NEWSPAPER

JANUARY 18, 1993

# Business Insurance®

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## Update

### Asbestos claims handling plan would provide victims $1 billion

PHILADELPHIA—In an effort to keep future asbestos bodily injury claims out of the courtroom, a group of asbestos companies, their insurers and leading attorneys for victims are seeking court approval of a class-action settlement that would provide more than $1 billion to injured parties over the next decade.

On Friday, the Center for Claims Resolution, the successor to the Asbestos Claims Facility created by the Wellington Agreement, filed the settlement in federal court in

*Continued on next page*

# California workers comp reform

## Employers split over how to achieve goals

By JOANNE WOJCIK

COSTA MESA, Calif.—A group of Orange County, Calif., employers has decided to take the issue of workers compensation reform directly to voters, rather than wait for legislative relief.

However, support for the proposed ballot initiative is not as widespread as initially thought. Several employers that the group's backers originally claimed were associated with the movement are denying any affiliation due to concerns that they may be burning their legislative bridges.

Meanwhile, Campaign Management Inc. of Costa Mesa has been hired to begin raising funds and organizing the petition drive that would put the issue on the ballot. Organizers must collect 358,000 signatures by Jan. 27, 1994, for the measure to be put to a vote in June 1994.

State Assemblyman Paul Horcher, R-Diamond Bar, has just completed a rough draft of the workers comp initiative, which would reform the vocational rehabilitation system, eliminate the minimum rate law and beef up fraud prosecution, among other things.

And Anaheim-based Carl Karcher Enterprises Inc., the parent company of the Carl's Jr. hamburger chain, plans to host a press conference on Jan. 29 to kick off the initiative campaign.

Organizers trace the movement's origins to a proposal last year by Walt Disney Co. As a last ditch effort to cut its workers comp costs, Disney drafted its own workers comp reform legislation (*BI*, July 20, 1992).

"The Disney bill was the genesis," said Harvey Englander, president of Campaign Management Inc.

Still in draft form, the pro-

*Continued on page 20*

# Contractor's policy excludes cover for additional insured

By MEG FLETCHER

SPRINGFIELD, Ill.—Five years ago, Frederick Claussen was painting at the Glenview Park District indoor ice skating rink when he fell head-first from a 20-foot high scaffold onto a concrete floor.

The accident caused severe brain damage and left the decorating firm employee permanently incapacitated.

Now a negligence lawsuit against the park district by his wife-guardian is severely challenging risk managers' faith in the ability of standard transfer-of-risk agreements to protect building owners from liability when a contractor's employee is injured.

Such agreements require contractors to maintain a commercial general liability policy with minimum limits of coverage and to list the building owner as an additional insured. Contractors typically provide owners with a certificate of insurance containing basic coverage information.

> "... the insurance afforded ... shall not apply to damages arising out of the negligence of the additional insured(s) ..."

Risk managers generally rely on the certificates as proof of the underlying coverage, despite clearly worded disclaimers that the certificates are only informational, attorneys and risk managers agree.

That may soon change. Risk managers likely will become more thorough in their requests for proof of coverage in the wake of the Glenview Park District coverage litigation, which will be heard sometime this spring by the Illinois Supreme Court.

The park district, which relied on the contractor's certificate of insurance, learned only after the accident that the contractor's policy, written by National Union Fire Insurance Co. of Pittsburgh, Pa., contained a nonstandard "blanket additional insured endorsement."

Two Illinois courts have ruled that some coverage is eliminated by the endorsement, which excludes "damages arising out of the negligence of the additional insured(s)," though neither court addressed whether the park district was negligent.

The case involves "a complicated contractual issue" that could affect any company that hires contractors and seeks to be named an additional insured under their coverage, warned

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AP/Wide World Photo

**Landscaping last week in preparation for Clinton's inauguration.**

# Meeting the challenge of inauguration risks

By MICHAEL BRADFORD

WASHINGTON—While President-elect Bill Clinton is uninsured for any injuries he may sustain backpedaling on campaign promises, his inaugural ceremonies are well covered.

The inauguration, which has taken on the atmosphere of a street festival, has provided a unique challenge to brokers and underwriters of special events coverage.

"It's the largest special event outside of the Olympics that we believe has come down the pike in a long time," said LeCount Moore, senior vp and manager of the entertainment division at Marsh & McLennan Inc. in New York.

M&M worked with Washington-based broker Denise Lloyd & Co. to place coverage for the event, which began Sunday evening and ends Wednesday after the 42nd president is sworn in.

The inauguration is unique because "most special events usually are not open to the public," Mr. Moore noted. "So right away, there is a tremendous amount of public exposure."

Insurance will cover the liability associated with such public events as a walk across the Memorial Bridge that could involve up to 200,000 people, a live outdoor concert, and the Reunion on the Mall that is expected to attract thousands of curious political onlookers.

Added to the liability created by the huge crowds are the risks related to the approximately 15 balls and parties that will ring in the new administration.

Gulf Insurance Co., a Dallas-based unit of Primerica Corp., is stepping up to insure the bulk of the inaugural goings-on, while Chubb & Son Inc. is writing cancellation insurance for the various activities. The policyholder is the Presidential Inaugural Committee, a corporation formed shortly after the election to put together the party that will usher the new president into the White House.

About 25 different policies are in place, of which about 10 are "manuscripted specifically for the inauguration," Mr. Moore said.

Policies cover not only liabilities related to the public, but include

*Continued on page 4*

# HCFA demands payment

## Private plans billed for overpayments made by Medicare

By JERRY GEISEL

WASHINGTON—Employers, insurers and third-party claims administrators are now receiving bills totalling hundreds of millions of dollars for claims that group health plans—not Medicare—should have paid on behalf of older workers and other beneficiaries.

The Health Care Financing Administration, the federal agency that administers Medicare, last month began sending out bills to plan administrators.

This first batch of letters—sent to administrators of 8,000 plans—demands about $200 million that HCFA believes it erroneously paid on behalf of 20,000 beneficiaries who were covered under employer plans. The largest bill—sent to a third-party claims administrator—was about $3 million. But most bills are much smaller.

In all, HCFA expects by 1995 to recover as much as $1 billion in payments that Medicare improperly made to physicians and hospitals.

The demand letters, which federal officials acknowledge may be overstated, are the last stage of a HCFA project to ensure that the government achieves the savings Congress intended when legislators passed a series of laws in the 1980s to shift to employer plans some health care costs previously paid by Medicare.

Under those laws, employer plans became the primary payer of health care for employees who stayed on the job after reaching age 65. Medicare then became the secondary payer.

Those laws also made employer plans the primary payer for some non-elderly employees with permanent kidney failure and certain other disabilities for whom

*Continued on page 27*

## Update

### Asbestos settlement proposed

*Continued from previous page*
Philadelphia.

If approved, it would provide all future parties with claims against asbestos manufacturers that belong to the CCR a means of receiving payment out of court within six months.

The CCR expects the program to make payments to more than 100,000 claimants over the next decade. The settlement was agreed to by three key lawyers for asbestos victims as well as CCR members and their insurers.

Separately, nine insurers are seeking to appeal a federal judge's preliminary ruling that they owe National Gypsum Co. a combined $190 million for asbestos-related bodily injury claims.

U.S. District Judge John S. Martin Jr. of Manhattan tentatively ruled late last month that Dallas-based National Gypsum could tap its umbrella coverage because it neither expected nor intended its asbestos products to cause injuries. The policies were written from the early 1970s through 1985.

None of the insurers was a signatory to the Wellington Agreement, though National Gypsum has settled other claims with insurers under the Asbestos Claims Facility and the CCR.

If the 2nd U.S. Circuit Court of Appeals refuses to review the ruling, the case will go back to Judge Martin to enter a final ruling.

The insurers are: Affiliated FM Insurance Co., American Centennial Insurance Co., American Motorists Insurance Co., Constitution State Insurance Co., Continental Casualty Co., Houston General Insurance Co., Old Republic Insurance Co., Republic Insurance Co. and Stonewall Insurance Co.

### Health plans back data network

WASHINGTON—Representatives of 30 managed health care plans that together cover more than 55 million lives are joining more than a dozen businesses and associations to support a national data collection system that would allow consumers to evaluate health plans.

Using the data base network, health care consumers could "differentiate among health plans based on the accessibility and quality of medical care," organizers said in a Jan. 14 letter to President-elect Bill Clinton.

The group said it envisions the data base as a "report card," rating health plans' effectiveness in providing preventive services, managing chronic conditions, and gaining patient satisfaction. The Washington-based National Committee for Quality Assurance, a private, non-profit organization that reviews managed care programs, is expected to provide the comparison data in 1994.

"We believe efforts such as this are integral to the success of any health reform strategy, and would welcome a dialogue with your new administration as to how our efforts might best contribute," said the letter to Mr. Clinton.

The Blue Cross & Blue Shield Assn., Chrysler Corp., the Group Health Assn. of America, Humana Inc. and Xerox Corp. are among the program's participants.

### Hearing slated for Blues plan

WASHINGTON—Sen. Sam Nunn, D-Ga., will hold two days of hearings on the financial health and regulation of Blue Cross & Blue Shield of the National Capital Area next week.

"Published reports indicate that (the plan) finds itself on the brink of financial ruin," said Sen. Nunn, chairman of the Permanent Subcommittee on Investigations. The panel will examine the plan's more than 40 subsidiaries, most of which are losing money, and allegations that officials "entertained themselves and others at subscriber expense."

Published reports last week indicated that the Washington-based plan's 1992 losses could reach nearly $39 million. A plan spokeswoman would not confirm that figure before an official estimate is released later next month.

Next week's hearings are the fourth in an ongoing examination of the Blues system (*BI*, Aug. 3, 1992; July 13, 1992).

Other plans that have come under scrutiny are Blue Cross & Blue Shield of West Virginia, which is the only plan ever to become insolvent, and Blue Cross & Blue Shield of Maryland, which has been bedeviled by losses and alleged mismanagement.

### S&P sees 'unattractive' 1993

NEW YORK—Even with a significant market turn this year, the property/casualty industry combined ratio will be an "unattractive" 109% in 1993, but could improve to about 106% in 1994, according to Standard & Poor's Insurance Rating Services.

Without a turn, the combined ratio is likely to remain at about 109% through 1995, says an S&P report. The rating agency predicts 1992's combined ratio will be about 116%, driven primarily by hurricanes Andrew and Iniki. This exceeds the estimates of 114.9% by A.M. Best Co. and 112.3% by the Insurance Information Institute.

In a separate report, S&P states that Andrew and Iniki caused more than $16.9 billion in estimated insured losses. It says Andrew in particular has led insurers to rethink their exposure to catastrophe losses, and many are likely to change their business practices as a result.

*Updates continued on page 30*

### Errors & omissions

• A report from Commonwealth Risk Management Inc. on establishing a captive in Vermont was inadvertently omitted from the Information Resource section that begins on page 6. Request item 307 on the coupons in the section.

# Home may appeal award in quake coverage dispute

**By JUDY GREENWALD**

REDWOOD CITY, Calif.—The Home Insurance Co. may appeal a $23.6 million jury award involving its claims handling and payment practices in connection with the 1989 Loma Prieta earthquake.

After a 66-day trial, a San Mateo County jury said in two separate verdicts on Jan. 5 and Jan. 7 that Home should pay up to $12.3 million in compensatory damages—including $1.6 million in legal expenses—and $11.25 million in punitive damages to policyholder Matson Navigation Co., a San Francisco shipping company. Home had denied a claim to pay property damage sustained in the quake.

A hearing on the apportionment of legal expenses and on the issue of an additional estimated $2.3 million in prejudgment interest is scheduled for Tuesday.

The case is the first significant judicial test of insurance industry claims handling and payment practices in connection with the earthquake, according to John W. Crowley, of San Francisco-based Cyril & Crowley, who represented Matson in the litigation.

"We are obviously in disagreement with the verdict," said Otto Becker, of Thornton, Taylor, Downs & Becker in San Francisco, who represents Home. "The matter is presently under review," he said, noting that the insurer has not yet decided whether to appeal.

The controversy that led to the court case stems from the common insurance practice of binding coverage before a policy is actually issued, Mr. Crowley said. "Our contention is the insurance company took advantage of the situation," he said.

In September 1989, Hobbs Group Inc., a Waltham, Mass.-based insurance brokerage, submitted a request to Home to issue a difference in conditions insur-

*Continued on page 30*

# A novel source of capital

## Merrett seeks investors for Lloyd's syndicate reinsurer

**By STACY SHAPIRO**

LONDON—Merrett Holdings P.L.C. will introduce corporate capital into Lloyd's of London through the time-honored method of placing quota share reinsurance with an offshore company.

Last week, Merrett announced that a company called Underwriters Capital (Merrett) Ltd. is being formed in Bermuda exclusively to write a quota share reinsurance program to cover Merrett's nine syndicates.

The company is being set up by Marsh & McLennan Risk Capital Corp., a member of Marsh & McLennan Cos. Inc., and international investment banker J.P. Morgan Capital Corp.—which recently teamed up to launch Bermuda-based catastrophe reinsurer Mid Ocean Reinsurance Co. Ltd.

Marsh & McLennan and J.P. Morgan plan to offer 700,000 shares with a minimum investment of 10,000 shares valued at $1 million, generating total capital of $70 million.

This venture is believed to be the first of its kind in the Lloyd's market, but it isn't expected to be the last.

Marsh & McLennan and J.P. Morgan "have identified Lloyd's as being a good potential market for this kind of vehicle, and there's not much doubt that this one is the blueprint or forerunner to what will be a series," said Merrett's chief executive Dennis Purkiss.

The venture takes advantage of regulations Lloyd's implemented last year which allow each syndicate to write its premium income capacity of its membership plus an additional 25% of its capacity through quota share reinsurance.

This quota share arrangement was one suggestion by last year's task force to increase Lloyd's

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## Storm loss estimates skew Best, III industry projections

# '92 combined ratio figures vary

Estimates of the property/casualty industry's 1992 combined ratio vary widely, with A.M. Best Co. estimating 114.9% and the Insurance Information Institute 112.3%.

Fourth-quarter results, due by March 15, account for that difference. The III made its projection before a "Nor'easter" hit last month (*BI*, Dec. 28, 1992). That storm would have increased the estimate to about 113%, said Sean Mooney, senior vp and economist.

John H. Snyder, senior vp in Best's property/casualty division, attributes the remaining discrepancy to differing expectations on reserve increases and the impact of Hurricane Andrew.

Best predicts insurers will significantly boost reserves for the fourth quarter. Both ITT/Hartford Group Inc. and Crum & Forster Inc. have done so already (*BI*, Nov. 30, 1992).

In a good year, insurers might not hurt their earnings by addressing loss reserve problems, Mr. Snyder said. But because results were poor anyway, they decided to "bite the bullet and get it behind (them)."

Also contributing to the difference: Best estimates total Hurricane Andrew losses of $3 billion; the III estimates $2 billion.

Mr. Mooney downplayed the differing estimates. "We think the overall message is clear," he said, adding that the difference is not a major issue.

To Mr. Snyder, though, the differences go deeper. The III, he noted, has stated that the industry remains solid. Best believes that while on an accounting basis, the industry looks OK, it has in fact been weakened.

He pointed to surplus and realized capital gains results. The III estimates the industry's capital increased 4% to $165 billion at the end of 1992, in part because of record realized capital gains from bond sales. These gains rose 66.7% to an estimated $8 billion for 1992.

But investment yields are bound to fall in the future because the bond proceeds were reinvested at lower yields, according to Mr. Snyder.

*—By Judy Greenwald*

## Inside


✓ The Risk Management Information Resource Guide describes informational and educational materials for risk managers, insurers and financial executives. **PAGE 6**

✓ Now that one group has broken employers' silence on health care reform, other employers must participate in the debate, this week's editorial says. **PAGE 8**

✓ A new California law will require employers to cover the cost of preventive treatment for health care workers exposed to blood-borne diseases. **PAGE 22**

✓ While London will continue to play a prominent global role in insurance, the specter of a contracting market remains, several analysts say. **PAGE 23**

✓ Pollution damage claims stemming from the wrecked oil tanker MV Braer may be taken to U.S. courts, an attorney says. **PAGE 23**

✓ Marine insurers face more than $1 million in claims after heavy North Sea winds led to the destruction of a ship carrying explosives. **PAGE 23**


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# Industry execs stress need for change

## Insurers ill-prepared for exposure to huge catastrophes: Panel

By DOUGLAS McLEOD

NEW YORK—Last year's devastating catastrophe losses awakened insurers and reinsurers to the size of their potential exposures and could combine with other factors to bring about a turn in the property/casualty market cycle, a panel of insurance executives says.

The panel addressed a variety of issues at a joint industry conference sponsored last week by the Insurance Information Institute, Insurance Services Office Inc. and the American Insurance Assn.

Hurricane Andrew—the costliest storm on record with losses projected at $16.5 billion—gave insurers a glimpse of how severe catastrophe losses can become, observed panelist N. David Thompson, chairman and chief executive of North American Reinsurance Corp.

"The great lesson of 1992 is more of a question: We have to ask ourselves what might have been," Mr. Thompson said.

"Had that storm been 20 or 30 miles to the north, the loss could have been three times as great," he said, noting the possibility of a $45 billion industry loss if the hurricane had hit Miami squarely. "If we endured a bloodbath for a $16.5 billion storm, are we prepared for what might be?"

The answer is no, Mr. Thompson said.

This is especially true given the chaotic state of the reinsurance market: Worldwide catastrophe capacity has shrunken to about $165 million with substantial price and retention increases, while retrocessional capacity has contracted to only $10 million or $15 million.

"I think we have to agree that there is a point at

Continued on page 29

## Insurers pessimistic regarding chances for work comp reform

By MARK A. HOFMANN

NEW YORK—A system of 24-hour health coverage is not the solution to workers compensation problems, in part because there is no definition of 24-hour coverage, agreed a panel of workers comp experts.

"It's no silver bullet," said Caleb L. Fowler, president of Philadelphia-based CIGNA Corp.'s property/casualty companies. Mr. Fowler spoke during a panel discussion of the workers comp market at the joint annual meeting of the American Insurance Assn., the Insurance Information Institute and the Insurance Services Office Inc. in New York last week.

It soon became evident that most of the participants think that insurers currently have very few bullets—silver or otherwise—in their arsenal for reform.

Panelists were generally pessimistic about chances of reforming the workers comp system, even if the Clinton administration follows through on its health care reform promises.

And, even if reform is possible, it will not be instituted quickly, the panelists agreed.

"Our industry has not experienced an underwriting profit in this line for more than two decades," said Robert E. Vagley, president of the AIA and moderator of the session. The workers comp system is "clearly in distress."

The question confronting workers comp insurers is how best to restore the system to its initial purpose: providing injured workers with prompt and equitable relief and assuring a profit to insurers writing this heavily regulated line of business.

"I'm personally becoming less and less hopeful that we can put together a system that wins," said

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## Superfund law needs overhaul, says III report

By MARK A. HOFMANN

Superfund has failed in its primary mission of cleaning waste sites and must be radically reformed, according to the authors of a new study of the controversial environmental cleanup system.

The Comprehensive Environmental Response, Compensation and Liability Act of 1980—as Superfund is officially known—doesn't work because it is dependent on retroactive liability for its financing, say Orin Kramer and Richard Briffault in "Cleaning Up Hazardous Waste: Is There a Better Way?" The Insurance Information Institute Press released the study last week. The III also funded the study.

Mr. Kramer is president of Kramer Associates, a consulting firm based in Princeton, N.J., and Mr. Briffault is a law professor at the Columbia School of Law in New York.

Superfund operates on "a liability scheme that imposes responsibility for a site's cleanup costs on a broad range of parties which may be only loosely connected to the site. Liability may attach irrespective of the reasonable care exercised by a particular party, or whether the activities of that party contributed to whatever harm ensued," the authors say.

But such liability, in addition to generating significant transaction costs and delays as the potentially liable try to hammer out their differences in court, "serves no useful purpose with respect to the remediation of hazardous waste sites or the deterrence of unsafe disposal practices," the authors say.

The authors dispute arguments that retroactive liability provides incentives for managing hazardous substances properly and hold that the system may actually "provide perverse disincentives which undermine environmental goals."

For example, "potentially responsible parties" under Superfund may decide to continue sending waste to a site "where those PRPs are already potentially liable for cleanup costs"

Continued on next page

# GAO faults NAIC scrutiny of Executive Life bonds

By DOUGLAS McLEOD

WASHINGTON—The National Assn. of Insurance Commissioners contends a congressional report that questions the effectiveness of the NAIC's Securities Valuation Office is based on insufficient data and outdated information.

In a report to Rep. John D. Dingell, D-Mich., the U.S. General Accounting Office last month concluded that the SVO allowed the now-defunct Executive Life Insurance Co. to inflate the value of some of its bond holdings, masking its deteriorating financial condition.

Among other things, the SVO has failed to spot impairments in bond values, doesn't always obtain enough data to assign valid ratings to insurer investments and does not provide clear rating standards to its analysts, the GAO concluded.

State regulators have also failed to make sure insurers follow SVO rating requirements, the report says.

One former NAIC president rejected those conclusions. William H. McCartney, the Nebraska insurance commissioner, accused the GAO of basing its broad conclusions on "numerous errors of fact and in methodology."

Its conclusions are based on a review of a small segment of the bond portfolio of one insurer—Executive Life—and have "no predictive value" in assessing the SVO's overall performance, Mr. McCartney said in a written response to the study.

And the study is based on 1989 SVO and NAIC procedures, largely overlooking recent improvements, Mr. McCartney said.

This study is the latest in a series of reports on NAIC operations the GAO has prepared for Rep. Dingell, chairman of the House Energy & Commerce Committee and sponsor of a bill that would shift some insurance solvency regulation to a proposed federal agency.

The House Oversight & Investigations Subcommittee, which Rep. Dingell also chairs, has held numerous hearings on insurance company failures—including Executive Life's—and the NAIC's monitoring of insurer solvency.

The latest report, submitted to Rep. Dingell Dec. 9, analyzes the effectiveness of the SVO in developing ratings and valuations of insurer investments and the effectiveness of state regulators in ensuring the valuation procedures are followed.

GAO examiners reviewed what they described as a "judgmental sample" of 56 bonds held by Executive Life at year-end 1989 and reported by the insurer to be worth $1.2 billion. Executive Life's portfolio at the time included 900 bonds valued at $9.9 billion, according to the report.

From its review, the GAO con-

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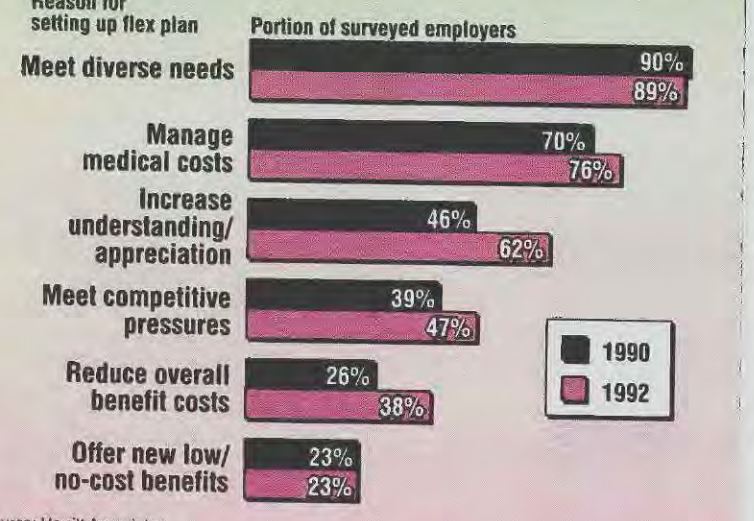
### Changing thoughts on flex plans

Once regarded primarily as a way to cut medical costs or offer choices, flex plans are now also commonly used to meet competitive pressures and increase employee understanding of benefits.




Source: Hewitt Associates

GRAPHIC BY A.TRANCHITA

# New priorities for flex plans

## Employers find that plans address several concerns: Study

By CHRISTINE WOOLSEY

Employers' motives for setting up flexible benefit plans appear to be changing, according to a new survey.

And while many employers are adding more choices to flex plans—like long-term care and group legal coverages—some are also amending plans to trim costs.

Employers with flexible benefit plans say the top two reasons for offering them still are meeting diverse employee needs and managing medical plan costs, according to the survey by Hewitt Associates.

But other objectives are becoming more important. Among them are improving employee understanding and appreciation of benefits and attracting and retaining the best employees, according to the survey of 472 employers, all of which have some kind of flex plan.

Meeting diverse employee needs has always been the top objective, said Marianne Gartner, a Hewitt consultant in Lincolnshire, Ill. Eighty-nine percent of employers report this as the most important objective for offering flexible benefits, and 99% report meeting that goal.

Controlling medical plan costs is the second-highest ranking goal, although it's more difficult to meet. Seventy-six percent of respondents cite medical cost management as a key objective, but only 72% report meeting that objective.

Average annual medical claims costs for employers with flexible benefit plans rose nearly 11% to an estimated $3,327 per employee in 1992 from $3,010 in 1991, the survey reported. Those figures include indemnity and managed care plan coverages and employee contributions. For employers without flexible benefit plans, those costs have typically risen 15%, said Ms. Gartner.

Hewitt found that employers' reasons for setting up flex plans have changed in recent years. For example, 62% of employers say they offer flexible benefits because they want employees to understand the value of their

Continued on page 27

# *BI* announces editorial staff changes

Five *Business Insurance* editorial staff members have started the year with new titles and responsibilities.

Dave Lenckus is now senior editor; Timothy Stanton is assistant managing editor-news; Michael Schachner is New York bureau chief; Sara J. Harty is copy editor; and Sara Marley is associate editor.

Mr. Lenckus

Mr. Stanton

Mr. Schachner

Ms. Harty

Ms. Marley

Mr. Lenckus, who had been in charge of directing *BI*'s news coverage as news editor, returns to reporting in his new position. He will be responsible for in-depth reporting as well as breaking news stories.

Mr. Lenckus, 35, joined *BI* in 1985 as assistant managing editor. Previously, he was managing editor of Wood & Wood Products, published by Vance Publications Corp. of Lincolnshire, Ill. He also was a reporter for the Palos Regional News in Palos Heights, Ill., and the Joliet Herald-News in Joliet, Ill.

Mr. Lenckus has a bachelor of arts degree in journalism from Lewis University in Romeoville, Ill.

He can be reached at 312-649-5278.

Mr. Stanton, 27, will be *BI*'s chief assignment editor in his new position. Since joining the magazine in 1989, he has been a copy editor and editor of the Agent/Broker Topics section.

Before joining *BI*, he worked at several daily newspapers.

He holds a journalism degree from the University of Wisconsin in Madison.

Mr. Stanton can be reached at 312-649-5440.

Mr. Schachner, 27, previously was an associate editor in New York. Since joining *BI* in 1988, he has covered a wide array of issues, including employee benefits and health care.

Previously, he wrote a weekly commercial property/casualty newsletter for Crittenden New Service of Novato, Calif.

Mr. Schachner received a bachelor's degree in journalism from the University of Minnesota in Minneapolis.

He can be reached at 212-210-0143.

Ms. Harty, 26, joins the copy editing staff after two years as a reporter. She joined *BI* in 1989 as an editorial assistant, and has held the positions of staff reporter and, most recently, associate editor.

Previously, she was a claims adjuster for Travelers Insurance Co.

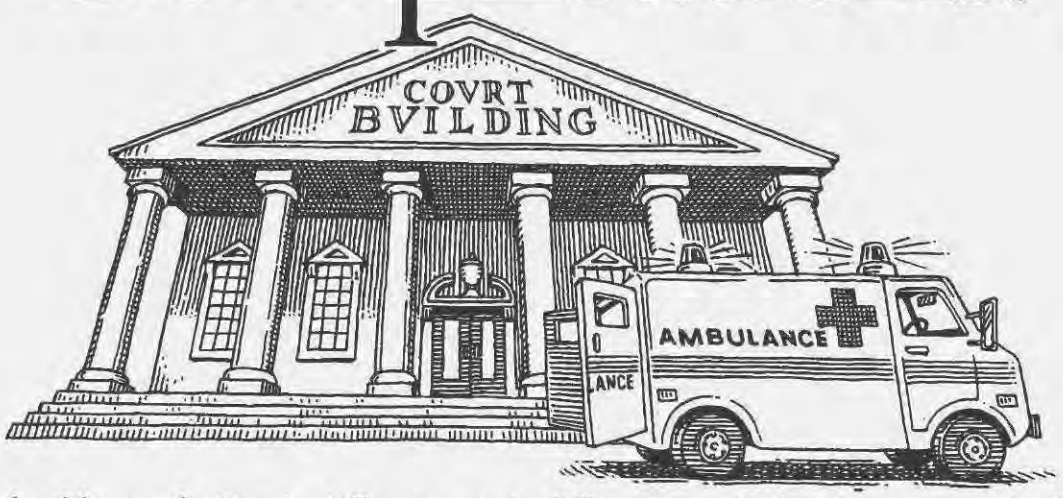
Ms. Harty earned a bachelor of arts degree in English from the University of Notre Dame in Notre Dame, Ind.

She can be reached at 312-649-5262.

Ms. Marley, 24, has been promoted after a year of fine work as a staff reporter. Ms. Marley, who joined the staff in 1991, received a bachelor of arts degree in English and German from the University of Notre Dame and a master of science degree in journalism from Northwestern University in Evanston, Ill.

She can be reached at 312-649-5313. BI


# Refer Your D&O To A Hospital Specialist Or You May Suffer Complications.




Every healthcare facility is different, with different needs for directors and officers liability coverage. That's why Aetna/Executive Risk has built an entire underwriting unit that specializes in Healthcare D&O.

We know the coverages you need: wrongful termination, insured person vs. insured person (all directors, officers, staff, employees and volunteers are covered), entity and subsidiary coverage, outside directorships. You need your defense costs paid on a current basis. You could have all this and more from the only D&O policy sponsored by the American Hospital Association and the Healthcare Financial Management Association. Ask your agent or broker to contact **Executive Risk Management Associates**, 82 Hopmeadow St., Simsbury, CT 06070, 203-244-8900, fax 203-651-8809.

Aetna


## Superfund report

*Continued from previous page*
to avoid being hit with the costs of cleaning up another site.

The authors advocate replacing retroactive liability with some sort of tax-based financing mechanism. They urge federal authorities to reject calls for piecemeal reform under which municipalities and certain other potentially responsible parties have argued for some exemption from liability.

"Carving out the politically preferred constituencies would only exacerbate the problems of those who remain," the authors say.

The authors also call for a reassessment of costs vs. benefits of hazardous waste cleanup. There is a "surprising lack of sound scientific data concerning the consequences of exposure to hazardous substances," they write. The question involves the nation's ability to compete in global markets as well, they say.

"No other developed industrial country is undertaking a hazardous waste program as expensive as Superfund. No other country is diverting such resources from productive activity to the transaction costs that accompany Superfund."

In a brief interview last week, Mr. Kramer said that the study was not intended as an excuse for insurers and others to avoid paying cleanup costs. Instead, the study serves to call on lawmakers to "come up with some predictable system" to finance environmental cleanup rather than relying on paying through the imposition of retroactive liability, he said. Cleanup will not take place "as long as you are trying to finance the system through a retroactive financing system," said Mr. Kramer.

