BI

Vietnam

Continued from page 39

it the first such venture to compete with the country's state-owned insurers.

Meanwhile, Zurich-based Swiss Reinsurance Co. has announced the formation in Thailand of SR Risk Management Services Ltd., a joint venture with 10 local insurance companies. The Swiss reinsurer will have a 49% stake in the firm, with the others each holding 5.1% shares.

A spokesman for Swiss Re said the Bangkok-based risk management venture was started partly because of anticipated difficulties of getting Thai approval for a stand-alone branch office of Swiss Re.

Swiss Re's move was due in part to difficulties it foresaw in getting approval for a stand-alone Thai office.

The Thai partners in SRS are: Bangkok Insurance Public Co. Ltd., The Dhipaya Insurance Co. Ltd., Insurance One Ltd., Muang Thai Life Assurance Co. Ltd., Phatra Insurance Public Co. Ltd., Safety Insurance Public Co. Ltd., The Samaggi Insurance Public Co. Ltd., The Siam City Insurance Co. Ltd., The Thai Commercial Insurance Public Co. Ltd., and Thai Insurance Public Co. Ltd.

Swiss Re, which has said it would like to build up Asia into its third main market after Europe and North America, also disclosed that authorities in Singapore and Hong Kong have approved its plans to upgrade its local representative offices into branches.

Swiss Re said this transition would help "to build up its presence in these markets and to underwrite reinsurance business locally."

A new Beijing representative office also is expected to start operations in the next couple of months, giving Swiss Re presence in a total of eight Asian countries. Other offices are planned for Kuala Lumpur, Malaysia; Shanghai, China; and Jakarta, Indonesia. BI

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Stocks

Continued from page 2

virtually the same as the *BI* Index for the overall insurance industry. HMO stocks did fare poorly early last week, but many had recovered by midweek.

"We've been through two or three days where the HMO stocks got hammered," said Robert Mains, an analyst with First Albany Corp. in Albany, N.Y. He attributed this to the downturn in the overall market as well as to concerns over premiums.

"I think the reaction earlier in the week is more tied to the (overall stock) market than anything else," said Randall Huyser, an analyst with Furman Selz in San Francisco. Pulled down primarily by technology stocks, the Dow Jones Industrial Average recorded one of its biggest two-day drops in recent years on Tuesday and Wednesday.

Despite that setback, analysts still like the prospects for HMOs.

"It'll be an interesting year after a distinctly 'yuck' year last year," said Michael LeConey, of Coleman & Co. in New York. In 1995, cost increases and higher utilization rates "caused margins to contract and earnings were generally disappointing throughout the industry," he said.

Now, however, premium rates have increased and "margins should rise or stabilize and we ought to see a much happier year for the HMO investors and the HMO group."

Acquisitions are expected to be a major factor for HMOs this year.

"It's takeover time again in HMO land, and the conditions that create that are basically good underlying earnings, industry trends, very high valuation of the big companies, and a big spread between the valuations on the big companies and the valuations on the smaller companies," said Mr. LeConey. That spread makes it possible for the bigger companies "to just make big, huge offers routinely for the smaller ones." As a result, several of the smaller HMOs are likely to disappear, he said.

Perhaps the biggest question in the industry right now is where Aetna Life & Casualty Co. will put the $4 billion it took in from the sale of its property/casualty operations to Travelers Corp. (*BI*, Dec. 4, 1995). Aetna, which said it would invest the proceeds in its core business, already runs the country's fourth-largest general service HMO.

In light of Aetna's announcement, the stock performance of a number of HMOs shows investors are "anticipating that they might be the one," said Mr. Huyser.

PacifiCare Health Systems of Cypress, Calif., and U.S. HealthCare Inc. of Blue Bell, Pa., are among those mentioned as possible Aetna purchases.

Better-run HMOs are expected to distinguish themselves in 1996.

"I think that 1996 in a lot of ways is going to bear some resemblance to 1995 in that the premium pricing environment remains tough, but I think that, as happened in 1995, the better-run HMOs are able to control their medical costs and grow their enrollment at such a rate that profitability and the growth will not be hindered," said Mr. Mains of First Albany.

"There's a perception if you can't raise premiums, you can't make money, and that's not true," added Mr. Mains. "There's certainly some companies that are facing a lot of pressure because they can't raise their rates, the medical costs are going up and they're not growing their enrollment."

But that generally is not true of the large publicly-traded companies, he added.

Though the whole industry is under pressure now over margins and probably will be for a while, Peter Costa, senior vp with the Chicago Corp. in Boston, stressed that the companies must be assessed individually.

"I think you have to really examine the different HMOs and recognize that some HMOs have better market positions than other HMOs, and the HMOs that have some degree of market strength or dominance will do better than those who don't," said Mr. Costa.

Long term, he suggested, investors should look at HMOs that are in under-penetrated markets, such as the southeastern United States.

Analysts also say HMOs that are in the Medicare market should do well this year thanks to expected generous rate increases.

"The rate increases are still subject to the final outcome of the budget process, but it appears rates for Medicare members will go up handsomely in 1996, and should to some degree mitigate the pricing pressures on the commercial side of the business," said Mr. Mains.

Mr. Huyser took a more cautious stance than some other analysts in evaluating the HMO stock's prospects, however. "We have no current recommendations in the HMO group, though we expect the industry to continue growing," he said.

"We're a little bit uncomfortable with valuations for most of the stocks, and also we think there's still some risk of earnings disappointment. But generally, we're optimistic on the industry, and we think investors over the long term will continue to make money on the stocks."

Other analysts were less reluctant to make recommendations.

United HealthCare Corp. of Minnetonka, Minn.; Norwalk, Conn.-based Oxford Health Plans; PacifiCare; and Nashville, Tenn.-based Healthwise of America are the recommendations of Ellie Kearns, of Alex. Brown & Sons in Boston.

Each has solid market position, strong management and strategic planning that allows for future growth, "not just taking advantage of their particular market," she said. They also have the opportunity to benefit from the Medicare situation. All this makes it likely they will hit their earnings targets, "which makes it likely that the stocks will appreciate," said Ms. Kearns.

United HealthCare was not a recommended buy for Mr. Mains. It is too high-priced right now, though it "is probably the top-quality name in the group," he said. However, he added, "It's close to the point where I would switch."

Firms that are on his recommended list include Oxford Health, which remains the fastest-growing publicly traded HMO and is expected to continue to experience good growth in 1996, he said.

He also recommends Trumbull, Conn.-based Physicians Health Services Inc., which he said has had "a very successful" entry into the New York City marketplace and is expanding into New Jersey this year, and Hooksett, N.H.-based Healthsource Inc., "which combines rapid enrollment growth with cost control for medical costs despite more or less flat premiums."

Also on his list is Mid-Atlantic Medical Services, based in Rockville, Md., which is the leading HMO in the Washington, D.C., Maryland and Virginia area and is expanding into West Virginia, North Carolina, Delaware and Pennsylvania. BI

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RFP documents are available beginning January 2, 1996, at the Authority's General Services Department, located at 2600 Wilshire Boulevard, Los Angeles, CA, 90057. Proposals will be accepted at the same location until 2:00 p.m., February 2, 1996. Markets will be assigned no later than 4:00 p.m., February 15, 1996. Quotations will be accepted until 2:00 p.m., April 1, 1996. Proposals and quotations received after the stated dates and times may, at the discretion of the Authority, be rejected without consideration. A pre-proposal conference will be held at 2:00 p.m., Wednesday, January 10, 1996, at the Housing Authority's 5th floor Board Hearing Room, 2600 Wilshire Boulevard, Los Angeles, CA 90057.

