

Business Insurance

California court OKs offsets by reinsurer in Mission case

LOS ANGELES—A state appellate court has overturned a lower court ruling that would have severely limited the ability of reinsurers to offset amounts owed to an insolvent insurer against amounts the insolvent company owes the reinsurers.

In a unanimous ruling involving insolvent Mission Insurance Group Inc. filed Wednesday, a three-judge California Court of Appeals panel found that reciprocal reinsurance contracts between

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January 1990 renewals

Brokers see stable rates rather than big increases

By LINDA J. COLLINS and LOUISE KERTESZ

While insurance brokers agree that insurers are talking rate hikes for January renewals, most have seen more evidence of rate stabilization than of a hardening in the property/casualty market cycle.

For example, while windstorm and earthquake rates had been expected to harden as a result of Hurricane Hugo and the California earthquake, there has been no noticeable change in those property lines, brokers say.

In addition, no brokers contacted see a general tightening of capacity or restrictions of coverage terms and conditions in either property or casualty lines.

With a few exceptions—workers compensation, pollution and energy and petrochemical risks—the

consensus among brokers is that property/casualty rates, on average, are deviating at most 20%, up or down, compared with expiring coverages. And most brokers quantify those deviations at less than 10%.

Brokers say

However, brokers say that energy- and petrochemical-related risks are being confronted with increased rates, a tightening of capacity and more careful underwriting of their exposures following several industry-related catastrophes—one of the largest being the Oct. 23 Phillips Petroleum Co. petrochemical plant explosion in Pasadena, Texas (BI, Oct. 30, 1989).

Primary underwriters appear to

be leading the firming trend, with no apparent change yet in pricing on excess layers, some brokers say.

However, several brokers are adopting a wait-and-see attitude, predicting that rates will climb after insurers release their fourth-quarter 1989 results and complete their reinsurance treaties.

In the meantime, insurers continue to compete on price for most lines of business, brokers say. But, where rate reductions are still evident, they are not nearly as significant as those granted during the past two renewal seasons, brokers agree.

During last January's renewal season, brokers reported that rates fell between 25% and 40% for property insurance and between 10% and 33% for general liability insurance (BI, Jan. 2, 1989).

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Insurers seek to hike premiums slowly

By MARK A. HOFMANN and CHRISTINE D. WOOLSEY

Property/casualty insurance rates are beginning to rise for some risks, but insurance buyers will not be rocked by steep increases like those imposed in 1984 and 1985 at the beginning of the last hard market, insurers say.

Instead, rates for some lines of insurance—like directors and officers liability, primary general liability and property insurance for some risks—inched up by single-digit percentages, rather than double- or triple-digit percentages, during year-end renewals, according to some insurer executives.

Such modest increases are all that buyers will accept, insurers say.

Furthermore, other insurers report that rates for the same lines of coverage remained flat at year-end.

Indeed, officials at several insurers would not comment on the market for this report, citing the mixed state of the property/casualty insurance marketplace.

A spokesman for the property/casualty companies of Hartford, Conn.-based Hartford Group Inc. echoed the sentiments of many in-

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Insurers say

Risk managers hail more price breaks

By MICHAEL BRADFORD

Risk managers are finding smooth sledding during the Jan. 1 insurance renewals.

Although some insurers, brokers and industry analysts predicted that the triple whammy of Hurricane Hugo, the California earthquake and the Phillips Petroleum Co. petro-

Risk managers say

chemical plant explosion in Pasadena, Texas, would send property insurance rates up 10% to 20%, the catastrophes appear to have caused only minor increases in property insurance prices.

Risk managers are reporting cheaper coverage available on both the property and casualty side.

Many risk managers say property insurance costs are falling by as much as 13%, and the cost of primary and

excess casualty insurance is down 5% to 12%.

However, risk managers expect these to be the final rate cuts in a market that many felt would have hardened by now.

"I think we're arriving at the bottom of the property cycle," said Arnold Davenport, vp of risk management for Washington-based Marriott Corp.

"I think I've seen all I'm going to," commented Fred Ingerman, corporate risk manager of Burndy Corp., a Norwalk, Conn., manufacturer of electrical connectors, referring to a price break on Burndy's 1990 property coverage.

"I think sometime in 1990 we will start to see an upturn," Mr. Ingerman said.

John G. Pinner, assistant treasurer for Mattel Inc. in Hawthorne, Calif., agreed that "one of these days" insurers will start raising rates because of industry losses.

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Retrocessional market shattering London calm

By STACY SHAPIRO and CAROLYN ALDRED

LONDON—The London market is splintered this January renewal season: some rate reductions in the insurance market; some rate increases in the reinsurance market; and a "bloody" retrocessional market.

Despite the California earthquake, Hurricane Hugo and the \$1 billion explosion at a Phillips Petroleum Co. plant in Pasadena, Texas, there is

London market says

plenty of capacity and some rate reductions still available in the London market for U.S. property/casualty insurance.

Rates for both property and casualty insurance programs are either renewing as is or decreasing 10% to 20%. And capacity ranges from \$40 million for a general liability insurance program to hundreds of millions of dollars for property programs.

There is also no capacity shortage in the reinsurance market in London for U.S. ceding companies. Although U.S. insurers that suffered huge

losses from the earthquake and the hurricane are seeing rate increases, a few U.S. cedants that were not hit by the disasters can still obtain rate reductions.

However, the London retrocessional market—known as London market excess-of-loss reinsurance or LMX—is in a frenzy following the three fall disasters and new claims notices on the \$1.4 billion Piper Alpha North Sea oil platform loss in July 1988 and the \$3 billion windstorm in Southeast England and France in October 1987.

LMX capacity has been slashed following the recent withdrawal from the market of some major Lloyd's of London underwriters.

And rates for LMX coverage are increasing by 10% to as much as 100%.

"We are extremely busy" trying to find additional LMX capacity, summed up Hady Wakefield, chairman of Lloyd's brokerage C.T. Bowring & Co. Reinsurance Ltd., a unit of Marsh & McLennan Cos. Inc. "It will be a tight year-end and a late year-end," he said in mid-December (see story, page 32).

The upheaval in the LMX market is creating a very late renewal season in London and causing some excitement and anticipation with many predicting a turn in the entire market within

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Update

Court OKs Mission offsets

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Prudential Reinsurance Co. and Mission units created mutual credits and debts that may be offset under California law.

The appellate panel had earlier ordered the lower court to show cause why its ruling should not be reversed, and oral arguments on the show cause order were heard Dec. 12 (*BI*, July 17, 1989).

With one exception, the appellate decision "represents a complete victory for reinsurance companies on the issue of recoverability of offsets in an insurer insolvency," said Dean Hansell, a lawyer with Le-Boeuf, Lamb, Leiby & MacRae in Los Angeles, who represents two other Mission reinsurers arguing for offsets.

The one exception is that the ruling does not allow Pru Re offsets for amounts Mission owes Gibraltar Casualty Co., a Pru Re subsidiary.

Mr. Hansell predicted the decision will have a huge impact on the Mission liquidation, noting that the majority of Mission reinsurers also have offset claims.

California Insurance Department representatives could not be reached for comment on whether they will seek State Supreme Court review of the appellate ruling.

Property/casualty earnings fall

OLDWICK, N.J.—The property/casualty insurance industry's 1989 aftertax earnings dropped 38% to an estimated \$8 billion, according to A.M. Best Co., which has just released year-end results.

Components of the \$8 billion include a \$21.5 billion underwriting loss, a record \$31.5 billion in investment income, \$1.5 billion of federal income taxes and \$500 million in other losses.

The \$21.5 billion underwriting loss in 1989 fell just \$3.3 billion short of the \$24.8 billion record set in 1985, according to Best.

While the recent spate of catastrophes added to the loss, Best said more than half of the underwriting loss was attributable to continued softening of property/casualty commercial lines insurance rates.

The \$21.5 billion underwriting loss is an 89.9% increase from the \$11.3 billion underwriting loss posted in 1988.

The industry posted a 1989 combined ratio of 109.1% before dividends and 110.4% after dividends. This compares with a 104% pre-dividend combined ratio and a 105.4% after-dividend combined ratio in 1988.

A total of \$7 billion in catastrophe losses, including the \$4.1 billion loss caused by Hurricane Hugo and the \$1.1 billion loss stemming from the San Francisco earthquake, accounted for 2 to 2.5 points of the 110.4% ratio, according to Best.