•

*Single copies of "Cleaning Up Hazardous Waste: Is There a Better Way?" are available free of charge by contacting the Insurance Information Institute, 110 William St., New York, N.Y. 10038; 212-669-9200.*

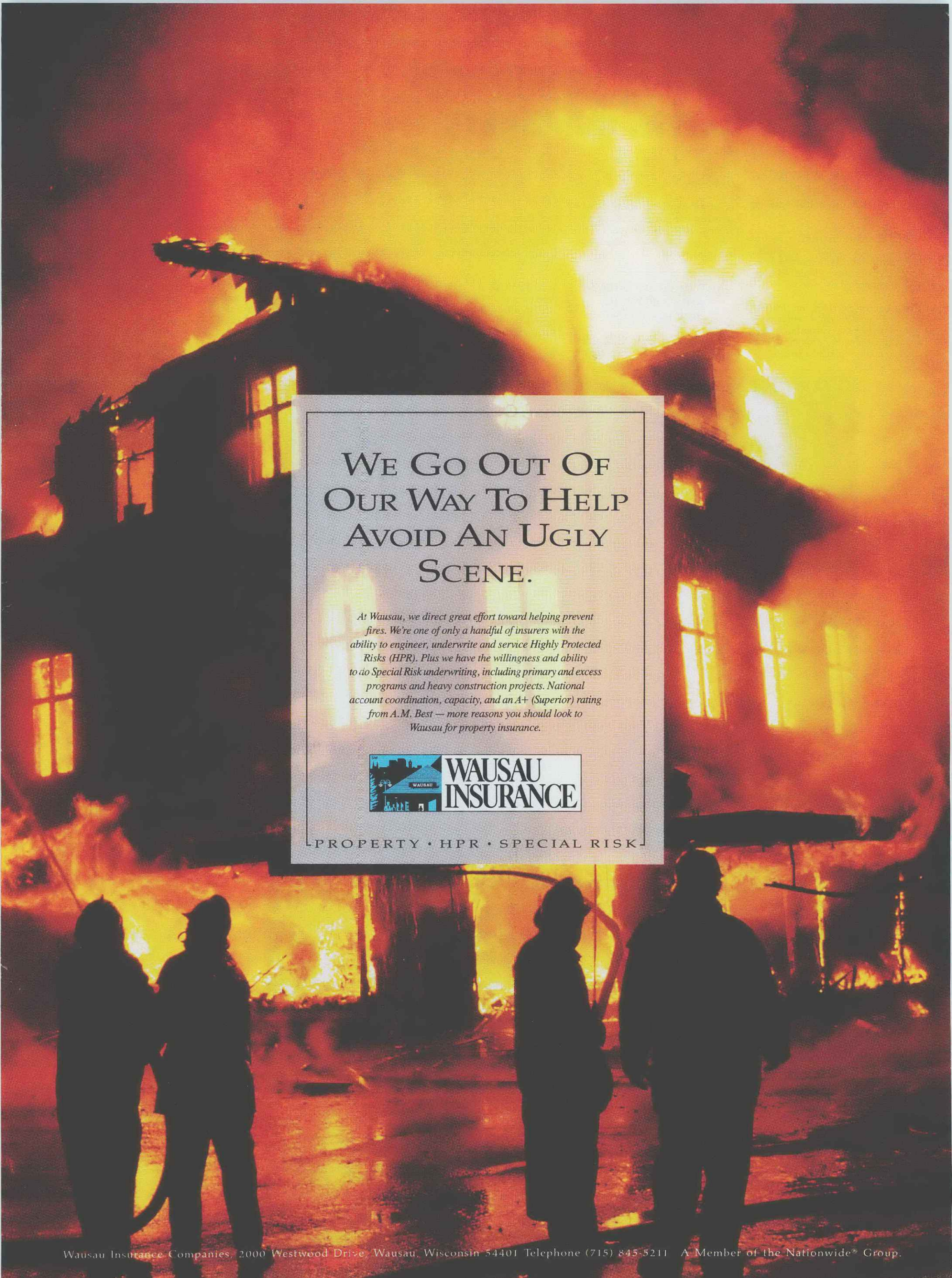
## Inauguration

*Continued from page 1*
directors and officers liability insurance for the inaugural committee as well as errors and omissions cover.

Property insurance includes coverage for equipment like musicians' gear and about 500 golf carts used to ferry VIPs around, he said.

Workers comp policies are in place and so are those that will respond to crime losses, he said.

Mr. Moore would not release coverage amounts or the cost of the insurance, but said the limits are "more than for any inaugural in the past. It's some of the most unusual coverage and highest limits we've seen." BI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# A resource guide to material available to risk managers

## AUTOMATED SYSTEMS AND SOFTWARE FOR AGENTS AND BROKERS

■ The Insurance Institute of America's three-course **Associate in Automation Management designation program** is described in a flyer. Request item 101.

■ An Agency Services Inc. leaflet describes the MVR Data Center system, which accesses current **driving records** nationwide through a personal computer. Request item 102.

■ A demo disk from Specific Software Solutions Corp. highlights its Modmaster Plus and Loss Forecaster software packages, which **calculate workers comp experience modification factors and forecast loss experience** for different lines of coverage, respectively. Request item 105.

## AUTOMATED SYSTEMS AND SOFTWARE FOR INSURERS

■ A publication from NRM Computer Systems Inc. details a **claims processing program** with automated invoice payment capability and automated injury and response systems. Request item 201.

■ A Conway Computer Alternatives publication lists the functions of a **software program for medical malpractice insurers**. Request item 202.

■ A Medirisk Inc. booklet details resources available to more accurately **monitor physician fees and detect medical expense trends.** Request item 204.

■ A Continental Software Inc. system that **merges 13 policy-oriented data bases with word processing, inquiry and graphics systems** to help locate new business is explained. Request item 205.

■ The American Assn. of Insurance Services' "Software Vendor Directory" lists **software vendors that support AAIS lines of insurance,** including lines supported by each vendor. Request item 206.

■ An information sheet from Ins-Tec offers an overview of **commercial property/casualty policy automation problems and options.** Request item 208.

■ A Continental Software Inc. booklet details **a program to help generate new business** through client follow-up/action reports. Request item 216.

■ A pamphlet from the Wheatley Group Ltd. defines its IBM AS/400 **insurance systems product line** for property/casualty insurance companies. Request item 217.

## CAPTIVES

■ The Illinois Captive Insurance Assn. offers a booklet on the **Illinois captive statute** as currently amended, statues on domestication of foreign and alien companies and the religious and charitable risk pooling act. Request item 301.

■ Commonwealth Risk Services Inc. offers information on captive management services available to **captives domiciled in Dublin, Ireland.** Request item 302.

■ Information on **establishing a captive in Vermont** is available through Northern States Management Inc. Request item 303.

■ A brochure from Commonwealth Risk Services Inc. describes **captive services** available through affiliates in Bermuda, Barbados and Cayman. Request item 304.

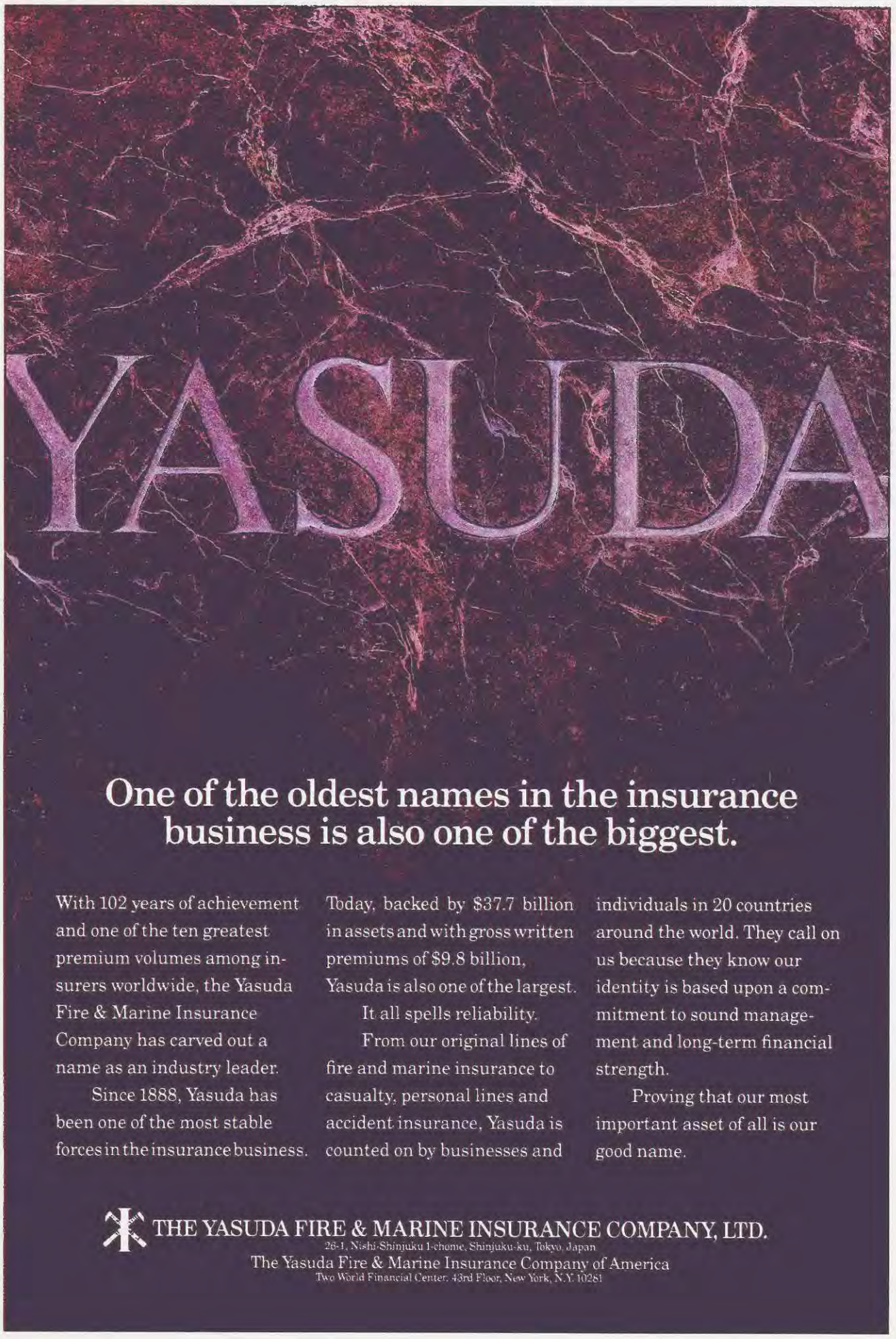
■ A paper discussing **running off a captive insurance company** is available from William R. Storie & Co. Ltd. Request item 305.

■ Structuring **rent-a-captive and captive programs, securing policy-issuing carriers and reinsurance placement services** are reviewed in a brochure from Commonwealth Risk Services Inc. Request item 306.

## COMMERCIAL PROPERTY/CASUALTY INSURANCE

■ Sedgwick James Inc. provides a brochure on the **issues surrounding insurer solvency** and how risk

*Continued on page 10*




## *How to obtain material listed in this guide*

**The Risk Management Information Resource section is an editorial compilation of current informational and educational materials on topics of interest to risk management, financial and insurance executives.**

**The listings are published as an editorial service by *Business Insurance*; there is no charge to list materials in the section.**

**The materials, all of which may be obtained free of charge to *Business Insurance* readers, are organized under 15 headings.**

**Employee Benefit Information Resource listings appeared in the Jan. 11 issue of *Business Insurance*.**

**To receive any of the free materials listed in this special section, please write the key numbers of the items you want on the reader service coupons that are printed throughout the section. Fill out the remainder of the coupon and mail it to: *Business Insurance* Reader Service Center, 650 S. Clark St., Sixth Floor, Chicago, Ill. 60605-1702.**

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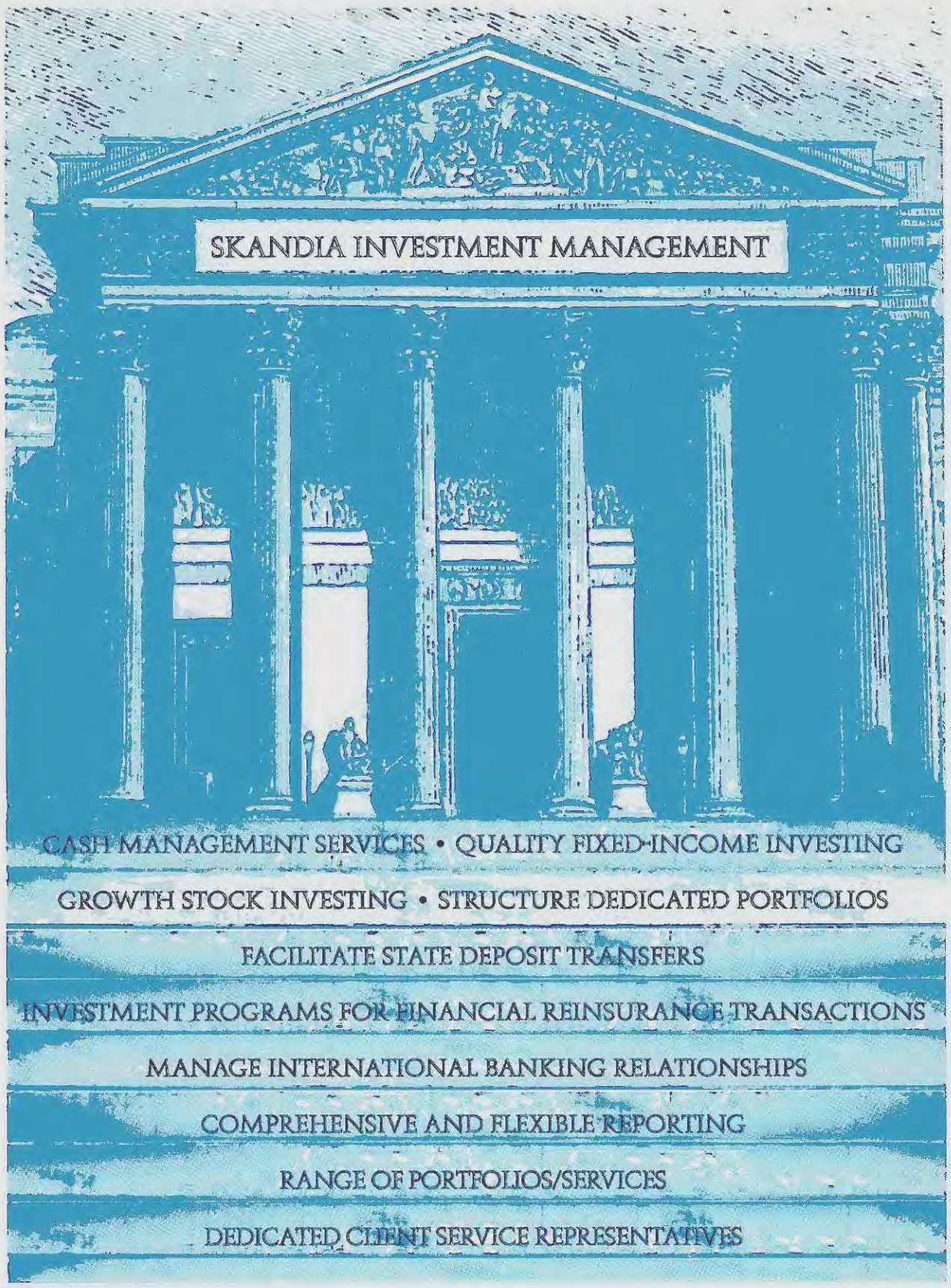


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# Opinions

## Ending an unhealthy silence

WE'VE NEVER UNDERSTOOD why employers largely have stayed on the sidelines as debate has intensified on how to reform the health care financing and delivery system.

Because they pay one of the biggest chunks of the nation's $900 billion health care tab—second only to the federal government—employers could be among the biggest winners, or losers, in the almost-certain overhaul.

Despite such enormous stakes, employers have not been in the forefront of the reform debate. Typically, business groups have spoken in generalities about keeping health care plans voluntary. Or, they have supported non-controversial reforms, like federal pre-emption of state anti-managed care laws or increased electronic claims processing.

That employer silence has come to an end.

A set of health care reform recommendations approved last month by the board of directors of the Assn. of Private Pension & Welfare Plans is bold and controversial.

The most controversial recommendations are:

- All employers should be required to offer health care coverage and pay for a majority of plan costs.
- The federal government should be allowed to tax employees on the portion of employer-paid coverage that exceeds the value of health care benefits provided by a basic, cost-efficient plan.

These recommendations are direct reversals of the employer trade group's earlier positions. The APPWP often had stressed that providing health care and other benefits must be a voluntary decision by employers. And, the group had been an outspoken opponent of taxing employer-provided health care benefits.

No doubt the APPWP will be sharply criticized by small employers and other business groups, which will charge that it has betrayed its basic principles.

What other groups are likely to overlook is that the APPWP says that its support of an employer mandate and benefit taxation are contingent on adoption of many other reforms.

Without those reforms—especially requiring public plans, like Medicare and Medicaid, to pay their fair share of costs—an employer mandate only would mean more cost-shifting to more employers.

Other business groups will say that an employer mandate is a radical position for employers to accept. We agree.

But by now, it should be clear that the winds of change are blowing in Washington. Bill Clinton won the presidency at least in part because of his promise to develop and win passage of universal health care. We expect Mr. Clinton and the Democratic-controlled Congress to deliver on that promise.

If universal coverage is inevitable, an employer-mandate—which would preserve the employment-based health care system—is a much better way to help achieve it than a government takeover of the health insurance system or play or pay, an approach that likely would be an interim step to national health insurance.

We are no fan of taxing health care benefits, because we believe that the administrative problems associated with calculating the tax would be significant. But pragmatically, we also recognize that a health care benefit tax appears inevitable as a revenue source to help fund coverage for low-income uninsured individuals.

Finally, to those opposed to the APPWP's recommendations, we ask: Do you have something better?

With its forward-looking position, the APPWP is ensuring that its members will be part of the negotiating process and that employer interests will be represented.

# Letters

## Defined benefit pensions and PBGC can be fixed

To the editor: I must take issue with comments made by Murray Hayutin, a former chairman of the PBGC Advisory Committee, in a Jan. 11 letter to the editor. Especially disturbing is his suggestion that the solution to the exposure faced by the Pension Benefit Guaranty Corp. from the underfunded pension plans it insures is to eliminate the defined benefit pension system. This is a classic example of tossing the baby out with the bath water.

The defined benefit pension system is not falling apart—far from it. The defined benefit pension is still the pension of choice for most American workers. It offers a secure, guaranteed pension not subject to investment risk. The defined benefit pension system is healthy with more than $1.2 trillion in assets to back some $900 billion in liabilities. However, in this universe, there is a small subgroup of sponsors that have an estimated $51 billion in underfunded plans.

I agree with Mr. Hayutin that if a corporation is serious about providing pensions, they should fully fund them; a vast majority do. An estimated 80% of the plans insured by the PBGC are fully funded.

The problem is that the foundation upon which the PBGC was built has major flaws and is not based on sound insurance principles. Over the years, there have been attempts to patch over the cracks. It has not worked. Some fundamental changes are needed to create a sound insurance program. The best way to do this is to eliminate the conditions that encourage underfunded plans by building better incentives to fund pensions. Corporations and their creditors must take pension debt seriously.

In bankruptcy proceedings, where the PBGC is usually the largest creditor, it must be made clear that bankrupt companies have to make payments to ongoing plans as administrative expenses. In the event a plan is terminated, it should be made clear that the PBGC has priority for any missed contributions plus a priority for a portion of the underfunding.

Furthermore, the root of pension underfunding must be addressed. The minimum funding rules enacted in 1974 and modified in 1987 have proved inadequate, especially for flat-benefit pensions. In light of actual experience, the amortization rules, although reasonable for well-funded or slightly underfunded plans, are not reducing the PBGC's risk from seriously underfunded plans. These funding rules must be strengthened.

Mr. Hayutin also notes that the PBGC has never had an unqualified opinion on its financial statements by the General Accounting Office. The PBGC has devoted extensive resources and has made substantial progress in addressing the long-standing problems found by the GAO as part of an audit of financial accounts requested by me shortly after my arrival at the PBGC. The GAO has recognized that the PBGC is making a serious effort in this area and we expect to have auditable accounts this year.

Yes, as Mr. Hayutin points out, there are problems with the defined benefit pension system insured by the PBGC. But they are not irreparable. With some reforms, a new, strong foundation can be created for the pension safety net, and the pension promises made to 40 million Americans will be secure.

There is time to fix the pension insurance program. It is imperative that we do because a strong, healthy defined benefit pension system depends on a strong, healthy PBGC.

**James B. Lockhart**
Executive Director
Pension Benefit Guaranty Corp.
Washington

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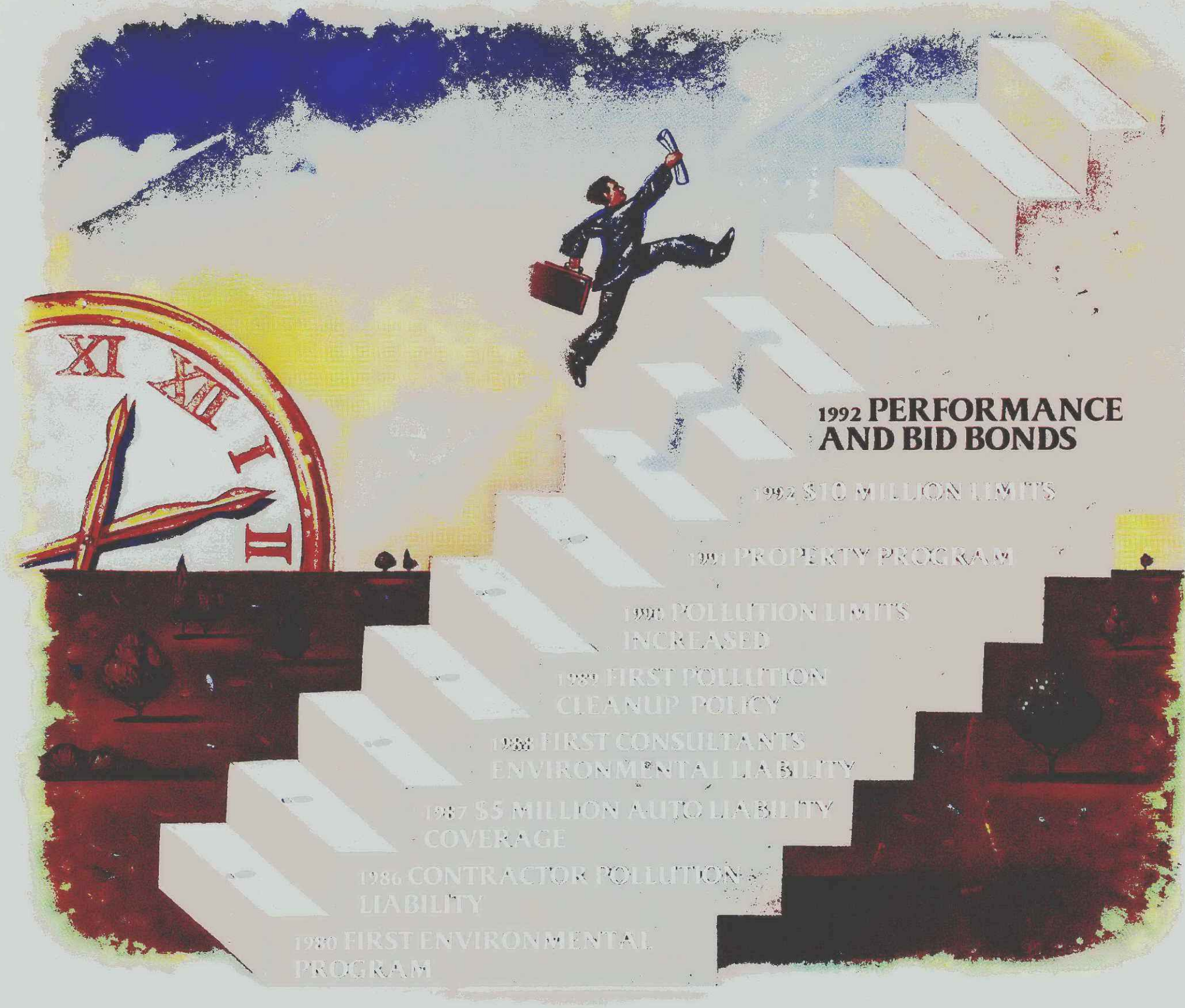


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*Continued from page 6*

managers can reduce the chance of using an unhealthy insurer. Request item 401.

■ Swett & Crawford Group offers a booklet listing more than 200 **markets to which the wholesale broker has access**. Request item 402.

■ A publication offered by the American Assn. of Insurance Services explains the **role of an advisory rating organization in the statistical reporting process**. Request item 403.

■ A description of all **property and casualty insurance courses and programs** offered by the American Institute for Chartered Property & Casualty Underwriters and the Insurance Institute of America is provided in a booklet. Request item 404.

■ Swett & Crawford Group supplies a brochure discussing small and privately held corporations' **risks from lawsuits against directors and officers**. Request item 406.

■ A booklet describing a manual from the International Risk Management Institute Inc. addresses **commercial auto, truckers and garagekeepers insurance**. Request item 407.

■ Customized Worldwide Weather Insurance Agency Inc. offers an information packet describing **weather insurance around the world**. Request item 408.

■ An International Risk Management Institute Inc. brochure describes a revised and updated publication on **broad form property damage coverage.** Request item 410.

■ A booklet describes Graham Miller International's **construction risk consultation services**. Request item 411.

■ Swett & Crawford Group offers information on **directors and officers liability insurance**, including the vulnerability of companies involved in mergers and acquisitions and the rise in financial institution D&O claims. Request item 412.

■ NAS Insurance Services Inc. offers an information packet on **employers errors and omissions liability insurance** for wrongful discharge, discrimination and sexual harassment. Request item 413.

■ Information about States Self-Insurers Risk Retention Group, a **risk retention group writing excess liability coverage for public entities,** is described in a booklet and annual report. Request item 414.

■ Graham Miller International offers a brochure explaining **coverage of entertainment losses** and claims handling services. Request item 415.

■ A Swett & Crawford Group brochure examines **account size limits and deductible guidelines for errors and omissions coverage** for several types of professionals. Request item 416.

■ NAS Insurance Services Inc.'s information sheets describe a **directors and officers liability policy** that reimburses directors and officers for legal expenses if they are sued by any governmental entity or agency. Request item 417.

■ Crawford & Co. is offering a publication describing its classroom/correspondence course for its **adjuster training program.** Request item 418.

■ A description of errors and omissions coverage and **E&O marketplace trends** are covered in a Swett & Crawford Group brochure. Request item 419.

■ A brochure describes the **banking, financial and political claims handling services** offered by Graham Miller International. Request item 420.

■ An information packet from the **Illinois Insurance Exchange** describes its role in the surplus lines industry. Request item 421.

■ A Swett & Crawford Group brochure explains an insurance program for the **tourist railroad, railroad excursion and private railcar industries**. Request item 422.

*Continued on next page*

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*Continued from previous page*

■ Graham Miller International offers a brochure about **adjusting and surveying for the jeweler, furrier and fine art markets**. Request item 423.

■ NAS Insurance Services Inc. provides information sheets that detail **legal expenses reimbursement insurance for health care institutions** sued in connection with physician peer reviews. Request item 424.

■ Swett & Crawford Group offers a leaflet listing a variety of **commercial lines products and programs** that the wholesaler services. Request item 425.

■ A folder supplies an overview of Rosemurgy & Co.'s **aviation adjusting services**. Request item 426.

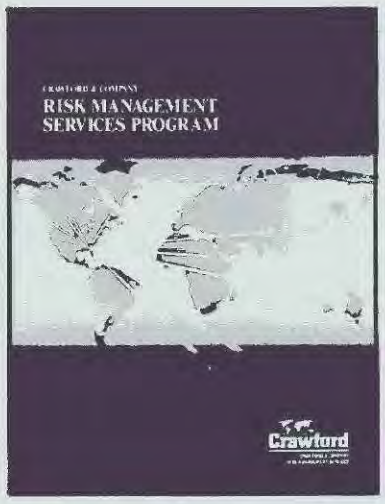
■ A Kemper National Insurance Cos. information packet details services for **commercial lines property and/or casualty accounts**, including international programs. Request item 427.

■ Swett & Crawford Group publishes a pamphlet listing some of the **liability exposures facing directors and officers** today. Request item 428.

■ **Risk management services and risk exposure** are explored in a Crawford & Co. brochure. Request item 429.

■ The necessity for **directors & officers liability for non-profit organizations** is discussed in a leaflet from Swett & Crawford Group. Request item 430.

■ Graham Miller Security Consultants Ltd.'s **security consulting services** are described in a pamphlet. Request item 431.




■ A publication from GAB Business Services Inc. contains summaries of the **major provisions applicable in each of the 25 states with auto no-fault laws**. Request item 432.

■ Crawford & Co. offers a booklet describing **appraisal and claim services for heavy equipment**. Request item 433.

■ A Liberty Mutual Insurance Co. brochure explains its Premier **commercial property policy** with flexible limits and deductibles and special endorsements available. Request item 434.

■ **Casualty claims services** available to the insurance, trucking, petrochemical and vehicle services industry and governmental entities are described in a 16-page publication from Crawford & Co. Request item 435.

■ A pamphlet discussing **coverage for electronic data processing equipment** is available from Liberty Mutual Insurance Co. Request item 436.

■ A 16-page brochure from Crawford & Co. provides an overview of **vehicle claims services** including appraisals, nationwide service and drive-in appraisals. Request item 437.

■ Affiliated Insurance Consultants provides a packet detailing the firm's products and services in the areas of **commercial lines,** employee benefits, truck/fleet insurance and life, health and annuities, among other things. Request item 438.

■ Crawford & Co. offers a pamphlet detailing its **oil and hazardous materials claims services**. Request item 439.

■ Coverages for **property, liability, automobile and workers compensation exposures** are discussed in a brochure available from Liberty Mutual Insurance Co. Request item 440.

■ **Claims services for the insurance industry** is described in a publication from Crawford & Co. Request item 441.

■ A pamphlet available from Transamerica Insurance Group describes the company's **ratings and underwriting guidelines for excess property and excess casualty insurance**. Request item 442.

■ A 38-page coloring book depicts **life in the claims department of a property/casualty insurance company**. The book is available from InPhoto Surveillance. Request item 443.

■ A 12-page brochure available from Crawford & Co. details the company's **vehicle inspection services for the automotive industry**. Request item 444.

■ ARM Tech offers a two-page information leaflet listing nine important points to know about **accepting certificates of insurance**. Request item 445.

■ A quarterly newsletter produced by Market Finders Insurance Corp. offers **articles of interest to agents and members of the insurance industry** regarding various topics such as Lloyd's of London and medical malpractice. Request item 446.

## FIDELITY & SURETY

■ ARM Tech offers a **guide to reasonable crime coverage** and avoiding coverage gaps. Request item 701.

■ Midwest Indemnity Corp. supplies a **bond submission kit** containing all forms and instructions needed to complete contract, license and miscellaneous bond submissions. Request item 702.

■ A booklet from ARM Tech discusses **fidelity bonds available to public agencies**. How the bonds are used and limits to consider are explored in the booklet. Request item 703.

■ The Insurance Institute of America's five-course **Associate in Fidelity and Surety Bonding designation program** is described in a flyer. Request item 704.

■ An information booklet from ARM Tech presents the basics of **surety bonds commonly used in construction projects**. Request item 705.

*Continued on next page*

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Diane Lampe

*Group Department Manager, The Duncan Insurance Office, Inc.*

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## FINANCIAL SERVICES

■ Brown Bros. Harriman & Co. offers a publication detailing an **investment program for insurance companies**. Request item 803.

■ An article from A.I. Credit Corp. provides an overview of **commercial insurance premium financing**. Request item 804.

■ **Management of offshore insurance companies' assets** is described in a publication from Brown Bros. Harriman & Co. Request item 805.

■ Baring International Investment Management Ltd. offers a booklet outlining **investment options for offshore insurers** to help limit underwriting losses and reduce premiums. Request item 806.

■ **Offshore insurance fixed income asset management** is the focus of a brochure from Brown Bros. Harriman & Co. For a copy, request item 807.

## INTERNATIONAL

■ A brochure from Crawford & Co. lists its **risk experts worldwide** in the areas of banking, construction, energy and engineering, entertainment, environmental pollution, financial risks, political risks, property, reinsurance, and specie and fine art. Request item 901.

■ The Oil, Energy and Engineering division of Graham Miller International, which specializes in **adjusting property damage, machinery breakdown and business interruption claims** in the hydrocarbon process, is described in a pamphlet. Request item 903.

■ A brochure from Commonwealth Risk Services Inc. describes a program to **lower the net aftertax cost of property/casualty insurance** for Canadian corporations. Request item 904.

■ Graham Miller International details its **international environmental pollution claims handling services** in a bi-fold. Request item 905.

■ Incidental **property/casualty exposures faced by a small business overseas** are explored in a booklet from Kemper National Insurance Cos. Request item 906.

■ A Commonwealth Risk Services Inc. brochure defines an insurance program that could **lower the net cost of property/casualty insurance** for corporations in the United Kingdom and continental Europe. Request item 912.