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Microsoft workers buy coverage online

REDMOND, Wash.—Microsoft Corp. employees will be the first, but not necessarily the last, to benefit from a new online insurance purchasing program for employees developed by Metropolitan Life Insurance Co.

Under the "Personal Insurance Network," scheduled to begin operating Feb. 1, Microsoft employees will be able to select personal lines coverages like auto and homeowners policies via the company's computer network, said Scott Lange, director-risk management at the Redmond, Wash.-based software giant.

The New York-based insurer's interactive program will allow users to tailor coverages to their needs and view a spreadsheet that displays their selections. Other features automatically call up automobile information, for example, upon entering the model name, he said.

Mr. Lange said the idea for an online insurance purchasing system at Microsoft was born about two years ago when he began looking for an insurer to offer personal lines coverages to company employees.

Benefit Beat

After choosing MetLife unit Metropolitan Property & Casualty Insurance Co., Microsoft asked the insurer to deliver products online because "that's our culture here," Mr. Lange said.

A group of more than a dozen specialists at the insurer worked on the idea and came up with the program, said John Shinn, vp-group property and casualty at MetLife in Bridgewater, N.J.

"Metropolitan is extremely excited about this," according to Mr. Shin.

The insurer plans to expand the online program to other employers later this year and eventually make other products like life insurance available, he added.

"Less people are using their phone and more people are using their PCs. I think this is one of the ways insurance will be sold in the future," Mr. Shinn said.

The insurer expects to market the online program beginning in 1997, he said.

Metropolitan has "pretty much proven that it can be done. They've really brought the underwriting process right to the desktop, to the consumer," Mr. Lange said of the program.

In a preliminary tryout recently, Microsoft employees "really liked it," Mr. Lange said. "If it passes muster at Microsoft, it's pretty slick."

—By Regis Coccia

MGM benefits

SANTA MONICA, Calif.—Metro-Goldwyn-Mayer Inc. will soon extend eligibility for health care, dental and vision benefits to live-in, same-sex partners of employees.

Following the lead of several other entertainment companies, MGM will extend coverage to all same-sex domestic partners as of Feb. 1. The movie and television production and distribution company, which has 800 full-time employees, is making the move to stay competitive in the industry, a spokeswoman said.

The benefits will only cover homosexual couples and not include live-in heterosexual couples because they "have the option to marry, which isn't available to homosexual couples," the spokeswoman said.

Any children of the partners who would be considered dependents would also be eligible for health benefits.

To be eligible, employees and their same-sex partners are required to provide evidence, including an affidavit, of a "committed relationship."

For health benefits, MGM employees can select from an indemnity plan underwritten by Prudential Insurance Co. of America or an HMO from PacifiCare Health Systems.

The idea for the domestic partner coverage originated in employee focus groups, said the spokeswoman.

—By Bethany Pendleton

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D&O

Continued from page 2

they're losing money on this product," Mr. Norton said. But, when they do realize it, some insurers will exit the market, which will reduce capacity and allow those that remain to raise prices and still retain their business, he said.

Given those trends, D&O policyholders should consider trying to negotiate multiyear policies, Mr. Norton suggested.

Many likely will be able to lock in three years of coverage with new aggregates each year and pay no more than they currently pay, he said. Those that select a single aggregate over a three-year period likely would be able to cut their premiums further, he said.

Policyholders with multiyear policies may miss another round of premium cuts, but their premiums in the long run likely will be cheaper, he said. "I think this pricing is close to the bottom."

The greater concern for D&O policyholders should be negotiating terms and conditions of coverage that they would want for several years, Mr. Norton said.

For the 1995 Directors and Officers Liability Survey, Wyatt and the Risk & Insurance Management Society Inc. mailed questionnaires to 7,000 companies. By late summer, 1,157, or 16.5%, responded.

D&O capacity reached a record high at $895 million in December, up 7.2% from $835 million a year earlier. The 1995 increase marked the 10th consecutive year D&O capacity has grown.

Part of the increase was attributable to five insurers that boosted their capacity. But, new market entrants also brought in significant new capacity.

Competition led to lower premiums for many risk managers and to far more modest increases for those who had seen their coverage costs soar in recent years.

Thirty-six percent of respondents reported lower premiums, and 29% said their premiums were unchanged.

On average, premiums dropped 1.6%, according to Watson Wyatt. That figure is based on the cost of coverage that is renewed with little or no change.

The news was not all bad even for some of the 35% of survey respondents who reported they paid higher premiums last year.

High-technology firms were saddled with the highest premium increases: more than 10% on average. But, that was a far lighter load than the 50% hikes that have been common for high-tech firms in recent years.

In addition, while 38% of high-tech firms had to pay more for D&O coverage, 42% paid less and 20% paid the same on renewal.

Merchandisers, the industry group in which the greatest percentage of respondents paid higher premiums, were the only other group for which D&O insurers noticeably raised premiums, according to the study. Premiums rose for 49% of the surveyed merchandisers.

Large banks fared best, with premiums dropping for 52% of those respondents and remaining unchanged for 28%.

Mr. Norton also noted that "a significant segment" of policyholders renewed their coverages with higher limits and improved terms and conditions.

For example, limits increased on average more than $1 million to $32.5 million. Limits for companies with more than $2 billion of assets jumped the most—$5 million—to $65.2 million on average.

Overall, 20% increased their limits, and 77% retained the same limits. Only companies with between $100 million and $400 million of assets purchased less coverage: $10.9 million in 1995, down more than $1 million from $12.1 million the year before.

And, largely because of policyholder victories in three federal appellate courts last year, 20% of the participants purchased coverage that either covered the entity against a securities-related D&O claim or established preset allocations of coverage in those cases.

A few insurance companies began offering this coverage in late 1993, but most D&O insurers extended it to policyholders as an option only this past summer because of the rulings (*BI*, Nov. 13, 1995).

Deductibles largely were unchanged for corporate reimbursement coverage, which remunerates an organization for its responsibilities to indemnify its directors and officers.

On average, they dropped about $27,000 to $1.13 million. But, companies with at least $2 billion of assets hiked their deductibles about $79,000 to $2.6 million.

Companies, though, increasingly are opting for no deductible for personal D&O insurance, which directly indemnifies company officials if corporate indemnification is precluded by corporate bylaws or state statutes. Eighty-four percent did not have a personal coverage deductible in 1995, compared with 80% in 1994 and 74% a year earlier.

The soft D&O market does not reflect insurers' results.

Excluding claims that either plaintiffs dropped or policyholders closed without drawing on their coverage, the cost of claims paid in 1995 exceeded $4.5 million, a marginal decrease from $4.6 million in 1994.

Premiums may fall more, but in the long run multiyear policies will pay off, predicts Phillip N. Norton.