Net premiums written increased 2.1%, to \$204 billion from \$199.8 billion.

Best notes that net investment income has grown to 15.6% of net premiums earned in 1989 from 6% in 1989.

The industry's reserves for losses and loss adjustment expenses grew 10.9% to \$268 billion. Policyholder surplus at year-end 1989 is estimated at \$134 billion, a 13.4% increase from \$118.2 billion.

Texas citrus growers insured

DALLAS—Most Texas citrus growers are insured for crop damages from recent frigid weather, while many Florida growers are left out in the cold with their losses.

Arctic air swept through the southern United States, bringing record cold temperatures to citrus-growing areas and doing an estimated \$50 million to \$55 million in damages to the \$90 million Texas crop and an undetermined amount of damage to the \$3.5 billion Florida crop.

About 70% of Texas growers have coverage that will pay to rehabilitate damaged citrus trees, said Ray Prewett, president of Valley Ag Insurance Services Inc. in McAllen, Texas, a managing general agent for the Federal Crop Insurance Corp.

Coverage on the trees amounts to limits of about \$2,000 per acre and pays for services to rehabilitate them and care for damaged groves.

About 40% of Texas growers have insurance that will pay a portion of income lost through damaged oranges and grapefruit, according to Mr. Prewett.

The \$50 million to \$55 million in damage represents about 60% of the Texas crop's wholesale value, said Les Whitlock, director of the Texas Valley Citrus Committee. Tree damage estimates were not available.

Mr. Prewett's agency has written about 600 policies on fruit and trees, for just over half Texas' citrus growers.

But a spokeswoman for the Florida Department of Citrus in Lakeland pointed out that "the concept of insurance is a fairly new one to citrus growers" and probably few have coverage to pay losses from the frigid weather.

Florida Gov. Bob Martinez Thursday declared the entire state a disaster area and requested federal aid for growers.

Court kills VDT safety law

RIVERHEAD, N.Y.—A controversial Suffolk County law requiring employers to protect workers regularly using video display terminals is invalid because it supersedes state labor and workers compensation law, a New York trial judge ruled last week.

But the court "in no way finds that the worker health concerns addressed by this local legislation have no basis in fact nor concludes that operators are adequately protected by existing rules and regulations," wrote Supreme Court Judge John Copertino.

The law took effect in July 1988 and required employers in the Long Island county with 20 or more VDTs to implement safeguards to protect workers who operate terminals for 26 or more hours a week (*BI*, June 13, 1988). Four local businesses filed suit, charging the law was unconstitutional and went beyond the county's authority (*BI*, Aug. 15, 1988).

The ruling "is a victory for businesses, and we're very pleased," said plaintiffs' attorney Gary Sazer of Parker Chapin Plattau & Klimpl in Jericho, N.Y.

County officials have not decided whether to appeal.

One day earlier, then-New York City Mayor Edward I. Koch vetoed a bill designed to protect city workers who use VDTs.

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Family leave laws

N.J. may be 4th state to pass mandate

By JUDY GREENWALD

TRENTON, N.J.—New Jersey would become the fourth state to require employers to provide workers unpaid leave to care for any family member under a bill awaiting Gov. Thomas Kean's signature.

Only Connecticut, Maine and Wisconsin now have similar laws, according to the Women's Legal Defense Fund, a Washington, D.C.-based advocacy group.

The New Jersey bill allows both male and female workers to take up to 12 weeks of unpaid leave to care for a seriously ill child, spouse or parent, as well as to care for a newborn or newly adopted child.

A spokesman for Gov. Kean, who will be leaving office this month, said the governor is still considering the bill. While the governor supports the concept of family leave, he is also concerned about its expense, the spokesman said.

Meanwhile, the full U.S. House of Representatives and U.S. Senate could vote early this year on federal family leave legislation.

Both the House and Senate bills include "no pre-empt" clauses under which the bills would not pre-empt state laws that are at least as strong as the federal legislation.

However, the Bush administration, which says the federal government should not establish leave policies, has threatened to veto the legislation (*BI*, June 5, 1989).

The U.S. Chamber of Commerce also opposes the concept of mandated family leave and believes this issue should be worked out between employer and em-

ployee because it is a "better means of assuring folks get what they want," a spokeswoman said.

The Chamber objects to mandated family leave policies such as the one proposed in New Jersey because the benefit would not be used by all employees, the spokeswoman said.

Offering leave to only some employees could force employers to take other benefits away from the remaining employees, she said.

Employees and employers should work out together what is best for everyone, which is a "much better approach," she said.

But, Donna Lenhoff, director of the Women's Legal Defense Fund, said there is a need to provide leave—in addition to the maternity leave benefit that many employers offer voluntarily—to accommodate workers who must care for family members during different stages of their own work life.

Under the New Jersey legislation, employers would be required to provide family leave of up to 12 weeks during any 24-month period after employees provide advance notice. The legislation does not specify an advance notice period.

However, any employer could deny leave to an employee who is among the 5% highest-paid employees in the company or if granting leave would cause the employer "substantial or grievous economic injury." The legislation, though, does not provide guidelines on the extent of economic injury employers must face to justifiably deny leave to an employee.

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Phony comp, auto claims alleged

Fraud scheme uncovered

By DOUGLAS McLEOD

MIAMI—Several Miami-area lawyers and doctors face criminal charges that they conspired to de-

fraud seven insurers and dozens of individuals of millions of dollars in phony workers compensation and personal injury claims over the last nine years.

Following what the Florida Insurance Department describes as one of its most extensive criminal investigations, racketeering charges have been filed against a North Miami law firm and several of its partners and employees, two Fort Lauderdale medical corporations and three of the medical firms' employees.

Several of the defendants also are charged with grand theft and insurance fraud.

The charges, filed Dec. 22 in the 17th Judicial Circuit Court in Broward County, name:

- Mark Marks, P.A., a North Miami personal injury law firm.
- Marvin Mark Marks, 64; his son, Gary Marks, 32; and Carl Borgan, 34, all lawyers with the Mark Marks firm.
- Irene Raddatz Porter, 28, Noreen Roberts, 27, and Denise Beloff, 28, all employees of the Mark Marks firm.
- Center for Neurological Services Inc. and Woolsey, Gelety, Lane & Centrone P.A., both Fort Lauderdale medical corporations.
- Dr. Ronald J. Centrone, 56,

and Dr. Joseph E. Gelety, 57, principals of the medical firms; and Johanna Gelety, 41, a CNS employee.

A 32-count statement of criminal charges and an attached affidavit by an Insurance Department investigator allege a nearly decade-long scheme in which the defendants inflated workers comp and personal injury claims, defrauding insurance companies and the claimants themselves in the process.

The personal injury claims were filed under commercial and private passenger auto insurance policies, said a department official.

The charges do not specify the amount of money allegedly taken in the scheme, but a source said it amounts to several million dollars.

Insurers victimized in the alleged fraud include Allstate Insurance Co.; Latin American Property & Casualty Insurance Co. of Miami; Nationwide Mutual Insurance Co.; Fireman's Fund Insurance Co.; Liberty Mutual Insurance Co.; the Florida Insurance Guaranty Assn., paying claims on behalf of an insolvent insurer not identified in court papers; and Public Health Trust-Jackson Memorial Hospital, a self-insurance program covering

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TPA data is due by Jan. 15

The deadline is approaching for companies to return questionnaires to be listed in the *Business Insurance* directory of third-party administrators.

The directory will appear in the Jan. 29 issue, which will focus on trends in self-insurance.

If your company offers claims administration, adjusting or auditing services for self-insured clients and you have not received a questionnaire, please request one immediately by calling Sara Harty at 312-280-3195.

The extended deadline for TPAs to return questionnaires is Jan. 15.

Inside

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✓ Coverage of January 1990 renewals continues with a look at the surplus lines market, U.S. and London reinsurers and financial analysts, beginning on **PAGE 18**

✓ In International Issues, Johnson & Higgins' Douglas N. Smith takes a trip around the globe to review recent and forthcoming insurance changes. **PAGE 23**

✓ In Ask a Casualty Actuary, Coopers & Lybrand's Richard E. Sherman explains how new NAIC reporting requirements should improve the quality of insurance company reserve analyses. **PAGE 24**

✓ Insurance industry stocks had a banner year in 1989, resulting in significant gains for the *Business Insurance Index* over the past 12 months. **PAGE 39**

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Most Australian quake damage will be covered

By KATE McILWAINE

SYDNEY, Australia—Property/casualty insurers likely will pay for much of the damage caused by the strong earthquake that rocked southeastern Australia Thursday, killing at least 13 people.