## LOSS CONTROL/ PEOPLE

■ A Waite Hill Services Inc. brochure outlines its services and employees providing **loss control consulting**. Request item 1001.

■ NOVA Office Furniture Inc.'s manual for loss prevention managers discusses **the integration of ergonomics and technology**. Request item 1002.

■ KEY Functional Assessments Inc. provides a leaflet with a brief overview of cost containment through **functional capacity assessments**. Request item 1003.

■ A one-page chart details Crawford & Co.'s **ergonomic services**. Request item 1004.

■ An article from Clayton Environmental Consultants Inc. describes **how to choose a quality laboratory in the asbestos market**. Request item 1005.

■ Kemper National Insurance Cos. offers an information sheet with advice on **defining, preventing and controlling on-the-job stress**, including information on employee assistance programs. Request item 1006.

■ A wellness magazine and newsletter that **helps employees lead healthier lifestyles** is provided by Health Ink Publishing Group. Request item 1007.

■ Empire Medical Management Ltd. offers a newsletter detailing five steps on how to **control back injury costs**. Request item 1008.

■ An article from Clayton Environmental Consultants Inc. describes how one of its labs determined **the cause of an unusual worker-related accident**. Request item 1009.

■ A guide for **choosing a respirator that will cost-effectively protect employees** is supplied by Sandler Occupational Medicine Associates Inc. Request item 1010.

■ Four case studies of successful **back injury prevention programs** are discussed in a booklet from Heppner Risk Management. Request item 1011.

■ Clayton Environmental Consultants Inc. supplies an information sheet offering a quick and inexpensive analytical method to **distinguish between different fiber types** using a known standard. Request item 1012.

■ A brochure from Kemper National Insurance Cos. explores the **cost of on-the-job accidents**. Request item 1013.

■ Sedgwick James Inc. supplies an examination of an **OSHA standard that protects employees exposed to human blood** and other potentially infectious materials against HIV and Hepatitis B virus infections. Request item 1014.

■ An article from Clayton Environmental Consultants Inc. describes a testing technique used to **determine the toxicity of non-metallic materials used for water applications.** Request item 1015.

■ A booklet from Kemper National Insurance Cos. describes four areas in a company where **workers comp costs and related losses can be positively impacted and held down**. Request item 1016.

■ A tri-fold brochure describes a Crawford & Co. program to **reduce the number and magnitude of mining losses**. Request item 1017.

■ An outline of NOVA Office Furniture Inc.'s technology design and how it complies with **ANSI/HFS 100-1988** is offered in a booklet. Request item 1018.

■ A publication from Kemper Risk Management Services defines **recurrent factors that can weaken a loss control program**. Request item 1019.

■ A National Medical Advisory Service article outlines the need for **effective communication of environmental health risks.** Request item 1020.

■ An **indirect preparation method for microscopic analysis of fibers** is explained in an article from Clayton Environmental Consultants Inc. Request item 1021.

■ A pamphlet from KEY Functional Assessments Inc. provides an overview of **pre-placement assessments as they relate to the Americans with Disabilities Act**. Request item 1022.

■ A checklist of a method to **screen for mild traumatic brain injury** resulting from head trauma is available from the Centre for Neuro Skills. Request item 1023.

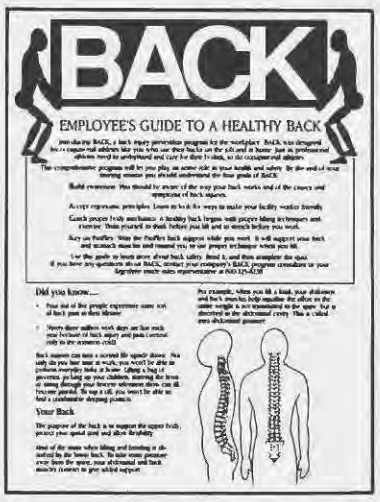
■ Clayton Environmental Consultants Inc. provides an article outlining how to effectively communicate **environmental and human health risks**. Request item 1024.

■ A series of publications from Continental Insurance Co. is designed to **increase awareness of farm safety**, addressing specifically pesticides, all-terrain vehicles and the farm fleet. Request item 1025.

■ The definition of **cumulative trauma disorder**, what can cause it and possible treatment and rehabilitation are discussed in an information sheet from Sandler Occupational Medicines Associates Inc. Request item 1026.

■ Crawford & Co. provides a brochure explaining how ergonomists assess loss exposures due to **cumulative trauma disorders and repetitive motion injuries** and recommends cost-sensitive solutions. Request item 1027.

■ Examples of **how the integrity of environmental samples can be compromised** and solutions to common problems encountered in the field are examined in an article from Clayton Environmental Consultants Inc. Request item 1028.




■ A **back injury protection program for the workplace** is explored in a booklet from Heppner Risk Management. Request item 1029.

■ Kemper National Insurance Cos. provide a leaflet with statistics on the impact of **work-related car accidents** and suggestions to drivers on minimizing the chance of an accident occurring. Request item 1030.

■ A publication from Sedgwick James Inc. discusses federal legislation designed to **eliminate discrimination against physically and mentally impaired Americans** and ensure workplace environments that accommodate their special needs. Request item 1031.

■ Waite Hill Services Inc. provides a brochure detailing a **safety, health and environmental consulting service**. Request item 1032.

■ A checklist from the Centre for

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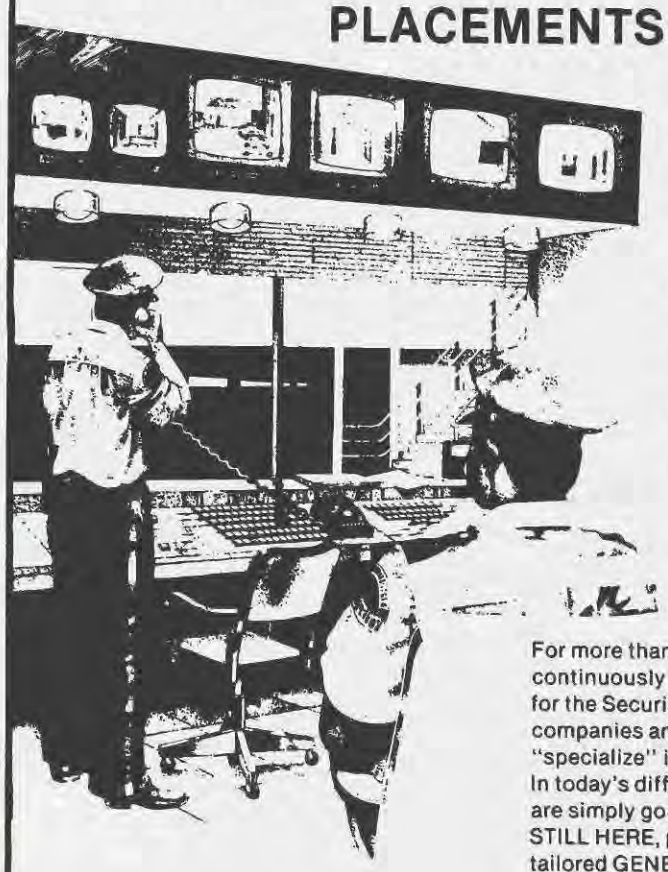
A BRIEF MESSAGE ABOUT INSURANCE PLACEMENTS FOR



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For more than a decade CoverX Corporation has continuously provided a stable insurance product for the Security Industry. During that time many companies and agencies professing to "specialize" in this industry have come and gone. In today's difficult insurance marketplace most are simply gone. COVERX CORPORATION IS STILL HERE, providing that industry with custom tailored GENERAL LIABILITY AND PROFESSIONAL LIABILITY.

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*Continued from previous page*

Neuro Skills allows both claims and case managers to evaluate potential **providers of post-acute traumatic brain injury rehabilitation services**. Request item 1033.

■ Clayton Environmental Consultants Inc. supplies a seminar article explaining how to **manage potential lead risks**. Request item 1034.

■ A booklet from NOVA Office Furniture Inc. describes how certain work-area designs **reduce musculoskeletal complaints** and increase work space. Request item 1035.

## LOSS CONTROL/ PROPERTY

■ A publication available from Crawford & Co. discusses services available to control **environmental hazards**. Request item 1102.

■ A catalog of **fire protection systems**, including sprinklers, nozzles, valves and accessories, is offered by Grinnell Corp. Request item 1103.

■ Methods of protection from **environmental criminal prosecution** are reviewed in an article from Clayton Environmental Consultants Inc. Request item 1104.

■ An Industrial Risk Insurers magazine discusses **NFPA 600, the new standard on creating industrial fire brigades**, among other topics. For a copy, request item 1105.

■ A publication from Fenwal Safety Systems explains how a **halon-based explosion suppression system** can be retrofitted with an environmentally safe explosion suppressing agent. Request item 1106.

■ An article published by Clayton Environmental Consultants Inc. describes how to make informed **environmental business decisions**. Request item 1107.

■ **Procedures and protocol in responding to a community-wide disaster** are detailed in a booklet from BMS Catastrophe. Request item 1108.

■ The Insurance Institute of America's five-course **Associate in Loss Control Management designation program** is described in a flyer. Request item 1109.

■ A Crawford & Co. newsletter presents **risk control information through an analysis** of program techniques that mitigate loss exposures. Request item 1110.

■ A new **fire extinguishing agent** is described in a brochure from Ansul Fire Protection. Request item 1111.

■ A Coopers & Lybrand publication explains the basics of **property damage and business interruption insurance** and the fundamentals of preparing a claim. Request item 1112.

■ Industrial Risk Insurers offers a magazine focusing on **NFPA 25 and maintaining fire protection systems**. Request item 1113.

■ An EQE International publication explores **risk, safety, seismic and structural engineering** worldwide, including seismic risk in the Pacific Northwest. Request item 1114.

■ A brochure from Fenwal Safety Systems describes **explosion protection systems.** Request item 1115.

■ A guide to **small-company disaster planning and recovery** is offered by Johnson & Higgins Request item 1116.

■ An Industrial Risk Insurers magazine offers advice on **supervising outside contractors** to reduce loss frequency. Request item 1117.

■ A catalog from Factory Mutual Engineering and Research lists **property loss control seminars, booklets, videotapes and learning kits** covering topics such as emergency planning and fire protection systems. Request item 1118.

■ Kemper National Insurance Cos. supplies a booklet containing facts on the **cost of employee theft**, along with a checklist of security measures. Request item 1119.

■ A Johnson & Higgins pamphlet

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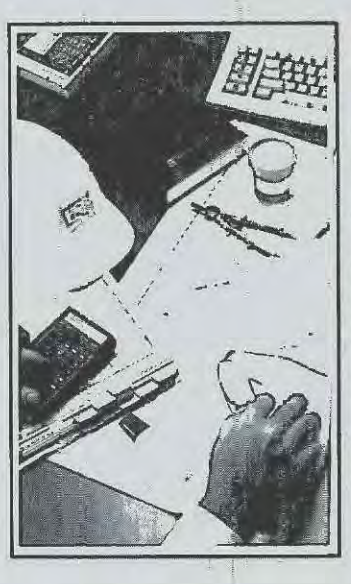

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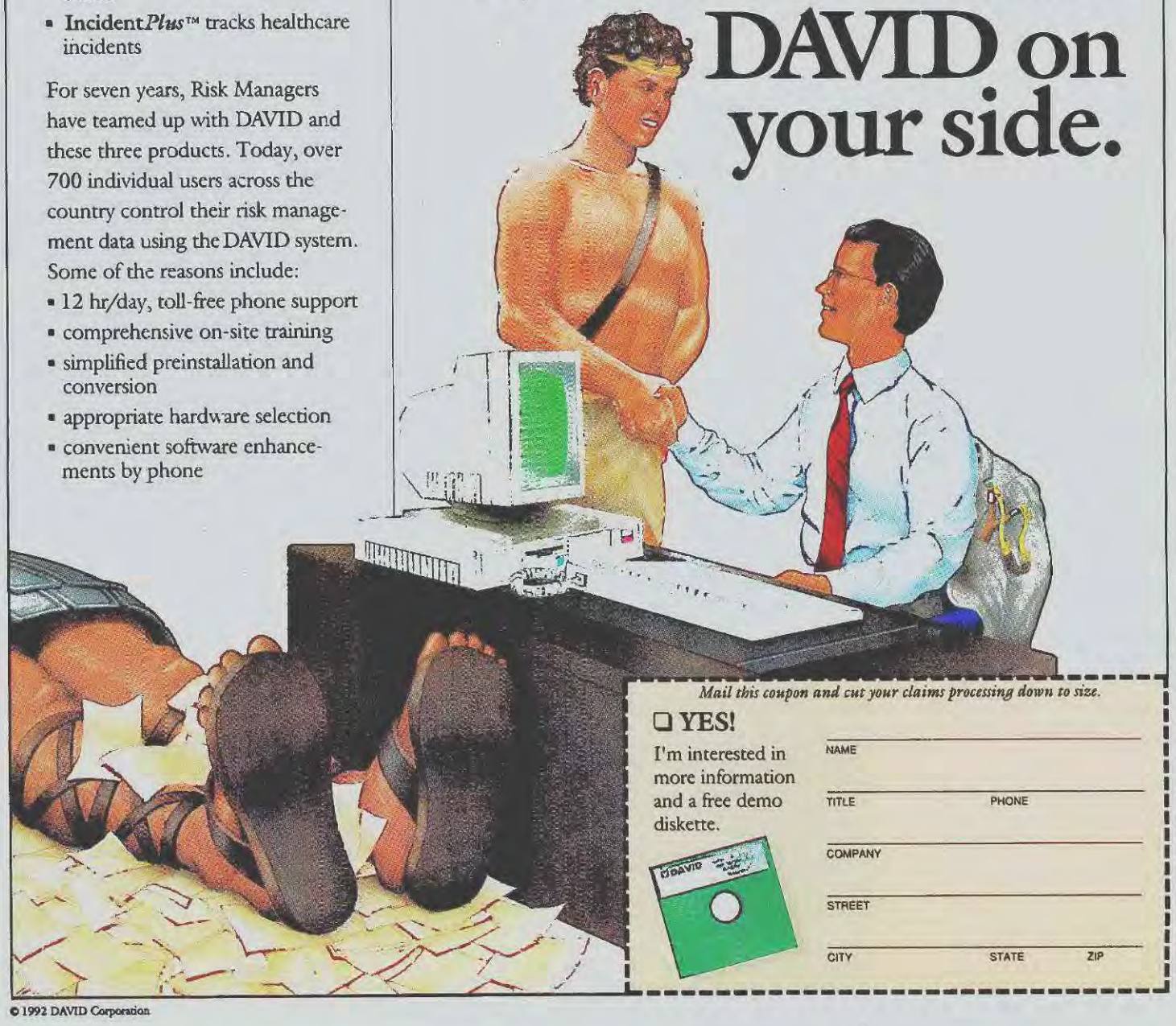

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details a system that enables risk managers to more accurately evaluate earthquake exposures by **analyzing property risks for multiple earthquake scenarios.** Request item 1120.

■ A publication available from American Risk Management Corp. defines what **infrared thermography** is and how it is being used in property loss control. Request item 1121.

■ A program to **reduce the number and magnitude of mining losses** is explained in a pamphlet from Crawford & Co. Request item 1122.

■ Industrial Risk Insurers offers a magazine addressing the **maintenance of rotating equipment**, with a special emphasis on motors and gear sets. Request item 1123.

■ A guide of **dos and don'ts in handling fuels and installing supplementary heating units** is offered by GAB Business Services Inc. Request item 1124.

■ **Explosion protection** systems are reviewed in a Fenwal Safety Systems pamphlet. Request item 1125.

■ Clayton Environmental Consultants Inc. offers articles on topics related to **managing environmental and occupational health risks**. Request item 1126.

■ A leaflet available from Johnson & Higgins discusses **business continuation planning** and how to minimize costs. Request item 1127.

■ A catalog of courses offered by Kemper Risk Management Services Institute in **risk management, safety, industrial hygiene, ergonomics, environmental health, highly protected risk and occupational health** is available. Request item 1129.

■ Fenwal Safety Systems provides a pamphlet describing **explosion protection methods** in response to the Clean Air Act amendments mandating control of vapors. Request item 1130.

## MARINE

■ CIGNA Special Risk Facilities offers a guide to **cargo loss control**, summarizing current port conditions and information necessary for the efficient transportation of goods. Request item 1201.

■ Crawford & Co. offers an overview of the **marine adjusting** services provided by its Rosemurgy & Co. division. Request item 1202.

■ A chart containing **definitions of nautical terms** found in marine surveys and insurance applications is supplied by Hull & Co. Inc. Request item 1203.

■ The Insurance Institute of America's six-course **Associate in Marine Insurance Management designation program** is described in a flyer. Request item 1204.

■ A 96-page marine and aviation **loss control and reference book**, including details of facilities in international ports, is provided by CIGNA Special Risk Facilities. Request item 1205.

## REINSURANCE

■ A booklet from Sedgwick James Inc. discusses **financial reinsurance products**, including tax and accounting issues. Request item 1301.

■ A newsletter from Insurance Agency Programs Inc. reviews **reinsurance industry topics**. Request item 1302.

■ The Insurance Institute of America's four-course **Associate in Reinsurance designation program** is described in a flyer. Request item 1303.

■ A description of the **financial reinsurance used in purchasing property/casualty insurance companies** is contained in a booklet from Insurance Agency Programs Inc. Request item 1305.

■ Mound, Cotton & Wollan produces a quarterly newsletter that discusses recent cases representative

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**Business Insurance** **Information Resource**

NOTE: THIS COUPON WILL NOT BE SERVICED AFTER MARCH 29, 1993
**All questions must be answered in order to have your inquiry processed.**

Please check one item for each category:

1. My organization is best described as:
   A ☐ Mfg/Svcs F ☐ Ins Agent K ☐ Adj/Apprs
   B ☐ Association G ☐ Ins Broker L ☐ TPA
   C ☐ Union H ☐ Ins/Reins Co M ☐ Healthcare Inst
   D ☐ Government I ☐ Actry/Conslt
   E ☐ Educational Inst J ☐ Attorney N ☐ Other
2. Number of employees:
   1 ☐ 150 or less 2 ☐ 151-499 3 ☐ 500-999
   4 ☐ 1,000-4,999 5 ☐ 5,000 or more 6 ☐ Unknown
3. My title is best defined as:
   A ☐ Administrative Mgt D ☐ Benefits Mgt
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# Sunday Afternoon Workers' Comp

*Access the Alternatives with*

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of **legal trends within the insurance and reinsurance industry**. Request item 1307.

■ An overview of reinsurance services and systems of **identifying, evaluating and resolving reinsurance-related problems** is supplied in a brochure from Crawford & Co. Request item 1309.

## RISK MANAGEMENT

■ An overview of a **telephone claims reporting program** that enables timely claims reporting is provided by Crawford & Co. Request item 1401.

■ A Sedgwick James Inc. article on the **financial impact of risk costs** discusses how communication between risk management and financial professionals can reduce the overall cost of risk. Request item 1402.

■ A guide to Swett & Crawford Group's **risk management consulting services** is available. Request item 1403.

■ Structured Financial Associates Inc. offers a manual to aid in **early settlement of personal injury, wrongful death, workers comp** and other claims. Request item 1404.

■ A.I. Credit Corp. provides an article explaining how **premium financing and audit funding** are valuable tools for controlling cash flow and credit. Request item 1405.

■ A brochure from Kemper National Insurance Cos., details how companies can **improve their bottom line through loss control**. Request item 1407.

■ A study by Johnson & Higgins reviews the **construction industry's attitudes about insurance-related issues**. Request item 1408.

■ A Sedgwick James Inc. article examines the **challenges that will confront risk managers in the 1990s**. Request item 1409.

■ An article outlining the **value of insurance and risk management consultants** for midsized entities is offered by Trupin/Skolsky Insurance Services. Request item 1410.

■ Johnson & Higgins offers a 59-page guide defining **commonly used insurance terms**. Request item 1411.

■ How companies can **prepare for and lessen the impact of the next hard insurance market** is detailed in a brochure from Sedgwick James Inc. Request item 1412.

■ Crawford & Co.'s office directory provides list of **offices in more than 42 countries**. Request item 1413.

■ A semi-annual report examining **developments in the alternative risk financing marketplace** is available from Commonwealth Risk Services Inc. Request item 1414.

■ A Crawford & Co. brochure describes **custom-tailored risk control programs** for workers comp, general liability and property conservation. Request item 1415.

■ Anistics offers a quarterly newsletter on **risk management services, strategies and concerns**. For a sample, request item 1416.

■ **U.S. business trends and their impact on risk management** is explored in a brochure from Sedgwick James Inc. Request item 1417.

■ A report from Kemper Risk Management Services provides **perspectives on the self-insurance market** for agents and brokers. Request item 1418.

■ A report by Towers Perrin **updates previous tort cost studies** from 1985 and 1989 and finds that costs are still growing faster than the economy. Request item 1419.

■ An overview of Crawford & Co.'s risk management services includes information on **risk control, claims administration, health care management and information systems**. Request item 1420.

■ Key elements of an effective **risk management program for the environmental professional** are reviewed in a Vista Environmental Information Inc. article. Request item 1421.

■ A RUSCO booklet details unbundled insurance services in the areas of **policy typing, policy issuance and claims management services**. Request item 1422.

■ A Crawford & Co. brochure explains its **claims handling service**. Request item 1423.

■ A 60-page reference guide from the Chicago Board of Trade provides information on its **Catastrophe Insurance Futures and Options**. Request item 1424.

■ A Kemper Risk Management Services booklet defines areas to examine when **selecting a claims management consultant**. Request item 1425.

■ A quarterly magazine from Crawford & Co. **examines key risk management issues** in an expanded format. Request item 1426.

■ An article containing suggestions on **how to avoid malpractice claims,** including adequate docket control and peer review, is offered by Associated Claims Enterprises Inc. Request item 1427.

■ How **bank managers and directors must manage risk** is reviewed in an article available from Vista Environmental Information Inc. Request item 1428.

■ A risk manager's guide to **avoiding problems when using surveillance** is available from InPhoto Surveillance. Request item 1429.

■ A Johnson & Higgins survey determines **how insurance buyers for health care organizations** perceive the insurance system and available coverages. Request item 1431.

■ Crawford & Co. offers a national **directory of its risk control professionals**. Request item 1432.

■ **Controlling legal costs** through management of liability problems, law firm relationships and transaction costs is discussed in an ICALM Group handbook. Request item 1434.

■ Insurance Agency Programs Inc. offers a newsletter describing **financial insurance products** like loss portfolio transfer and prospective funding programs. Request item 1435.

■ "The Warren Report" is a monthly four-page newsletter of **current risk management issues**. For a sample, request item 1436.

■ ICALM Group offers a guide to **claims, litigation and prepared-**

*Continued on next page*

It's Sunday afternoon, and while some rest, others go to work. What is viewed as a game to spectators is, in fact, serious business to those involved.

And as a business, the owners of professional football teams need workers' compensation coverage just like every other employer.

When several professional football teams needed a responsive, cost-effective program to address their unique workers' compensation exposures, Commonwealth Risk was there to help.

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**ness**, highlighting operational and contingency planning for catastrophes, loss prevention and remedial action programs. Request item 1437.

■ A service that **delivers insurance news and information directly to desktop computers** is explained by Dow Jones & Co. Request item 1438.

■ A Crawford & Co. brochure describes **when a fire protection engineering consultant** is needed. Request item 1439.

■ A newsletter from Sedgwick James Inc. focuses on **risk management and property/casualty trends**. Request item 1440.

■ ICALM Group offers a manual for **catastrophe response, claims resolution and litigation management.** Request item 1441.

■ A description of Crawford & Co. risk management services for **government entities and self-insurers** is provided in a six-page brochure. Request item 1442.

■ Johnson & Higgins offers its **"1992 Insurance Market Review and Forecast,"** which analyzes industry financial performance, coverage lines and related issues and trends. Request item 1443.

■ An information sheet from broker NIA Group Ltd. describes the **basics of risk management** and the firm's consulting services. Request item 1444.

■ A brochure from Specific Software Solutions Corp. outlines of the **concepts and methodology behind loss forecasting**. Request item 1445.

■ The Insurance Institute of America's three-course **Associate in Risk Management designation program** is described in a flyer. Request item 1446.

■ A quarterly publication produced by Crawford & Co. discusses **risk transfer issues**. Request item 1447.

■ A Commonwealth Risk Services Inc. brochure details a **risk financing approach** for difficult to secure or prohibitively priced coverages. Request item 1448.

■ An flyer with news and commentary on **current litigation management events and issues** is produced by ICALM Group. Request item 1449.

■ A Sedgwick James Inc. article explores the major issues relating to **cash flow programs** and outlines basic considerations for these risk financing strategies. Request item 1450.

■ Liberty Mutual Insurance Co. offers speech summaries from its **1992 Risk Management Forum**, which focused on managing workers comp costs. Request item 1451.

■ A fact book lists **Kemper Risk Management Services staff members** and their areas of expertise. Request item 1452.

■ A monthly digest of **trends and developments of interest to risk managers** is produced by Stone & Webster Management Consultants Inc. Request item 1453.

■ GE Capital Fleet Services offers an information packet on **avoiding vehicle accidents** as well as a program to assist in the coordination of repairs and subrogation after an accident. Request item 1454.

■ Transamerica Insurance Group offers an overview of its **risk management programs and services**. Request item 1456.

■ A Vista Environmental Information Inc. paper discusses recently completed work on a national standard for **environmental site assessments in commercial real estate transactions**. Request item 1457.

■ An article made available from A.I. Credit Corp. details how **premium financing offers many advantages** for both the broker or agent and the insured. Request item 1458.

■ Isotechnologies Inc. offers a strategic response plan to the **Americans with Disabilities Act** in a pamphlet that also summarizes the act. Request item 1459.

## RISK MANAGEMENT INFORMATION SYSTEMS

■ Informational material provided by Seligman Information Systems discusses how to **track incoming certificates of insurance**. Request item 1501.

■ An article reprint from CARE Systems Corp. describes its integrated knowledge-based **workers comp claims management system**, which helps set reserves, detect fraud, improve loss prevention and safety, among other things. Request item 1502.

■ A Helmsman Management Services Inc. brochure details the **risk finance, loss control and claims management** features of its Risktrac system. Request item 1503.

■ **Risk management analysis, forecasting and trend analysis** are discussed in a publication explaining NRM Computer Systems Inc.'s risk management information and financial analysis system. Request item 1504.

■ A brochure detailing systems for **controlling and communicating property/casualty insurance expenses** is supplied by Corporate Systems. Request item 1505.

■ A form for keeping accurate company **records for each personal computer's hardware configuration and setup** is offered by Seligman Information Systems. Request item 1506.

■ An article reprint from CARE Systems Corp. describes its comprehensive **expert system for claims management.** Request item 1507.

■ A brochure explaining an **automated accident reporting system** is offered by Corporate Systems. Request item 1508.

## SELF-INSURANCE SERVICES

■ A brochure describing approaches for **employers self-insuring their workers comp coverage** is offered by Helmsman Management Services Inc. Request item 1602.

■ A **national self-insurance "vendor locator service"** from SIEX Inc. lists suppliers of claims, medical, information systems, consulting, loss control and auditing services for self-insurers. Request item 1603.

■ David Corp. offers a demo disk with information on claims management systems for workers comp and **property/casualty claims administration**. Request item 1606.

■ A **property/casualty claims administration support system** is detailed in a booklet from Conway Computer Alternatives. Request item 1607.

■ An information kit from David Corp. describes automated workers comp and property/casualty **claims management systems.** Request item 1610.

■ Frontier Los Angeles Risk Management outlines and discusses eight key services that risk managers need to consider when **selecting and evaluating claims administrators** for their property/casualty programs. Request item 1612.

■ A booklet from WLT Software of Florida Inc. details its **workers comp claims administration and payment system**. Request item 1613.

■ SIEX Inc. offers an information sheet describing a one day marketing workshop for **vendors that want to reach the self-insurance market**. Request item 1614.

■ Eight questions often asked by employers **choosing a third party administrator** for workers comp services are featured in a booklet provided by Helmsman Management Services Inc. Request item 1615.

■ NRM Computer Systems Inc. supplies a booklet detailing **paperless claims administration** systems. Request item 1616.

■ A publication from Johns Eastern Co. Inc. lists self-insurance and risk management services including **claims administration, data processing, risk funding, safety and actuarial services**. Request item 1617.

■ A quarterly newsletter from SIEX Inc. discusses the **property/casualty and employee benefits self-insurance markets.** Request item 1618.

■ A **self-insurer's guide to video surveillance** is offered by InPhoto Surveillance. Request item 1619.

■ An article from ARM Tech informs self-insurers of **the necessity and elements of a claim audit and approximate cost**. Request item 1621.

■ A Sedgwick James Inc. article reprint examines four alternative methods of **funding self-insured losses** and their relative cost efficiency. Request item 1623.

■ An article from Claussen Miller Gorman Caffrey & Witous P.C. offers suggestions for lawyers and insurance-related vendors in **dealing with the claims department.** Request item 1627.

■ ARM Tech describes key resources and controls that should be deployed to adequately **manage a self-insured casualty program**. Request item 1630.

■ A brochure from VISTA Administrators Inc. describes its **claims management services** for workers comp and health care coverages. Request item 1631.

*Continued on page 19*

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# InsurerTopics

A special editorial section
sent exclusively
to insurers and reinsurers

# Insurers strive for quality

## Examination of complaints leads to improved solutions

**By SALLY ROBERTS**

Quality is the buzzword swarming around customer complaint offices within the insurance industry.

And while total quality management started with the manufacturing industry in the 1970s and really took off at many companies in the 1980s, the insurance industry is embracing TQM in the '90s.

Consumer & Customer RELATIONS

The major difference though, is insurers are building quality management "off the mistakes manufacturers made in the '80s," said Vicki Silvers, senior consultant in the insurance markets division for Kaset International, a Tampa, Fla.-based customer relations consultant.

In the '80s, manufacturers were too "process-improvement oriented" and less focused on the consumers, she said. Insurers today are "much more focused on the customer."

Consumers "are becoming more aware of their rights and are taking (complaints) to higher levels," like the state insurance regulators, said J. Robert Hunter, president of the National Insurance Consumer Organization in Alexandria, Va. Therefore, "insurance companies are trying to become more aware of their customers."

It's "better in the long run" for insurers to have "happy customers" if they want to maintain the customer's business, said Jim Long, North Carolina's insurance commissioner.

Insurers are dealing with customer complaints in a variety of ways. For example, insurers are enhancing customer service using complaint analysis, training programs, computer systems, toll-free telephone complaint lines and "empowered teams"—complaint handlers who are allowed to make spot decisions to solve problems.

Fast action is important because in both life/health insurance and property/casualty insurance, the most common complaint is slow turnaround time, insurers agree.

"We view complaints as an opportunity to improve customer service and identify current issues and trends," said Glenn Soden, customer relations officer for Nationwide Insurance Co. in Columbus, Ohio.

The insurer's goal is to reduce the number of complaints made to the state insurance departments by encouraging customers to come straight to Nationwide, Mr. Soden said.

Complaints to regulators only reveal the surface of the complaint, he said. "We try to get to the root cause."

For example, the root cause of a complaint could be an agent's rudeness. If that problem is recurring, the insurer will work to improve the agent's friendliness with consumers, Mr. Soden said.

Nationwide has three "customer reaction analysts" to study customer complaints, Mr. Soden added.

Aetna Life & Casualty Co. views complaints in the same manner.

Complaints are "an opportunity to make a difference with our customers," said DeAnn Anderson, assistant vp-quality in Aetna's Middletown, Conn., office.

What's necessary with complaints is "root cause removal, not just a Band-Aid," she said.

The Aetna Group Health Complaint Unit divides complaints into 26 categories and then analyzes them to determine the most frequent root cause. The biggest problems are then worked on and resolved, Ms. Anderson said.

In addition to analyzing complaints, Aetna also uses training programs to teach service representatives customer-focused letter writing and telephone conversation tips, she said.

Aetna shows a 12-minute videotape to claims representatives in all its claim offices, she added. Titled "You're the Solution to Handling Customer Complaints," the video focuses on how a simple inquiry can escalate into a serious complaint if not handled properly by the claim representative.