However, the cost of claims paid during the past two years reflects a more than 39% increase since 1993 and 1992, when that cost hovered around $3.25 million.

"It says that jump is a real jump. Severity has increased," Mr. Norton observed.

That trend has been evident throughout the decade. The cost of claims paid has more than doubled from $1.94 million in 1990, according to Mr. Norton. The greatest increase was in 1991, when claim costs surged 56% to more than $3 million.

Shareholders commanded the highest indemnity payment in 1995, nearly $6.8 million, followed by: governmental shareholders, $4.6 million; customers, $3.4 million; employees, $1.2 million; and competing companies, $521,000.

Defense costs also continue to soar. For both open and closed claims, but excluding claims that did not incur any litigation expenses, defense costs jumped about 50% to more than $1.3 million from nearly $886,000 a year earlier.

Claim susceptibility, or the percentage of survey respondents who reported one or more claims, reached a record high of 27%, up one point from 1994.

Claim frequency, or the number of claims on average per survey respondent, was largely unchanged—0.68 in 1995, compared with 0.69 in 1994. But, claim frequency was 36% greater than in 1992, when each respondent reported 0.5 claims on average.

Alleged inadequate or inaccurate financial reporting disclosures, cited by 16% of D&O claimants, remain the leading complaint among plaintiffs. Claims for wrongful employee terminations, 11.3%, and discrimination, 4.7%, were the next most common complaints.

American International Group Inc., Chubb Corp. and Lloyd's of London remain the three leading D&O markets. But, CNA Financial Corp. jumped three notches to No. 4, and The St. Paul Cos. Inc. moved into the top 10.

Based on the number of D&O policies they place, brokers Marsh & McLennan Cos. Inc. and Johnson & Higgins remain the leading D&O market brokers. However, M&M gained ground, increasing its market share by two points to 18.3%, while J&H's market share dropped nominally to 15.6% from 15.8%.

Market share among the other top 10 D&O market brokers changed most for fifth-ranked Sedgwick Group P.L.C., which doubled its share to 8.6%.

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Copies of the 1995 D&O liability report can be obtained from Mary Maze at Watson Wyatt Worldwide—D&O Services, 303 W. Madison St., Suite 2400, Chicago, Ill. 60606. The price is $300, $235 for non-participant RIMS members and $150 for 1995 survey participants.

Top Aetna P/C official will not join Travelers

Benanav not 'willing to be a No. 2 guy'

By MICHAEL SCHACHNER

HARTFORD, Conn.—The new senior management team of the company to be formed by the property/casualty businesses of Travelers Insurance Co. and Aetna Life & Casualty Co. will be without the executive who headed Aetna's P/C operations.

Gary G. Benanav, who has run both Aetna's domestic property/casualty operations and international operations since 1993, said in a memo to Aetna employees dated Jan. 9 that he turned down an offer to be second-in-command to Robert I. Lipp, who will be chairman and chief executive officer of the new company.

But Mr. Benanav, who in December 1993 was named to head up 10 strategic business and support units that make up Aetna's P/C operations, said he will take part in the transition phase and formation of the new company.

Mr. Benanav, 50, said in an interview that he was extremely confident the new property/casualty company will be successful but added that at this point in his insurance career, "I'm just not willing to be a No. 2 guy."

"Instead, I'm looking to join a financial services company that needs a good CEO or COO. I would like to lead a struggling company to new levels or take a successful one even higher. But at this point, I honestly do not have any ideas where I may go. I haven't even contacted any headhunters yet. I just didn't want employees hearing about this from anyone else but myself."

Mr. Benanav, in the memo, said the new Travelers/Aetna company will undoubtedly be an "incredible success. . .I think it's important to tell you this: I was offered a terrific opportunity in the new company. Bob Lipp practically allowed me to write my own salary and job description. I hope that other employers recruit me as hard as Bob and (Travelers Corp. Chairman) Sandy Weill did."

Mr. Benanav added that the entire insurance industry will be watching the Travelers/Aetna merger, along with the acquisition of Continental Corp. by CNA Insurance Cos., to see how such mega-mergers will fare. "If these two deals, in particular, create efficiencies and market clout, then you'll see more such deals. But if the opposite occurs over the next year or so, you'll not likely see such drastic consolidation."

Meanwhile, Mr. Lipp announced the following executive appointments for the new company: Joseph P. Kiernan will head a new bond insurance company that will be formed out of the successful business built by Aetna. Charles J. Clarke, who currently is in charge of commercial lines for Travelers, will serve in the same capacity at the new company. Robert P. Restrepo of Aetna will lead personal lines. Alan Silberstein, most recently of Midlantic Bank, will be in charge of claims operations.

Ronald Foley, who currently manages personal lines for Travelers, will direct risk management operations. Jay Fishman, vice chairman of Travelers Insurance, will have responsibilities in finance, human resources, law, administrative services and systems. William P. Hannon, from KPMG Peat Marwick, will be chief financial officer. BI

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Snow policy covers airport

By MICHAEL SCHACHNER

BOSTON—Nothing can ruin a day for airport managers quite like massive snowstorms.

Yet there were at least partial smiles on the faces of the risk management staff last week at the Massachusetts Port Authority, which operates Logan International Airport in Boston.

The reason: snow insurance.

Last year, Massport bought a policy that pays $50,000 for every inch of snow that falls above 44 inches, up to 84 inches, or $2 million.

Total snowfall at Logan since the policy took effect Dec. 15, 1995, was 51.8 inches last week. So Massport, which paid $300,000 for the policy, already stands to collect $400,000 after its $100,000 deductible. That money and any more it becomes eligible for ultimately will go to bolster Logan's $1.7 million snow removal budget.

"And ultimately, (snow removal costs) will all be channeled back to the airlines in the form of increased landing fees," said a Massport spokesman.

Removing the 15 inches of snow that fell in the winter of 1994 cost only $750,000. But a year earlier the tab was about $3.5 million to remove 90 inches, and the area is on pace to top that total this year.

The snow policy was sold by the Frederick Penn Insurance Agency of Needham, Mass., and Admiral Insurance Agency of Lynn, Mass., on behalf of Customized Worldwide Weather Insurance Agency Inc., a Manhasset, N.Y.-based managing general agency that writes on behalf of Meadowbrook Insurance Group of Southfield, Mich.

The coverage period is one winter, and the authority has the option to renew for two more at similar terms. Any payout is to be made in a lump sum June 1.

Richard Penn, president of the Needham agency, said the policy is effectively leveling out costs for the airport, but actually may be better suited to private than public entities. "Cities can actually go back to the states after expending their snow budgets and get repaid. It's the one line item they can do it on, no questions asked."

Snow coverage for public entities or for promotional purposes (see related story) is triggered by inches of snowfall, not number of storms, like it was when it was introduced two or three years ago.

"You needed five or six storms, each with about four inches of snow to count. Five storms was your deductible. That didn't seem very good," said Mr. Penn. "A year from now, after this winter, I'll be shocked if the market isn't much bigger."

The Port Authority of New York and New Jersey had ruled out the coverage for the three New York area airports as too expensive, said Barry Glick, manager-risk financing. "If you had bought it last year, you would have had to have swallowed very hard because you would not have got a cent back; if you bought it this year you would be a hero."