Early estimates of the damage ranged from \$100 million Australian (\$79.9 million U.S.) to as high as \$1.5 billion Australian (\$1.19 billion U.S.). As after almost any natural disaster, it was impossible to assess the damage precisely late last week.

The quake, which registered 5.5 on the Richter scale, caused heavy damage in the major industrial port of Newcastle in the state of New South Wales. Newcastle is located about 60 miles north of Sydney, Australia's largest city.

Newcastle's central business district, parts of which were flattened by the quake, was sealed off Thursday night, and defense force personnel patrolled the streets to prevent looting of the many damaged stores.

Earthquake losses are covered under standard Australian

homeowners and industrial special risk—or property—insurance policies, insurance industry experts noted.

"I would be surprised if any policies excluded it," said Clive Hamlin, assistant general manager-technical for broker Alexander Stenhouse Ltd. in Brisbane, a unit of Alexander & Alexander Inc.

"Earthquake cover is not normally an option. It is included automatically in a policy," Mr. Hamlin said. "The only thing not normally covered in Australia is flood damage. Earthquakes traditionally have not been a problem in Australia."

"We wouldn't offer property damage cover without earthquake cover," he said.

A homeowners policy would have a standard deductible of \$100, Mr. Hamlin said. ISR policies would have minimum deductibles of \$20,000 or 1% of the property's insured value, whichever is less, he said.

However, many companies will have opted for larger deductibles

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Mark Saltz

Exxon to pay blast costs

BATON ROUGE, La.—Exxon Corp. expects that damages resulting from an explosion and fire at its Exxon U.S.A. refinery in Baton Rouge, La., on Christmas Eve will not exceed its self-insured retentions.

The blast—which killed a contract worker and an Exxon employee and injured seven others—destroyed seven storage tanks that contained about 170,000 barrels of heating oil and lubricating oil. Based on last week's prices, the oil would have sold for between \$5.6 million to \$6.3 million.

Exxon has not yet estimated damages, but a

spokesman said the loss to the refinery and the neighboring Exxon Chemical Co. chemical plant would not exceed the oil company's \$10 million self-insured retentions under its property and occurrence-based liability coverages.

Exxon could not estimate business interruption losses. Exxon expected the refinery to be in partial service by last Sunday but was unsure when the chemical plant, which sustained minor damage, would reopen.

The fire began when hydrocarbon vapor escaped a pipe and ignited, the spokesman said.

Brokers sued in health cover scam

By DOUGLAS McLEOD

LOS ANGELES—A California broker and an association health care plan it manages are suing several U.S. and London brokers for misrepresenting the placement of accident and health insurance for nearly 2,000 association policyholders.

Adams, Clay Insurance Brokerage Co. of Burbank, Calif., and Transcare Assn. Inc., a Georgia association that provides accident and health insurance to moving and storage companies, filed suit in California Superior Court in Los Angeles, charging the brokers with deceiving the association into thinking the coverage had been placed.

According to the complaint, Adams, Clay thought it had placed A&H and other benefit coverages for Transcare with Arab Insurance Group (B.S.C.) of Manama, Bahrain through

a Florida brokerage and two London brokers. The ARIG coverage was negotiated with Anthony Dyson, purportedly an ARIG representative in Luxembourg, the suit says.

However, only weeks after the coverage was allegedly placed in April 1989, ARIG denied that it had written any coverage for Transcare and said it had no connection to a London bank account to which \$288,000 in premiums already had been wired.

The money has since disappeared, and Adams, Clay is still lining up replacement coverage, according to plaintiffs' attorney Walter J. Lack of Engstrom, Lipscomb & Lack in Los Angeles.

Of roughly 2,000 original Transcare insureds—including moving companies and individuals—all but 200 to 300 have left the program and found replacement coverage independently, according to Paul Flynn, chair-

man of Adams, Clay. The brokerage is arranging replacement coverage for the remaining members with two other insurers, he said.

Transcare and Adams, Clay seek to recover the \$288,000 deposited in Aram Management's London account and other damages, including \$2 million representing revenues for current and future business that may be lost due to the ARIG debacle.

Defendants named in Transcare's complaint include:

- Brown Shipley Insurance Brokers Ltd. and Berisford Mocatta & Co. Ltd., two London-based brokers that allegedly misrepresented the placement.
- Mr. Dyson, the purported ARIG representative.

Mr. Dyson is an executive with Arab American Trust Fund of Luxembourg, which

is unrelated to ARIG but which supposedly had binding authority for the insurer, said Mr. Lack.

Arab American Trust also controlled Georgia-domiciled Victoria Insurance Co. Ltd. through a subsidiary, Aram Investment Co.

Victoria—ordered into permanent receivership in December 1988—wrote Transcare's A&H coverage before Adams, Clay attempted to shift the coverage to ARIG, the complaint says.

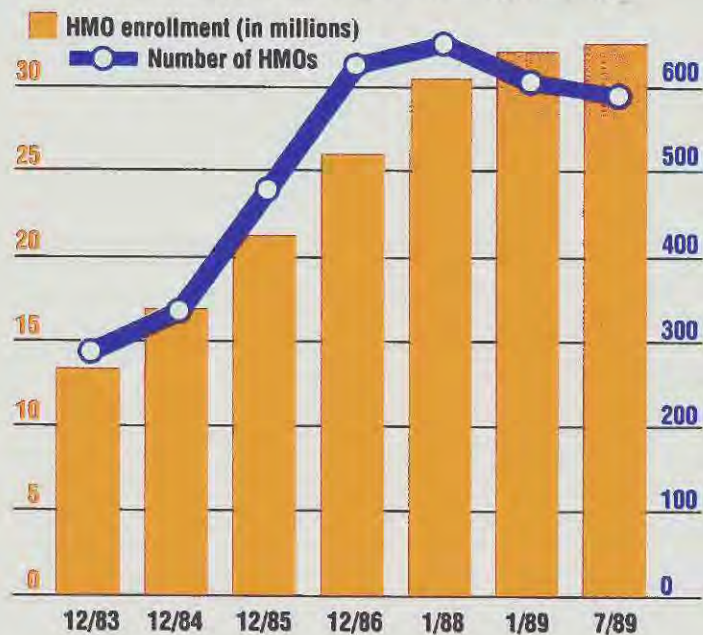
• National Underwriters Insurance & Reinsurance Brokers of Boca Raton, Fla., and an employee, Gary I. Hoskie.

Mr. Hoskie is a former officer of Countach Intermediaries Inc. of New York, a brokerage involved in the placement of bogus property reinsurance coverage for Occidental Petroleum Corp.'s captive (BI, Feb. 10, 1986).

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HMO growth slowdown continues

Enrollment in pure HMOs reached 32.5 million as of July 1, 1989, with only 552,290 members added in the first half of 1989. The number of HMOs operating has decreased from a high of 653 at the start of 1988 to 590 in mid 1989. HMO enrollment shown below at left, number of HMOs shown below at right.



Source: Interstudy

By JOHN HALL

Open-ended HMOs grow more popular: InterStudy

By JERRY GEISEL

EXCELSIOR, Minn.—Enrollment in open-ended health maintenance organizations is soaring while enrollment growth in traditional HMOs is languishing as the total number of HMOs shrinks, a new survey found.

But, enrollment in traditional HMOs in some markets, including California and New York, is surging ahead of the national pace, according to the "InterStudy Edge," a report by InterStudy, a managed care research organization in Excelsior, Minn.

And, while large, traditional HMOs maintained their strong market share in the first half of 1989, some smaller HMOs also made enrollment gains, according to the Interstudy report, which focuses on HMO enrollment changes between Jan. 1 and July 1, 1989.

Enrollment in open-ended HMOs, which allow members to receive services outside the HMO network at reduced benefit levels, climbed 14% to 702,648 as of July 1 from 616,568 enrollees as of Jan. 1.

By contrast, enrollment in pure HMOs during the same period nudged ahead by 1.9% to 32.5 million from 31.9 million, according to InterStudy.