Kemper National Insurance Cos., in addition to complaint analysis and representative training, is installing a new on-line inquiry/complaint system, said Nancy Bays, customer relations supervisor for the Long Grove, Ill.-based company. The system will provide a direct link between field representatives and the inquiry/complaint data base.

While the previous system sent inquiries and complaints in a coded format—which ultimately took more time to analyze—the new system sends information in a narrative format, thus allowing for faster analysis and response time. The new system will be up and running in two months, she said.

CIGNA Corp. is also following a quality-oriented path when it comes to complaints.

"The expectations that customers put on us is higher than years ago because of TQM," said Peter George, a Bloomfield, Conn.-based vp of the national service operations department in CIGNA Corp.'s employee benefit division. The insurer has responded by re-engineering its claims organization and forming "empowered teams" with a TQM focus, Mr. George said.

The teams consist of 10 to 12 people who "handle all the needs of a customer" and make decisions, he explained.

By "cutting out the managerial layers," customers should see a faster turnaround time with their complaints, Mr. George said.

The property/casualty division of Aetna Life & Casualty has received positive feedback on its new re-engineered claims department.

In March 1991, personal and commercial lines were joined into one claims department, said George M. Reider, vp-field claim operations in Hartford, Conn.

The department extended its hours and added drive-in window service. It also added a toll-free telephone number, allowing customers to call the service department any time during the day, seven days a week. After the office closes at 8 p.m., phone calls are transferred to a central answering machine which then contacts an agent who is "on call" with a beeper, he said.

The new toll-free number got its first big test with Hurricane Andrew in September. The company redirected consumers' calls from Florida and Louisiana to different states, allowing them to immediately talk to an agent and file a claim, Mr. Reider said.

Of the 12,000 hurricane-related claims filed in Florida, only 11 complaints were filed with the Florida Insurance Department against Aetna, Mr. Reider said.

In addition, after the claims were settled, Aetna sent out "report cards" to find out how satisfied claimants were with the insurance company. Of the 8,000 cards sent, 3,000 have been returned. Of the 3,000, 98.5% responded with a good or excellent rating for Aetna's service.

Achieving a decrease in complaint resolution time is a common goal for insurers.

Metropolitan Life Insurance Co. has an average 10-day turnaround time with customer complaints. "Our goal is five working days," said Bruce Hemer, consumer affairs director for the New York-based company.

The Home Insurance Co. acknowledges phone and written complaints within 24 hours and tells the customer who will be responding to their complaint, said Angie Camilleri, manager of consumer affairs for the New York-based insurer. The typical resolution time is 10 days, she added.

Complaint rankings for individual states may also become a trend.

Only 10 to 15 state insurance departments currently rank insurers' complaint ratios, and the reports typically only rank auto insurance complaints, said NICO's Mr. Hunter. However, some state insurance departments are starting to rank homeowner and health insurance complaints.

The New York Insurance Department recently released its first ranking of consumer complaints against health insurers.

But at least one insurer on the list is skeptical about the rankings.

Met Life was ranked as the fourth-poorest performer in New York in terms of complaints for every million dollars in premiums. Met Life's complaint ratio, according to the ranking, was 0.36. A 1.00 ratio would mean the insurer had one valid complaint for every million dollars in premiums.

"These figures don't match ours," Met Life's Mr. Hemer said.

The ratios don't correctly account for Met Life's health care plans administered under an administrative services only arrangement. It does, however, account for the complaints received for those plans, he said.

In addition to reporting the wrong figures, these rankings "raise too many questions that (the insurance departments) can't answer," Mr. Hemer said. For example, "What's the meaning of the data?"

While Mr. Hemer is skeptical about the future of such complaint rankings, especially while barriers to data access remain, Mr. Hunter has a more positive outlook.

"The consumer community is pushing states" to improve their service, and the individual state complaint rankings are just a start. In the future, national complaint ratios may be reported, Mr. Hunter said. BI

Insurer Topics

# Trying to gain a handle on subjective issue

## Surveys and focus groups provide feedback on insurer service

By SALLY ROBERTS

Insurers can talk about how customer-oriented their companies have become, but the real proof of quality service lies in the minds of the customers.

Consumer & Customer RELATIONS

And because insurers are not clairvoyant, they must assess customer satisfaction in other ways.

Surveys and focus groups are the methods of choice for most insurers, said Vicki Silvers, senior consultant in the insurance markets division of Kaset International in Tampa, Fla.

Aetna Health Plans Inc. in Middletown, Conn., "relies heavily on the voice of the customer," said John McDonald, assistant vp market research.

"We are very pro-active" in this area, he said. By undertaking regular surveys of members, providers and plan sponsors, Aetna finds out how satisfied its customers are and if they plan to stay with the insurer. In addition, survey information helps Aetna determine possible market opportunities.

The Home Insurance Co., in addition to conducting satisfaction surveys with all the parties involved in a claim, also surveys its agents.

The Home wants to be "aware if the agent is satisfied with our service," said Angie Camilleri, manager of the consumer affairs department for the New York-based insurer.

When an agent is issued a policy, a questionnaire is attached to it asking the agent to comment about the quality of service it received from the insurer, Ms. Camilleri said.

Customer satisfaction surveys can pinpoint customer concerns and prompt the appropriate response, insurers agree.

For example, State Farm Group found by analyzing customer surveys that policyholders were not satisfied with the amount of time and the number of adjusters it took to resolve their claims, said Wayne Sorenson, vp-research for the Bloomington, Ill.-based company. These answers resulted in changes in State Farm's approach to handling claims.

For instance, the claims department is working toward having the same adjuster handle a claim through resolution, Mr. Sorenson said.

"We want to ensure continuous two-way communication with policyholders," he said.

CIGNA Corp. "continues to learn all the time" from surveys, said Peter George, a Bloomfield, Conn.-based vp of the national service operations department in the insurer's employee benefit division.

"We thought timing was most critical," but after analyzing surveys "we found quality is the driver and that customers are willing to take a couple of extra days to get things done properly," Mr. George said.

CIGNA sends out a series of "simple" 10-question surveys to policyholders who have recently filed a claim.

In addition, claims personnel talk to policyholders on a regular basis by phone and during at least one personal visit each year, Mr. George said.

Because performance also is measured by the number of complaints received, some insurers conduct specific follow-up surveys with customers who have complained to determine how satisfied they were with the resolution.

At Nationwide Insurance Co. in Columbus, Ohio, any customer who files a complaint by telephone or in writing receives one of these special surveys, said Glenn Soden, customer relations officer.

The policyholder is asked if the complaint was settled satisfactorily, properly, promptly and in a professional manner. The policyholder is also asked if he or she would recommend Nationwide to family and friends, Mr. Soden said.

Focus groups are another way to gain insight into customer satisfaction.

Aetna Health Plans heavily uses focus groups in developing new products and services, Mr. McDonald said. These groups can show how well the customer understands Aetna's products, he added.

All the focus group data is collected by an outside vendor, who then returns the data to Aetna's five-person customer satisfaction group to analyze, he said.

Metropolitan Life Insurance Co. conducts periodic "blind" focus groups, said Bruce Hemer, consumer affairs director in New York.

For example, he said, a random sample of people are asked what they think about the insurance industry.

Similarly, Kemper National Insurance Cos. conducts periodic focus groups with agents.

Kemper also sends out newsletters to policyholders encouraging them to write or call and let the insurer know how it's doing, said Nancy Bays, customer relations supervisor for the Long Grove, Ill.-based company.

And, the insurer conducts formal visits with its "key clients," Ms. Bays said. These visits allow the customers to evaluate the company face-to-face.

Kemper also keeps in touch with consumer-related issues by interacting with consumer advocacy groups, she added.

Allendale Mutual Insurance Co. also conducts focus groups twice a year with its clients, said Michael McIntyre, senior vp for the Johnston, R.I.-based company. Participants are asked 10 to 12 questions, starting broad and ending more specific.

Allendale also conducts "employee culture surveys" to determine how satisfied they are with the company, Mr. McIntyre said.

Allendale recently started conducting customer satisfaction surveys with clients, brokers, consultants, risk managers and other prospects. The survey's goal is to see "how we're doing relative to our competition," he said.

Results from all the surveys and focus groups are then collected and sent to Allendale's planning committee which analyzes the data and determines what areas need improvement, Mr. McIntyre said. BI

# Florida regulators seeing red over redlining

## But insurers hit by losses from Hurricane Andrew want to avoid getting burned in the Sunshine State

By MICHAEL BRADFORD

Insurers battered and gun shy from Hurricane Andrew are cutting back on the amount of exposure they will accept in southern Florida.

Consumer & Customer RELATIONS

Some have stopped writing new business in the entire state and others are avoiding the Florida counties heaviest hit by the hurricane, which left damages that could cost insurers as much as $15 billion to $16 billion according to some estimates.

The insurers' actions, referred to in some cases as redlining, have not pleased Florida regulators.

Insurers could face fines or even revocation of their Florida licenses if they are found to have practiced discriminatory underwriting and ignore warnings to stop, according to a spokeswoman for the Florida Insurance Department.

Meanwhile, agents and brokers are left searching for new markets for policyholders as insurers pull in the reins in Florida.

Intermediaries and policyholders are further hampered by the loss of seven insurers that have failed in the hurricane's wake (*BI*, Jan. 11).

"And no one appears to be interested in picking up that business," said Dennis Rich, vp with Lomas Insurance Services in Miami.

Some smaller insurers and managing general agents will accept business from the area, but their commissions are lower for agents, Mr. Rich noted. And, he added, MGAs have been told not to assume big portions of books of business from agencies that represented the failed insurers.

The situation is causing a lot of "anxiety over finding other markets," said Mr. Rich.

And many agents' problems are compounded because they are dealing with their own property losses from the storm, he said. "We're all exhausted."

The Florida Insurance Department has contacted four insurers that have ceased writing in all or parts of the state as a result of Hurricane Andrew and asked them to make their intentions known. Those insurers are: Andover Group of Andover, Mass; Foremost Insurance Co. of Grand Rapids, Mich.; Prudential Property & Casualty Insurance Co. of Holmdel, N.J.; and The Travelers Corp. of Hartford, Conn.

After discussions with the Insurance Department last month, Prudential stopped writing all new property business in Florida at least through January.

The insurer, which is projecting losses of $1.3 billion from the hurricane, is currently reviewing its business strategy in the state.

Travelers agents who write personal lines property business in three southern Florida counties must get the insurer's approval before accepting new business.

The insurer is projecting its hurricane losses at $240 million after taxes and reinsurance.

"Travelers is going to put in writing their underwriting plans," a Florida Insurance Department spokesman said.

Foremost, which specializes in insurance for mobile homes and travel trailers, has stopped writing new business in nine Florida counties and is scheduled to meet with the Insurance Department to discuss the insurer's underwriting activities.

The insurer, which writes around $30 million in annual premiums in the state, said the hurricane has generated losses of about $10 million.

The Insurance Department says it has not received a response from Andover Cos. regarding that insurer's decision to stop underwriting in part of the state, and the company could not be reached for comment.

Other insurers have made moves to limit their exposure in Florida—or are considering such action.

State Farm Group decided to limit its writings in the state beginning Jan. 1. The insurer's agents are allowed to write no more than $750,000 per month each in personal lines coverage for structures and contents.

In addition, commercial property policies cannot be written above $1 million limits for structures and contents, and guaranteed replacement cost coverage is not available on new policies.

The guidelines, which were approved by the Florida Insurance Department, will stay in effect for three months. State Farm will then evaluate whether to make the guidelines permanent.

Allstate Insurance Co. said it has not made changes to its underwriting practices in south Florida, but "in light of the actions of other insurers" Allstate is taking a close look at its exposure in the area, a spokeswoman said.

CIGNA Corp. had begun cutting back its exposure even before Hurricane Andrew reached Florida. The insurer realized in 1991 that its windstorm exposure was "greater than we had wanted," said a CIGNA spokesman. "We cut the wind exposure before the hurricane and that helped us weather the storm better than other companies," he added.

**Insurance companies will come back to south Florida because 'there's too much money to be made down here,' predicted Abby McDowell, a partner with Sheridan, Geiger & McDowell, an agency in Coral Gables.**

CIGNA, which is not a major insurer of personal lines in Florida, is not planning further changes to its underwriting practices in the state, the spokesman said.

As insurers proceed with caution in Florida, agents and policyholders are finding some coverage from joint underwriting associations in Florida.

An existing JUA provides coverage for homeowners who were insured with one of the six companies that have failed in the wake of the hurricane, and a new facility was due to begin operating Jan. 15 for buyers who didn't have hurricane claims but were insured by one of the failed insurers. The new JUA also will provide coverage for other homeowners who can't find coverage elsewhere.

Observers say the new JUA can help only slightly in replacing the lost capacity in the state.

The new JUA wasn't a solution for agents' and policyholders' year-end renewal problems, said Joseph Vancura, a partner in the Miami agency Weinstein, Jones & Vancura.

He pointed out that agents wanting to place coverage with the JUA had to wait until it was functioning this month—even though they were under pressure to complete year-end renewals.

Mr. Vancura, who is the incoming president of the Florida Professional Insurance Agents, said the association's agents are contacting small regional insurers and large companies about expanding their coverage in southern Florida.

Meanwhile, some say the Florida market problems are only temporary.

Insurers will come back to south Florida because "there's too much money to be made down here," said Abby McDowell, a partner with Sheridan, Geiger & McDowell, an agency in Coral Gables. Ms. McDowell said her agency "will spend a whole year replacing business rather than writing new business."

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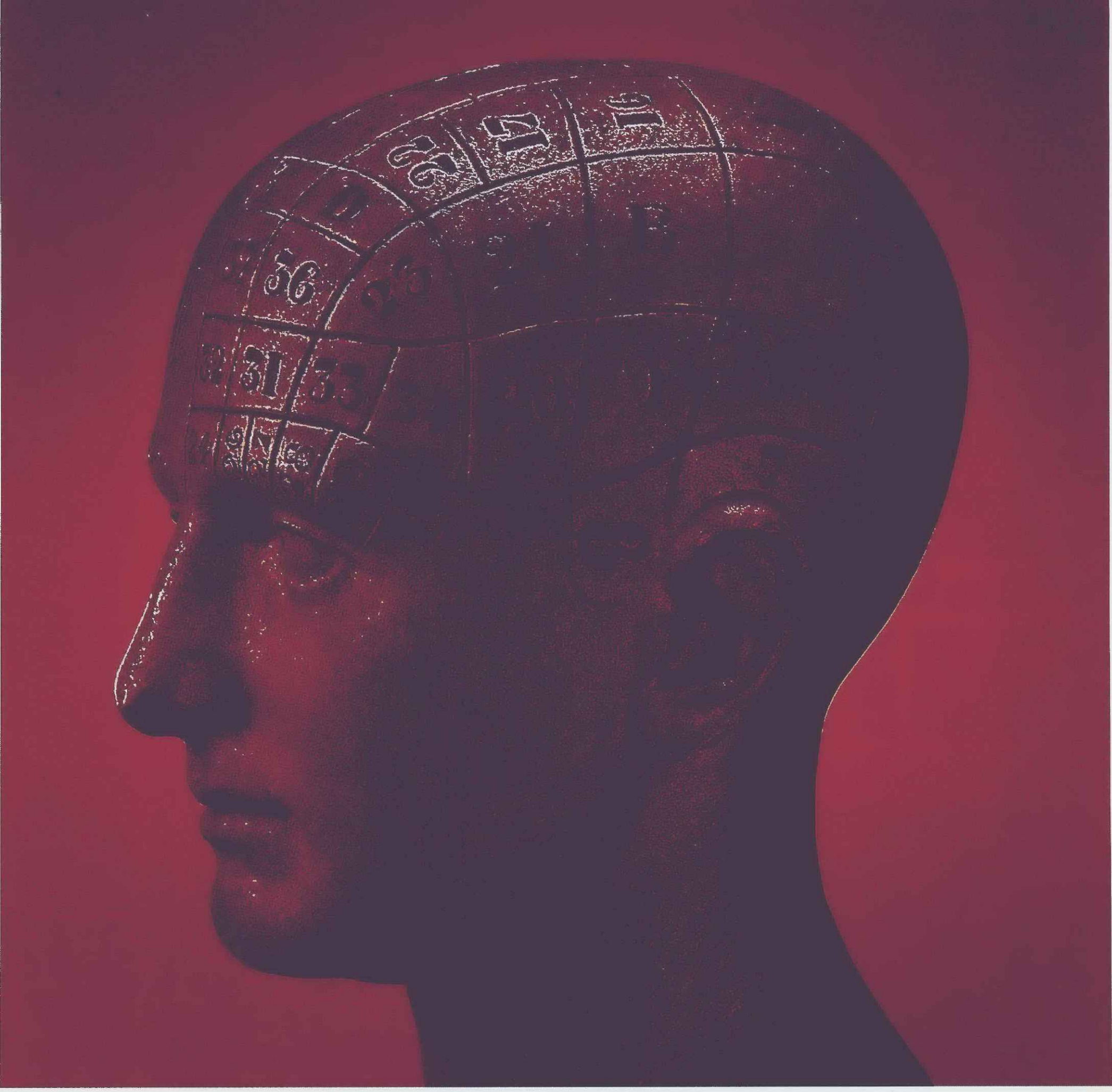
*Laura Mazzuca contributed to this article.*



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Insurer Topics

# News center ready for storm of questions

By MARK A. HOFMANN

KENDALL, Fla.—Scorched by bad press after the 1989 Oakland, Calif., hillside fires, property/casualty insurers vowed that they would do everything possible to avoid having their image blown to pieces by Hurricane Andrew.

As a result, insurers and agents banded together to establish the Hurricane Insurance Information Center in Kendall, Fla., only weeks after the most devastating storm in U.S. history ravaged southern Florida.

The problem with the industry's response to the Oakland fire was that insurers treated it strictly as an emergency rather than also as a news event. They did not have knowledgeable representatives in the area to deal with the public and the media, said Gordon Stewart, president of the Insurance Information Institute in New York.

As a result, the industry's perspective was lost, while critics received a great deal of attention, he said.

The idea for the HIIC came in late August at a meeting of the Insurers Public Relations Council in Pittsburgh, said Ron Arnold, vp-public relations for the State Farm Group in Bloomington, Ill.

The consensus of participants was, "I hope we don't treat it like we did Oakland," said III's Mr. Stewart.

They recalled that some progress had been made in the response to the aftermath of the 1992 Los Angeles riots. The Los Angeles-based Western Insurance Information Service operated out of its office in the riot area to field media inquiries.

So the logical response to the hurricane was, "Why don't we open an office right on the site and run this as an all-industry office" rather than an III branch in the hurricane-devastated area? Mr. Stewart observed.

That was the beginning of the HIIC in Kendall, a city of about 40,000 people located between Miami and Homestead, site of some of the hurricane's worst damage.

INSURANCE INFORMATION CENTER

The HIIC differs from the normal III operation. It is not simply a project of insurers that belong to the industry-supported group, Mr. Stewart said.

Instead, HIIC draws its financial and personnel support from several outside sources, including agent associations and insurers that have traditionally shunned involvement with industry associations. Supporters include New York-based American International Group Inc. and State Farm, the nation's largest insurer.

State Farm joined because Hurricane Andrew confronted insurers with "a unique situation, and that's our benchmark for getting involved," Mr. Arnold said.

Like Mr. Stewart, Mr. Arnold said that creating the center reflected the lessons learned from the Oakland fires.

The center's advisory board includes seven national company or agent associations, six Florida associations and 20 insurance companies.

The center has a budget of roughly $200,000 for the first six months, and insurers expect the facility to remain open for perhaps as long as a year, Mr. Stewart said. He stressed that the center is not designed to solve complaints about coverage.

"The companies have to do that," he said.

The most important function of the HIIC is simply "to be there" to field questions, Mr. Stewart said.

By disseminating information, the center also makes people in other areas of the country ask themselves what they can learn from this particular catastrophe, he said.

If nothing else, the disaster should lead them to examine their own insurance coverage, he said.

The hurricane, for instance, has implications for the whole country, said Bill Bailey, special counsel to the III and currently the center's co-director. Insurers may have spent 25% more on repairing property than was justified because of construction that didn't meet code and inadequate inspections, he said. This could result in new underwriting criteria for property exposed to hurricanes, he said.

Mr. Bailey and co-director Sam Miller, who is also executive director of the Florida Insurance News Service, have compiled statistics that answer some of the most frequently asked questions.

For example, based on telephone polling, the HIIC estimates that about 85% of the Andrew-related claims had been settled by the end of December, and that insurers had paid between $9 billion and $10 billion to hurricane victims by that time, said Mr. Bailey.

In addition, because of the demand for building materials and other taxable goods and services, Florida is collecting an unexpected $300 million in unanticipated sales tax, said Mr. Bailey.

He noted, however, that rebuilding isn't happening as quickly as expected. He said that many people appear not to want to return to their former neighborhoods. "All reports to us indicate the usual number of problems, but nothing like what you might have expected with 650,000 claims."

With the exception of one paid staff secretary, all of the people at the center are volunteers. Roughly a half-dozen people work at the center at any given time, Mr. Bailey said.

"Overall, the media is aware of us," he added, but the phones aren't ringing off the hook.

Most of the calls come from the media or from local civic groups looking for information or speakers, he said.

"But after somebody appears on TV or radio, (the phones) go crazy," he said.

Things may get even crazier next month after "60 Minutes" airs a tentatively scheduled segment dealing with the aftermath of the hurricane. Ed Bradley interviewed both Mr. Bailey and insurance industry critics for the segment. BI


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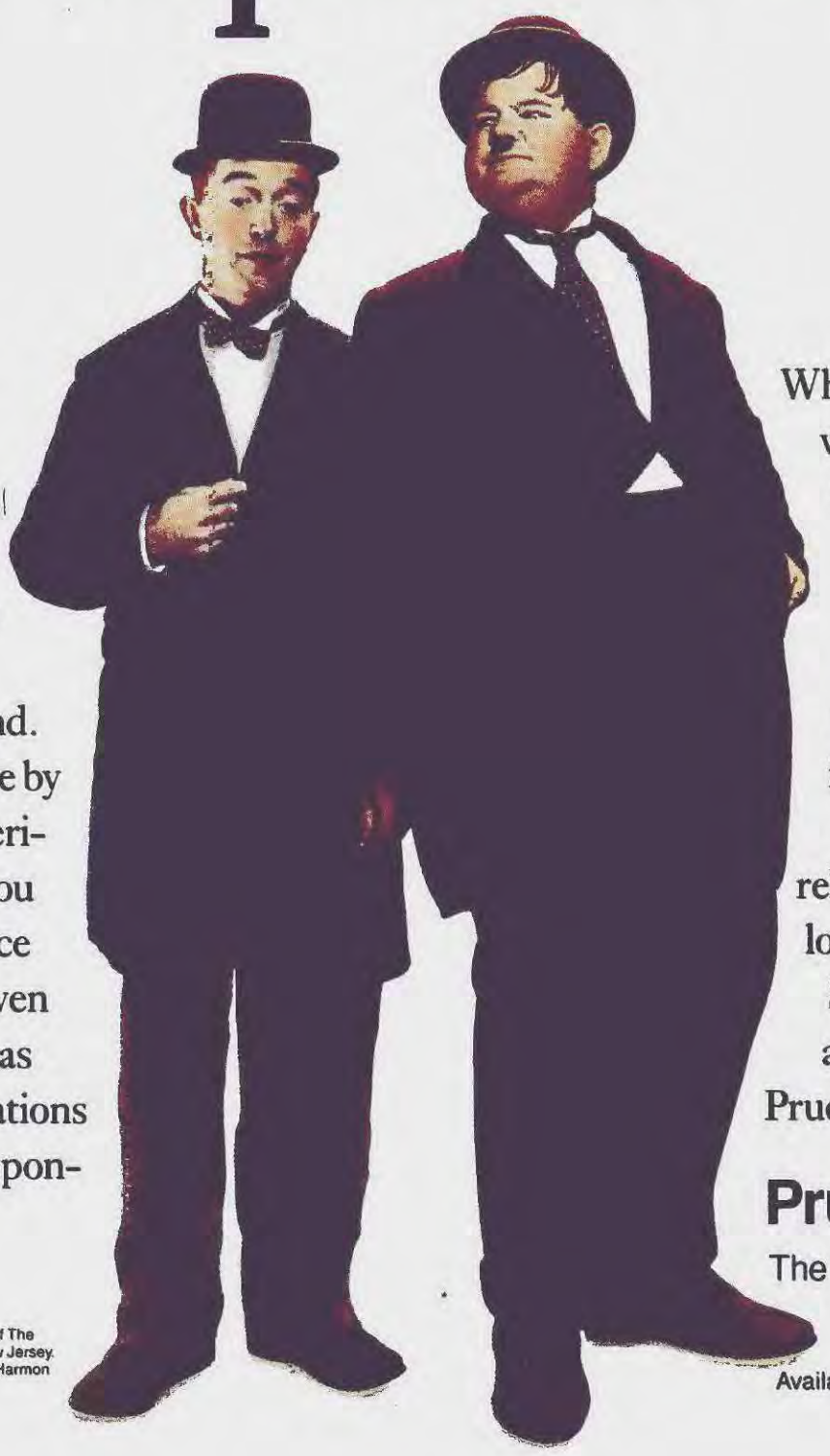

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Insurer Topics

# Regulation is biggest concern: Insurer CEOs

By MARK A. HOFMANN

Regulation is the factor that insurance company chief executive officers most frequently regard as making their jobs "particularly demanding and difficult."

In fact, 62% of the insurance CEOs participating in a recent survey commissioned by New York-based Ernst & Young cited regulation when asked to name their two biggest headaches.

Twenty-nine percent of the respondents ranked legislation as one of their top two irritants.

The "competitive environment" was the next largest concern, cited by 26% of respondents.

The survey notes that when insurance company executives were asked to rank their biggest concerns in a 1987 poll, 34% of the respondents ranked regulation as their top concern and only 3% put legislation at the top of their list. By the 1992 survey, the percentages had risen to 45% and 8% respectively.

Property/casualty insurance CEOs were slightly more likely than life/health insurers to cite regulation as a factor making their jobs more difficult last year, with 64% ranking it either first or second, compared with 60% of the life/health insurers.

Property/casualty CEOs were far more likely to see legislation as a major headache, with 37% of them ranking it No. 1 or No. 2 compared with only 22% of their life/health counterparts.

Property/casualty executives were also far more likely than their life/health counterparts to cite the competitive environment as a serious problem, with 33% of the property/casualty respondents calling it the No. 1 or No. 2 problem compared with only 19% of the life/health CEOs.

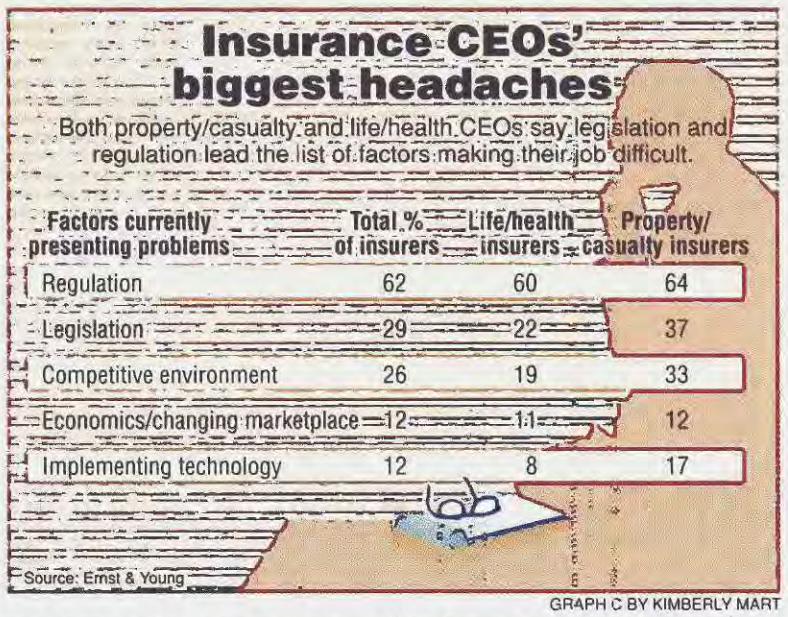
A more pressing concern for life/health CEOs in 1992 was the "impact of rating agencies," cited by 11% as a serious problem, whereas none of the property/casualty CEOs ranked rating agencies among their top two concerns.

In addition, 10% of the life/health insurers considered "maintaining financial stability/capital surplus" to be a significant problem compared with only 1% of the property/casualty executives. Nine percent of the life/health respondents cited lack of profitability as a chief concern compared with 2% of their property/casualty counterparts.

The property/casualty and life/health CEOs split sharply in their evaluation of the business climate in 1992 compared with a year earlier.

Overall, 36% of the CEOs surveyed said last year's climate was less favorable than 1991, while 30% said more favorable, and 34% said about the same.

Only 19% of the property/casualty CEOs thought the 1992 business climate was better than a year earlier, compared with 41% of the life/health executives. And nearly four in 10—39%—of the property/casualty executives said the business climate had deteriorated, a pessimism shared by 33% of the life/health CEOs.



GRAPH C BY KIMBERLY MART

Forty-two percent of the property/casualty executives thought the situation had remained static between 1991 and 1992, compared with 26% of the life/health CEOs.

The profile of insurer CEOs that arose from the survey showed that the typical CEO spent half his or her life in the insurance industry before achieving the company's top office.

The typical CEO entered the business by the age of 24; achieved a supervisory position at 29 and became CEO shortly before age 48. The sample seemed to indicate that climbing to the top of the corporate ladder is taking a little more time than was the case only five years earlier, when the respondents to the 1987 survey reported an average age of 46.2 upon becoming CEOs.

The study also notes that "one out of two large insurers seemingly has changed its CEO since 1987, as 51% of the chief executives in 1992 say they have held the top spot for five years or less."

The study notes, however, that this is a slower rate of turnover than that indicated in the 1987 study, when 59% of the CEOs reported having their positions for five years or less.

In addition, 26% of the CEOs in the 1992 survey had been head of their companies for six to 10 years, more than double the 12% rate reported in 1987.

Not surprisingly, the average CEO in the 1992 survey was older than the average respondent to the 1987 study. In 1992, the average CEO was 52.4 years old compared with 50.4 years old five years earlier.

Property/casualty CEOs tended to be both slightly older on average than their life/health counterparts and to have held their positions slightly longer.

Marketing/sales was the most common background among CEOs, with 45% having spent time in that area; underwriting ranked second, with 25% of the CEO reporting having specialized in that discipline; and finance ranked third, with 21% having specialized in that field.

Ernst & Young drew its information from telephone interviews with 172 insurance company CEOs between June 5 and Aug. 6, 1992. The sample included 88 CEOs from property/casualty companies and 84 life/health insurers.

Stock companies predominated in the sample, with 103 stock company CEOs compared with 69 mutual or reciprocal insurer executives.

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*For further information on the study or for a free copy, contact Lisa Rudnick, Ernst & Young, 787 Seventh Ave., New York, N.Y. 10019; 212-773-6122.*

# Institute takes driver's seat on highway safety

By MARK A. HOFMANN

RUCKERSVILLE, Va.—A few miles up the road from Monticello, Thomas Jefferson's home, stands a strange monument. It is built neither of marble nor granite but, rather, twisted metal. The monument consists of the wreckage of two 1989 Chrysler LeBaron automobiles that crashed on a Virginia road nearly three years ago.

The collision was the first known crash in which air bags were activated in both cars. Even though the cars were wrecked, the drivers—only one of whom was buckled in—walked away with minor injuries, living testimony to the efficacy of air bags.

The cars greet visitors in the lobby of the Insurance Institute for Highway Safety's new Vehicle Research Center in Ruckersville, Va., a small town a few miles north of Charlottesville.

The institute, which is supported by the property/casualty insurance industry, opened the center in mid-December as part of its ongoing effort to promote auto safety research, such as the air bag studies it has been conducting for nearly two decades.

The $8.2 million facility provides the IIHS with "greatly expanded research capabilities," said Brian O'Neill, president of the institute.

"I believe it is a measure of the commitment of auto insurers to long-term highway research" that the center was created and funded, he said.

"We chose this site because. . .we wanted to be in the seven-county region where we have an ongoing research project," said Mr. O'Neill. And a site north of Charlottesville would be easy to reach from the institute's headquarters in Arlington, Va., roughly 100 miles away.