Another storm-related claim, this one for $4,000, has been filed with Worldwide Weather by Charlottesville Albermarle Foundation for Encouragement of the Arts. More than four inches of snow fell in Charlottesville, Va., between 7 a.m. and 7 p.m. on Jan. 7, forcing the theater to cancel a showing of "Will Rogers Follies."

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Gavin Souter contributed to this report.

Blizzard

Continued from page 3

approach that," he said. "We expect it to produce a maximum loss of about $25 million." As of Friday, State Farm reported that 17,000 claims had been filed.

Meanwhile, at Northbrook, Ill.-based Allstate Insurance Co., no claims figures were available late last week but claims activity was light, a spokeswoman said.

In the days immediately after the storm, it was "more of a news event than a claims event," said a spokeswoman for ITT Hartford Group Inc. But that was changing by the end of the week. By Friday, Hartford had received more than 600 claims, several of which were for more than $50,000. The spokeswoman anticipated that more claims will arise in the next several weeks, "if gutters clogged by ice melt and water seeps under roofing."

John Tiene, executive director with the New Jersey Insurance News Service, a public relations group representing 19 insurers, said the "major difference" between the recent blizzard and the one nearly three years ago is that Gov. Christine Todd Whitman declared a state of emergency early Sunday, which prohibited all non-essential vehicles from traveling on any roads.

On the commercial side, Mr. Tiene said the magnitude of the storm may have helped prevent losses. "People were cognizant well in advance of what was coming, so their reaction time to snow buildup was quicker. I think the severity of the storm may actually have helped mitigate losses."

William Baird, chief executive officer of Willis Corroon of Maryland in Hunt Valley, said the broker has seen "very little claims activity" so far due to the storm. However, it has received its "first unusual and potentially significant business interruption claim" from a bio-tech client whose heating and cooling system was blocked by high snow drifts, which subsequently affected some temperature-controlled cultures.

Many of the claims in a storm like this are water damage and business interruption claims that show up after the fact, Mr. Baird noted.

"There's nothing really exciting or sexy to report," said Stewart McDowell, CEO of Willis Corroon of North Carolina in Charlotte. He said the area received about 1 inch of ice coupled with 3 to 4 inches of snow over the weekend.

"We've had a few minor traffic accidents and some slip-and-fall claims, but the majority of our clients stayed closed, therefore minimizing damages," Mr. McDowell said. Once the weather warms up, there may be some claims from burst pipes, he added.

One of the chief reasons for the relatively light amount of property damage was risk managers' willingness to take preventive steps. In some cases, they received special advice from their insurers in advance of the storm.

Arkwright Mutual Insurance Co.'s policyholders located within the storm's path began receiving messages through the Waltham, Mass.-based insurer's Nat Cat system, said Wolfgang Friedel, senior vp. The proprietary computer system integrates weather data, a computerized mapping system and its policyholder list to determine which customers are in a storm's path. "Once we identify the geographic area, it automatically gives us the total locations and fax numbers," said Mr. Friedel.

Faxes go out to a client's risk manager and each individual facility in the path of a storm, he said. The faxes are "intended to trigger as a reminder to do things that you can do within the last 48 hours prior to an occurrence, because that's all the time you have," he said.

The faxes sent before the blizzard contained such loss prevention messages as a reminder to clear roofs of snow. Last Thursday, Arkwright shot out another message to plants in the path of a second storm that struck late last week, warning of the perils presented by snow/rain mixtures. These included reminders that any snow-covered roof acts as a sponge when hit by rain and accumulates weight. Also, because of the snow already on roofs, drains and gutters can freeze.

Mike Burke, vp and chief engineer at Allendale Mutual Insurance Co., said the Johnston, R.I.-based insurer had received no claims by Wednesday and attributed that to a new emphasis on roof collapses since 1992's Hurricane Andrew.

Risk managers are generally in control of 75% to 85% of losses, said Mr. Burke.

After winter storms ravaged Georgia and Pennsylvania earlier in the decade, Allendale had engineers from Factory Mutual Engineering—which both Allendale and Arkwright support—visit policyholders to see whether relatively inexpensive roof bracing should be installed to protect against collapse. The insurer also stressed that its customers construct new facilities in a collapse-resistant manner, he said.

There was little resistance. "For customers committed to a highly protected (risk) philosophy, making something that's adequate better sells easily," he said.

Arkwright also used FME engineers to contact customers before the recent storm. The engineers gave out advice on such things as how to put together a team of people to clean roofs of snow, he said, noting that some customers have enlisted high school football teams to do the work.

If risk managers have specific problems at a facility and have advance warning of storm, they can take several actions to minimize losses, said Craig Holmes, vp and manager of business continuation at Johnson & Higgins in New York.

For example, "you can prioritize moving snow off construction which you know to be weak to eliminate the potential for collapse," he said.

Risk managers appeared to have heeded such advice.

Few companies with operations in the New York area suffered major insured losses as a result of the storm.

The New York Power Authority suffered only minor damage that fell within its self-insured retention, said Risk Manager Dennis Sacco.

American Airlines Inc. will likely lose revenues due to 1,300 flights canceled as a result of the storm, but that commercial loss is not insurable, said Michael Stoeckert, manager of corporate insurance in Dallas.

"There would be no business interruption coverage because in order to have a claim a policyholder has to have property damage," he said.

The complex of major petrochemical companies in the Delaware Valley also continued to function without significant damage throughout the storm.

Wilmington, Del.-based E.I. du Pont de Nemours & Co. had to shut down its corporate offices for a day because Delaware Gov. Thomas R. Carver declared a state of emergency, but otherwise DuPont suffered no major blizzard loss, a company spokeswoman said. All DuPont plants in the storm's path—including Wilmington, Martinsville, Va., and Carneys Point, N.J.—remained in operation and followed emergency plans and facilities.

A spokesman for Houston-based Coastal Corp. said the energy company's Eagle Point plant in Thorofare, N.J., kept running through the night of the heaviest snowfall.

The story was the same throughout the blizzard's path.

No power outages were reported in Washington and the Maryland suburbs, said a spokeswoman at Potomac Electric Power Co., which supplies electricity to about 2 million people.

Continued on next page

Child's play for employers

Storm didn't cause daycare crisis

It could have been a corporate child care disaster—parents stuck at home with babysitters stranded, and schools and daycare centers closed by snow.

Instead, many companies in the storm-affected areas reported few child care problems—often because the parent was stuck at home, too.

Managers at Lowe's Co., a home retailer based in North Wilkesboro, N.C., have the flexibility to accommodate staff who have children at home out of school, a spokeswoman said. Some employees in the corporate headquarters even brought their children to the office for a couple of hours, she said.

And even though New York-area schools were closed for two days, several large companies had few problems.

At Citicorp, onsite child care facilities can be expanded in an emergency to accommodate more children. But the need never arose. Most employees seemed to rely on other family members to fill in during school snow days, according to a spokesman for the New York-based bank.

Both International Business Machines Corp. and PepsiCo Inc. in Westchester County, directly north of New York City, were officially closed Monday and neither implemented child care programs for Tuesday and beyond.