The rise in open-ended HMO enrollment is buyer-driven, according to Lynn Gruber, vp-managed care research at InterStudy.

By providing an open-ended HMO, an employer can offer a managed care program but still give employees the freedom to choose among providers, Ms. Gruber said.

At the same time, more HMOs are offering an open-ended option to attract enrollees. Seventy-eight HMOs offered an open-ended product as of July 1, compared with 70 HMOs as of Jan. 1.

But, while HMO enrollment continues to rise—though only slightly for traditional HMOs—the number of HMOs is shrinking, InterStudy reported.

During the first six months of 1989, the number of HMOs declined 2.8% to 590 from 607. The number of HMOs peaked at 653 in January 1988 and has been declining since as the industry consolidates, according to InterStudy.

Meanwhile, enrollment growth in pure HMOs in certain markets is surging ahead of the national pace.

For example, enrollment in California HMOs increased by more than 300,000, or 3.7%, to 8.4 million as of July 1 from 8.1 million on Jan. 1.

In New York, HMO enrollment leaped by more than 100,000, or 4%, during the same period to 2.6 million from 2.5 million.

In addition, HMO enrollment climbed by nearly 69,000 members, or 5.6% in Florida; 67,000 members, or 5.6%,

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Lobbyists warn of tougher pension rules

By JERRY GEISEL
and ADRIENNE C. LOCKE

WASHINGTON—Both the Bush administration and congressional committees may try to beef up pension plan regulation, warns a benefits lobbying group representing large companies.

"Given the scope and already charged atmosphere of the debate, the amount of assets alleged to be affected. . . and potential turf battles, the threat to employers rivals that of the late Section 89," says the ERISA Industry Committee, or ERIC, of Washington, D.C.

U.S. officials, most notably Raymond Maria, the Labor Department acting inspector general, have charged that the department's failure to fully enforce the Employee Retirement Income Security

Washington

Act of 1974 could lead to problems for pension funds that would rival those now racking savings and loans, ERIC says.

"Congress, caught flat-footed on the savings and loan crisis, is anxious to avoid being caught on this new issue," said the lobbyists.

Officials could try to bolster pension regulation with damage awards for pension violations similar to those now allowed under the Racketeer Influenced and Corrupt Organizations Act, ERIC says.

Other possible proposals include mandatory recovery by prevailing plaintiffs of legal fees, witness fees and other costs in ERISA suits and authorizing the Labor Department

to sue accountants for substandard audits.

Meanwhile, two provisions in the budget reconciliation bill that President Bush signed Dec. 13 would strengthen enforcement of pension fiduciary responsibility standards in ERISA.

One removes some discretion the Labor Department had in waiving fines on employers that misuse pension funds or fail to act in the interest of pension plan beneficiaries. Some formerly optional penalties are now mandatory and can be waived only by the secretary of labor.

The other provision increases the amount delinquent employers can

be fined to up to 20% from up to 5% of lost pension plan assets.

"Strengthened civil penalties will better enable the (Labor) Department to protect participants and beneficiaries," a congressional conference committee report said.

Department investigators find fiduciary violations in about 25% of the 3,000 plans examined annually.

GM fined

The Labor Department has proposed \$211,000 in fines against General Motors Corp. in Detroit for 750 alleged violations of safety and health standards at its Buick-Oldsmobile-Chevrolet plant in Lordstown, Ohio.

Of the alleged violations, 178 are alleged willful violations, for

which the Occupational Safety and Health Administration seeks \$126,000 in penalties.

The remaining 572 citations were for other alleged serious, repeat and less-than-serious violations.

"A review of the employee injury and illness records at this plant showed a lost workday injury rate that exceeds the average for the entire auto industry," said Assistant Secretary of Labor and OSHA head Gerard F. Scannell.

Among the alleged willful violations were failure to provide hazardous chemical training to specific employees; failure to require the use of protective clothing like gloves and eyewear; and failure to record or improperly recording illnesses and injuries.

Among all serious violations were failure to properly maintain hydraulic lifts and failure to secure compressed gas cylinders.

GM has until Jan. 10 to contest the citations before the independent Occupational Safety and Health Review Commission.

Railroad pension tax

Railroads and their employees will be making greater contributions to the Railroad Retirement System this year.

The tax rate on employee earnings, which is paid by both employers and employees, increased to 7.65% from 7.51% as of Jan. 1. It is the first rate increase since 1987.

In addition, the first \$51,300 of a railroad worker's salary—up from \$48,000—will be subject to payroll retirement tax for Tier I benefits, which are comparable to Social Security benefits. Rail workers do not contribute to Social Security.

Under Tier II of the retirement program—which corresponds to the defined benefit pension plans that many employers offer—the tax rate for railroad employees will be 4.9%, and the rate for employers will remain 16.1%.

However, the first \$38,100 of a worker's salary will be subject to the payroll tax, up from \$35,700.

The maximum amount a railroad employee can be taxed for both Tier I and Tier II benefits will increase 8.2% to \$5,791.35 from \$5,354.10. The maximum amount an employer can be taxed per employee will rise only 1.7% to \$10,058.55 from \$9,893.10.

Sixteen major railroads, each with annual operating revenues exceeding \$92 million, and almost 500 smaller railroads contribute to the retirement system, which covers about 300,000 active employees.

Risk retention report

The Commerce Department's final report on the implementation of the Risk Retention Act that was delivered to Congress in November is now available to the public.

The report recommends an overhaul of the federal act to require control of risk retention and risk purchasing groups by their members and not insurers or agents (BI, Dec. 11, 1989).

The report also recommended that risk retention and risk purchasing groups be subject to minimum financial standards and provide more financial information to state regulators. It also suggested that the National Assn. of Insurance Commissioners monitor these groups and their insurers.

The "Liability Risk Retention Act of 1986 Operations Report," PB 90-123134, is available for \$49.95 plus \$3 handling from the National Technical Information Service, 5285 Port Royal Road, Springfield, Va. 22161; 703-487-4650.



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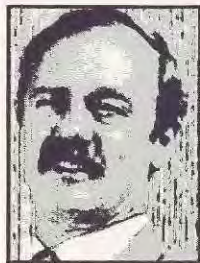
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At issue

Do you plan to reduce or consolidate the number of HMOs you offer?



Arthur J. Young
Employee benefit manager
Hewlett-Packard Co.
Palo Alto, Calif.

We have been evaluating our HMOs. We use about 84 out of the 150 or so that have approached us. We'll keep analyzing them as we have been, but it is not clear at this point what action we'll take. We're still wrestling with the HMO issue.



Victoria Fortman
Manager-employee benefit administration
Borden Inc.
Columbus, Ohio

We'll continue to offer HMOs in the areas they have already been established. We know there is adverse selection in some of them, but if we feel the employee contribution is adequately adjusted to reflect that adverse selection, we'll continue to offer them.



Roger Sims
Director-employee benefits
New York State Department of Civil Service
Albany, N.Y.

We have not added any new HMOs. We have about 27 HMOs in place now and we've cut out a couple that had been in the plan previously. Our strategy is to assess the service and pay more attention to the financial stability of the HMOs we offer.

Compiled by Christine Woolsey

Anker is named CEO of Lincoln National's American States unit

Comings & goings: Industry

Robert A. Anker has been named chief executive officer of American States Insurance Cos. of Indianapolis, a wholly owned subsidiary of Lincoln National Corp.

Mr. Anker will succeed **Edwin J. Goss**, who is retiring March 1 from the post he has held since January 1981. Mr. Goss will remain a director.

Mr. Anker, who was president and chief operating officer of American States' property/casualty subsidiaries, will remain

president of the units. The company has not announced who will succeed him as chief operating officer.

In other insurer changes:

Southall Stone named vp-claims for Glen Allen, Va.-based Essex Insurance Co., a wholly owned subsidiary of the Markel Corp. Mr. Stone had been senior vp at North American Claims Management Co., another Markel subsidiary.

James M. Miller appointed vp of a new property/casualty underwriting division with Accel International Corp., a Dublin, Ohio-based insurance holding company.

David Litzkow named vp-bond for St. Paul Fire & Marine Insurance Co. of St. Paul, Minn. Mr. Litzkow had been vp-general manager of the company's Cincinnati service center.

William J. Forloine promoted to executive vp from senior vp at Harleysville Life Insurance Co. of Harleysville, Pa.