The ongoing crash study, which centers on seven counties around Charlottesville, began in 1987. Among other issues, institute researchers are trying to match different types of collisions with specific injuries and to determine what vehicle design features could be enhanced to reduce injuries.

The institute was founded in the late 1960s and has been conducting auto safety tests since 1969, but crash testing was always contracted out to other facilities.

Mr. O'Neill said the institute chose to build its own research facility because dependence on outside contractors had become "increasingly unsatisfactory."

For instance, the two major high-speed test centers, one in New York and the other in Ohio, were almost always booked far in advance by the government or automakers, making short-notice testing impossible, he said.

And, the facilities' locations were inconvenient, he said. To make matters worse, a Virginia facility used for low-speed crashes is now focusing on military work and could no longer guarantee timely execution of institute tests, Mr. O'Neill said.

The result was the new center, which will begin its formal work with a low-speed test crash program scheduled to start later this month.

The facility includes offices, laboratories and an indoor crash area as well as a more traditional outdoor track. About 15 or so professionals work at the site.

The center includes a first of its kind 160-ton crash barrier. The steel and concrete device, which is used in car-to-barrier crashes, moves on an air cushion. As a result, it can be moved out of the way for car-to-car crashes, allowing the same facility to be used for a variety of tests.

In addition, the air cushion allows the barrier to be moved at different angles for tests, unlike most existing crash barriers.

The center also features the only stored gas propulsion system in North America to propel test vehicles down its three runways. The system provides a smoother trip down the runway than more traditional electric motor systems. The system—used in Europe for more than a decade—is also less susceptible to power fluctuations than more traditional systems.

Professional photographers film tests at the facility at speeds of up to 1,000 frames per minute. That is 10 times the common speed for filming instant replay action in professional sports. The high-speed filming allows extremely detailed slow-motion review of crashes.

Also, the center's lighting system is customized to avoid the harshness associated with films made only for engineering purposes at other crash facilities. This softer lighting films tests without excessive shadows and reflected light.

Issues the tests will deal with include:

- Designing systems that lessen the severity of lower-limb injuries.
- Determining if it is the size or mass of a vehicle that has the greatest influence on occupant safety.
- Improving trucks' rear guards to temper the impact of cars sliding into and under them.
- Determining how well door locks perform in various crash configurations.
- Continuing tests on the reliability of bumpers. BI

**The drivers walked away from this car, now in the Vehicle Research Center's lobby, thanks to air bags.**

Insurer Topics

# Responding to probe of finances

## Insurers need to know what to do if SEC comes knocking

**By Kenneth B. Winer**

**IT Perspective**

AT LEAST FOUR INSURERS have announced since 1991 that they are the subjects of inquiries by a working group established within the Securities and Exchange Commission's Division of Enforcement to investigate insurance companies.

An SEC inquiry into a company's financial reporting frequently lasts two or more years and can have many adverse consequences. An inquiry can consume thousands of employee hours and demand the time and attention of senior personnel who are already fully occupied managing the company.

And the SEC enforcement staff might communicate with insurance regulators in a manner that disrupts relations between the regulators and the company.

There are eight basic steps for responding to an SEC inquiry:

• **Cooperate with the SEC upon receiving the initial inquiry.**

An SEC inquiry can be triggered by referrals from the commission's Division of Corporation Finance, newspaper reports, letters from disgruntled shareholders or their attorneys, and referrals from another federal or state agency.

Typically, an inquiry begins with SEC enforcement staff asking the insurer to voluntarily provide various types of information and documents.

Insofar as the commission has the power to delegate to the enforcement staff the authority to issue subpoenas, companies usually comply voluntarily with these requests and attempt to allay the staff's concerns. This early stage of the inquiry is critical, as the failure to resolve the staff's concerns relatively promptly can result in a long, drawn-out investigation of the company's financial reporting and systems of internal accounting controls.

• **Consider whether disclosure of the inquiry is necessary or appropriate.**

Disclosure of the inquiry might be required by SEC regulations or by generally accepted accounting principles. The company may determine disclosure is prudent, even if it is not required.

However, announcement of the inquiry frequently triggers potentially harmful press coverage which, among other things, generates policyholder concerns and may trigger lawsuits against the company and its officers.

If the insurance company decides at the outset of the inquiry that disclosure is not warranted, the decision should be revisited as events develop.

• **Consider notifying suppliers, customers, auditors and primary regulators of the inquiry.**

When conducting an investigation that relates to a regulated company, the SEC's enforcement staff frequently contacts the company's auditors, regulators, and individuals and entities doing business with the company. The consequences of these contacts might be mitigated if the company contacts those individuals and entities before the SEC does.

The company should seriously consider consulting its auditors, both because the auditors are a valuable information source for the company and frequent information source for the enforcement staff.

The company should also evaluate whether notice is appropriate under its directors and officers liability insurance policy.

• **Upon receipt of a document or information request, the company's counsel should arrange to meet with the Enforcement Division staff.**

It is usually appropriate for counsel to meet with the staff of the SEC's Enforcement Division to discuss its document requests and attempt to narrow the scope of both the specific document requests and the inquiry itself. For example, in an inquiry involving the valuation of below-investment grade securities, the staff might be persuaded to focus its inquiry on 10 securities. Narrowing the focus of the inquiry will reduce the burdens imposed on the company, help move the inquiry to a rapid conclusion and reduce the risk that the staff will stumble into additional issues.

Such a meeting also facilitates the production of the requested documents and provides a valuable opportunity for the company to learn through counsel the focus of, and sometimes the basis of, the inquiry. In some instances, such a meeting can provide an opportunity for company counsel to persuade the enforcement staff that its concerns are unfounded.

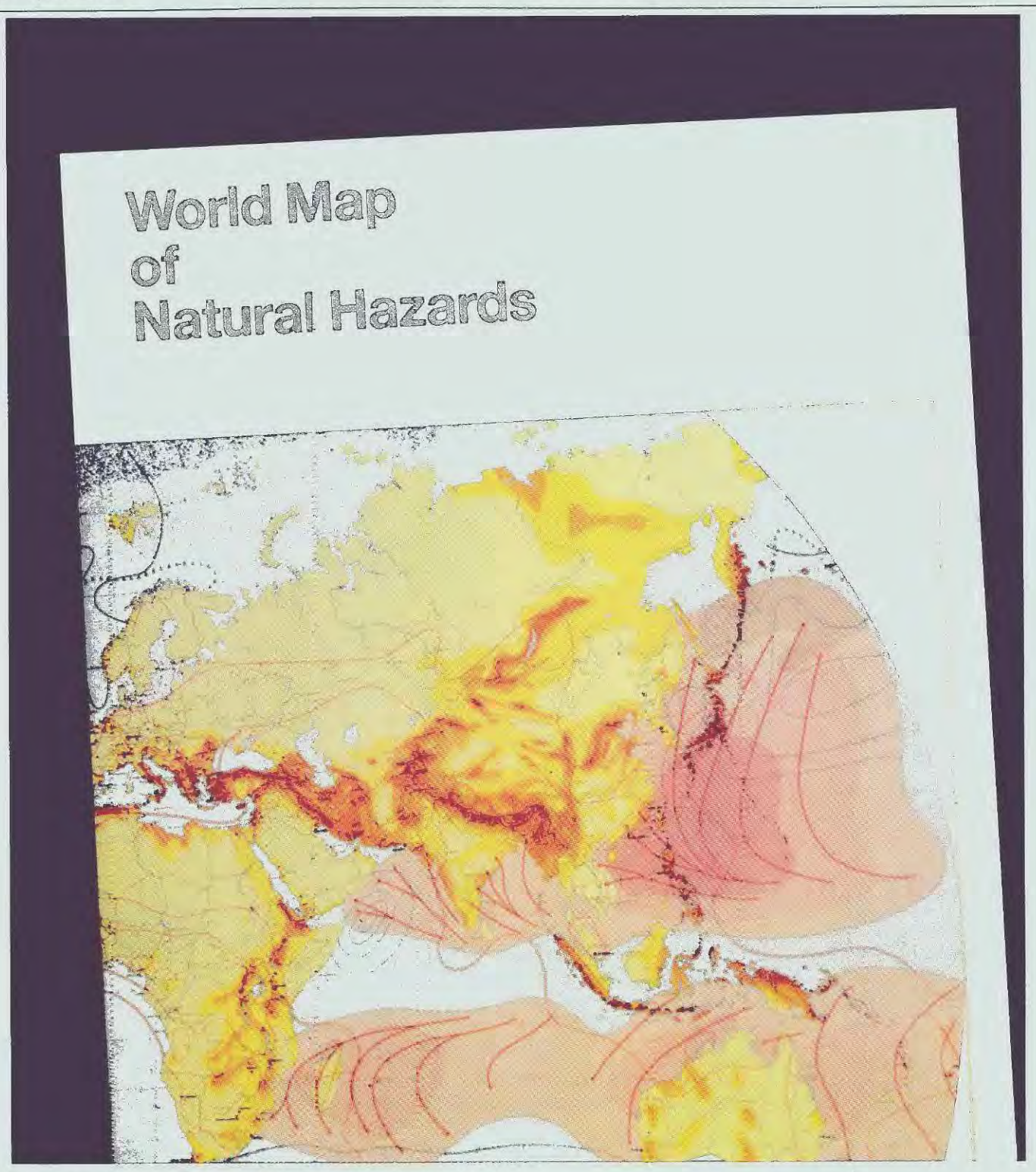
• **After production of the requested documents and information, the insurer should consider whether to attempt persuading Enforcement Division staff to discontinue the inquiry.**

An informal inquiry can sometimes be defused in its early stages by producing the requested materials and information in meetings at which corporate counsel, and sometimes corporate officers and/or the auditors, allay the staff's concerns. If possible, it is important to allay the staff's concerns before members of the staff feel heavily invested in the inquiry.

• **Company counsel should continue to communicate during the course of the inquiry.**

The enforcement staff will frequently seek to take the testimony of corporate personnel and others under oath. The witnesses have the right to be

*Continued on next page*

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Insurer Topics

# SEC inquiry

*Continued from previous page*
accompanied by counsel. Such testimony frequently lasts a full day and can last a week or more.

In some instances, an inquiry can proceed for months or for years without the enforcement staff asking the commission to delegate subpoena power. Even if the company and people under the company's influence cooperate, a third party may fail to cooperate. In this circumstance, the staff will seek subpoena power. The commission can delegate subpoena power to the staff by issuing a formal order of investigation. Once a formal order has been entered, the staff can issue subpoenas without further authorization.

Throughout this process, company counsel should attempt to maintain communications with the enforcement staff regarding not only procedural matters, but also the substance of the inquiry in order to reduce the risk that the staff will go off on tangents and to identify opportunities for favorable resolution of the inquiry.

- **If notified that an enforcement action will be recommended, company counsel should meet with the SEC and consider initiating settlement discussions.**

If the enforcement staff decides to recommend that the commission authorize an enforcement proceeding against the company or others, the staff will ordinarily give each prospective defendant/respondent the opportunity to provide a written submission to the commission setting forth the reasons such a proceeding would be inappropriate. In most circumstances, the staff is willing to meet with counsel for the prospective defendant/respondent to discuss the grounds for the recommendation.

In many instances, the staff will discuss settlement at this point if the discussions are initiated by the proposed defendant/respondent. There are a number of advantages to negotiating a settlement at this point. For example, the staff might be more flexible in negotiating the type of action to be brought. It is important that the company's counsel recognize the collateral effects that certain settlements can have on the company or its affiliates.

- **In the event that the commission authorizes an action, the company will usually have an opportunity to negotiate a settlement.**

Ordinarily, when authorizing an enforcement proceeding, the commission will also authorize the staff to engage in settlement discussions. For several reasons, most companies settle SEC enforcement actions before they are brought. One reason is that adverse findings at the conclusion of a litigated proceeding are likely to be binding on the defendants in a subsequent suit brought by disgruntled shareholders. And, litigation with the SEC can drain executives' time and energy.

The SEC's Enforcement Division investigators appear to be focused primarily on the accounting for and disclosures regarding investment securities, including below investment-grade securities and real estate. Measures that a registrant can take to avoid an enforcement action include:

- Gathering information necessary to evaluate the investment.
- Employing a systematic methodology that includes documentation of the factors considered in determining the appropriate accounting treatment for the asset and income and losses on that asset.
- Documenting the registrant's procedures and accounting policies.

The only proceeding against an insurance company since the 1991 formation of the SEC's insurance fraud working group involved investment securities.

GAAP accounting specifies that a determination be made as to whether a decline in the market value below cost as of the balance sheet date is "other than temporary." If the decline is "other than temporary," the carrying value of the security should be written down to a new basis. The SEC has brought a number of cases involving this principle, primarily against banks.

The SEC expects registrants to begin their analysis with the market price and to document the factors considered and the specific rationale employed in determining whether an impairment is temporary. The SEC has indicated that the factors considered should be objective and should include: the length of time and the extent to which the market value has been less than cost; the financial condition and near-term prospects of the issuer of the securities in question, including any specific events which may influence the operations of the issuer; the intent and ability of the holder to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in market value; the strategic nature (if any) of the investments; the condition and trend of the economic cycle; the issuer's financial performance and trends in that performance; the issuer's dividend payment record; and any significant data regarding audit options and regulatory agreements.

In addition, the one proceeding against an insurance company indicates that the SEC also expects a registrant to disclose each of the investments it holds in a single issuer where the aggregate carrying level exceeds 10% of the registrant's stockholder equity and to disclose the amount of securities that it holds that are not income producing.

In addition, the SEC's charges against the insurer included an allegation that it had misrepresented that the "company believes that its investments in high yield/high risk obligations will have no material adverse effects."

A financial reporting release issued in 1986 and in a number of enforcement proceedings against financial institutions indicate that the SEC staff would normally expect to find that the books and records of registrants engaged in lending activities include documentation of systematic methodology to be employed each period in determining the amount of loan losses to be reported, and rationale supporting each period's determination that the amounts reported were adequate.

Due to the subjective nature of determining the need for a loan-loss allowance, the staff is far less likely to recommend an enforcement proceeding if the company has complied with documentation guidelines, has acquired the appropriate supporting information and materials, and has made reasoned, supportable judgments.

Publicly owned insurance companies with investments in real estate should be aware that in 1987 the staff criticized a major bank for giving "undue consideration to potential future financial recoveries and business turnarounds of the borrowers."

The staff stated that "it is inappropriate in determining the estimate of loss on that loan to anticipate the effect of future events. . .except to the extent that there is reasonable and documented evidence that it is probable that one or more future events will occur confirming the anticipated effect and its impact on the determination of the estimated loss." The staff also expressed the view that "in making reserve decisions in a distress situation, a lender cannot rely on oral assurances absent reasonable and documented, objective evidence that the assurance will be honored."

The SEC staff expects that the issuer should monitor its investment portfolio—but not necessarily every real estate investment—every quarter if the investment portfolio has an element of risk and is a significant part of the issuer's assets.

The Enforcement Division staff has stated that management should base the amount of allowance upon a consideration of all relevant factors including, but not limited to, the historical experience of the institution, the collectibility of individual loans constituting the portfolio (including their current status and performance) and the impact of the current economic environment on the portfolio.

The extent to which the staff would view an insurance company as having a similar duty is likely to depend on the relative importance of the particular investment portfolio to the company.

The commission has also indicated that the process for determining loan-loss allowance should include checks and balances to counter the possible tendency of persons involved in loan origination or servicing, or who are compensated based on loan performance, to establish allowances against those loans. BI

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*Kenneth B. Winer is a partner in the Washington law firm of Arter & Hadden where he has represented clients in connection with SEC investigations. He is a former branch chief in the SEC's Division of Enforcement.*

## IT Briefs

### Maatman to head highway safety group

ARLINGTON, Va.—Gerald L. Maatman has been named chairman of the Insurance Institute for Highway Safety, the group announced earlier this month.

Mr. Maatman, who is chairman and CEO of Long Grove, Ill.-based Kemper National Insurance Cos. and director of Kemper Risk Management Services, served on the institute's board from 1976 to 1978 and since 1991.

He succeeds D. Richard McFerson, who was chairman from 1991 to 1992. Mr. McFerson is president of Columbus, Ohio-based Nationwide Property & Casualty Insurance Cos.

Mr. Maatman's involvement in highway safety issues includes serving with the Advocates for Highway and Auto Safety, the National Commission Against Drunk Driving, and the leadership council of the Network of Employers for Traffic Safety.

The institute also named Dale F. Mathwich as vice chairman. Mr. Mathwich, who is chairman and CEO of Madison, Wis.-based American Family Mutual Insurance Co., has been on the board since 1991.

He also serves as a director of the National Assn. of Independent Insurers.

### ACORD moves offices

WHITE PLAINS, N.Y.—ACORD will move its offices from White Plains, N.Y., to Pearl River, N.Y., within the next few months, according to its president, Robert E. Merriman.

The insurance association's new address will be 1 Blue Hill Plaza, 15th Floor, Pearl River, N.Y. 10965-8829. The new telephone number is 914-620-1700, and the fax number is 914-620-0808. The group's toll free number, 800-444-3341, is unchanged.

The group said it expects to complete the move well before its automation conference and annual meeting in March.

"Service to ACORD members and subscribers will not be affected during this transition," said Gregory A. Maciag, executive vp.

*—By Nancy P. Johnson*


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Insurer Topics

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| North American Reinsurance | 16C |
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Jimmy R. Glisson
Risk Management Office
City of Tallahassee, Florida

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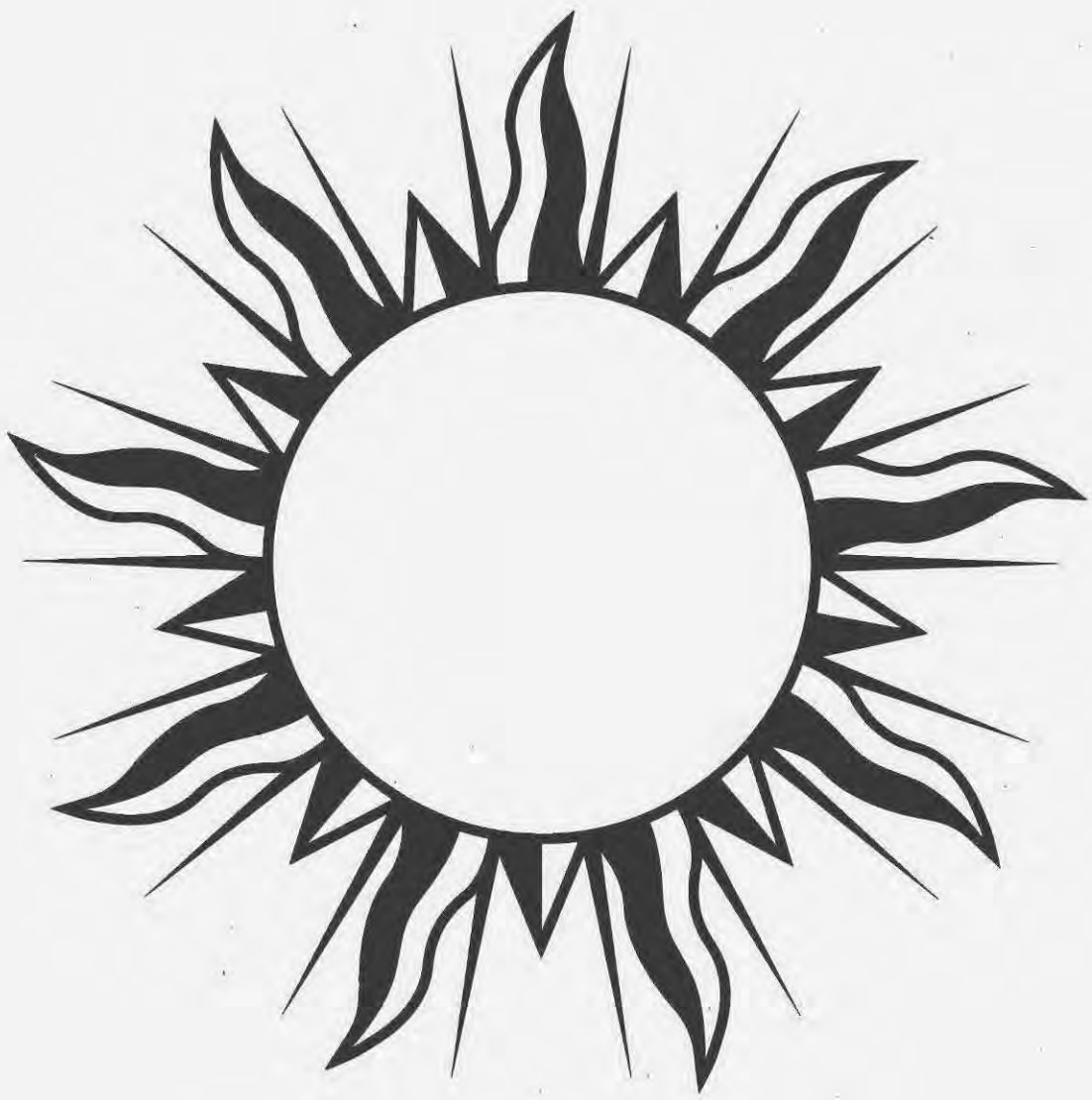

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*Continued from previous page*

■ **Self-insurance growth trends** as they relate to the conventional insurance market, alternative mechanisms, specific states and lines of insurance are reviewed by Johnson & Higgins. Request item 1632.

■ Kemper Risk Management Services offers an article for **risk managers who are considering self-insurance**. Request item 1633.

## WORKERS COMPENSATION

■ A Crawford & Co. directory lists its **health and rehabilitation management office locations** throughout the United States and Canada. Request item 1701.

■ An information sheet from Scott Wetzel Services Inc. details a California law mandating that workers comp insurers create **fraud identification units** and how SWS is assisting those efforts. Request item 1702.

■ A brochure from Kemper National Insurance Cos. provides an overview of **workers comp fraud prevention** topics. Request item 1703.

■ The State Compensation Insurance Fund of California summarizes the **California Workers' Compensation Reform Act of 1989** and subsequent revisions. Request item 1704.

■ How a **light-duty program can help an injured worker** return to work is discussed in a bulletin from Scott Wetzel Services Inc. Request item 1705.

■ A brochure from Crawford & Co. describes its FAST Assessment program for **evaluating workers compensation claimants** and potential problem claims. Request item 1706.

■ Specific Software Solutions Corp. offers a guide to **computing workers comp modification factors**. Request item 1707.

■ Kemper National Insurance Cos. defines its **integrated risk management services**, particularly in the realm of workers compensation, for insured and self-insured employers. For a brochure, request item 1708.

■ A GAB Business Services Inc. booklet describes **managed workers comp care in Louisiana**. Request item 1709.

■ A brochure discussing **Georgia workers comp law**, outlining new and replaced sections of the state code, is provided by Scott Wetzel Services Inc. Request item 1710.

■ Liberty Mutual Insurance Co. supplies a brochure describing its approach to **preventing workers comp claims**. Request item 1711.

■ Available from Towers Perrin is a survey on **cost management approaches** to restrain workers comp. Request item 1712.

■ Richard B. Frank & Associates provides a checklist for employers to evaluate the **effectiveness of a workers comp program**. Request item 1713.

■ A pamphlet provided by Transamerica Insurance Group describes **workers comp fraud and prevention efforts.** Request item 1714.

■ A GAB Business Services Inc. publication details **how average weekly wages are calculated** in each state to determine workers comp premiums. Request item 1715.

■ Crawford & Co.'s HealthCare Management Services for **workers comp, accident and health cost control** are described in a booklet. Request item 1716.

■ A brief **description of the Americans with Disabilities Act** and employers' responsibility to accommodate handicapped and injured employees is offered in a bulletin from Scott Wetzel Services Inc. Request item 1717.

■ Sandler Occupational Medicine Associates Inc. and Computer Information Applications Inc. offer a pocket reference of selected titles in **medical research relating to workers comp**, vocational rehabilitation and other worker-related injuries. Request item 1718.

■ A Crawford & Co. brochure describes its early intervention medical management program that, among other things, **screens lost-time cases** to determine potentially high-cost workers comp cases. Request item 1719.

■ CARE Systems Corp. offers a brochure on its **workers comp management information system**. Request item 1720.

■ A pamphlet outlining 10 steps to **lower workers comp costs** is supplied by the State Compensation Insurance Fund of California. Request item 1721.

■ U.S. Intell Investigative Services offers an article reprint reviewing tactics for **rural surveillance of a workers comp claimant**. Request item 1722.

■ A Kemper National Insurance Cos. leaflet defines **problems facing the workers comp system in California** and offers constructive solutions. Request item 1723.

■ An NRM Computer Systems Inc. brochure examines the latest in **workers comp automation** technology and how it can improve performance and save money. Request item 1724.

■ An article reprint from Ellis & Associates Inc. explores the **impact of the Americans with Disabilities Act** on workers comp, vocational rehabilitation and return-to-work issues. Request item 1725.

■ GAB Business Services Inc. provides a bulletin on **stress in the workplace** and related key legal cases in all 50 states. Request item 1726.

■ The National Medical Advisory Service offers an article discussing the relationship between **indoor air quality and worker health**. Request item 1727.

■ The **steps an employer should take when an injury occurs** under California law are outlined in a pamphlet by the State Compensation Insurance Fund of California. Request item 1728.

■ A guide for claims handlers on **video surveillance of workers comp claimants** suspected of malingering is available from InPhoto Surveillance. Request item 1729.

■ A GAB Business Services Inc. publication contains a summary of **workers comp self-insurance guidelines** in each state. Request item 1730.

■ Changes in the **Massachusetts workers comp law** and its impact on the insurance industry are discussed in an article from Crawford & Co. Request item 1731.

■ Warning signs that may signal **workers comp fraud** are reviewed in a pamphlet from Liberty Mutual Insurance Co. Request item 1732.

■ General **workers comp questions employees may have** are addressed in a brochure from the State Compensation Insurance Fund of California. Request item 1733.

■ A CARE Systems Corp. booklet details how its **information system can manage workers comp claims**, reserves, fraud detection, loss prevention and safety, among other things. Request item 1734.

■ The National Medical Advisory Service provides an article reprint on **sick-building syndrome** and cases in which employees complained, but indoor air quality was normal. Request item 1735.

■ A State Compensation Insurance Fund of California report examines **workers comp cost drivers in California** and suggests reforms. Request item 1736.

■ A booklet supplied by GAB Business Services Inc. overviews the **Americans with Disabilities Act**, with emphasis on employment-related provisions. Request item 1737.

■ A Crawford & Co. brochure describes its **return-to-work program**, which provides medical and vocational assessments, as well as job placement assistance. Request item 1738.

■ The text of a speech given by an American Risk Management Corp. executive offers suggestions to build and maintain management support for a **workers comp safety program**. Request item 1739.

■ U.S. Intell Investigative Services supplies an article reprint explaining **how to select and work with a private eye** to investigate workers comp claims. Request item 1740.

■ A guide to **evaluating workers comp insurance dividend plans** is available from the State Compensation Insurance Fund of California. Request item 1741.

■ An article from Occupational Health Services Inc. and Behavioral Healthcare Tomorrow examines the increase of **stress-related workers comp claims** and preventive measures to reduce them. Request item 1742.

■ An information packet available from National Rehabilitation Centers Inc. describes an **early return to work system** that manages medical and rehabilitation services. Request item 1743.

■ A perpetual calendar designed to **calculate the number of days, weeks or months between two dates**, such as date of injury and return to work of a workers comp claimant, is offered by GAB Business Services Inc. Request item 1744.

■ A booklet from Continental Rehabilitation Resources Inc. details the **Americans with Disabilities Act**, how to turn the new law into a way of doing business and how to demonstrate compliance. Request item 1745.

■ A kit from Specific Software Solutions Corp. includes a software demonstration disk for understanding and computing **New Jersey workers comp modification factors**. Request item 1746.

■ Commonwealth Risk Services Inc. supplies a booklet describing a **rent-a-captive approach** to lowering the cost of workers comp insurance. Request item 1747.

■ Sandler Occupational Medicine Associates Inc. and Computer Information Applications Inc. present a guide to medical standards and examination programs for employee placement and accommodation under the **American with Disabilities Act**. Request item 1748.

■ A U.S. Intell Investigative Services brochure describes how to **recognize and respond to fraudulent workers comp claims** with surveillance. Request item 1749.

■ A program to monitor injured workers' treatment and assist employers with setting up a **return to work program** is described in a brochure from Crawford & Co. Request item 1750.

■ A booklet covering **workers comp claims investigation services** available to insurers, third party administrators and self-insured entities is available from The Aegis Group Inc. Request item 1751.

■ Nine reasons why **insurance rates for workers comp** and other coverages are escalating are reviewed in a publication from Kemper National Insurance Cos. Request item 1752.

■ A personal computer-based system to **manage workers compensation claims** for self-insurers is described in a leaflet from Insurance Data Processing. Request item 1753.

■ A Crawford & Co. paper overviews the **Americans with Disabilities Act**, how it will be enforced, its effect on workers compensation and litigation and how to handle ADA-related claims. Request item 1754.

■ A Liberty Mutual Insurance Co. booklet describes a **telephone workers compensation claims reporting system**. Request item 1755.

■ Action Healthcare Management Services offers a guide explaining **cost control mechanisms for workers comp plans**. Request item 1756.

■ Recommendations on how **contractors can survive the workers comp crisis** with minimal financial damage is available in a paper from Sedgwick James Inc. Request item 1757.

■ The Alexander Consulting Group Inc. offers a pamphlet on **controlling workers comp costs** by targeting multiple cost drivers. Request item 1758.

■ Crawford & Co. provides a brochure reviewing its **medical case management program** along with a diagram for the workers compensation market. Request item 1759.

■ A six-step program to manage **workers comp claims costs** is described in a Liberty Mutual Insurance Co. brochure. Request item 1760.

■ A booklet details Crawford & Co.'s **hospital bill audit services** for workers comp care, as well as group health claims. Request item 1761. BI

**Business Insurance** **Information Resource**

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# Comp initiative

*Continued from page 1*

posed initiative in many ways parallels the Disney plan. For example, the initiative would require employees to pay for part of their vocational rehabilitation, while the Disney proposal subtracted from permanent disability awards the costs of vocational rehabilitation training, education and maintenance benefits.

The Disney bill was sent to Assembly Insurance Committee Chairman Burt Margolin, D-Los Angeles, but was not introduced.

Coincidentally, Assemblyman Horcher had served as vice chairman of that committee, which since has been merged with the Assembly Finance Committee to form the Assembly Finance & Insurance Committee.

However, Chuck Black, chairman of Orange County Businesses for Workers Compensation Reform, said the two measures sprang up simultaneously out of monthly gripe sessions where members of the 1½-year-old coalition discussed ways to improve the system.

"I put together a list" that Disney used to develop its legislative proposal and that Assemblyman Horcher is using to write the initiative, explained Mr. Black.

"But while they're doing legislation, we're doing the ballot initiative," he said.

Assemblyman Horcher also plans to introduce a bill in the Legislature that will mirror the initiative, said Ron Brand, his chief of staff.

But the intent is not to threaten lawmakers with the initiative, he said. Rather, the initiative is serving as more of a back-up in case lawmakers don't pass a reform measure this session.

"We can always stop the initiative if the Legislature passes a bill," he said. But because of the time it takes to complete the qualifying process, it would be impossible for a ballot proposal to be ready by 1994 if backers wait until the end of the session, Mr. Brand pointed out.

While the initiative is only a "first draft" not yet written in official language, it eventually will include provisions designed to:

- Eliminate stress claims filed upon termination and severely restrict other stress claims.
- Allow injured workers and their employers to have a greater say in the types of vocational rehabilitation selected, if any. Employees also would be required to contribute to the cost of their vocational rehabilitation.
- Eliminate the minimum rate law. This was proposed last summer by the Workers Compensation Rate Study Commission, which was appointed by the state Legislature to examine the competitiveness of workers comp rates (*BI*, March 16, 1992).
- Increase California's workers comp disability benefits, which currently rank 47th in the nation. Maximum weekly total disability benefits are now set at $224.
- Provide additional funding for fraud investigation and prosecution and require recoveries to be used to perpetuate the fund.