"Our workforce wasn't affected that way. Most of us have 'Think Pads' that provide us with the same screen we have in the office, and with voice response phone mail, I just had people call me at home," said an IBM spokesman.

Snow promotion a near miss

Less than an inch more snow would have translated into a $1 million claim

NEW YORK—If another seven-tenths of an inch of snow had fallen in Central Park on Jan. 10—about the height of a nickel on its edge—insurers for Potamkin Automotive Center would have had to pay out $1 million. Instead, they'll pocket $32,000 and may make the bet again for Super Bowl Sunday.

However, a repeat performance may be stymied as the promotion's compliance with consumer protection laws is questioned.

The car dealership had offered to forfeit lease payments to customers who leased a car between Dec. 22, 1995, and Jan. 2 if more than 4 inches of snow fell in Central Park on Jan. 8 between 10 a.m. and 10 p.m.

Although about 2 feet of snow fell in New York during the blizzard, only 3.3 inches fell during the relevant hours last Monday.

The promotion was insured by coverage placed with Customized World Wide Weather Insurance Agency Inc., in Manhasset, N.Y., and underwritten by Star Insurance Co. in Meadowbank, Mich.

"It was so successful that we are going to repeat the promotion," said Ted Besson, president of Potamkin.

During the first offer, Potamkin leased 104 cars, which will generate lease payments of about $1 million, according to Mr. Besson.

"That's about 20% more than normal. We expect to triple that for the existing promotion because of all the publicity we have had," Mr. Besson said.

The original policy cost $32,000 and offered coverage up to $1 million, said Isaac Poser, risk management consultant for Potamkin.

Plans for a Super Bowl Sunday repeat, though, were dealt a blow last week by a subpoena issued by the city of New York alleging that ads for the promotion violated city consumer protection laws.

The ad suggested that to enter the competition consumers must make a $1,695 deposit on the lease, said Fred Cerullo, New York City consumer affairs commissioner.

A disclaimer saying that no purchase was necessary was in small print and inconspicuous, Mr. Cerullo said.

The promotion may also violate state lottery laws, he said. "Only the official state lottery, religious organizations, and not-for-profits registered with state authorities can run a lottery in which a fee is charged for the chance of winning a prize. Otherwise, the endeavor is no different than an illegal gambling operation," Mr. Cerullo said.

Mr. Cerullo said Potamkin executives are co-operating with the commissioner.

The Super Bowl promotion is scheduled to offer free leases to customers who sign up between Jan. 12 and 22 if more than 4 inches of snow falls in Central Park between 10 a.m. and 10 p.m. on Jan. 28. The final premium will be determined after the promotion ends, depending on the number of leases, Mr. Poser said.

—By Gavin Souter

N.J. warehouse destroyed by fire

By DOUGLAS McLEOD

ELIZABETH, N.J.—Property insurers for the Port Authority of New York & New Jersey are facing a loss that may reach $15 million following a fire that destroyed a huge warehouse last week.

The 200,000-square-foot Port Authority warehouse in Elizabeth, a seaport south of Newark, caught fire about 5:30 p.m. last Wednesday and suffered an explosion several hours later as the building continued to burn.

About 125 firefighters battled the blaze, including the entire Elizabeth fire department and crews from the fire departments of several surrounding towns, according to William Scott, an Elizabeth Fire Department battalion chief.

The fire was brought under control at 11:45 p.m., but firefighters continued to battle hot spots in the collapsed structure Thursday, Chief Scott said.

One concern of officials was the possible release of toxic chemicals from the warehouse, which was leased to several tenants including at least two trucking companies.

Material stored at the warehouse included boron trichloride, a poisonous gas. However, state environmental officials tested the area and found no traces of the substance, according to Chief Scott.

The warehouse building appears to be a total loss and will likely generate a replacement cost claim by the Port Authority of between $12 million and $15 million, according to Robert Remler, executive general adjuster with GAB Services Inc. in New York.

"The side walls remain there, but there's nothing left, for all practical purposes," Mr. Remler said.

This estimate does not include loss of property stored inside the warehouse by its tenants, which included trucking companies Cace Transportation Inc. and Dan Transport Corp.

A Cace employee referred questions on the fire to the Port Authority. Dan Transport officials could not be reached.

The Port Authority's property program includes a $100,000 self-insured retention, according to Barry Glick, manager-risk financing for the Port Authority.

A $10 million primary layer is written by three units of American International Group Inc.—American Home Assurance Co., Insurance Co. of the State of Pennsylvania and Lexington Insurance Co.—and Zurich Insurance Co., he said.

A second layer with limits of $85 million excess of $10 million is divided among 13 insurers, Mr. Glick said.

Two days before the fire, heavy snowfall had caused an approximately 30,000-square-foot section of the warehouse's roof to collapse, knocking out the building's electrical system and causing about $500,000 in damage, GAB's Mr. Remler said.

A contractor hired by the Port Authority had begun working to shore up the roof and clear away debris before the fire broke out, Mr. Glick said.

The cause of the fire was still under investigation last week.

Mr. Glick noted that the Port Authority's insurers could demand that it absorb two retentions, one for the roof collapse and one for the total loss of the warehouse.

In that case, though, the Port Authority would have two separate claims for the roof damage and the fire, he said.

Whether this situation actually develops will depend on "how the numbers work out," he said.

Meanwhile, the fire could also generate a business interruption claim from an IKEA home furnishings megastore located several hundred feet from the warehouse. The IKEA store was evacuated on Wednesday and remained closed Thursday as fire equipment blocked the main road leading to the store.

IKEA may be able to file a business interruption claim with its own property insurers, Mr. Remler noted.

IKEA officials could not be reached. BI

Continued from previous page

However, the electric company did have extra line crews and customer service representatives on hand during the storm in case power outages did occur, she said.

CSX Transportation Inc.'s rail network, which runs throughout the East Coast, suffered little structural damage from the 28 inches of snow that dumped on some areas of the system.

During the height of the storm, about one-third of Jacksonville, Fla.-based CSX's rail network—or 300 trains and 10 terminal locations—were either delayed or rerouted. Only one section of the rail line, in eastern Tennessee, was shut down temporarily.

"Our biggest challenge is a human resource issue," a CSX spokeswoman said. States of emergency were declared in Maryland, Pennsylvania and Virginia, which prohibited vehicles, other than emergency and snow removal equipment, from traveling on the roads. It created "a challenge for employees to get to work."

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Mark Hofmann, Sally Roberts, Michael Schachner and Gavin Souter contributed to this report, which was written by Mr. Hofmann.

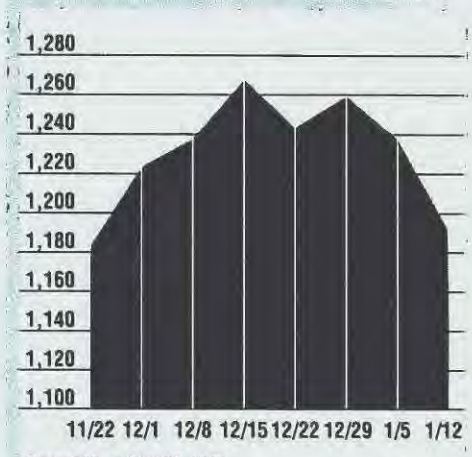
Winter storms prove costly

Storm	Region hit	Insured losses
March 1993 Blizzard	East coast	$1.75 billion
January 1994 Arctic freeze	Eastern half of U.S.	900 million
December 1983 Arctic freeze	41 states east of Rockies	880 million
December 1989 Freezing, ice, snow	Eastern half of U.S.	500 million
January 1993 Snow, wind, flooding	Southwest	330 million

Source: American Insurance Services Group, *BI* reports

GRAPHIC BY KIM ROME

BI Insurance Index



Base=100 on Dec. 29, 1978
Source: Nordby International Inc.