Agent/broker

Gregory L. Daniels joins Fred S. James & Co. in Nashville, Tenn., as vp-risk management services. Mr. Daniels previously was director of risk management for the American Red Cross in Washington, D.C. During his tenure with the Red Cross, Mr. Daniels was named to the *Business Insurance* Risk Manager of the Year Honor Roll in 1988 (*BI*, April 18, 1988).

Jerry Naumoff joins Mesirov Insurance Services Inc. of Chicago as vp in the financial services division. He had been a regional manager with Lincoln National Life Insurance Co.

Excess/surplus

Sanford M. Gordon appointed vp-operations and administration in the excess and surplus lines division of Reliance National Insurance Co., a Reliance Group Holdings Inc. subsidiary in New York. Mr. Gordon had been vp and comptroller of Pan Atlantic Inc. of White Plains, N.Y., since 1987.

Reinsurance

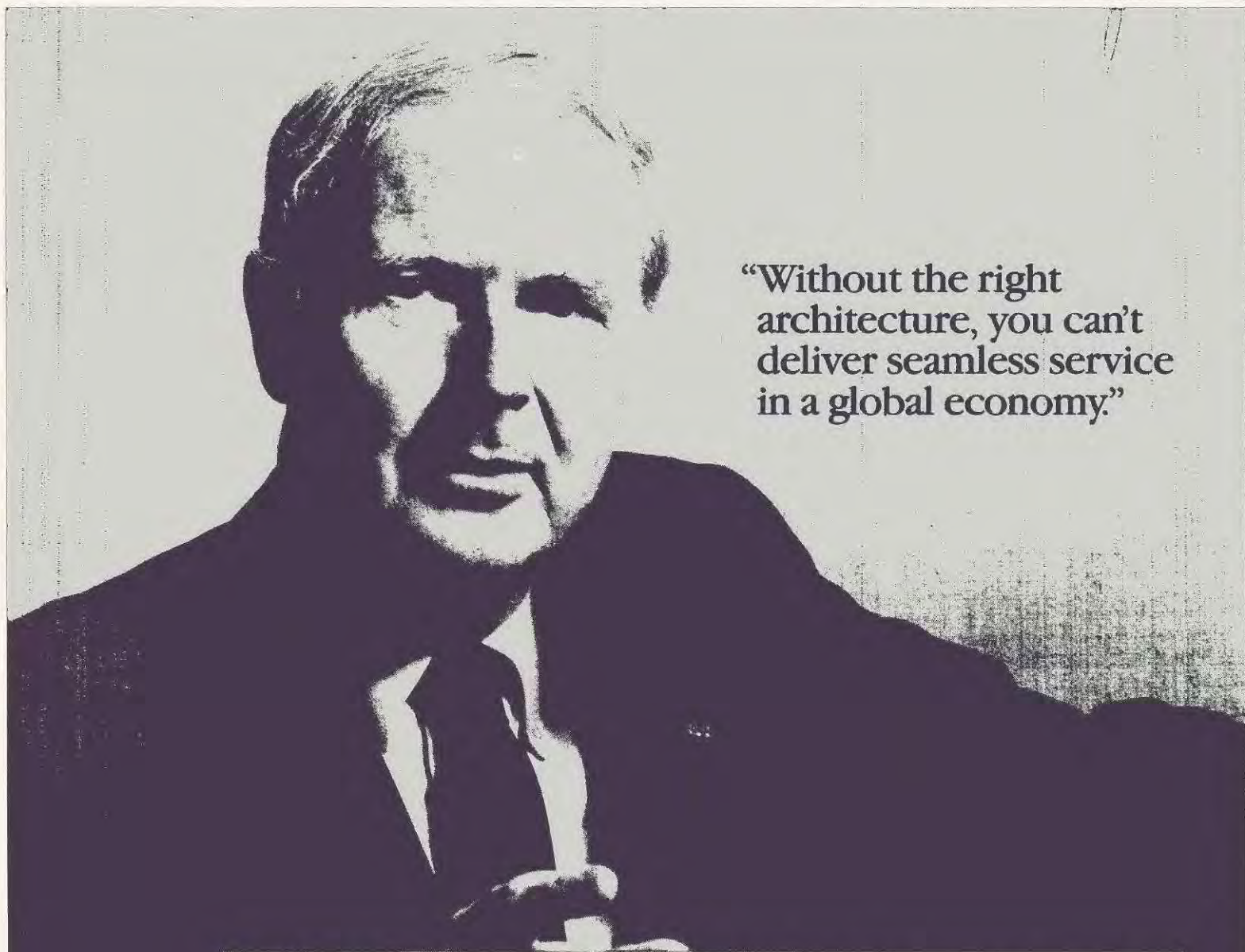
Francis A. Sangiacomo named resident vp and Midwest regional manager in the Chicago offices of IRM Services Inc. of Charlotte, N.C. He had been and commercial lines underwriting manager for SAFECO Insurance Co. of America.

John T. Andrews Jr. joins SCOR U.S. Corp. and subsidiary SCOR Reinsurance Co., both of New York, as senior vp and general counsel. Mr. Andrews had been senior vp and general counsel with Primerica Corp.

Other suppliers

James V. Ebel, a senior vp with Toplis & Harding Inc. in Chicago, named division head for casualty business for the third-party claims administrator. Mr. Ebel also is manager of the Midwest region.

Peter D. Johnson, president of Integrated Run-off Insurance Services Corp., an Aon Corp. subsidiary, will assume the additional titles of president and chief executive officer of Aon Risk Consultants in Chicago. ■



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Opinions

Shape of things to come

IN THE SPIRIT OF THE NEW YEAR, herewith is *Business Insurance's* third annual list of predictions about what will be "in" and what will be "out" during the next 12 months among the trendy in risk management, employee benefits and commercial insurance, including health care delivery systems.

We did fairly well last year: Almost 80% of our predictions were on target. So, for good or bad, with some pessimism and some optimism, we expect to see in 1990:

In: Workers compensation reform.

Out: Tolerance for rising workers compensation costs among not only employers but also labor organizations.

In: More Proposition 103-type proposals in state legislatures around the country.

Out: Competitive rating laws.

In: Open-ended HMOs.

Out: Traditional indemnity health care plans with no managed care features.

In: Higher deductibles and copayments under group health care plans.

Out: Strikes over health care plan cost increases to employees.

In: Multiyear property/casualty insurance contracts.

Out: Rate-slashing by property/casualty insurers.

In: Increased self-insured retentions by corporations, with accompanying concentration on safety and loss control programs.

Out: Hurricanes, earthquakes and other catastrophes.

In: Insurance industry communication efforts to reach out to the public and listen to customers.

Out: Bashing consumer advocates.

In: Antitrust lawyers specializing in insurance.

Out: Open, candid debate over market conditions at insurance industry gatherings.

In: FASB retiree health plan liability accounting rules.

Out: Employers ignoring mounting health care plan liabilities.

In: Structuring captive insurers a la Humana Inc.'s captive, with subsidiaries paying premiums to their parent company's insurance subsidiary.

Out: Parent companies paying premiums directly to captive insurers.

In: Payroll deduction for long-term health care plans.

Out: Ignoring the problems of Americans without health care coverage.



In: Profits for health maintenance organizations and group health care plan underwriters.

Out: HMO insolvencies and red ink for group health care plan underwriters.

In: Defined contribution pension plans.

Out: New defined benefit pension plans.

In: Financial reinsurance.

Out: LMX underwriting.

In: Reducing the unwieldy bureaucracy at Lloyd's of London.

Out: Joining Lloyd's.

In: More thoughtful analysis of proposed federal legislation involving employee benefits.

Out: Blind-side attacks like the Section 89 non-discrimination tests.

In: Hearings on the McCarran-Ferguson Act.

Out: Strong support to preserve McCarran-Ferguson among leaders of large property/casualty insurance companies.

In: Improved methods among states in regulating insurers for solvency.

Out: Insurance fraud.

In: Proposals for funding the cleanup of polluted sites involving businesses, insurers and government.

Out: Oil spills.

In: Fierce competition among insurers and brokers in the European Community.

Out: Buying into European operations.

In: Political risk insurance for new ventures in Eastern Europe.

Out: Life insurance on Communist leaders.