The Insurance Department's workers comp fraud budget was slashed last year when Gov. Pete Wilson used his line-item veto power to cut more than $12 million earmarked for all forms of insurance fraud, according to a department spokesman.

That left the department with approximately $10 million—nowhere near enough to investigate the more than 1,000 cases reported to the department each month, Insurance Commissioner John Garamendi said at the time.

Indeed, some 1,700 filings in Orange County alone are in limbo since only one supervisor and one investigator have been assigned to probe workers comp fraud in the entire county, according to Mr. Black.

While the initiative campaign appears to be gaining momentum, not all California employers are ready to climb aboard.

For example, even though Carl Karcher is hosting the Jan. 29 press conference, "it's premature for us" to support the initiative, a company spokeswoman said.

"We're not ready to abandon the normal legislative channels," said John Middagh, Disney's workers compensation manager.

In addition, Disney and many other employers "are concerned about it becoming another Proposition 103," he added.

"We recognize that there are a lot of special interest groups involved (in the reform process), and we can't just draw a line and cut them off," added Ellen Cooper, financial analyst in Disney's Burbank headquarters.

But both the coalition's Mr. Black and Campaign Management's Mr. Englander think that Disney is "dreaming" if it thinks the Democratic-controlled state Legislature will pass a Republican-backed workers comp reform proposal the year before a GOP governor is up for re-election.

Yet Disney remains committed to its bill. "Our goal is to learn the lesson of 1992 and rise above the partisan fray to present a plan which is neither Republican nor Democratic but which benefits both employers and legitimate injured workers," observed Kate Bartolo, vp-government affairs.

California Compensation Insurance Co., one of the insurers that Mr. Black claims was "interested" in backing the initiative, doubts the measure will be approved by voters, most of whom are workers.

"You wonder how workers will respond," said Maury Costa, senior vp for the Novato-based insurer. "We don't have experience in the work comp arena for initiatives."

However, the initiative may have a chance of passage if it is billed as benefit enhancing, rather than as a take-away, speculated Richard H. Soper, executive director of the rate study commission and principal of Soper & Associates in Palos Verdes.

Cal Comp's Mr. Costa also was dubious that the insurer would support eliminating the minimum rate law.

"We have never come out in favor of changing the minimum rate law," he said, adding that the additional resources the minimum rate provides to insurers allows them to provide much needed loss control services that help reduce claims.

But the initiative process may be the best way to bring all of these issues out on the table where the users of the system—employees—can decide with the power brokers what is best for them, observed Michael Anthony, executive director of the California Health & Safety Council in Sacramento, which is backing the initiative. BI


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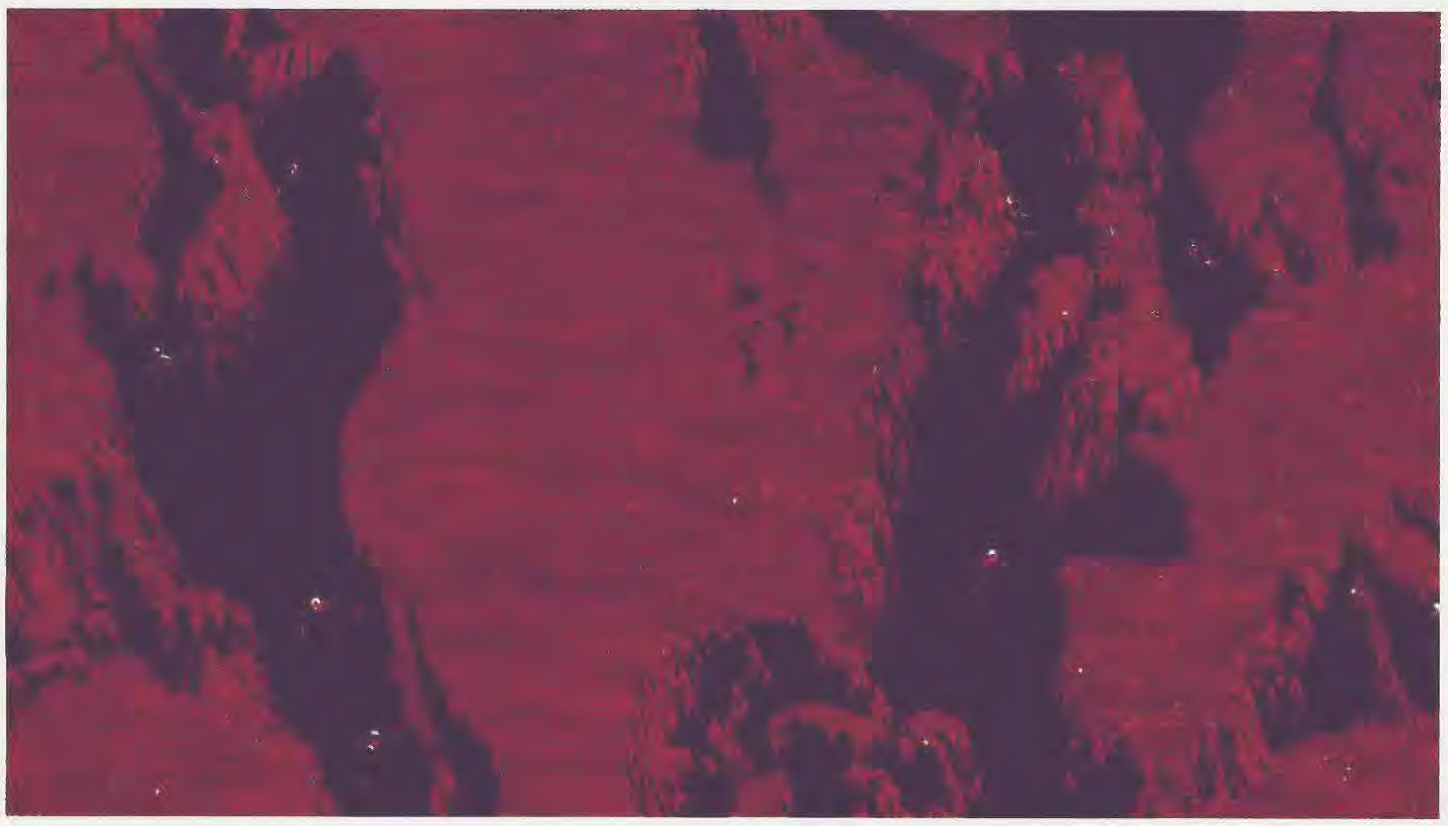

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# For the Record

## Preventive comp benefits for health care workers

SACRAMENTO, Calif.—Employers will be required to provide workers compensation benefits to cover the cost of preventive treatment for health care workers exposed to blood-borne diseases under a new law in California.

S.B. 890, which was introduced by Sen. Bill Lockyer, D-Hayward, also expands the definition of compensable injury in the state labor code.

The definition now includes any reaction to or side effect from employer-provided prophylactic treatment to prevent the development of any blood-borne disease, such as hepatitis or HIV, following a documented occupational exposure to blood or bodily fluid containing blood.

Costs of the treatment and any indemnity and medical benefits arising from the treatment are payable under the workers comp system unless the affected employee tests positive for HIV within 48 hours of the alleged exposure.

Because of the long latency period between exposure and a positive test, a worker who tests positive within 48 hours likely already carried the virus.

Health workers had argued that workers exposed to the AIDS virus should be treated with drugs, just as those who step on a rusty nail are given a tetanus shot to prevent lockjaw (*BI*, Aug. 24, 1992).

## Law requiring proof of workers comp repealed

SACRAMENTO, Calif.—Business license applicants in California will no longer have to produce certificates of insurance showing they have workers compensation insurance under a new law that took effect Jan. 1.

Applicants for city or county business licenses had been required to provide proof of valid workers comp coverage to obtain or renew their licenses. Now they need only to complete a coverage declaration.

For more information, contact Richard Robyn at the state Division of Workers Compensation, Department of Industrial Relations, P.O. Box 420603, San Francisco, Calif. 94142; 415-557-1954.

## Soldier of Fortune to pay $4.4 million

WASHINGTON—The U.S. Supreme Court let stand without comment a $4.4 million award to the sons of a man killed in a contract murder arranged through a classified ad in Soldier of Fortune magazine (*BI*, Aug. 31, 1992).

An attorney for Soldier of Fortune said last summer that the magazine lacks adequate insurance to cover the award.

## Empire BC/BS plan settles N.Y. dispute

ALBANY, N.Y.—Empire Blue Cross & Blue Shield will receive a one-time $100 million cash infusion from New York state in exchange for a reduction in Empire's recently approved average rate increase for small groups and individuals to 20% from 25.5%.

Under the agreement reached last week between Gov. Mario Cuomo and key Republican state senators, Empire will receive $100 million from the state's overfunded medical malpractice insurance fund. In return, the average rate increase that Empire can charge its 1.4 million small group and individual medical insurance purchasers will be lowered to 20% from an average increase of 25.5% previously approved by Insurance Superintendent Salvatore Curiale.

Also under the agreement, Empire can not raise rates by more than 25% for individual purchasers of major medical insurance or Medicare supplemental policies, known as Medigap policies.

The agreement will settle a 1992 lawsuit by all New York Blue Cross & Blue Shield plans. They charged that the malpractice fund, which is financed by surcharges on hospital bills paid by insurers, has a surplus of several hundred million dollars due insurers.

While the agreement will reduce rate increases for about 400,000 individuals, it will also help Empire bolster its weak reserves, which currently stand at about $30 million. Statutory requirements call for Empire to possess about $510 million in reserves.

## Insurers are fighting Seattle arson spree

SEATTLE—Following a rash of 1992 arsons in the metro area that caused $10 million in property damage, insurers are contributing to a fund and supporting a hot line aimed at stopping the crimes.

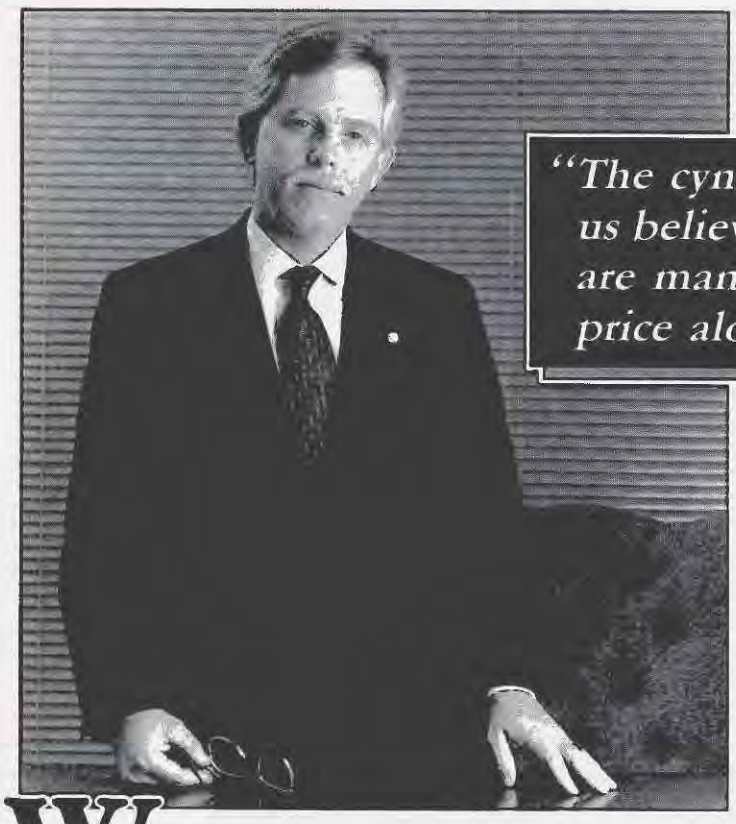
The arsons began last September and slowed in October, but have continued sporadically. Despite the losses, early predictions of 10% increases in property rates over two years do not appear to be panning out.

SAFECO Insurance Co. of America reports $2.8 million in arson losses, but says it has no plans to raise rates.

"I don't know of anyone considering a rate increase because of this," said a spokeswoman.

So far, the Washington Insurance Council, a public relations group, has collected $46,000 to combat the arsons.

Rewards are being offered for information leading to arson convictions. BI

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# INTERNATIONAL

## INTERNATIONAL DIGEST

### Bermuda insurers report healthy growth in 1991

BERMUDA—Bermuda's international insurers and reinsurers reported 1991 gross premiums written of $15.4 billion, an 18.3% increase over 1990, according to Bermuda insurance authorities. Net premiums written totaled $11.81 billion, a 16.8% improvement over 1990's $10.11 billion. Total capital and surplus increased 9.3% to $19.86 billion in 1991. The ratio of net premiums written to capital and surplus is less than 1:1, according to Pamela Adams, acting registrar of companies.

### Gerling Group won't renew industrial risk policies

KOLN, Germany—The Gerling Global Reinsurance Group says that beginning with the 1992/1993 renewal period, it no longer will renew many of its industrial risk policies.

In a report on its results for fiscal year 1991-1992, Gerling indicates it will follow a more selective underwriting policy in order to "shape up" its book of business.

Measures are aimed at reducing underwriting losses, which amounted to 193.5 million deutsche marks ($127 million at appropriate exchange rate) for the 12 months ending June 30, 1992, compared with a loss of 245.9 million deutsche marks ($135.7 million) for the year earlier.

Gerling does not expect gross premiums in fiscal 1992-1993 to increase substantially from 2.6 billion deutsche marks ($1.59 billion at the current exchange rate) reported for 1991-1992. That volume was up 16% from 1990-1991 premium volume, largely due to the insurance boom in eastern Germany, a company spokesman said.

### Insurance act proposed in Trinidad and Tobago

PORT OF SPAIN, Trinidad—The government of the Caribbean nation of Trinidad and Tobago has proposed a new insurance act that would allow the insurance authorities to intervene earlier if an insurer is "operating in a manner inconsistent with the existing legislation," says Leroy Mitchell, insurance supervisor at the Ministry of Finance. The act, which the Finance Ministry proposed to Parliament late last year as part of a budget package, also would mandate that multiline insurers file semiannual returns. Under proposals for the new act, companies would be able to increase their assets by including operations that do not pay dividends. Larger reported assets would allow companies to write higher premiums.

### IntAP clears U.S. asbestos and pollution claims

KOLN, Germany—The International Alliance of Asbestos & Pollution Reinsurers—IntAP—says it has cleared $500 million in U.S. asbestos, pollution and other long-tail exposures from London market reinsurance claims. IntAP acts as a clearinghouse for asbestos-related and pollution reinsurance claims made by London ceding companies.

IntAP analyzed 13 asbestos-related accounts last year. At least 24 accounts are to be examined in 1993, including billions of dollars in claims against former asbestos producer Johns Manville Corp.

The non-profit body, which represents more than 40 mainly non-professional reinsurers, was the brainchild of Wilhelm Zeller, chief executive of Cologne Reinsurance Co. and the clearinghouse's chairman (*BI*, Jan. 20, 1992).

### Colonia consolidates administrative operations

KOLN, Germany—Colonia Insurance Group plans to consolidate the administrative operations of five of its subsidiaries: Colonia Versicherung A.G., the immediate parent of Cologne Reinsurance Co.; Colonia Krankenversicherung; Colonia Bausparkasse; Colonia Lebensversicherung; and Nordstern-Versicherungs Group.

The new consolidated entity will be called Colonia Nordstern Verwaltungs & Finanz A.G. The group's finances, bookkeeping, personnel and electronic data processing services will be combined under the new company, a spokesman said. The consolidation is aimed at improving Colonia's profit margin.

### New U.K. member company for benefits network

BRUSSELS, Belgium-Confederation Life Insurance Co. (U.K.) Ltd. has joined a multinational benefits network as a U.K. representative.

Brussels-based Insurope/The Multinational Benefits Assn. announced that Confederation Life will underwrite and administrate group life, disability and pensions in the United Kingdom. British United Provident Assn. Ltd. will continue to be Insurope's member company for medical coverage.

Confederation Life (U.K.) is a unit of Confederation Life Insurance Co. of Toronto.

Insurope has approximately 40 member insurers worldwide (*BI*, Nov. 9, 1992).

### American companies form Dublin captives

DUBLIN, Ireland—Ford Motor Co. and Hertz Corp. each have set up new reinsurance captives in Dublin, according to the Industrial Development Authority of Ireland.

As of year-end 1992, 72 captives are established in Dublin, said Kevin Hynes, manager/advisor of the financial services program for the IDA. Sixteen new captives were set up last year, and four withdrew.

**By Maria Kielmas**
**Don Lewis Kirk**
**and Stacy Shapiro**

# London's fittest to survive contraction, analysts say

**By STACY SHAPIRO**

LONDON—While London will continue to play a prominent global role in insurance, the specter of a contracting market remains and policyholders must be cautious, according to several analysts.

Although they face tough times in the short term, London's fittest brokers and underwriters will survive and become stronger, continuing in the world's largest insurance community, the analysts agree.

Yet the London market apparently has lost some clout in North America, as statistics show that less reinsurance business is coming from the United States.

"While many London market operations will continue to present acceptable security, several must now be treated with considerable caution," warned Standard & Poor's Insurance Rating Services in a new report.

"S&P believes that the London market will continue to play a major role in the global insurance marketplace, but is equally convinced a high degree of care is needed in the choice of insurer or reinsurer," said the report, titled "London Insurance Market Faces New Strains."

Lloyd's of London will "continue to function and perform its leadership role," agreed Salomon Brothers Inc. in a recent report, titled "The London Insurance Market—A Leaner, More Focused Lloyd's."

London market insurers also will "continue to provide major underwriting support despite the departure of several smaller participants," it added.

However, London's brokers "will have to run harder to stand still in the face of a declining revenue," added Salomon Brothers.

"Even the most innovative and flexible of the Lloyd's brokerage community are finding their resources stretched to the limit by

*Continued on next page*

# North Sea storm losses

GRAPHIC BY KIMBERLY MART

## Heavy winds lead to ship explosion; claims expected to top $1 million

**By GAVIN SOUTER**

LONDON—Marine insurers face up to 7.5 million Norwegian krone ($1.1 million) in claims after a ship carrying explosives blew up in rough seas off Norway last week.

Despite hurricane-force winds hitting Norway, Scotland and energy production platforms in the North Sea last week, insurers in Scandinavia and Britain expect few other large weather-related claims.

Two North Sea rigs also sustained non-storm-related damage last week.

The cargo ship MV Stavfjord was carrying 200 metric tons of dynamite, 300 tons of ammonium nitrate and 43,000 detonators when it was caught in heavy seas on Jan. 9. The 20-year-old ship was owned by A/S Vestfart in Mo, Norway.

The ship was due to call at various ports on the Norwegian coast to deliver the cargo to mining companies.

But the voyage ended when the Stavfjord started to list after some bags of ammonium nitrate shifted to the starboard side due to high waves, said Villy Jacobsen, managing director of V.J. Jacobsen, which managed the ship.

A tug began to tow the ship back to port, but the line broke and the Stavfjord ran aground on rocks on a small island near Drammen on Norway's south coast, Mr. Jacobsen said.

Then early in the morning of Jan. 11 the ship exploded and was destroyed, he said. The cause of the explosion is unknown.

The crew had left the ship prior to the explosion.

The hull is insured for 3.5 million Norwegian krone ($504,000). The risk is placed with Tromstrygd Tjensidig Sjoeforsikringsselskap in Tromsoy, Norway.

Liability coverage is placed with the Assuranceforeningen Gard protection and indemnity club in Raendal, Norway.

The cargo is worth approximately 4 million Norwegian krone ($576,000) and is owned by Dyno, an Oslo chemical company. Dyno's

*Continued on page 25*

# Oil spill pollution claims may spread to U.S. courts

**By GAVIN SOUTER**

SHETLAND ISLANDS, Scotland—Dozens of Shetland Islanders may take pollution damage claims stemming from the wrecked oil tanker MV Braer to U.S. courts, a lawyer says.

Most of the 24.7 million gallons of Norwegian light crude oil has escaped from the Braer, which last week broke up after more than a week on the southern tip of the Shetlands. Heavy seas have made it impossible for salvors to remove any of the oil left on board the ship.

The ship's liability insurer has set up an office on the islands and has made funds available for advance compensation to claimants.

The British government has banned fishing and harvesting of fish along a 47-mile stretch of coastline around the wreck. The government has also launched a second inquiry into the incident.

Solicitors Levy & McRae of Glasgow, Scotland, and loss assessors Balcombe Group P.L.C. of Manchester, England, are currently discussing the possibility of a class action with nearly 50 potential claimants on the Shetlands, said Peter Watson, a partner at Levy & McRae.

Mr. Watson has previously represented plaintiffs in cases involving claims from the Lockerbie air disaster and Piper Alpha oil rig disaster in 1988.

The forum in which the claimants would plea their case has yet to be decided, he said. However, as the Braer's managers and the owners of the cargo are based in the United States, the claimants may try their case in U.S. courts, he said.

The tanker's agent, Navinvest is based in Stamford, Conn., and the cargo's owner is Ultramar Inc. of New York.

In Britain, total pollution liability claims from the Braer would be limited to about $82.4 million under international conventions, unless gross negligence by the operator's senior management is proved (*BI*, Jan. 11).

In the U.S., however, there are no limits on oil spill liability.

The limit that would be imposed in Britain might not be enough to cover the claims that arise from the incident, said Brian Caplan, managing director of Balcombe.

"It's early days, but $82 million is not a vast sum nowadays," he said.

Levy & McRae is currently holding discussions with several other solicitors who have clients on the islands to try and ensure a class action rather than hundreds of indi-

*Continued on page 25*

# INTERNATIONAL

## London market

*Continued from previous page*

current upheavals in the London market," observed consultant De Lisle Jessup Scott, which prepared a report on Lloyd's brokers in conjunction with DYP Group Insurance & Reinsurance Research Group Ltd.

The London market accounted for only 2% of the world's insurance and facultative reinsurance gross premiums at the end of 1990, according to the most recent Lloyd's statistics.

However, the London market still accounts for 32.5% of insurance and facultative reinsurance premiums written for marine business and 37% of its aviation business, showing a clear dominance in these markets.

The London market also accounted for 12.3% of the world's treaty reinsurance premiums at the end of 1990, Lloyd's statistics show. Altogether, the London market wrote 12.5 billion pounds ($23.38 billion) in gross premiums at year-end 1991, up 17% from 10.7 billion pounds ($20.65 billion) in 1990.

These statistics include Lloyd's results plus those of the Assn. of British Insurers.

However, billions of dollars in catastrophes and the collapse of the London excess-of-loss reinsurance market has caused a noticeable contraction of the London market, the analysts note.

For example, while gross premiums of members of the London Insurance & Reinsurance Market Assn. grew 21% to 2.8 billion pounds ($5.24 billion) at the end of 1991, gross claims paid jumped 28% to nearly 3.7 billion pounds ($6.92 billion) in the same period. Gross claims also outpaced gross premiums by almost 1 billion pounds ($1.87 billion) at the end of 1991.

The claims ratio "tells a consistent and well-known story about recent trends in the world reinsurance market and the scale of the task facing London companies to restore all classes of business to profitability," LIRMA said.

LIRMA's financial report, published last week, also shows that the percentage of total gross reinsurance premiums generated by U.S. business dropped to 17.5% in 1991, from 27.5% in 1986.

Contraction is evident when looking at other statistics about the key players in the London market, though there are no estimates of the total lost capacity.

For example, only 88 of the 130 authorized insurance companies that wrote "London market" business in 1981 continue to write the business, according to S&P's Insurance Rating Services. A total of 58 companies have dropped out of the market since 1981, including some that started in the last decade.

S&P defines London market business as international coverage written in London, as opposed to U.K. domestic business.

Also, the Institute of London Underwriters' membership has dropped to 92 companies at the end of 1992, from 102 companies at the end of 1991, according to an ILU spokesman. There were 116 companies at the end of 1990.

And Lloyd's, the acknowledged center of London's market, just announced the withdrawal of another 2,000 members, bringing the market capacity to between 8.5 billion and 9 billion pounds ($13.12 billion to $13.9 billion) this year, from 10.02 billion pounds ($15.18 billion) in 1992, and 11.2 billion pounds ($20.94 billion) in 1991.

The British Department of Trade and Industry, meanwhile, said that from the start of 1990 to the end of 1992, it has withdrawn authorization to write insurance from 68 companies for a variety of reasons.

The DTI figures exclude underwriters that have ceased writing new business but continue to pay claims. As a result, it excludes five insurers that were on the defunct H.S. Weavers (Underwriting) Agencies Ltd. line slip, as well as several insurers that ceased underwriting in 1992: Bryanston Insurance Co. Ltd.; The Continental Assurance Co. of London P.L.C.; English & American Insurance Co. Ltd.; The Orion Insurance Co. P.L.C.; Trinity Insurance Co. Ltd.; and Andrew Weir Insurance Co. Ltd.

At the end of 1991, the last year for which figures are available, there were 836 companies authorized by the DTI to write insurance in the United Kingdom. Of these, 456 are members of the ABI, which collectively wrote about 90% of all business written by U.K. insurers, excluding Lloyd's, according to an ABI spokesman. The ABI membership dropped by six companies to 450 at the end of 1992.

The contraction of the London market, however, may not be totally over.

As of the end of 1992, S&P rated 41 London market companies as "vulnerable," said Stuart Shipperlee, director of business development (Europe) at S&P in London.

At the end of 1991, S&P had rated 27 companies as "vulnerable" and only a handful of them have since ceased underwriting, Mr. Shipperlee said.

The acute financial stress in the London market "partly reflects a concentration of high-risk business in London but also the remarkably low capitalizations of many London market insurers and reinsurers," said S&P's recent report.

Many London market companies are "surprisingly small operations for the potentially volatile lines of business for which London is so famous," the report said.

In 1992, only 17 Lloyd's of London syndicates had the capacity to write more than 100 million pounds ($187 million), with an average premium capacity for all 278 syndicates of only 36.5 million pounds ($68.26 million), says S&P.

The 134 "London market" companies—excluding branches of foreign companies—in 1990 averaged net premiums of only 23.7 million pounds ($45.74 million) and shareholders' funds of only 16.6 million pounds ($32.04 million), S&P adds.

The solvency margin ratio strengthened between 1981 and 1990 to 142.9% from 167.5% for London market companies.

"However, this has only been achieved by the injection of over 935 million pounds ($1.44 billion) of new capital," said S&P. "Self-financed growth has only contributed 300 million pounds ($463.2 million), of which three companies accounted for as much as 135 million pounds ($208.4 million). Up to 82.5% of financial income has been wiped out by underwriting losses, part of which has been caused by the need to strengthen and raise the levels of reserves," said S&P.

The low levels of capitalization are a fundamental weakness of the London market even though many players are subsidiaries of large non-U.K. insurance groups, the S&P report added.

However, the Salomon Brothers report released in November is more bullish about the London market.

Admittedly, many established companies have withdrawn capacity or are charging more for the capacity they have, Salomon Brothers said. However, while there will be additional withdrawals from the London market, "the net competitive impact of this shrinkage will be modest," it concluded.

Salomon Brothers is not so optimistic, however, about the future of all of the 219 Lloyd's brokers that were in business in late 1992. "In a competitive market threatened by a volatile and shrinking revenue base and increasing pressure to add value, (broker) industry consolidation is clearly a possibility," says the report. "From the investor's standpoint, the most attractive opportunities are likely to be found in the successful, young, focused and entrepreneurial brokerages."

Capacity retraction in the London market "has had a dramatic effect" on brokers, adds the report written by Julianne Jessup, a consultant with De Lisle Jessup Scott & Co. Brokers who depended on LMX business for profits are having to "do without this prop. . .just as tougher market conditions are hitting the rest of the account."

London market brokers are feeling pressure on cash flow due in part to currency fluctuation, falling interest rates and expenses, particularly for administering runoff.

"A small but growing number (of brokers) face financial collapse," Ms. Jessup speculated. A number of Lloyd's broker failures could mean that there isn't anyone to manage the runoff of claims from defunct insurers, she added.

•

*For a free copy of "London Insurance Market Faces New Strains," published in S&P's Insurance Focus, Volume 1, No. 3, contact Stuart Shipperlee, Standard & Poor's, Garden House, 18 Finsbury Circus, London EC2M 78P; 71-826-3561.*

*Copies of "The London Insurance Market—A Leaner, More Focused Lloyd's" are $500 for non-clients. Contact Michelle Caputo, Salomon Brothers, 7 World Trade Center, 36th Floor, New York, N.Y. 10048; 212-783-6680.*

*"Hard Times in a Hard Market for Lloyd's Brokers" is available free from Julianne Jessup, De Lisle Jessup Scott & Co. Ltd., 20 Cousin Lane, London EC4R 3TE; 71-329-4432.*

*Copies of "LIRMA Reinsurance Statistics, 1982-1991" are available for 25 pounds ($37.50) from London Insurance & Reinsurance Market, 41-43 Mincing Lane, London EC3R 7AE; 71-480-5999.*


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## Coverage dispute

*Continued from page 1*

Robert Enoex, chief counsel for the Illinois Insurance Department.

The department plans to file an amicus brief on behalf of the park district because the endorsement makes the coverage "worthless," he said. In addition, the National Union policy endorsement was never filed with regulators for review, as required under the state's file-and-use system, he added.

The Public Risk Management Assn. may also file an amicus brief.

Following the accident, Mr. Claussen received medical coverage and compensation for lost wages under the workers comp coverage of his employer, National Decorating Service Inc. of Oakbrook, Ill.

Then his wife and legal guardian, Patricia Claussen, filed a lawsuit in Cook County Circuit Court seeking compensatory damages from the park district for negligence, violations of the Illinois Structural Work Act and loss of consortium.

After the suit was filed, the park district was "surprised" to learn that National Union was defending it under a reservations of rights, said Betsy Kutska, executive director of the Park District Risk Management Agency in Lisle, Ill., a self-insurance pool for the Glenview Park District and 109 others in the state.

After researching the case, the park district felt "misled," she said.

The contractor, National Decorating, says that National Union added the "blanket additional insured endorsement" to its CGL policy when the contractor asked to have the Glenview Park District named as an additional insured for the painting project, said attorney Kevin Sido of Hinshaw & Culbertson.

The CGL coverage, which was purchased in August 1987, provided $1 million in both per occurrence and aggregate insurance, as required by the park district.

The park district was also named an additional insured under National Decorating's excess and umbrella liability coverage policy, which provided $2 million in per occurrence and aggregate coverage. That policy was from National Surety Corp. in Chicago, a unit of Fireman's Fund Insurance Co.

A certificate of insurance containing that basic insurance information —but no mention of the endorsement—was forwarded to the park district, which kept it on file.

The circuit court found in 1990 that the primary National Union endorsement did not provide the park district, as an additional insured, with any coverage for damages from its negligence. The court ruled, though, that the National Surety umbrella policy "dropped down" to provide such coverage.

In June 1992, a unanimous, three-judge panel of the Illinois Court of Appeals agreed with the lower court that coverage for an additional insured's negligence was excluded by the endorsement, and also that National Surety must drop down to act as the primary insurer for claims against the park district.

However, the appellate panel found that the endorsement's negligence exclusion did not apply to claims against the park district for alleged violations of the Illinois Structural Work Act.

The unusual law is "an extremely broad and liberal act which protects injured workers," said Robert Chemers, an attorney with Pretzel & Stouffer in Chicago, who is National Union's lead counsel in the case.

"A plaintiff in Illinois would rather go to the jury on a Structural Work Act claim than a common law negligence claim, because the plaintiff's conduct is not an issue," Mr. Chemers noted. Under common law, though, any judgment could be reduced by the plaintiff's own negligence, he explained.

National Union is asking that the state Supreme Court uphold the trial court's finding that the endorsement also precludes coverage for the Structural Work Act claim.

For its part, the Glenview Park District plans to ask the high court to affirm that the endorsement does not exclude claims filed under the Structural Work Act, said Thomas G. DiCiani, an attorney with Ancel, Glink, Diamond & Cope in Chicago, which represents the district. Its filing with the court is due Jan. 20.

And, "It's our position that the negligence exclusion violates public policy because it is so broad that it essentially deprives an insured of any coverage the policy purports to provide," Mr. DiCiani said.

Having the endorsement in force means that the park district is covered only for "rare" cases of "vicarious" liability, such as when an employer is found responsible for its employee's actions, he said.

If the state Supreme Court upholds the endorsement's exclusion of coverage, the park district plans to ask that the case be sent back to the circuit court to determine whether the district was negligent. The district will also ask that National Union be required to continue to defend the park district until such a finding is made.