PCS catastrophe options

As of Jan. 12

Call spread	Price bid/ask	Call spread	Price bid/ask
Eastern March 1996		**Texas June 1996**	
5/15	3/—	10/20	1/1.4
10/20	3/5	5/15	2/4
15/25	2/4		
Southeast Sept. 1996		**California Annual**	
40/60	4/4.6	40/60	2/4.5

Total volume: 66 Total open interest: 970

For information on PCS cat options, call 312-435-3674.
Source: Chicago Board of Trade

British Issues

Jan. 11 Companies	Price pence	P/E	Div. pence	Yield %	1 week high—low
Commi Union	615	12.3	35.0	5.7	622—614
Genl Accident	633	9.0	38.8	6.1	639—633
Gdn Royal Exch	261	8.7	11.3	4.3	276—261
Independent	393	8.7	13.8	3.5	393—382
Royal	384	7.8	18.8	4.9	385—382
Sun Alliance	361	7.8	21.3	5.9	377—361
Brokers					
Bradstock	72	12.0*	7.1*	9.9	74—72
Fenchurch	153	10.3*	10.6*	6.9	157—153
CE Heath	154	9.6	12.5	8.1	162—154
JIB Group	105	11.1	9.4	9.0	106—105
Lloyd Thmpson	177	10.9*	11.3*	6.4	182—177
Lowndes Lmbrt	150	8.1	11.0	7.3	150—148
Nelson Hurst	160	10.7	9.5	5.9	160—157
Sedgwick Grp	125	11.0	8.1	6.5	127—124
Steel Brl Jones	43	5.4	5.6	13.0	46—43
Willis Corroon	147	13.4	8.3	5.6	147—146

Source: Philip Olsen, London * Actual. Others estimated.