Letters

Captive law protects work comp insureds

To the editor: I believe your Oct. 2 article, "Illinois Now Allows Captives to Reinsure Workers Compensation Risks," and a subsequent letter from Paul C. Blume, counsel for the Illinois Insurance Conference (*BI*, Nov. 6), missed several safeguards.

We all agree that it is absolutely essential that claims of employees under the Workers Compensation Act be paid. It is

for this reason that *only* "admitted" insurance companies can write workers compensation.

In the event the issuing insurer elects to purchase reinsurance, it does not relieve itself of the liabilities under the insurance policy.

It is still responsible for all claims regardless of reinsurance. The issuing insurance company must therefore be the judge of its reinsurer.

In the event the issuing insurer elects to utilize a non-approved (captive) reinsurer it will not receive any financial relief on its statement, unless it is secured by an instrument approved by the state regulators.

In practice, it is very common to utilize letters of credit plus a guarantee by the parent of the captive.

The new law allows the large corporation another method of handling workers

compensation exposure with the approval of an "admitted" insurer and state insurance department. Since the Risk Retention Act does not provide for workers compensation coverage, these groups may form a group captive and utilize an "admitted" insurer to issue the contracts.

Again the "admitted" insurer must be the judge of the viability of the transaction and provide the safeguard. In actual practice it is difficult to interest an admitted insurer even with good data and a financially strong captive.

I believe the safeguards provided by only allowing these companies to act as non-approved reinsurers will provide an alternate choice while protecting the employees.

William G. Watson
Vp

Reliance National Risk Management
New York

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Insurers

Continued from page 1

urers: "The market is a mixed bag and rates vary by line and territory. Because of the delicate position of the marketplace, we're declining to comment."

Other insurers said they would not discuss price goals, citing possible antitrust implications of such comments.

Insurer executives, who are remarkably unanimous that the hard-market terrors of 1984 and 1985 will not be repeated, offer a variety of reasons for tightening in the property/casualty insurance marketplace, including the financial and psychological impact of the catastrophic losses from Hurricane Hugo, the California earthquake and the Phillips Petroleum Co. explosion in Pasadena, Texas; deteriorating insurer combined ratios; and increased taxes.

"We've been going along for about 2½ years with no rate increases. Our loss costs are obviously escalating," said Frank Kandt, assistant vp-commercial property underwriting for the property/casualty units of Seattle-based SAFECO Corp.

"It is essential to take some modest increases, excluding workers comp, of about 10% across the board," said Don Chapman, SAFECO's senior vp-commercial lines, following the string of catastrophic losses last fall (BI, Nov. 13, 1989).

"We believe prices must go up, and we're trying to push them up," said William Thiele, president of Continental Corp. of New York, which is seeking rate hikes on an account-by-account basis.

"We are seeing a firming in the market" for primary general liability insurance coverage, said Dennis E. Hoffmann, president of Moline, Ill.-based John Deere Insurance Co.

"The level of price reductions has been reduced," he said.

But, when rates have been increased, they "are modest increases at best," no more than 10%, Mr. Hoffmann said.

Rates are moving up "very gradually," agreed Richard A. Manetta, senior vp-insurance services for Schaumburg, Ill.-based Zurich-American Insurance Co.

For example, primary general liability insurance rates have risen 3% to 5% since March 1989, he said.

And, low-layer excess liability insurance rates have "pretty much followed," he added. "Nothing is moving downward."

The national insurance companies of Long Grove, Ill.-based Kemper Corp. are seeking 5% to 6% rate hikes for primary general liability insurance, said R. Keith Like, executive vp of Kemper's commercial lines group.

Wausau, Wis.-based Employers Insurance of Wausau is increasing primary general liability and low-layer excess liability insurance prices "a little bit," said Lowell Tornow, executive vp-field operations for the unit of Columbus, Ohio-based Nationwide Mutual Insurance Co.

Primary general liability insurance rates are level or less than 5% higher, said Thomas Kelsey, executive vp, managing director and chief underwriting officer for the property/casualty insurance companies of Warren, N.J.-based Chubb Corp.

Chubb also increased rates 6% to 8% for directors and officers liability insurance, Mr. Kelsey said.

There is "no question" D&O rates are increasing, said Jeffrey W. Greenberg, president of New York-based National Union Fire Insurance Co., an American International Group Inc. unit. He would not, however, elaborate.

Property accounts also face flat or slightly higher rates, insurers say.

"Pricing in most of the property lines is moving up. But again, it's nothing dramatic," said Zurich's Mr. Manetta.

"We're looking for the property market to be flat for the first half of the year and trending up the second half," said Richard Roth, senior vp-marketing for the companies of Waltham, Mass.-based Arkwright Mutual Insurance Co. and subsidiary Arkwright Insurance Co.

Mr. Tornow said Employers Insurance of Wausau also is seeking small increases in rates for large and small property accounts.

"Small property risks have been firming in the last three to four months. But again, these are modest increases, less than 10%," said Mr. Hoffmann of John Deere.

Kemper's Mr. Like noted that Kemper can get increases of 5% or so in some cases for small property accounts.

There is also some evidence that many insurers will hike rates for

highly protected risks 5% to 10% for some accounts, Mr. Like said. And for boiler and machinery accounts, "we're trying to get 4% to 5%" rate hikes, he said.

The Hartford Steam Boiler Inspection & Insurance Co. in Hartford, Conn., is not increasing rates,

**Rates are moving up
'very gradually,' says
Richard A. Manetta of
Zurich-American
Insurance Co.**

according to Keith S. Hynes, vp-underwriting. But, the company will also not be cutting rates, except perhaps for its best, long-term customers, said Mr. Hynes.

Meanwhile, rates for takers blanket bonds are still dropping somewhat, said Chubb's Mr. Kelsey.

sey.

Insurers point out that they are not restricting policy terms or conditions, such as imposing higher deductibles.

Instead, Zurich, for example, is focusing on controlling costs by stressing loss control and better claims management, Mr. Manetta said.

Insurers did not agree on which areas of the country will be hit soonest by the hardening market, and they qualified their observations with the caveat that their data was preliminary.

"We seem to see more firming in the Northeast than in other parts of the country, but this is very preliminary," said Robert J. Vairo, president and chief executive officer of Crum & Forster Inc. in Basking Ridge, N.J.

"We don't see a difference geographically across the United States. But as in most market cycles, you see an increase in pricing competitiveness on the coasts

first," particularly in large cities, said Hartford Steam Boiler's Mr. Hynes.

"It's a modest difference, but it is a difference," he said.

But Chubb's Mr. Kelsey said that he has heard of slightly greater increases in the Midwest. He said that very preliminary information runs counter to the usual pattern of price changes, which tends to begin on the coasts.

Rate competition remains strong in Florida, said Ralph Serio, senior vp-insurance operations for American Reliance Insurance Co. in Lawrenceville, N.J., which writes in six states. Rates are also competitive in the Washington, D.C., area, he said.

But Mr. Serio noted that the regional competition can be driven by more than one factor.

For example, there is more competition in northern New Jersey than in the southern counties of the state, because more agents vie

Continued on next page

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flow or customized sports and leisure events coverage, serving customer needs is our driving force. We're part of one of the nation's largest

Continued from previous page for business in the more heavily populated north, Mr. Serio explained.

Northern New Jersey's relative affluence also makes it an attractive target market, leading to price competition, he added.

Other insurers agree with Zurich-American's Mr. Manetta, who finds "no statistically significant" regional differences in pricing.

Not all insurers agreed that the rate increases mark the definite end of the soft market.

"The situation is incredibly fluid," observed Michael McIntyre, senior vp-marketing for Johnstown, R.I.-based Allendale Mutual Insurance Co. "Right now, there has been no great charge up the hill on rates despite what everybody's saying."

"We've heard a lot of rhetoric in the last three months" from major insurers calling for price increases, said Mr. Serio of American Re-

liance. Despite talk of raising prices, "it's going to take awhile to execute it," Mr. Serio said.

American Reliance is "not known as a price market," and it neither increases its rates by as great a percentage as national insurers during a hard market nor cuts them as deeply during a soft market, he said. "We're not doing anything radical because we're not in the same hole."

Other insurance executives said adhering to stable prices was part of a strategy that predates the current market.

"We've had our pricing discipline in place since 1987, and we've maintained it throughout," said Crum & Forster's Mr. Vairo. The company has stuck to a "walk-away price philosophy," under which the insurer will walk away from a piece of business if it cannot write it profitably, he said.