Several risk managers for major public entities in Illinois were "appalled" when told of the case, Ms. Kutska said. Several plan to check certificates of insurance from contractors in their files to see if National Union is the insurer and, if so, to get copies of underlying policies to see if the blanket endorsement is included, she said.

"I've not seen this type of endorsement," said Bob Esenberg, risk manager for Virginia Beach, Va., and a past president of the Risk & Insurance Management Society Inc.

It's a "very unusual endorsement," agreed Donald S. Malecki, a risk management consultant with D.S. Malecki & Associates Inc. in Cincinnati.

While many insurers have "a preconceived notion" that an additional insured is only protected for vicarious liability, that is not always reflected in their endorsements, said Mr. Malecki, who has written a book on additional insureds.

He warned risk managers that endorsements may become more restrictive in the future.

J. Patrick Gallagher Jr., president of Arthur J. Gallagher & Co. in Itasca, Ill., agreed that this general area of insurance is "typically disputed." Gallagher was National Decorating's broker.

National Union apparently used the controversial endorsement "fairly widely" in Illinois, said Mr. DiCianni, the park district's attorney, basing his comments on a half-dozen telephone calls he has received from other attorneys engaged in litigation over the endorsement.

National Union would not comment. However, in court briefs, the insurer said, "Glenview's conclusion that the insurance bargained for was not intended to be limited to such a slight risk is directed at the wrong party. Glenview's dispute is not with National Union, but NDS."

The park district is also suing National Decorating, charging that the terms of its insurance did not meet the district's requirements.

"Historically, risk managers have accepted certificates of insurance and tucked them away in a file," noted Mr. Chemers, the insurer's attorney. To make sure they are adequately covered, risk managers should obtain a copy of the contractor's endorsement adding them as an additional insured to its CGL policy or, better yet, a copy of the underlying policy, he advised.

However, Ms. Kutska of the self-insurance pool said it would be "extremely burdensome" for a risk manager to obtain a policy each time an entity hired a contractor—an event that occurs thousands of times a year.

To prevent similar disputes in the future, the pool recently revised its insurance specification recommendations to members to outlaw such exclusionary language.

The park district pool's language states that liability coverage should be at least as broad as Insurance Services Office Inc.'s occurrence forms CG 0001 1185, GL 0002 or GL 0404.

The pool also recommends entirely deleting ISO endorsements CG 21 34 11 88 and CG 21 39 11 88, "or other such endorsement or policy provision which limit contractual liability." BI

# INTERNATIONAL

## Shetland oil spill

*Continued from page 23*

vidual claims, Mr. Caplan said.

The Braer broke up in continued heavy seas last week and most of its remaining oil escaped into the sea, said a Department of Transport spokeswoman. The heavy seas broke up the oil slick and all of the oil has now been dispersed, she said.

However, as of late last week, a thin sheen of oil remained in patches about 20 miles along the coastline around the ship. This, too, should soon disperse in the heavy seas, the spokeswoman said.

The Braer's liability insurer, Assuranceforeningen Skuld, a Norwegian P&I club in Oslo, has been presented with two claims so far, "but obviously we are expecting more," said Michael Thorp, a director of the club. "Our people on the islands will be able to set up a system to deal with them," he said.

The Skuld has also made 200,000 pounds ($308,000) immediately available for advance payments to those claimants "with immediate financial requirements," Mr. Thorp said.

The European Community Commission in Brussels has also made funds available to Shetland Islanders affected by the pollution.

The E.C. Commission is giving 700,000 European Currency Units ($847,000) as a "gesture of solidarity and sympathy," said a spokesman.

The British government placed a ban on all fishing and harvesting of farmed fish and shellfish in an area off the Shetlands last week because of the risk of pollution of the fish from oil and dispersants used to clean up the oil.

The cost to affected salmon farms cannot yet be estimated, said a spokesman for the Shetland Salmon Farm Fishermen's Assn. Last year, the Shetland salmon farming industry received gross revenues of 33 million pounds ($50 million), he said.

The government last week also announced another inquiry into the incident to examine any need for more stringent controls on shipping to prevent future pollution. BI

## North Sea storm losses

*Continued from previous page*

cargo coverage is placed with Vesta General Insurance Co. in Bergen, Norway.

Gales in the North Sea also affected some oil and gas production platforms last week. Statoil, the Norwegian energy company, had to reduce oil production by 10% of normal levels and gas production by 60% of normal levels on six of its production platforms last week. The production decrease is not covered by business interruption insurance, a spokesman said.

Business interruption policies written in London normally offer coverage only after the platforms have been shut down for at least 15 days, and the shutdown normally has to be caused by physical damage rather than bad weather, explained Christopher Compton-Rickett, energy underwriter for Lloyd's of London syndicate 79, managed by Janson Green Ltd.

Property insurers in Norway do not expect a high number of claims as a result of the storm.

"The damage from the storm seems to be much less than was first feared," said a Vesta spokesman. The company last week had only received 100 claims for storm damage.

Insurers throughout Norway are not expecting more than between 600 and 700 claims as a result of the storms, said a UNI Storebrand A/S spokesman.

Insurers in Britain last week also reported relatively few claims as a result of the storms in Scotland.

"It's early days but the signs are that there will not be many claims," said a spokeswoman for General Accident Fire & Life Assurance Corp. P.L.C. in Perth.

The number of calls to General Accident's policyholder helpline increased only slightly after the winds lashed across the country.

Winds blowing at 90 mph affected areas with low populations in the north of Scotland, said a spokesman for Guardian Royal Exchange Assurance P.L.C. in London.

"The winds were very strong, but the damage will be nothing like in 1987 and 1990, when storms hit southern England," he said.

The Assn. of British Insurers has not classified the storm as a catastrophe.

Meanwhile, two incidents occurred on energy units in the North Sea last week not related to the gales.

A fire broke out in the engine room of an oil rig operated by Smedvig Drilling of Stavanger, Norway, on Jan. 13. Damage was limited to the engine room and the rig will be towed to port for repairs, a spokeswoman said.

The cost of the damage has not yet been estimated. The rig has an insured value of $150 million. Coverage is led by Gjensidige Insurance in Oslo.

Also last week, 50 barrels of oil escaped from a British Petroleum P.L.C. production platform after a plug in the main oil line failed.

The plug has been fixed and the oil rapidly dispersed in the heavy seas, said a BP spokesman. BP does not carry any insurance for the incident, he said. BI

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Any person entitled to attend the Meeting can obtain copies of the said Scheme of Arrangement, Forms of Proxy and Explanatory Statement required to be furnished pursuant to section 99 of the Companies Act 1981 at the registered office of the Company situated at 129 Front Street, Hamilton, Bermuda during usual business hours on any day (other than a Saturday, Sunday or Holiday) prior to the day appointed for the Meeting.

The Scheme Creditors who are individuals may vote in person at the Meeting or they may appoint another person, whether a Scheme Creditor or not, as their proxy to attend and vote in their stead. Scheme Creditors which are companies should complete a Form of Proxy.

The Forms of Proxy appointing proxies must be lodged with the Joint Liquidators at the office of the Company situated at 129 Front Street, Hamilton, Bermuda or mailed to P.O. Box HM 1563, Hamilton HM FX, Bermuda. Scheme Creditors are urged to lodge their proxies by 5:00 p.m. on Friday, February 19th, 1993.

By the said Order, the Court has appointed Charles W. Kempe, Jr. or failing him Mr. Nigel J. Hamilton, to act as Chairman of the Meeting and has directed the Chairman to report the result thereof to the Court.

The said Scheme of Arrangement will be subject to the subsequent approval of the Court.

DATED this 15th day of December, 1992.

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Attorneys for the Joint Liquidators

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| **Sub-total** | **28,089** |
| Associations | 416 |
| Government, Unions and Educational Institutions | 1,148 |
| **Commercial Consumers** | |
| **Sub-total** | **29,653** |
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| Insurance Companies | 8,080 |
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## Flex plan survey

*Continued from page 3*

benefits, Ms. Gartner said. This compares with 46% in 1990 and 41% in 1989. No survey was published in 1991.

"Benefit costs are rising and becoming such a critical part of the employee's entire compensation package, so it's becoming more important for employees to understand the value of those benefits," Ms. Gartner explained. Ninety-nine percent of employers surveyed said the employee education objective had been met.

In addition, nearly half of the employers surveyed—47%—said meeting competitive pressures was a key objective in setting up a flexible benefit plan, up from 39% in 1990 and 33% in 1989.

"You wouldn't expect attracting key employees to be a big reason for setting up a flex plan, especially in a recessionary environment," said Caryn Zappone, a Hewitt consultant who worked on the survey. "But if employers want to hire key employees, they may find that those workers are coming from a company that also offers a flex plan."

Controlling overall benefit costs, not just medical costs, is also becoming a more important reason for setting up flex plans. In the 1992 survey, 38% of employers cited this goal; only 26% had two years earlier.

Meanwhile, the survey found that employers are increasingly adding new benefits to their flex plans—many of which are designed to cut medical plan costs.

For example, 50% of employers offered employees PPOs as part of their flex plan in 1992, up from 34% in 1990. Also, 13% of employers in 1992 offered point-of-service plans within a flex plan, up from just 3% in 1990, the survey found.

Employers discovered they could not control medical plan costs as well by simply offering employees indemnity plan choices, Ms. Gartner explained. Initially, though, employers resisted adding managed care options to flex plans because they could not reconcile the fact that flexible benefits meant "choice," but managed care programs restricted choice, she said.

"They thought it would be too confusing to employees, but it's not. You do have to control the number of flexible plan options available, but those options can include managed care," Ms. Gartner said.

Employers also are trying to reduce the number of spouses covered under the medical plan on a primary basis, the survey found.

Reducing coverage to spouses who are eligible for coverage under another employer's medical plan is a recent trend, Ms. Gartner said. "Only in the past year or two has discussion about limiting spousal coverages come up," she said, noting that 88% of employers continue to offer spousal coverage options with no restrictions or surcharges.

But, Hewitt asked employers about these initiatives for the first time in 1992 and found that 12% of employers are imposing some sort of restriction.

According to the survey, 4% of employers in 1992 required employees to pay the full cost of spousal coverage; 4% offer restricted coverage or require employees to pay a surcharge; and 4% do not provide primary coverage to spouses who are eligible for coverage elsewhere.

Companies also are increasingly adding health promotion initiatives to flexible benefit plans, the survey reported. In 1992, for example, 17% of employers offered some type of incentive or penalty for meeting certain health standards, like requiring smokers to pay higher deductibles. Another 10% plan to add such initiatives in 1993, the survey found.

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*Copies of "Hewitt Associates 1993 Survey of Flexible Compensation Programs and Practices" are available for $75 for the first copy and $25 for additional copies by calling Diane Schuett at 708-295-5000.*

## HCFA bills

*Continued from page 1*

Medicare previously was the primary payer.

Congress passed those laws to save the financially ailing Medicare program billions of dollars. But those savings have not been fully realized because Medicare in some cases continued to pay claims for beneficiaries who were no longer covered primarily by Medicare—generally workers older than 65 and their spouses.

Congress, concerned that anticipated savings were not being reaped, gave HCFA authority—in conjunction with the Internal Revenue Service and the Social Security Administration—to scour payroll records after 1986 to identify individuals with employment-related income after they turned 65.

HCFA, as part of the so-called Data Match program, sent out letters to 750,000 employers asking whether they had group health plans. HCFA later sent out letters to employers asking if specific individuals were covered under the group plans.

Employers say complying with HCFA's requests during the informational gathering stages of the Data Match program was difficult.

Sally Bullen, director of compensation and benefits at Kemper National Insurance Cos. in Long Grove, Ill., says digging up the requested information was time-consuming because employment records were in storage.

At the same time, there were further complications because the HCFA information letters often were not sent to corporate benefit departments but to various other company units, which did not know what the letters were all about.

"The requests (from HCFA)

*Continued on next page*


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## HCFA bills

*Continued from previous page*

often started out in the wrong place," said Cathy Wooster, benefits planning manager at Barnett Banks Inc. in Jacksonville, Fla.

"For some employers, the HCFA requests involved thousands of employees. That is not something employers will want to go through again," said Diana Reace, a consultant with Hewitt Associates in Lincolnshire, Ill.

But in the last phase of the Data Match program—recovering overpayments—the HCFA bills mostly will be sent to insurers and third-party claims administrators. Generally, employers will directly receive bills if they self-insured and self-administered their group health plans.

Benefit consultants say plan administrators should carefully scrutinize the HCFA bills, which will be sent by the roughly 80 contractors, chiefly insurance companies, that HCFA uses to administer the Medicare program.

In many cases, the bills will not be accurate. For example, a hospital may have billed both Medicare and the employer health plan and both parties may have paid the hospital.

"Don't assume the bill is accurate," said Bob Eicher, a principal with A. Foster Higgins & Co. Inc. in New York.

If a bill is inaccurate because of double-billing, the plan administrator should send a copy of the explanation of benefits paid to the beneficiary or the provider. In that case, HCFA would seek refunds from providers that received double payments.

In other cases, a bill may be inaccurate because a service that Medicare covers is not offered by an employer. For example, Medicare covers chiropractic services, which many employer plans do not cover.

The demand letters will identify the beneficiary, the health insurance claim number, the amount of the repayment request and the name and address of the Medicare contractor to whom the check should be made out to. The letter also will have copies of each claim that was mistakenly paid by the government.

Plan administrators have 60 days to respond to the demand letters before interest is charged.

HCFA also can refer cases in which bills are not paid to the Justice Department for legal action. Under law, the Justice Department can seek damages double the size of the claim from TPAs, insurers or employers. BI

## Workers comp

*Continued from page 3*

David A. Kocher, group executive for Aetna Life & Casualty Co. in Hartford, Conn.

Perhaps not surprisingly, Mr. Kocher and the two other workers comp underwriters among the five panelists said that their companies have cut back workers comp exposure in most states.

"Reform is critical for survival of the system," said J. John Wortman, president and chief executive officer of the Amerisure Cos. in Detroit. But he added that insurers have to be careful about how they go about pushing reform.

Mr. Wortman said that the public is not comfortable with the insurance industry being a leader on this particular issue.

If insurers can't get business, labor and lawmakers on their side in promoting reform, any reform effort is "doomed," he said.

"You can't cede a leadership role to anybody," said Suzanne M. Bump, a former Democratic Massachusetts state representative who recently became senior counsel in the AIA's Northeast Region office in Boston.

She said the industry has to educate lawmakers and the public about the comp system's problems.

"We've got to work together with a number of constituencies," agreed Mr. Fowler, "but the real question is: What do we work on?"

Hartford's Mr. Kocher listed factors contributing to the system's downfall: medical advances, economic woes that send more workers into the system, and a growing definition of who is hurt.

"You have more and more lawyers looking for work," added Amerisure's Mr. Wortman, drawing a few chuckles.

There is a growing consideration that all injuries are compensable, which will play a role in shaping the nature of health-care reform, Mr. Fowler said. "The national health care debate is critical to us."

The speakers, however, could not hazard a prediction on the specifics of health care reform. For example, Mr. Fowler said if he were to ask members of the audience of insurance and association leaders what 24-hour coverage meant, he'd probably get at least 24 different answers.

And the AIA's Ms. Bump questioned how effective applying 24-hour coverage to comp claims would be anyway. Workers comp is the only social program that includes a degree of income restoration, she said. As a result, there would always be disputes over whether a particular injury is work-related no matter what type of 24-hour coverage system was adopted, she said.

However, "The states are great laboratories" for working out cost control for injuries that aren't attributed to the workplace, said Steven T. Foster, Virginia's commissioner of insurance and new president of the National Assn. of Insurance Commissioners. He said he did not know why the states have not demonstrated the same interest in controlling the cost of workplace injuries.

When asked how the workers comp impasse can be broken, Ms. Bump suggested that insurers need to be more skillful in building coalitions with the businesses that buy their workers comp policies. She said there is often the appearance of four forces tugging at one another: employers, employees, insurers and attorneys.

In truth, "There is a tag team between the employees and the attorneys," she said. "You've got to split that team," she said.

Ms. Bump said that insurers can do so by not treating labor as a monolith, and instead educate workers that some unions are subsidizing others in workers comp. For example, clerical workers are subsidizing ironworkers and laborers whose rates of workers comp claims are higher than should be expected in Massachusetts, she said.

Insurers also have to get their allies to communicate better with lawmakers, said Ms. Bump.

She noted that lawyers and medical providers—most notably chiropractors—are "very, very good" about inundating lawmakers with telephone calls about their concerns on workers comp reform.

Mr. Foster also said the insurers need to impress upon businesses that a growing residual market harms a state's economy as a whole.

Mr. Fowler said that workers comp is a national, rather than simply a state, problem, because it "affects the competitiveness of this country." BI


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## Catastrophe panel

*Continued from page 3*

which the industry cannot be expected to cover catastrophes," he said.

As an alternative, some have suggested expanding a proposed federal earthquake fund to include coverage of windstorm losses, he noted.

However, any such expansion would have to impose a realistic burden on insurers before triggering federal funding of losses, Mr. Thompson said.

If Hurricane Andrew had been covered under the terms proposed for the federal earthquake fund, federal government coverage would have been triggered after losses hit $8.4 billion. Government help at this low level would be impossible for the insurance industry to justify, Mr. Thompson suggested.

"Anything that looks like a bailout is political suicide, and rightfully so," he said.

Because of Hurricane Andrew, "we are going to have to live with much different (reinsurance) terms for several years," agreed Douglas W. Leatherdale, chairman, president and chief executive of The St. Paul Cos. Inc.

Reinsurers will now divide ceding insurers into two groups, he said: Those who keep a close eye on their catastrophe exposures will receive reinsurers' support, while those who don't will not.

The toughest time may be faced by regional insurers, which may have catastrophe exposures and a relatively narrow spread of risk, and may be least able to afford skyrocketing reinsurance prices, according to Mr. Leatherdale and panelist Michael E. Hogue, chairman and chief executive of PW Group Inc., the parent of Providence Washington Insurance Co. in Providence, R.I.

Catastrophe losses, tightening reinsurance markets and other factors may finally bring a turn in the still-soft property/casualty cycle, some panelists predicted.

"Primary capacity should tighten and rates begin to firm at some time in the not-too-distant future," Mr. Leatherdale ventured.

But he added that he sees "very little evidence that that is happening yet."

Mr. Leatherdale suggested that the "worst thing" would be an abrupt market turn based solely on the industry's catastrophe losses. Policyholders look to their insurers for some degree of pricing stability, and abrupt price hikes "would be the wrong thing to do," he said.

Still, abundant industry capital has allowed market share competition and a loss of underwriting discipline, he said. Industry return on equity has been in the single digits, and "that is simply not adequate to maintain the industry over the long term."

Mr. Thompson

Despite $22 billion in 1992 catastrophe losses, the insurance industry will report increased policyholders surplus for the year, largely on the strength of capital gains, Mr. Thompson observed.

The capital gains have resulted from falling interest rates pushing up the value of insurers' bond portfolios and from the long bull market for stocks, he noted.

"No tree grows in the sky, and interest rates will not decline forever," Mr. Thompson said.

When bond and stock values begin to erode, "there are going to be some consequences, and at that point fear will overcome greed and we will have a change" in the market, he said.

Some panelists were hesitant about predicting any broad market changes.

Dan D. McLean, president and chief executive of SAFECO Property & Casualty Cos., noted that commercial and personal lines market cycles no longer move in tandem as they used to, and that he sees little firming on the commercial side.

"I predicted in 1981 that the cycle was going to turn in 1982, and it didn't until 1984," he added.

Edward H. Budd, chairman and chief executive of Travelers Corp., noted that the property/casualty market has increasingly divided itself into specialty niches and that any tightening will thus vary from one niche to the next.

"Niche marketing has had an effect on the structure of the market," he said.

Reviewing an array of problems facing the industry, PW Group's Mr. Hogue observed that huge losses and the difficulty of projecting future costs in some lines raise questions about insurers' ability to do a job they are supposed to do well: price their product.

To date, insurers have responded to spiraling losses by dropping coverages, withdrawing from markets or raising prices, none of which has bought much public goodwill, Mr. Hogue suggested..

"At the same time we are crying about losses and the need to raise prices, we are showing great financial statements," he said.

Mr. Leatherdale

Mr. Hogue

Mr. McLean

Mr. Budd

Several changes are needed in public policy affecting insurers and in the way insurers do business, he suggested.

The United States has become "obsessed with victimhood," compensating injuries with little thought about the societal costs, Mr. Hogue said. Public policymakers must make an ethical choice about compensation, weighing what is good for the individual against what is good for society, he said.

Mr. Hogue also argued that:

- Individuals must take more risk management responsibility, and those who engage in risky behavior—for example, by building houses on beaches, smoking or riding motorcycles without helmets—must expect to bear a larger share of any losses that may result.
- Insurers must go beyond current industry data bases to develop information that will help them win public policy debates.
- A public catastrophe insurance pool must be formed to respond to losses too large for the industry to absorb, "or we will not have any regional (insurance) companies."
- Legal expenses, which represent a growing proportion of overall losses, must be capped. They should be included within policy limits and given more weight in ratemaking, he said.

Meanwhile, responding to a question about the health care crisis, Mr. Budd argued for continued managed care and cost containment efforts and warned the audience to beware of any federal government plans to subsidize broad health care initiatives.

Gordon C. Stewart, president of the III, moderated the panel. BI

# AIA may consider radical approaches to fix workers comp

By MARK A. HOFMANN

NEW YORK—Workers compensation and Superfund act reform are the American Insurance Assn.'s top legislative concerns this year, said AIA President Robert E. Vagley during the insurance trade group's annual meeting in New York last week.

"We've embarked on our most extraordinary legislative effort ever to restore workers compensation to profitability. And we intend to take full advantage of any appetite for political change that exists in the states to restore stability to this troubled line of insurance," Mr. Vagley said during his live address during which taped comments from the heads of some AIA member companies were interspersed.

The AIA has targeted 18 states, including California, Florida and Pennsylvania, for special attention this year, he said. He added that the association is willing to "consider whether it's time to take more radical approaches to fixing (the workers comp system), or even replace it with an alternative system."

In a brief interview after his remarks, Mr. Vagley said that the AIA has not endorsed any particular alternative to the existing workers comp system.

AIA's outgoing chairman noted that the association formed a special committee of its board to examine workers comp.

"The committee's mission is to consider a wide range of reform options, develop recommendations for improving the workers comp system and track AIA's ongoing state-by-state reform efforts," said William E. Buckley, chairman and chief executive officer of Royal Insurance Group in Charlotte, N.C.

Mr. Vagley said that the AIA wants to reform Superfund "to achieve faster, more economical site cleanups; dramatically lessen the wasteful expenditure of society's scarce resources; and in the process, provide equity for all involved parties, including insurers."

The AIA strategy "depends on building grassroots support outside the Capital Beltway among communities and businesses and others who are frustrated with the inherent failure of Superfund to achieve its lofty goals. By the end of 1993, we'll have up to 50 highly targeted, localized campaigns under way aimed back at Washington decision makers, and we believe we'll have consensus among the major interested parties that we need nothing less than the comprehensive reform of this national travesty," he said.

Mr. Vagley

"The multi-year National Campaign for Superfund Reform focuses on an outside-the-Beltway approach to building consensus for reform among the constituents of key congressional members," said Mr. Buckley. He added that the effort will involve insurers working not only with "potentially responsible parties"—businesses and municipalities that could be held liable for site cleanup, but environmental groups as well.

Mr. Vagley pointed to reform of the McCarran-Ferguson Act as another area of particular concern for AIA members. "As much as we all wish it would just go away, McCarran remains a nagging issue," he said. Noting that House Judiciary Committee Chairman Jack Brooks, D-Texas, wasted no time in reintroducing H.R. 9 in the 103rd Congress, Mr. Vagley promised that the AIA would continue to fight the measure, which the AIA says would gut, rather than reform, the McCarran-Ferguson Act.

Mr. Vagley also said that the AIA would continue to work on improving solvency regulation and "to work for as much deregulation of our industry as we can muster, particularly to eliminate state laws, regulations and practices like rate suppression and lock-in statutes that actually impair insurer solvency." BI

# III to focus more on media at insurers' request

By MARK A. HOFMANN

NEW YORK—During the past year, the Insurance Information Institute has become a more effective advocate for the property/casualty insurance industry despite new challenges and financial constraints, said the III's chairman.

"You should keep in mind we accomplished all this with a staff 31% smaller than the previous year, and with a much smaller budget," said Donald R. Frahm, outgoing chairman of the III and chairman and chief executive officer of ITT Hartford Insurance Group.

"You asked us to keep expenses down, and the institute's budget has been cut to $7.6 million for 1993, down 39% from 1991. The portrait of the III that emerges from all this is a leaner, more focused organization—an organization eager to excel and eager to provide value to its member companies," he added. Mr. Frahm offered his assessment of the III's 1992 performance during the group's annual meeting in New York last week.

"The III's mission was easier 10 years ago. The issues were simpler, the audiences more receptive and the pressures were much less," said Mr. Frahm.

In order to meet the conditions facing the association today, the III board asked Richard J. Haayen, former chairman of Allstate Insurance Co., to visit with industry leaders around the country to determine what the III should be doing, Mr. Frahm said.

Mr. Frahm called Mr. Haayen's findings "frank, honest and maybe a little disturbing to some of us." The principal finding was that insurers want "an organization focused on the media, rather than on providing routine services to member companies," he said.

Mr. Stewart

He also noted that the III staff handled 5,000 media inquiries last year, compared with 4,600 in 1991. The III also processed 4,500 data base requests in 1992, compared with 3,400 in 1991.

Gordon Stewart, president of the New York-based III, said that the group has made significant strides in increasing its effectiveness with the news media. He said the III is attempting to qualify as well as quantify its media contacts and "establish a credible working relationship" with both print and electronic media.

The task is more difficult with television news than with print, because there are a multitude of news centers within the television networks, he said. Mr. Stewart said that the III would be concentrating its 1993 media efforts on television.

Mr. Frahm praised the III's efforts in the aftermath of unprecedented catastrophes.

"In a year of record catastrophes, the III served as a primary voice for our industry. It handled the media with skill and care, while explaining our actions to the general public and to opinion leaders throughout the country.

"It did everything you'd want an advocate to do—from supplying simple tips on claims to answering detailed questions on financial standing."

Mr. Frahm added that the industry as whole "came together to do an outstanding job for the policyholders in Florida. And we followed that up by forming the Hurricane Insurance Information Center."

Mr. Frahm predicted that more insurers will support the III and its efforts in 1993 and beyond "not because of tradition, but because they find value in being part of this organization." BI

# Trouble ahead, ISO chief warns

NEW YORK—Property/casualty insurers are in weaker financial condition than their results indicate and are facing "grave" underwriting, legal and financial uncertainties in coming years, the president of the Insurance Services Office Inc. warns.

Insurers cannot afford to hide from these uncertainties, said ISO President Fred Marcon. They must limit exposure to catastrophe losses that could equal or exceed the record losses in 1992, he said at ISO's annual meeting last week.

Given its role in reducing uncertainty for policyholders, "it's somewhat ironic that the property/casualty industry itself faces grave uncertainties, uncertainties that are all too easy to overlook when business results appear to be fairly healthy," he said.

Mr. Marcon cited several trends undermining insurer finances:

- Anemic investment growth, despite record realized capital gains reported by insurers last year. Many insurers cashed in better-performing bonds to mask the impact of third quarter cat losses, he noted.
- Loss reserve deficiencies estimated at $38 billion to $50 billion at year-end 1991, amounts that may deplete industry surplus by more than 25%.

These deficiencies—combined with increased long-tail liability underwriting, large capital gains and low premium growth—inflate industry surplus and hold down premium-to-surplus ratios.

- Rising general liability defense costs, which amounted to 39 cents per dollar of indemnity in 1991, compared with 12 cents in the late 1950s, according to a recent ISO survey (*BI*, Jan. 4.)

Other uncertainties facing the industry include shrinking reinsurance capacity and rising reinsurance prices; expanding "alternative" insurance markets like captives; and mounting environmental liabilities.

Also, the industry has been hit in the last four years with catastrophe losses totalling $34 billion—more than the total for the previous 21 years combined, he said.

Mr. Marcon

Mr. Marcon recommended five steps to help insurers address the threat of still more devastating losses. Insurers should:

- Be able to set up tax-deductible contingency catastrophe reserves, and the Financial Accounting Standards Board should drop its opposition to the idea. Denmark, Germany, Finland, Norway and Sweden already allow such reserves.
- Support more stringent enforcement of building codes and advocate stronger codes for wind and seismic resistance standards.
- Push for the federal earthquake insurance program outlined by the industry-supported Earthquake Project (*BI*, Nov. 12, 1990).
- Maintain higher levels of capital to support higher catastrophe exposures, in line with the National Assn. of Insurance Commissioners' risk-based capital formula.
- Examine their reinsurers' financial strength and recognize the potential for unrecoverable reinsurance.

Peter Lardner, president of Bituminous Insurance Cos. and outgoing ISO chairman, noted ISO's role in helping insurers serve consumers.

ISO's prospective loss cost data serves as a starting point for insurers' competitive pricing decisions, he said. By helping to support adequate pricing, ISO helps guard insurer solvency, he said, adding that ISO offers economies of scale in data collection, reducing insurer expenses and the price of insurance.

ISO has revised its billing procedures, Mr. Lardner reported. Rather than making premium-based assessments of ISO members as in the past, it is now charging fixed rates for most of its services.

Among ISO's new services, he noted its Geographic Underwriting System, which provides address-specific hazard and classification information to insurers.

*—By Douglas McLeod*

## Insurer groups elect new officers

NEW YORK—Three insurer groups named new officers and directors at their joint annual meeting last week.

Ramani Ayer, president and chief operating officer of ITT/Hartford Group Inc., was elected chairman of the Insurance Services Office Inc.

William H. Bolinder, president and chief executive officer of Zurich-American Insurance Group, was elected vice chairman of ISO.

Christopher C. DeMuth, president of the American Enterprise Institute for Public Policy Research, was elected to a second term as a public director.

Also named to the ISO board were: Thomas H. Friedberg, chairman and president of Ranger Insurance Co.; Bruce G. Kelley, president and CEO of Employers Mutual Casualty Co.; James B. Kemper III, executive vp of Kemper National Insurance Cos.; Robert B. Morgan, president and CEO of Cincinnati Insurance Co.; and Lauren N. Patch, president of Ohio Casualty Insurance Co.

At the American Insurance Assn., Robert B. Sanborn, president and chief operating officer of Orion Capital Corp., was elected chairman.

John P. Mascotte, chairman and CEO of Continental Corp., was voted chairman-elect of the AIA. Named to the post of vice chairmen were Douglas W. Leatherdale, chairman, president and CEO of The St. Paul Cos. Inc., and Mr. Bolinder of Zurich-American.

Elected to three-year terms on the AIA's board were: William E. Buckley, chairman and CEO of Royal Group Inc.; Joseph W. Brown Jr., chairman, president and CEO of Crum & Forster Inc.; Michael E. Hogue, chairman and CEO of PW Group Inc.; Peter Lardner, president and CEO of Bituminous Fire & Marine Insurance Co.; Thomas E. Rowe, president of the commercial group of Fireman's Fund Insurance Co.; and Joseph H. Youngs, chairman and CEO of The Netherlands Insurance Cos.

And at the Insurance Information Institute, D. Richard McFerson, president and CEO of the property/casualty units of Nationwide Mutual Insurance Co., was elected chairman.

Peter Lardner of Bituminous Fire & Marine was named chairman-elect of the III. Named to the post of vice chairman was Dan D. McLean, president and CEO of the property/casualty operations of SAFECO Corp.

## Earthquake coverage dispute

*Continued from page 2*

ance policy to insure all of Matson's property in California for earthquake risk, court papers say.

Hobbs, a unit of Arkwright Mutual Insurance Co., provided Home with a schedule of values for the California property, including $11.5 million of leasehold improvements and betterments at Matson's Oakland Terminal, which included wharf and pavement areas.

On Sept. 26, 1989, Home telexed to Hobbs its offer to provide $10 million of coverage to Matson's California property for a $135,000 premium. Under the additional comments section of the proposal, Home only wrote "Home Manuscript DIC form" and did not identify any exclusions it intended to incorporate into the policy, according to Matson's court filings.