BI Industry Stock Report JAN. 8, 1996, THROUGH JAN. 12, 1996

		Price	Weekly % change	Year to date % change	Annual High	Annual Low	Vol.(000)	$ Div.	% Yield	P/E	Book value	Mkt./Bk. value
BROKERS												
Acordia Inc.	NYS	28.75	-3.36	-3.36	34.50	23.50	13	0.72	2.50	16	14.00	2.05
Alexander & Alexander	NYS	18.5	-2.63	-2.63	26.44	18.00	240	0.1	0.54	-15	19.17	0.97
E.W. Blanch Holdings Inc.	NYS	20.875	-6.70	-10.70	23.38	16.50	73	0.4	1.92	16	4.93	4.23
Gallagher Arthur J. & Co.	NYS	36.125	-2.03	-3.02	38.00	30.13	39	1	2.77	14	6.48	5.57
Hilb, Rogal & Hamilton	NYS	13.75	0.00	2.80	14.38	10.50	48	0.6	4.36	17	1.21	11.36
Kaye Group Inc.	NDQ	7.25	-9.38	-9.38	10.75	6.75	19	0.1	1.38	8	NA	NA
Marsh & McLennan	NYS	86	-2.69	-3.10	90.13	76.13	431	3.2	3.72	16	19.95	4.31
Poe & Brown	NDQ	24.75	-1.00	-0.50	25.25	20.25	54	0.48	1.94	15	5.15	4.81
BROKERS	AVERAGE		-3.5	-3.7					2.7	12		
INSURERS/REINSURERS												
ACE Ltd.	NYS	38.5	-1.28	-3.14	40.00	21.88	558	0.00	0.00	0	22.45	1.71
Acceptance Insurance Cos.	NYS	15.125	-1.63	1.68	17.50	13.13	105	0.3	1.98	31	10.76	1.41
AEGON N.V.	NYS	45.75	1.39	3.98	46.75	25.63	39	1.08	2.36	17	17.28	2.65
Aetna Life & Casualty	NYS	67.75	-3.56	-2.17	76.75	47.88	1984	2.76	4.07	33	48.85	1.39
AFLAC Inc.	NYS	44.875	-0.83	3.16	46.00	32.13	575	0.52	1.16	13	17.58	2.55
Allied Group Inc.	NDQ	38.125	3.74	5.90	39.00	23.31	292	0.68	1.78	8	21.81	1.75
Allmerica Prop. & Casualty	NYS	24.875	-5.69	-7.87	27.13	17.25	203	0.16	0.64	11	19.87	1.25
Allstate Corp.	NYS	38.625	-6.93	-6.08	42.38	23.75	4891	0.78	2.02	10	18.75	2.06
American Financial Group	NYS	31.25	-1.57	2.04	32.88	22.88	487	1	3.20	30	24.94	1.25
American General	NYS	33.75	-1.46	-3.23	39.13	28.25	2592	1.24	3.67	12	17.03	1.98
American Heritage Life Ins.	NYS	23.25	1.64	1.64	23.88	16.25	30	0.72	3.10	12	12.51	1.86
American Indemnity/Fin'l	NDQ	10.25	2.50	2.50	13.25	9.00	2	0.3	2.93	14	15.92	0.64
American International	NYS	91.875	-2.26	-0.68	95.50	65.63	3630	0.34	0.37	18	34.66	2.65
American Re Corp.	NYS	42.25	0.60	3.36	45.00	29.13	482	0.32	0.76	14	16.77	2.52
Aon Corp.	NYS	51.125	0.25	2.51	51.38	31.88	808	1.36	2.66	15	18.30	2.79
Argonaut Group	NDQ	31.25	-1.57	-3.85	34.50	27.75	77	1.32	4.22	13	29.91	1.04
AVEMCO Corp.	NYS	15.5	-0.80	-3.13	18.25	14.63	36	0.48	3.10	17	6.28	2.47
Baldwin & Lyons Inc.	NDQ	17	1.49	4.62	17.75	14.25	3	0.32	1.88	9	13.90	1.22
Berkley W.R. Corp.	NDQ	51.25	-0.97	-4.65	55.50	34.50	224	0.48	0.94	19	34.46	1.49
Berkshire Hathaway Inc.	NYS	31000	3.33	-3.43	33400.00	21350.00	2	0.00	0.00	65	10089.11	3.07
Capital RE Corporation	NYS	30	-2.83	-2.44	31.63	22.00	34	0.24	0.80	10	22.30	1.35
Capsure Holdings Corp.	NYS	15.375	-3.91	-12.77	18.13	12.38	55	0.00	0.00	14	14.61	1.05
Chubb Corp.	NYS	102.125	0.99	5.56	103.88	57.00	1715	1.96	1.92	14	48.92	2.09
CIGNA Corp.	NYS	109.5	2.70	6.05	115.00	62.63	1566	3.04	2.78	71	80.46	1.36
CNA Financial Corp.	NYS	111.75	-2.61	-1.54	123.25	65.50	81	0.00	0.00	10	71.13	1.57
EMC Insurance Group Inc.	NDQ	12.5625	-8.64	-8.64	15.25	9.50	45	0.56	4.46	8	11.13	1.13
EXEL Ltd.	NYS	64.75	8.60	6.37	65.50	38.63	1001	0.00	0.00	0	31.47	2.06
Fremont General Corp.	NYS	33.375	-5.65	-9.18	37.25	18.88	285	0.8	2.40	9	19.04	1.75
Frontier Insurance Group	NYS	29.125	-6.05	-8.98	33.75	20.25	68	0.48	1.65	12	14.65	1.99
Gainsco Inc.	ASE	10.625	-3.41	-6.59	12.38	7.75	57	0.05	0.47	15	3.98	2.67
General RE Corp.	NYS	150.5	-2.67	-2.90	158.25	122.75	1334	1.96	1.30	16	59.35	2.54
Guaranty National Corp.	NYS	14.5	-5.69	-5.69	19.00	13.75	57	0.5	3.45	15	11.60	1.25
Harleysville Group	NDQ	31	-5.34	-4.25	33.00	23.50	25	0.76	2.45	11	20.72	1.50
Hartford Steam Boiler	NYS	48.25	-3.02	-3.50	51.50	40.63	191	2.28	4.73	17	14.68	3.29
HCC Insurance Holdings	NYS	42.125	14.63	13.95	43.38	21.00	435	0.00	0.00	22	15.86	2.66
ITT (Hartford Group)	NYS	47.625	-7.52	-10.14	53.13	47.50	2131	1.98	4.16	4	45.46	1.05
Lincoln National	NYS	52	-0.95	-3.26	55.38	34.88	689	1.84	3.54	11	28.90	1.80
Markel Corp.	NDQ	73	-3.95	-3.31	76.00	40.75	17	0.00	0.00	14	25.71	2.84
Meadowbrook Insur. Group	NYS	29.75	-3.25	-11.19	33.88	24.00	76	0.08	0.27	27	NA	NA
Mid Ocean Ltd.	NDQ	38.5	5.12	3.70	38.75	24.88	523	0.00	0.00	0	22.18	1.74
Mutual Risk Mgmt. Ltd.	NYS	43.5	-2.25	-4.92	45.75	24.88	103	0.4	0.92	21	9.72	4.48
NAC Re Corp.	NYS	34.375	-3.85	-4.51	39.00	28.25	47	0.2	0.58	12	18.23	1.89
National Re Corp.	NYS	36.5	-1.02	-3.95	38.13	26.75	18	0.2	0.55	18	17.05	2.14
Navigators Group	NDQ	17.875	-0.69	1.42	19.75	12.75	71	0.00	0.00	17	10.21	1.75
Nobel Insurance Ltd.	NDQ	11.375	-2.15	0.00	12.25	8.13	52	0.2	1.76	5	6.84	1.66
Ohio Casualty Corp.	NDQ	34.75	-8.55	-10.32	39.25	29.00	296	1.52	4.37	19	23.64	1.47
Old Republic Int'l	NYS	33	-4.00	-7.04	35.50	21.00	215	0.52	1.58	10	25.79	1.28
Orion Capital Corp.	NYS	43.25	0.00	-0.29	45.25	34.25	105	0.92	2.13	9	26.00	1.66
Partner Re Ltd.	NDQ	25.875	-5.05	-5.91	28.38	18.75	739	0.00	0.00	0	20.37	1.27
Penn-America Group Inc.	NDQ	14.25	-4.20	0.00	15.50	6.50	74	0.12	0.84	12	6.40	2.23
Philadelphia Cons. Holding	NDQ	17.875	2.14	10.00	21.88	12.00	104	0.24	1.34	15	9.05	1.98
PXRE Corp.	NDQ	24.75	-4.81	-6.60	29.75	21.00	30	0.72	2.91	5	21.27	1.16
Provident Life	NYS	28.375	0.00	-2.16	29.75	20.50	0	0.72	2.54	13	22.34	1.27
Prudential Reinsurance	NYS	22.375	-0.56	-4.28	23.50	18.50	336	0.12	0.54	13	NA	NA
Reliance Group Holdings	NYS	7.875	-5.97	-8.70	9.25	4.88	491	0.32	4.06	11	3.42	2.30
Reliastar Financial Corp.	NYS	42.25	-0.88	-4.79	44.50	30.75	724	1	2.37	10	24.53	1.72
RenaissanceRe Holdings Ltd.	NDQ	30.25	-2.81	-0.41	33.13	20.72	40	0.00	0.00	0	NA	NA
Risk Capital Holdings	NDQ	22.125	-1.67	-5.35	23.38	19.88	50	0.00	0.00	0	NA	NA
RLI Corp.	NYS	24.375	-2.50	-2.50	25.38	16.50	30	0.52	2.13	33	20.51	1.19
St. Paul Companies	NYS	55.75	-4.09	0.22	59.38	44.00	873	1.6	2.87	10	32.46	1.72
SAFECO Corp.	NDQ	33.5	-5.30	-2.90	39.25	25.13	1128	1.06	3.16	11	44.95	0.75
Seibels Bruce Group	NDQ	1.875	11.11	25.00	2.94	0.44	94	0	0.00	-1	0.04	46.88
Selective Ins. Group	NDQ	34.75	-2.11	-2.11	38.38	25.50	143	1.12	3.22	10	23.23	1.50
Sphere Drake Holdings	NYS	13	-6.31	-7.14	19.13	12.88	19	0.00	0.00	0	13.86	0.94
TIG Holdings	NYS	27.75	-2.20	-2.63	29.50	18.88	351	0.2	0.72	16	16.62	1.67
Titan Holdings, Inc.	NYS	13.5	-3.57	-6.09	15.75	9.38	8	0.3	2.22	10	9.04	1.49
Tokio Marine & Fire	NDQ	62.125	-9.96	-5.87	69.25	49.88	14	0.4	0.64	22	57.72	1.08
Torchmark Corp.	NYS	43.25	-4.95	-4.42	46.00	35.00	705	1.16	2.68	12	17.37	2.49
Transatlantic Holdings	NYS	74	-0.50	0.85	75.25	53.75	115	0.48	0.65	13	33.30	2.22
Transnational Re Corp.	NDQ	24.25	-1.52	-1.02	27.25	18.75	65	0.00	0.00	7	18.84	1.29
Travelers Corp.	NYS	59	-2.68	-5.79	63.88	34.00	3524	0.8	1.36	13	24.77	2.38
Trenwick Group Inc.	NDQ	55.25	-1.56	-1.78	57.50	40.75	51	1.12	2.03	13	29.23	1.89
United Fire & Casualty	NDQ	28.5	2.40	1.79	29.50	17.88	13	0.9	3.16	10	28.96	0.98
Unitrin	NDQ	48.625	2.91	1.30	50.50	43.50	272	2	4.11	13	37.51	1.30
UNUM Corp.	NYS	57.375	0.66	4.32	58.75	39.88	1109	1.06	1.85	15	26.45	2.17
US Facilities Corp.	NDQ	19.375	-6.06	-9.36	23.38	10.00	147	0.2	1.03	9	11.66	1.66
USF&G Corp.	NYS	15.75	-5.97	-6.67	19.50	13.38	1238	0.2	1.27	9	10.86	1.45
USLIFE Corp.	NYS	30.75	0.00	2.93	32.25	22.88	163	0.93	3.02	11	38.45	0.80
Washington National	NYS	28.125	-0.88	1.81	30.50	17.75	84	1.08	3.84	11	25.13	1.12
Zenith National Ins.	NYS	21.375	-0.58	0.00	24.63	19.38	37	1	4.68	29	16.35	1.31
Zurich Reinsurance Centr.	NYS	29.875	-1.24	-1.65	30.88	27.88	54	0.00	0.00	35	21.64	1.38
INSURERS/REINSURERS	AVERAGE		-1.7	-1.8					2.0	15.3		
HEALTH MAINTENANCE ORGANIZATIONS												
FHP International	NDQ	27.6875	-4.11	-2.85	30.00	19.50	724	0.00	0.00	146	28.15	0.98
Humana Inc.	NYS	26.625	-0.47	-2.74	28.38	17.00	4107	0.00	0.00	23	6.56	4.06
Oxford Health Plans	NDQ	63.375	-9.14	-14.21	83.75	38.50	5373	0.00	0.00	49	6.56	9.66
Pacificare Health Sys.	NDQ	89.25	3.18	2.59	93.25	44.50	541	0.00	0.00	25	15.02	5.94
Safeguard Health Enter.	NDQ	11.75	-2.08	1.08	13.25	8.25	2	0.00	0.00	29	6.15	1.91
Sierra Health Services	NYS	30.375	-3.19	-4.33	33.63	22.13	270	0.00	0.00	16	9.22	3.29
United Healthcare Corp.	NYS	56.75	-9.74	-13.19	65.63	34.13	5153	0.03	0.05	28	16.17	3.51
U.S. Healthcare	NDQ	43.5	-1.42	-6.45	47.50	26.50	7645	1.1	2.53	18	5.66	7.69
Wellpoint Health Networks	NYS	33.5	3.88	4.28	37.00	27.00	154	0.00	0.00	15	14.26	2.35
HMOs	AVERAGE		-2.6	-4.0					0.3	39		
ALL COMPANIES	AVERAGE		-2.6	-3.2					2.1	20		