That strategy has cost the insurer new business, but the company did better than expected in

retaining renewals, Mr. Vairo said. "We've been very fortunate during this soft market—we've gotten strong support from our producers."

Zurich's Mr. Manetta also said his company has received support from the field in its efforts to raise

'I don't think anything much has changed in terms of capacity,' Mr. Vairo says.

prices. Branch offices have not resisted orders to increase rates and "most are reporting that relatively modest increases are being accepted," he said.

Among Kemper staff, response to rate increases "has been pretty good—we don't see any internal

conflict" said Mr. Like, one of the senior executives sent to 21 branch offices and five regional offices to explain the increases.

Kemper "is willing to take" the adverse impact that higher rates may have on sales, Mr. Like explained.

Continental Corp. also is willing to lose business in order to obtain the rate hikes it is seeking, said George Ramsdell, senior vp and chief underwriting officer of the insurer's Cranbury, N.J.-based agency and brokerage group.

"Our branch managers have been instructed to increase prices. We expect them to formulate a pricing plan to hit" those targets, Mr. Ramsdell said.

"We've told our people we are willing to lose business, and we've lost some in 1989. And it has cost us a lot in new business opportunities," Mr. Ramsdell said.

But, he noted, Continental has "seen a significant increase in the amount of submissions coming in."

Caleb L. Fowler, president of Philadelphia-based CIGNA Corp.'s property/casualty group, noted that he sent a letter in early November to branches urging price hikes.

Offshore alternative risk financing mechanisms also are preaching the gospel of price stability.

For example, Bermuda-based A.C.E. Insurance Co. Ltd. "is absolutely and totally committed to stabilization," said Walter Scott, A.C.E.'s president. The company is willing to sacrifice accounts to maintain rates, he said. "We have been walking away from business over the last two years."

"Our whole business is about stabilization, so we purposely ignore the (traditional insurance) market," said Brian O'Hara, president and chief executive officer of X.L. Insurance Co. Ltd. in Barbados.

"Many of our accounts are self-insured up to our levels so we don't react" to market conditions, he said. X.L. writes \$100 million in liability coverage excess of \$25 million (BI, Oct. 30, 1989).

However, "we are prepared to let business go if unreasonable demands are made on us. Stability is a two-way street," Mr. O'Hara said.

"We've had some real losses and we will increase prices in those classes, but we try to spread the increases over our whole book of business," he explained.

Citing policyholder confidentiality, Mr. O'Hara said he would not discuss specific losses.

However, rate increases are "definitely under 10%, even for individual companies with bigger losses," Mr. O'Hara said.

Several insurers stressed that while they desire rational rate structures, they are not instituting across-the-board increases.

"We've always been committed to stabilization. We look at each customer individually," said Arkwright's Mr. Roth.

Allendale does not say, "All right, boys, we're all going up 10% or 15%," Mr. McIntyre pointed out. Instead, he said, Allendale uses a "corridor of pricing" approach.

"When markets are going up, we're not going to push you to the upper limits," he said. And, when the market softens tremendously, Allendale will not drop its rates lower than all competitors'.

"We're not doing anything across the board," said Chubb's Mr. Kelsey.

Although the higher prices might give some buyers a nasty sense of déjà vu, insurers hasten to point out that the dire lack of capacity that marked the last market hardening does not exist this time around.

"We don't see any tightening" in capacity, said Arkwright's Mr. Roth.

"I don't think anything much has changed in terms of capacity," observed Crum & Forster's Mr. Vairo.

However, large, tough property risks may find that capacity is somewhat tighter, noted Mr. Serio of American Reliance, adding that his company is not limiting capacity for these accounts.

A.C.E.'s Mr. Scott said he has seen "a tightening of capacity in the London marine market," partially as a result of the Exxon Valdez oil spill last March (BI, April 3, 1989).

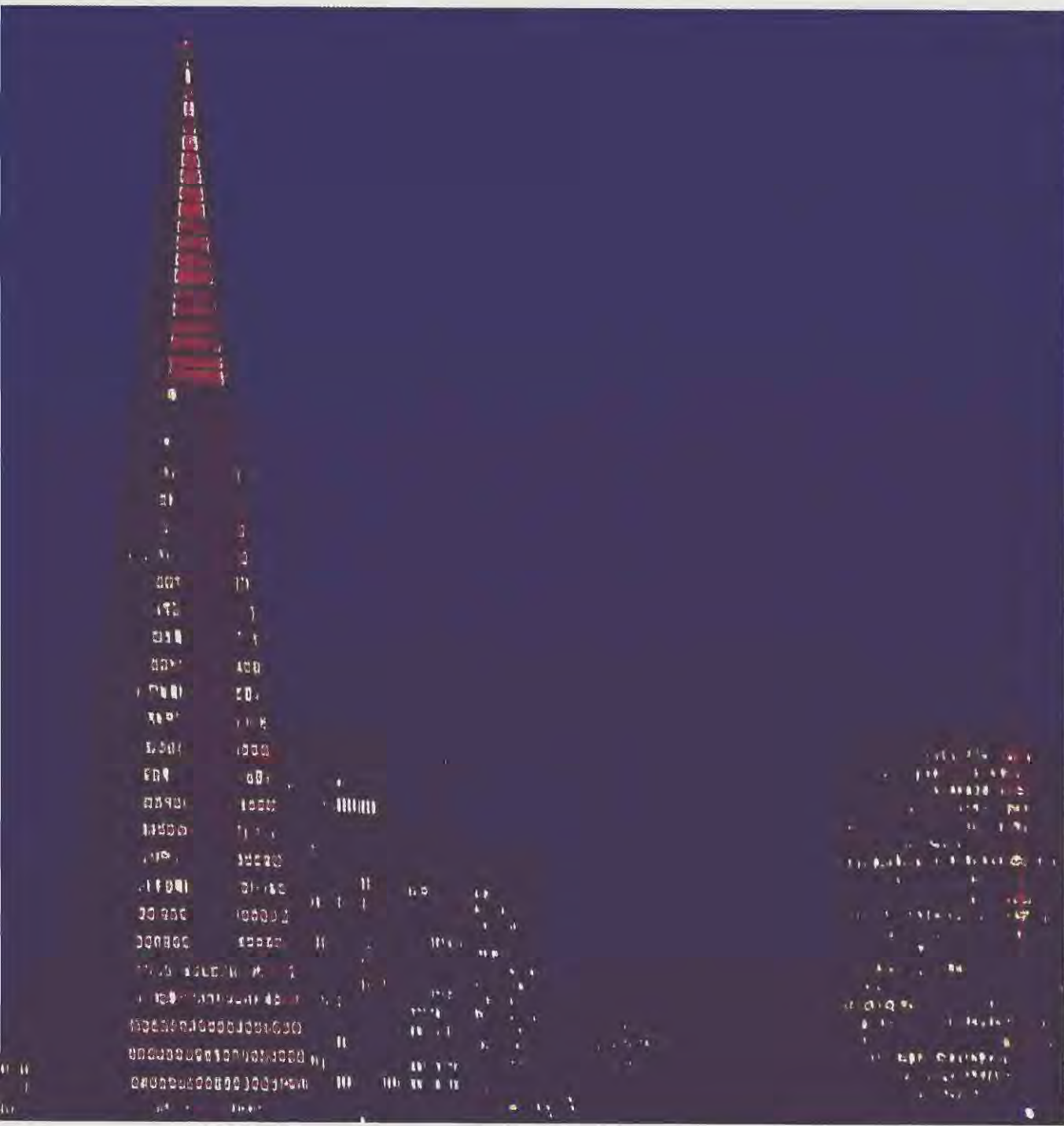
But, "no one is really shying away from any particular risk. There is a lot of capacity out there," Mr. Scott said.

Insurers cite many reasons for the rate increases that have taken hold.

Most commonly cited were insurers' poor results and the financial and psychological impact of Hurricane Hugo, the California earthquake, the Phillips explosion and other catastrophes.

For example, Chubb's Mr. Kelsey

Continued on next page



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Insurers

Continued from previous page said that some insurers have become increasingly concerned about rising combined ratios.

Indeed, several insurers' combined ratios exceed 115%, he pointed out (BI, Nov. 27 1989), though Chubb's combined ratio for the first nine months of 1989 stood at 100.9%.