On Sept. 28, "without knowing the terms and conditions of the policy that Home was going to issue," Hobbs recommended Matson switch its former DIC earthquake policies from other insurers to Home because its policy was superior, less restrictive and provided better coverage. Matson agreed and, with the premium negotiated down to $130,000, Hobbs issued a binder to Matson, effective Oct. 1, stating its property was covered. The premium was subsequently paid on Oct. 13.

On Oct. 17, 1989, the earthquake struck, causing $10.7 million in damage to Matson's Oakland Terminal, including its wharf and pavement. On Oct. 21, a Home claims adjuster inspected the damage.

On Oct. 23, Home finally issued the actual policy. It included, however, a "previously undisclosed" exclusion for "wharves, piers, pilings, docks, foundations, roads or sidewalks or pavement," Matson said in court papers. "If enforced, this exclusion would eviscerate the coverage which Matson bought and paid for," the company argued.

Home denied coverage Oct. 9, 1990, and sent back a portion of the premium that was associated with the excluded property.

The San Mateo County jury found Home liable for breach of contract, negligent misrepresentation, bad faith, fraud and malice, according to Mr. Crowley.

Mr. Crowley said the $23.6 million award will be reduced to $21.3 million to reflect a $1.6 million deductible and an offset for a $650,000 settlement with the Port of Oakland.

Arkwright Mutual noted in a statement after the verdict that neither it nor Hobbs are liable for any of the compensatory and punitive damages or prejudgment interest.

The court ruled, however, that Arkwright, Hobbs and Home were jointly and severally liable for Matson's $1.6 million in litigation costs. Arkwright plans to argue at Tuesday's hearing that these should all be paid by Home.

The verdict reaffirms Arkwright's position that Hobbs "fulfilled its responsibilities and commitment as brokers to Matson Navigation," said the statement. BI

## Update

### J&H expands ownership ranks

NEW YORK—Privately held Johnson & Higgins is expanding its ownership structure to create a new group of shareholders.

J&H—until now owned solely by its 35 directors—has named 10 senior executives as managing principals and awarded them ownership stakes. The 10 are: Richard B. Blackman, J. Cameron Campbell, Lawrence I. Geneen, John E. Jenniges, Daniel L. Jones, William J. Keckeisen, Dan Knise and John A. McMahon, senior vps; Robert F. O'Leary, president of its Willcox Reinsurance Intermediaries Inc. unit; and Aad Strijbos, managing director of Dutch unit Mees & Zoonen.

J&H also named two new directors: Christine LaSala, New York division executive vp and the firm's first woman director; and John Deitchman, senior vp.

### Illinois Bell settles 1988 fire suit

CHICAGO—Arkwright Mutual Insurance Co. and Illinois Bell Telephone Co. have reached a $16 million settlement with parties believed to be responsible for a switching station fire.

The 1988 fire in suburban Hinsdale left 50,000 customers without phone service for up to four weeks (*BI*, June 13, 1988).

This month, Arkwright and Illinois Bell settled with electrical contractor Garrett & West for $11 million, the limits of its insurance, said Richard B. Allyn, a lawyer for Arkwright and Illinois Bell. In 1991, the companies settled with the station's previous owner, American Telephone & Telegraph Co., for $5 million.

CNA Insurance Cos. wrote $1 million in primary and $2 million in excess coverage for the contractor, said Mr. Allyn, of Robins, Kaplan, Miller & Ciresi. Fireman's Fund Insurance Co. also wrote $8 million excess of $3 million in coverage.

Garrett & West did maintenance work on the station before the fire, including work on equipment that may have sparked the fire.

On Jan. 26, the Illinois Supreme Court will hear a class-action suit by businesses seeking lost income. Both trial and appeals courts have dismissed that suit (*BI*, March 27, 1989).

### Ferry claims may top $4 million

SWINOUJSCIE, Poland—Insurers could face claims of more than $6 million after strong winds capsized a ferry in the Baltic Sea last week, killing 51 of the 60 people on board.

The Jan Heweliusz, en route Jan. 14 from Swinoujscie to Ystad, Sweden, carried 31 passengers and 29 crew members. The ship, which also capsized in 1978 and 1982, is owned by Polish Ocean Lines and operated by Euroafrica Lines, both Polish firms.

Liability claims are yet to be determined, but compensation per passenger could be capped by the Athens convention at 46,666 special drawing rights ($64,127), or about 1.5 million SDRs ($2 million).

The hull is insured for $3.3 million plus $825,000 in increased value coverage, which is paid out if a vessel is declared a total loss. The risk is placed with WARTA Insurance & Reinsurance Co. Ltd. of Warsaw, but much of it is reinsured in international markets, sources say.

Liability coverage for the Jan Heweliusz is also led by WARTA, but 40% of the risk was entered with the West of England Ship Owners Mutual Insurance Assn. (Luxembourg), a protection and indemnity club. The Athens convention limits will apply unless deliberate recklessness by the operators is proved, said Kenneth Norman, senior associate at the West of England.

### EPA lender liability rule upheld

ST. PAUL, Minn.—Ashland Oil Inc. may appeal a federal judge's ruling that a new federal rule limiting lender liability absolves a lender from sharing any Superfund cleanup costs.

The decision is among the first to apply a new Environmental Protection Agency rule that limits lender liability for environmental cleanup costs if the lender holds the property for security reasons and makes efforts to sell it quickly (*BI*, May 4, 1992).

In this case, the Ashland, Ky.-based oil company leased land in St. Paul Park, Minn., to Sonford Products Corp., a wood preservatives manufacturer. Sonford filed for bankruptcy in 1982. One of Sonford's creditors, Industry Capital Inc.—now Industry Financial Corp.—foreclosed on Sonford's property and held title to it for three weeks before transferring ownership. The new owner also entered bankruptcy, and IFC abandoned its security interest in the property.

When Ashland was later ordered to pay for cleanup costs under Superfund and a similar Minnesota statute, Ashland sued IFC and several other entities, seeking to hold them liable as well.

U.S. District Court Judge Paul Magnuson in St. Paul on Dec. 24 ruled that the EPA rule absolved IFC of responsibility for cleanup costs, ruling that its activities "fall within the (rule's) safe harbor."

### Briefly noted

Employees will be allowed to defer a maximum of $8,994 to their **401(k) plans** this year, up from $8,728 in 1992, the Internal Revenue Service announced last week. . . .Rep. Bill Gradison, R-Ohio, former ranking minority member on the House Ways and Means Committee, will leave Congress at the end of the month to become president of the **Health Insurance Assn. of America**. . . . The Coalition to Preserve Health Benefits, a group largely composed of members of the Employers Council on Flexible Compensation, will launch a lobbying and fund-raising campaign next month to oppose efforts to **end the tax breaks on health benefits**. . . .James B. Lockhart III, executive director of the **Pension Benefit Guaranty Corp.** since 1989 and a Bush appointee, may resign as early as this week. It is not known who will succeed him. . . **Liberty Mutual Insurance Co.** last week said it would lay off 2% of its workforce—400 employees—in response to rising workers comp losses.

# Valuation office

*Continued from page 3*

cluded that:

- The SVO's valuation criteria have failed to spot some impairments in bond values. The SVO rates a bond in default when interest payments cease. But until it learns of a default, insurers may report the bond in their statutory financial statements at cost, even though market value might be much lower, the GAO says.

By contrast, generally accepted accounting principles require review of other indicators of bond impairment, including any proposed restructuring by the issuer, financial statements from the issuer that show reduced cash flow, or significant reduction of a bond's market value for an extended period.

Since 1991, the SVO has given some weight to market value, requiring insurers to report bonds trading at less than 25% of face value, the report notes.

For six of the 56 Executive Life bonds GAO examined, however, the SVO's ratings did not reflect issuers' financial problems because the SVO's criteria for recognizing bond losses were too narrow, the report says.

Mr. McCartney said since 1989 the SVO has expanded its evaluation criteria beyond default to include other rating agency opinions, auditors' opinions and other financial data on the bond issue and the issuer.

- The SVO does not obtain enough data about bond issuers to develop meaningful ratings.

SVO analysts identified specific issuer financial statements as the basis for their ratings of 24 Executive Life bonds, but 22 of these were a year out of date, the report says.

In some cases, SVO ratings did not reflect an issuer's true financial condition because Executive Life did not indicate that a bond's value was impaired.

Mr. McCartney replied that SVO uses an issuer's most recent available annual statement before the Dec. 31 publication date of SVO's valuation manual. Interim statements should be used if an SVO analyst knows an issuer is in financial trouble, he said.

- The SVO does not set clear standards for its analysts to follow in developing bond ratings. It also lacks standards for documenting analysts' work on a given issue, making it difficult in some cases to go back and determine the basis for a rating, the report says.

Standards are set in the SVO's Credit and Pricing Manual and by its four-person credit committee, Mr. McCartney said.

- The NAIC does not require state regulators to verify the bond ratings and values used by insurers each year. Instead, regulators may rely on triennial field examinations to detect valuation problems. In Executive Life's case, this delayed discovery of its deteriorating portfolio, the report says.

In a review of Executive Life's 1984 statutory statement, regulators found that the insurer had failed to submit 56 issues reportedly worth $203 million for SVO evaluation; provided insufficient information for SVO to rate another 27 bonds valued at $92 million; and substituted false ratings for 33 bonds valued at $152 million.

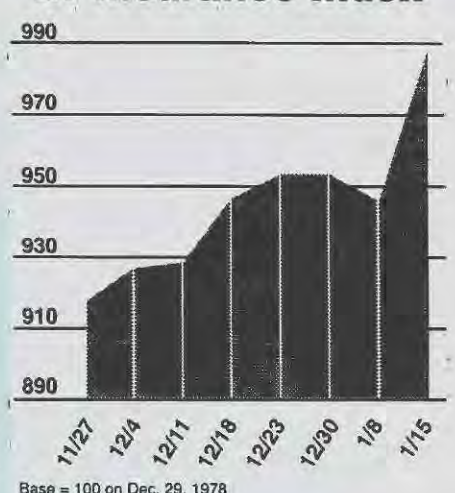
- NAIC Mandatory Securities Valuation Reserve rules require insurers to post reserves to cover potential investment losses. But those reserves were inadequate in Executive Life's case to absorb huge bond losses.

The NAIC has since replaced that requirement with an Asset Valuation Reserve requirement covering not only stocks and bonds—as the MSVR did—but also real estate and mortgage investments.

While the GAO found that the SVO's ability to support regulators in monitoring insurer solvency "appears doubtful," Mr. McCartney disputed this conclusion.

The report's broad findings are based on a "very narrow and very biased sample" of Executive Life securities that does not reflect the SVO's actual performance, he said. BI

## *BI* Insurance Index




Base = 100 on Dec. 29, 1978
Source: Nordby International Inc.

**Insurance industry stocks soared last week, as the *Business Insurance* Index climbed 42.5 points to 987.6 on Jan. 15 from 945.1 on Jan. 8. Advancing issues for the week were led by U.S. Healthcare, up 19.0%; United Healthcare Corp., up 17.5%; and FHP International, up 14.5%. Declining issues for the week followed Arthur J. Gallagher & Co., down 3.3%; Navigators Group, down 3.2%; and Acordia Inc., down 3.0%. The most active issue was U.S Healthcare, with 9.3 million shares traded. The *Business Insurance* Index was up 4.5%; the NYSE Composite was up 1.8%; the Standard & Poor's 500 was up 1.9%; and the Dow Jones 30 Industrials rose 0.6%.**

## British Issues

| Jan. 14 Companies | Price pence | P/E | Div. pence | Yield % | 1 Week High—Low pence | pence |
|---|---|---|---|---|---|---|
| Comml Union | 613 | N/M | 31.5 | 5.1 | 620 | 613 |
| Genl Accident | 556 | N/M | 35.7 | 6.4 | 560 | 555 |
| Gdn Royal Exch | 168 | N/M | 10.0 | 6.0 | 171 | 168 |
| Royal | 277 | N/M | 7.0* | 2.5 | 283 | 277 |
| Sun Alliance | 343 | N/M | 19.0 | 5.5 | 351 | 338 |
| **Brokers** | | | | | | |
| Bradstock | 139 | 16.3 | 6.8 | 4.9 | 139 | 137 |
| CE Health | 339 | 19.5 | 21.3* | 6.3 | 351 | 338 |
| Hogg Group | 175 | 16.5 | 10.9 | 6.2 | 175 | 174 |
| JIB Group | 175 | 13.4 | 10.0 | 5.7 | 177 | 175 |
| Lloyd Thompson | 256 | 20.6 | 7.5 | 2.9 | 258 | 256 |
| Lowndes Lmbrt | 347 | 13.5 | 16.8 | 4.8 | 347 | 343 |
| PWS Holdings | 57 | 6.5 | 5.3 | 9.3 | 57 | 55 |
| Sedgwick Grp | 171 | 13.6 | 8.0* | 4.7 | 174 | 170 |
| Steel Brrl Jones | 225 | 11.0 | 17.7 | 7.9 | 225 | 223 |
| Willis Corroon | 181 | 11.6 | 17.6 | 9.7 | 192 | 181 |

Source: Philip Olsen, London  * Estimated

# Merrett venture

*Continued from page 2*

dwindling capital base with corporate capital.

Lloyd's touted this quota share arrangement as a new idea, but it is similar to the "franchise" allowed prior to the mid-1980s in which syndicates could write a net premium income capacity plus 30% for reinsurance.

"This is not a new concept—it's just a quota share. What we've done here that's different is to set up one huge new source of capital into the marketplace," said Mr. Purkiss.

An offshore company writing reinsurance exclusively for Lloyd's syndicates also is not new.

Prior to fraud allegations and tax troubles in the early 1980s, many Lloyd's syndicates exclusively placed reinsurance with offshore companies that were owned and/or controlled by executives of their underwriting agencies. The reinsurance was known as a "rollover," whereby an underwriter paid a premium from the syndicate's profits and could call back the money in the form of a claim at any time.

Underwriters Capital, however, will not write rollovers, said Mr. Purkiss. Also, no employee of the Merrett Group will own any shares in the offshore company, he said.

All commission and profit commission that Merrett syndicates receive from Underwriters Capital will also directly benefit syndicate members, Mr. Purkiss said.

While Mr. Purkiss emphasized that Underwriters Capital is a completely independent company, it will not have its own underwriter. A chief executive and board will agree on terms annually with Merrett.

Marsh & McLennan Risk Capital and J.P. Morgan each will invest approximately 10% of the total funds raised up to $7 million apiece in Underwriters Capital. Other investors are expected to be financial institutions. Already at the end of last week, "banks" were showing interest, said Mr. Purkiss.

The prospectus for the new venture is expected to be released shortly, and Merrett hopes Underwriters Capital will be operating in the next few months, he said.

The plan is for Underwriters Capital to write twice as much premium as its capital—therefore, at least $140 million—for the 1993 underwriting year. This would give the nine syndicates—which collectively have about 400 million pounds ($619 million at current exchange rates) in premium income capacity through Lloyd's membership—about 100 million pounds ($154.8 million) in additional premium income, Mr. Purkiss said.

The quota share reinsurance treaty written for all nine syndicates under the management of Merrett Underwriting Agency Management Ltd. will be provided annually to each syndicate for a minimum of 5% of each syndicate's capacity up to a maximum of 25% of the syndicate's capacity, he said.

The treaty will be provided annually to each syndicate, but there will be a "rolling extension" at the end of each year to allow the reinsurance to run for a total of five years. BI

# *BI* Industry Stock Report

**JANUARY 11, 1993 THROUGH JANUARY 15, 1993**

| BROKERS | | Price | Weekly % change | Year to Date % change | Annual High | Annual Low | Vol.(000) | $ Div. | % Yield | P/E | Book value | Mkt/Bk. value |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Acordia Inc. | NYS | 20.38 | -2.96 | -5.23 | 22.25 | 15.13 | 81 | 0.36 | 1.77 | 15 | 7.01 | 2.91 |
| Alexander & Alexander | NYS | 25.75 | 2.49 | -2.83 | 27.63 | 18.00 | 418 | 1.00 | 3.88 | 92 | 10.00 | 2.58 |
| Gallagher Arthur J. & Co | NYS | 25.63 | -3.30 | -9.29 | 29.00 | 20.00 | 86 | 0.64 | 2.50 | 17 | 6.35 | 4.04 |
| Hilb, Rogal & Hamilton | NYS | 15.00 | -2.44 | -4.00 | 15.63 | 11.00 | 82 | 0.44 | 2.93 | 23 | 3.11 | 4.82 |
| Marsh & McLennan | NYS | 90.13 | 1.26 | -1.37 | 94.50 | 71.25 | 901 | 2.68 | 2.97 | 21 | 14.40 | 6.26 |
| Poe & Associates | OTC | 16.50 | -0.75 | -1.49 | 17.00 | 11.25 | 43 | 0.40 | 2.42 | 21 | 2.64 | 6.25 |
| BROKERS | AVERAGE | | -1.0 | -4.0 | | | | | 2.4 | 27 | | |
| **CONGLOMERATES & HOLDING COMPANIES** | | | | | | | | | | | | |
| Berkley W R. Corp. | OTC | 43.25 | 1.17 | 0.58 | 47.75 | 31.00 | 299 | 0.36 | 0.83 | 16 | 23.51 | 1.84 |
| Berkshire Hathaway Inc | NYS | 11600.0 | 0.87 | -1.28 | 11625.0 | 8575.0 | 1 | 0.00 | 0.00 | 64 | 6437.3 | 1.80 |
| ITT (Hartford Group) | NYS | 71.63 | 2.14 | -0.52 | 72.13 | 56.25 | 1410 | 1.84 | 2.57 | 17 | 68.23 | 1.05 |
| Sears (Allstate) | NYS | 47.38 | 6.46 | 4.12 | 48.00 | 37.75 | 6803 | 2.00 | 4.22 | 46 | 40.18 | 1.18 |
| CONGLOMERATES | AVERAGE | | 2.7 | 0.7 | | | | | 1.9 | 36 | | |
| **INSURERS/REINSURERS** | | | | | | | | | | | | |
| AEGON N.V | NYS | 43.13 | 4.55 | 3.60 | 43.13 | 33.00 | 53 | 0.68 | 1.58 | 7 | 34.06 | 1.27 |
| Aetna Life & Casualty | NYS | 48.88 | 4.55 | 5.11 | 48.88 | 38.00 | 2169 | 2.76 | 5.65 | 16 | 67.08 | 0.73 |
| Allied Group Inc. | OTC | 30.00 | -2.44 | -5.51 | 33.50 | 17.25 | 68 | 0.64 | 2.13 | 9 | 11.29 | 2.66 |
| Allmerica Prop. & Casualty | OTC | 51.75 | -2.36 | 2.48 | 52.50 | 33.00 | 183 | 0.44 | 0.85 | 9 | 40.44 | 1.28 |
| American General | NYS | 56.63 | 0.44 | -0.66 | 58.75 | 40.25 | 808 | 2.08 | 3.67 | 12 | 39.89 | 1.42 |
| American Heritage Life Ins. | NYS | 29.50 | 0.00 | -2.48 | 32.50 | 24.88 | 1 | 0.84 | 2.85 | 14 | 16.51 | 1.79 |
| American Indemnity/Fin'l | OTC | 7.13 | 11.76 | 18.75 | 9.25 | 4.75 | 11 | 0.08 | 1.12 | 4 | 14.43 | 0.49 |
| American International | NYS | 116.38 | 2.08 | 0.32 | 121.38 | 82.00 | 1565 | 0.56 | 0.48 | 16 | 54.21 | 2.15 |
| Aon Corp. | NYS | 51.00 | -2.16 | -5.56 | 54.00 | 39.75 | 285 | 1.68 | 3.29 | 13 | 27.17 | 1.88 |
| Argonaut Group | OTC | 28.25 | -0.88 | -7.38 | 31.25 | 24.75 | 116 | 0.84 | 2.97 | 8 | 21.70 | 1.30 |
| AVEMCO Corp. | NYS | 22.75 | 0.55 | -2.67 | 28.00 | 21.00 | 11 | 0.40 | 1.76 | 25 | 7.33 | 3.10 |
| Baldwin & Lyons Inc. | OTC | 36.00 | 4.35 | -1.37 | 36.50 | 25.75 | 0 | 0.48 | 1.33 | 9 | 30.85 | 1.17 |
| Chandler Insurance | OTC | 4.75 | 0.00 | 0.00 | 7.63 | 3.88 | 18 | 0.00 | 0.00 | 22 | 8.63 | 0.55 |
| Chubb Corp. | NYS | 86.63 | 1.32 | -2.53 | 91.00 | 62.38 | 1000 | 1.60 | 1.85 | 14 | 40.67 | 2.13 |
| CIGNA Corp. | NYS | 60.25 | 4.10 | 2.77 | 60.25 | 47.13 | 877 | 3.04 | 5.05 | 11 | 81.73 | 0.74 |
| CNA Financial Corp. | NYS | 97.38 | 3.32 | -0.64 | 102.88 | 78.50 | 89 | 0.00 | 0.00 | 12 | 80.24 | 1.21 |
| Continental Corp. | NYS | 27.88 | 6.70 | 3.72 | 34.75 | 20.00 | 801 | 1.00 | 3.59 | 20 | 38.32 | 0.73 |
| EXEL Ltd. | NYS | 46.25 | 3.06 | -2.12 | 47.63 | 32.13 | 702 | 0.92 | 1.99 | 9 | N/A | N/A |
| Fund American Corp. | NYS | 72.88 | 1.22 | 1.22 | 74.50 | 62.50 | 14 | 0.00 | 0.00 | 17 | 81.85 | 0.89 |
| Fremont General Corp. | OTC | 34.00 | -1.09 | -1.45 | 35.00 | 17.00 | 181 | 1.00 | 2.94 | 8 | 25.62 | 1.33 |
| Frontier Insurance Group | NYS | 44.63 | 2.00 | 2.59 | 44.75 | 24.53 | 28 | 0.60 | 1.34 | 16 | 13.97 | 3.19 |
| Gainsco Inc. | ASE | 17.00 | 9.68 | 20.35 | 17.75 | 7.78 | 400 | 0.04 | 0.24 | 23 | 2.65 | 6.42 |
| General RE Corp. | NYS | 116.00 | 1.42 | 0.22 | 123.50 | 77.50 | 647 | 1.80 | 1.55 | 16 | 46.07 | 2.52 |
| Guaranty National Corp. | NYS | 19.75 | 2.60 | 0.00 | 20.38 | 13.50 | 161 | 0.48 | 2.43 | 13 | 9.12 | 2.17 |
| Harleysville Group | OTC | 27.50 | -1.79 | -2.65 | 28.25 | 17.75 | 31 | 0.64 | 2.33 | 11 | 16.77 | 1.64 |
| Hartford Steam Boiler | NYS | 54.75 | -2.88 | -5.19 | 59.25 | 45.13 | 164 | 2.12 | 3.87 | 21 | 19.74 | 2.77 |
| Kemper Corp. | NYS | 30.13 | 3.88 | 1.69 | 45.63 | 20.75 | 731 | 0.92 | 3.05 | 21 | 37.66 | 0.80 |
| Lawrence Insurance Group | ASE | 8.63 | 6.15 | 0.00 | 10.38 | 7.00 | 4 | 0.48 | 5.57 | 20 | 4.66 | 1.85 |
| Liberty Corp. | NYS | 28.38 | -2.16 | 0.44 | 32.88 | 20.13 | 133 | 0.56 | 1.97 | 11 | 18.43 | 1.54 |
| Lincoln National | NYS | 72.88 | 2.64 | -0.34 | 76.13 | 50.50 | 254 | 3.04 | 4.17 | 11 | 58.92 | 1.24 |
| Markel Corp. | OTC | 35.00 | 7.69 | 12.00 | 35.00 | 22.50 | 62 | 0.00 | 0.00 | 9 | 15.44 | 2.27 |
| Mutual Risk Mgmt. Ltd. | NYS | 43.38 | 1.76 | 7.10 | 44.00 | 25.75 | 67 | 0.28 | 0.65 | 26 | 7.51 | 5.78 |
| NAC Re Corp. | OTC | 40.00 | 4.23 | -1.23 | 42.00 | 21.75 | 27 | 0.16 | 0.40 | 36 | 13.60 | 2.94 |
| National Re Corp. | NYS | 31.50 | 4.13 | 6.33 | 31.50 | 17.00 | 262 | 0.12 | 0.38 | 15 | N/A | N/A |
| Navigators Group | OTC | 30.50 | -3.17 | -6.15 | 48.25 | 28.50 | 67 | 0.00 | 0.00 | 21 | 15.69 | 1.94 |
| Nobel Insurance LTD. | OTC | 6.25 | 4.17 | 6.38 | 6.25 | 4.13 | 181 | 0.00 | 0.00 | 4 | 3.91 | 1.60 |
| NWNL Companies | NYS | 51.75 | 1.72 | 1.72 | 52.63 | 29.63 | 261 | 1.48 | 2.86 | 14 | 46.21 | 1.12 |
| Ohio Casualty Corp. | OTC | 61.50 | 0.00 | -2.57 | 66.63 | 49.00 | 301 | 2.68 | 4.36 | 12 | 43.08 | 1.43 |
| Old Republic Int'l | NYS | 26.25 | 5.00 | 5.53 | 26.50 | 17.50 | 1171 | 0.40 | 1.52 | 8 | 18.65 | 1.41 |
| Orion Capital Corp. | NYS | 35.25 | 2.92 | -0.35 | 35.88 | 23.19 | 224 | 0.80 | 2.27 | 7 | 28.62 | 1.23 |
| Phoenix RE Corp. | OTC | 17.00 | 9.68 | 7.94 | 17.00 | 8.88 | 263 | 0.20 | 1.18 | -25 | 13.32 | 1.28 |
| Provident Life | NYS | 29.63 | 2.60 | 3.95 | 29.63 | 20.00 | 32 | 1.00 | 3.38 | 12 | 30.38 | 0.98 |
| Re Capital Corp | ASE | 16.13 | -2.27 | -2.27 | 16.63 | 12.25 | 8 | 0.24 | 1.49 | 29 | 16.88 | 0.96 |
| Reliance Group Holdings | NYS | 6.00 | 0.00 | -2.04 | 7.13 | 3.88 | 1236 | 0.32 | 5.33 | 3 | 2.94 | 2.04 |
| RLI Corp. | NYS | 25.38 | 1.00 | 2.53 | 25.75 | 16.88 | 8 | 0.52 | 2.05 | 11 | 17.92 | 1.42 |
| St. Paul Companies | NYS | 76.38 | -0.16 | -0.81 | 80.75 | 66.50 | 586 | 2.72 | 3.56 | 11 | 59.79 | 1.28 |
| SAFECO Corp | OTC | 59.13 | 3.05 | 4.19 | 59.38 | 42.00 | 1302 | 1.64 | 2.77 | 15 | 35.37 | 1.67 |
| SCOR U.S. Corp. | NYS | 17.88 | 2.88 | 2.14 | 19.50 | 13.13 | 8 | 0.28 | 1.57 | 21 | 14.39 | 1.24 |
| Seibels Bruce Group | OTC | 2.00 | 0.00 | 6.67 | 6.50 | 0.38 | 215 | 0.00 | 0.00 | 0 | 6.22 | 0.32 |
| Selective Ins. Group | OTC | 22.25 | 2.30 | 1.14 | 23.50 | 16.75 | 185 | 1.12 | 5.03 | 9 | 20.22 | 1.10 |
| Statesman Group Inc. | OTC | 13.75 | 5.77 | 14.58 | 13.88 | 5.00 | 1066 | 0.05 | 0.36 | 7 | 6.71 | 2.05 |
| Tokio Marine & Fire | OTC | 46.50 | 0.27 | -3.13 | 52.63 | 32.25 | 5 | 0.00 | 0.00 | 93 | 70.93 | 0.66 |
| Torchmark Corp. | NYS | 57.63 | 1.54 | 1.54 | 58.38 | 36.00 | 429 | 1.04 | 1.80 | 17 | 14.87 | 3.88 |
| Transamerica | NYS | 46.75 | -0.53 | -2.60 | 50.50 | 39.75 | 500 | 2.00 | 4.28 | 21 | 35.86 | 1.30 |
| Transatlantic Holdings | NYS | 51.25 | -1.91 | -8.69 | 56.75 | 29.38 | 178 | 0.28 | 0.55 | 18 | 21.85 | 2.35 |
| Travelers Corp. | NYS | 27.00 | 2.86 | -0.92 | 27.63 | 17.13 | 2129 | 1.60 | 5.93 | -14 | 43.85 | 0.62 |
| Trenwick Group Inc. | OTC | 40.25 | 0.00 | -1.23 | 42.13 | 25.00 | 169 | 0.80 | 1.99 | 16 | 23.87 | 1.69 |
| United Fire & Casualty | OTC | 41.75 | 4.38 | 0.60 | 43.00 | 30.34 | 1 | 1.00 | 2.40 | 17 | 28.47 | 1.47 |
| Unitrin | OTC | 39.50 | 1.28 | -7.60 | 43.00 | 32.75 | 471 | 1.20 | 3.04 | 12 | 36.51 | 1.08 |
| UNUM Corp. | NYS | 53.00 | -1.62 | 0.00 | 54.75 | 32.00 | 418 | 0.64 | 1.21 | 15 | 21.83 | 2.43 |
| US Facilities Corp. | OTC | 10.25 | 5.13 | 2.50 | 19.00 | 7.00 | 136 | 0.00 | 0.00 | 10 | 9.64 | 1.06 |
| USF&G Corp. | NYS | 12.38 | 6.45 | 0.00 | 15.00 | 7.63 | 1252 | 0.20 | 1.62 | -24 | 10.29 | 1.20 |
| USLICO Corp. | NYS | 19.25 | 2.67 | 6.94 | 20.38 | 16.75 | 20 | 1.00 | 5.19 | 27 | 29.80 | 0.65 |
| USLIFE Corp. | NYS | 38.25 | 3.38 | 5.52 | 38.25 | 28.16 | 293 | 1.20 | 3.14 | 11 | 64.90 | 0.59 |
| Washington National | NYS | 23.88 | 5.52 | 3.80 | 23.88 | 16.63 | 59 | 1.08 | 4.52 | 19 | 30.27 | 0.79 |
| Zenith National Ins. | NYS | 20.75 | 1.22 | 5.06 | 20.75 | 14.50 | 102 | 1.00 | 4.82 | 14 | 14.81 | 1.40 |
| INSURERS/REINSURERS | AVERAGE | | 2.2 | 1.4 | | | | | 2.6 | 16.1 | | |
| **HEALTH MAINTENANCE ORGANIZATIONS** | | | | | | | | | | | | |
| FHP International | OTC | 21.75 | 14.47 | 8.75 | 23.00 | 12.50 | 3070 | 0.00 | 0.00 | 21 | 9.61 | 2.26 |
| Pacificare Health Sys. | OTC | 52.75 | 10.47 | 3.43 | 52.75 | 19.75 | 361 | 0.00 | 0.00 | 30 | 3.90 | 13.53 |
| Safeguard Health Enter. | OTC | 8.75 | -2.78 | -10.26 | 14.75 | 7.00 | 153 | 0.00 | 0.00 | 11 | 4.03 | 2.17 |
| Sierra Health Services (s) | ASE | 19.25 | 1.99 | -10.98 | 21.69 | 8.06 | 258 | 0.00 | 0.00 | 18 | 2.01 | 9.58 |
| United Healthcare Corp. | NYS | 65.38 | 17.53 | 14.95 | 65.38 | 34.25 | 1160 | 0.01 | 0.02 | 43 | 4.68 | 13.97 |
| United Medical Corp. | ASE | 9.00 | -2.70 | 41.18 | 9.75 | 6.13 | 30 | 0.20 | 2.22 | 82 | 10.30 | 0.87 |
| U.S. Healthcare | OTC | 53.25 | 18.99 | 19.33 | 53.25 | 29.00 | 9319 | 0.52 | 0.98 | 32 | 3.60 | 14.79 |
| HMOs | AVERAGE | | 8.3 | 9.5 | | | | | 0.4 | 29 | | |
| ALL COMPANIES | AVERAGE | | 3.0 | 1.9 | | | | | 2.3 | 19 | | |

System design: Nordby International Inc.

# Trust Virgil

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