Top advancing issues: HCC Insurance Holdings, Seibels Bruce Group, EXEL Ltd. Leading decliners: Tokio Marine & Fire, United Healthcare Corp., Kaye Group Inc. Most active issue: U.S. Healthcare. The BI Index fell 3.7%; the Dow Jones 30 Industrials fell 2.3%; the S&P 500 decreased 2.4% and the NYSE Composite declined 2.2%.

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Grant

Continued from page 3

In addition, the foundation plans to award about 10 evaluation grants, averaging $400,000 over a four-year period. University research centers and private research firms are expected to design and implement assessments of cooperating pilot projects or other significant innovations already in operation.

Both types of projects prefer applicants that are public agencies or tax-exempt under Section 501(c)(3) of the Internal Revenue Code.

Applications for second-phase grants are due August 1997 and will be awarded March 1998. An applicant workshop is planned for April 1997.

Maine's Bureau of Insurance received a $250,000 grant from the foundation late last year under this program for a precursor demonstration project to develop 24-hour coverage pilot programs in the state.

"The bureau's 24-hour coverage pilot project will allow employers to choose a way to combine health and workers comp insurance or self-insurance," the bureau explains.

One possible choice includes an integrated benefit plan in which a single insurance policy or self-funded employee benefit plan covers both occupational and non-occupational conditions.

That particular option is available through the Maine Employers' Mutual Insurance Co. to any employer that satisfies underwriting guidelines approved by the superintendent.

Another possible choice is a coordinated plan in which common benefit administration coordinates separate policies or benefit plans.

Grant funds may be used to pay project staff salaries, consultant fees, data collection and analysis, meetings, supplies and other direct expenses.

Private foundations, as defined under Section 509(a), are ineligible.

Grant funds may be used to pay project staff salaries, consultant fees, data collection and analysis, meetings, supplies and other direct expenses, including a limited amount of essential equipment.

In addition, grant recipients must agree to submit annual and final reports on their projects and findings.

The program's grants will be issued in two phases. Applications for first-phase grants are due April 1 and will be awarded in October.

An applicant workshop is scheduled for Feb. 15.

For more information on the grants, contact the project director at 508-856-3576.

Acquisition

Continued from page 2

enable WellPoint to expand outside the saturated California market.

MassMutual's life and health business' "key East Coast location is an important strategic step in the geographical diversification of our business base," said Mr. Schaeffer in a statement.

MML Pension Insurance, the unit that WellPoint will acquire, covers 1 million people in 2,000 employer groups, primarily in the Northeast. About 60% of the people are in preferred provider or exclusive provider organizations and 40% in indemnity plans.

By contrast, WellPoint covers 2.8 million people, almost all in HMOs and point-of-service plans.

MassMutual's decision to unload MML Pension Insurance reflects the Springfield, Mass.-based company's realization that managed care is the wave of the future.

"During the past decade, the health insurance marketplace has demanded a more integrated variety of health care plans, centered around managed care," acknowledged Thomas B. Wheeler, MassMutual's president and CEO, in a statement. "Clearly, the best course for our life and health policyholders is the combination of our subsidiaries' well-established expertise with this high-quality managed care entity."

Both companies said a merger would not immediately affect policyholders.

"Our goal is not to move their members into an HMO, but to provide more product choices," the WellPoint spokesman explained.

For example, while MML offers its policyholders primarily indemnity, preferred provider and exclusive provider organization options, they will now have the additional choices of an HMO and a POS plan.

James E. Miller, executive vp of MML, will continue to head the unit after the acquisition. But he will report to Mark Weinberg, the executive vp responsible for WellPoint's national expansion.

Under terms of the transaction, WellPoint will pay $380 million in cash for MML. Closing, which is subject to regulatory approvals, is expected to occur by the end of the first quarter.

Meanwhile, Standard & Poor's Corp. placed MML's AAA claims-paying ability rating on CreditWatch with negative implications following the sale announcement. S&P said it will be meeting with MassMutual's management to discuss the move.

The proposed deal follows another big acquisition of a traditional fee-for-service health insurer by a publicly traded HMO. Last June, United HealthCare of Minneapolis, the nation's largest for-profit HMO, agreed to buy MetraHealth Cos. for $1.65 billion (*BI*, June 26, 1995). MetraHealth was the product of the merger of the group health operations of Metropolitan Life Insurance Co. and The Travelers Corp.

WellPoint's purchase of MML will not affect the planned merger of MassMutual and Connecticut Mutual Life Insurance Co.

Policyholders of the two insurance companies are scheduled to vote on the consolidation later this month, and regulators in both companies' home states have set hearing dates in late January as well. BI

Bad Numbers

Nigel Lighthouse doing *Mr. Tambourine Man.*

Mabel Lockhart's rendition of *Light my Fire.*

Frankie Fanelli's version of *That's Amore.*

Good Numbers

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