Kemper's national insurance companies' combined ratio for commercial accounts for the first nine months of 1989 was 108.5%. And, the insurance group's combined ratio for the first 11 months

was 109%, Mr. Like said.

Mr. Like said he was not pleased with the ratio, but he noted that it was better than those reported by some competitors.

"As companies start seeing combined ratios of 114%, they simply have to react," he said.

Mr. Kelsey also said that some insurers might find themselves with temporary cash-flow problems because of the catastrophic losses this fall. Rather than sell securities, they could raise rates to remedy the situation, he said.

Both Crum & Forster's Mr. Vairo and CIGNA's Mr. Fowler said a disappointing return on the

amount of capital committed to property/casualty insurance operations is spurring rate increases.

Insurers had a poor third quarter, Mr. Vairo said. With returns of 8% or less, "responsible CEOs and boards have to say to themselves, 'We've got to do something about this,'" he said.

Poor operating results "bring home to top management that they will lose their jobs if they keep losing money," X.L.'s Mr. O'Hara observed.

CIGNA's Mr. Fowler agreed that the "key" to the pricing turnaround was return on capital. Insurers' returns are in the "single

digits, and not the high ones," he said.

Insurers also say that impact of the Tax Reform Act of 1986 has forced them to hike rates.

"Everybody's paying more taxes than anyone envisioned," said Mr. Vairo of Crum & Forster.

And, insurers also face more assessments from state guaranty funds, said Zurich-American's Mr. Manetta, who predicted that insolvencies are "likely to increase or at least stay the same" in the near future.

Other factors cited were the cost of litigation and the cost of catastrophe reinsurance following the

catastrophic losses this fall (see story, page 26).

But, insurers are not certain whether the disasters will have a serious long-term effect on the market.

"I think it's easier in discussion to say 'A plus B equals C' and this is why it happened. But in the insurance business, it's really not that simple and that's one of the reasons (cycles) are so difficult to control," said Joseph P. Decaminada, executive vp, secretary and general counsel at Atlantic Mutual Insurance Co. in New York.

A.C.E.'s Mr. Scott said that there still is too much capital in the industry to support widespread rate increases.

"Generally, markets don't turn when surplus is growing, and it's still growing," said Arkwright's Mr. Roth.

Mr. Serio of American Reliance agreed that the market is still flush with capital. But, he added: "If these catastrophes didn't happen, we'd have had another full year of the soft market."

Mr. Serio said American Reliance expects "price strengthening" during 1990 but that the turnaround will not be as violent as it was in the mid-1980s. "The public won't tolerate it. The legislatures won't tolerate it," he said.

Insurers themselves will not tolerate it, he added. Companies that

'As companies start seeing combined ratios of 114%, they simply have to react,' Mr. Like says.

raised prices 40% would find themselves undercut by insurers willing to hike prices only 10%, he said.

"The industry can't let it happen—period," said Arkwright's Mr. Roth.

Crum & Forster's Mr. Vairo agreed, saying that insurers would take a "responsible" approach. "I don't see anything happening like we saw the last time," he said.

But, "the fact of the matter is nobody knows for sure, because there are so many different players out there," said Atlantic Mutual's Mr. Decaminada. "No one wrote the script for what happened in 1984" either, he said.

A.C.E.'s Mr. Scott said he does not foresee any triple-digit increases due to the market's excess capacity.

Continental's Mr. Ramsdell said there would be no crisis situation or triple-digit rate increases "because of regulatory and social pressures."

"Insurers will have to become much more sophisticated in pricing management, and I expect there to be a narrower band of price movement," he said.

"We're expecting that price increases will occur all through 1990," said Wausau's Mr. Tornow. But "we don't expect a runaway situation" as was the case in the mid-1980s. "I think most companies are striving for stability," Mr. Tornow said.

"The severity of the turn in the market depends on how quickly the industry reacts and acts on its problems," suggested Mr. Greenberg of National Union. For example, if moderate rate increases are adopted, companies may be able to check a crisis, he said.

But, "if companies forestall taking corrective actions, the delay will produce a crisis, because the red ink will be a lot worse," he said.

Mr. Greenberg expects the market to harden through 1990 but thinks that another insurance affordability crisis, like that of the mid-1980s, is unlikely. ■

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Brokers

Continued from page 1

"The crash dive has ended and we are seeing some leveling—some rate decreases on good accounts and some rate increases on difficult accounts—but it is not a difficult market," said Richard A. Maxwell, senior vp and director of marketing and professional standards for Corroon & Black Corp. in New York.

The "free fall" in commercial property/casualty rates is over, agreed J. Patrick Gallagher, vp-operations at Arthur J. Gallagher & Co. in Rolling Meadows, Ill.

"The good risks are generally level, though we're seeing some reductions of 10%. The standard risks are holding firm. For underwriters who are really looking at losses," there are selected increases of 10%, commented William F. Poland, senior vp at Jardine Emett & Chandler Inc. in San Francisco.

"There is a rate firming on the horizon and I am getting a sense that competition isn't quite as severe. That doesn't mean the hard market is here, but it does give us a sign that some of the more conservative players are saying, 'Enough is enough,'" agreed Robert H. Hilb, president of Hilb, Rogal & Hamilton Co. in Richmond, Va.

"Across the board we have not seen a major change in rates, and... we don't look for any major change in 1990," said Quill O. Healey, president and chief operating officer of Fred S. James & Co. Inc. in New York.

While many insurance companies' top executives are sending out the message that rates must increase to curb growing underwriting losses, brokers see little evidence that branch offices are responding with any urgency.

"In general, we see rates remaining flat. There's been an awful lot of talk about increasing rates, but that hasn't happened yet," said Elliott M. Jones, vp and marketing manager of A&A Inc. in Chicago, a unit of Alexander & Alexander Services Inc. in New York.

"There is obviously a lot of conversation at the top of insurance companies about prices going up and things tightening," said James Goulard, president of the Corporate Risk Division of Frank B. Hall & Co. Inc. in New York.

"We are seeing some effort at the underwriting desk level and some rates are going up a bit, but there is no run on the bank," Mr. Goulard added.

Jardine's Mr. Poland said he sees no insurers that are resolved to raising prices and "no pattern developing with any one carrier."

However, HRH's Mr. Hilb said that three insurers in particular—Baltimore-based United States Fidelity & Guaranty Corp., Philadelphia-based CIGNA Corp. and Basking Ridge, N.J.-based Crum & Forster Inc.—are "holding the line or looking for a little more on renewal of property and casualty business, with increases in the 5% to 10% range."

USF&G Chairman Jack Moseley stated in the company's third-quarter report that USF&G had determined that the time had come to selectively raise prices in the appropriate markets.

As a result, USF&G was monitoring markets and "seeking adequate rates," said a spokesman for the insurer.

CIGNA has urged branch offices to raise rates, while Crum & Forster says it has held a consistent pricing philosophy since 1987 (see story, page 1).

New York-based American International Group Inc. also is taking a hard line stance on obtaining rate increases, according to five of the brokers contacted.

For example, A&A's Mr. Jones said that he has no "strong sense of insurers wanting to increase their

rates except for AIG. I see them trying to do it and I think they have been losing some business" as a result, he said, adding that AIG "should be commended" for those efforts.

AIG "is watching some business go," rather than compete for business, agreed Mr. Gallagher.

AIG confirms that pricing is going up.

Several other insurers are asking their underwriters to seek rate increases where possible, brokers say, including CNA Financial Corp. and Travelers Corp. of Hartford, Conn.

Chicago-based CNA is "saying it would like to raise rates," said Edward Shumaker, senior vp and manager of Anderson & Anderson Insurance Brokers Inc. in Irvine, Calif.

In addition, Fireman's Fund Insurance Co. was recently willing to let some business go rather than back off from a rate increase, Mr. Shumaker said.

A spokesman for the Nevada, Calif.-based insurer said, "Fireman's hasn't issued any directive" to increase rates. However, "for the past year and a half we've been stating that we want to be competitive, but we aren't going to cut our throats by dropping prices gratuitously. Every risk has a price and a cost," he added.

Brokers generally agree that insurers are more apt to reduce renewal rates for existing clients that have maintained good loss histories to avoid losing them to a competitor than they are to offer rate concessions to lure a new client from another insurer.

Insurers "are trying hard. They want a stable marketplace," said Frederick J. England Jr., president of Hastings-Tapley Insurance Agency Inc. in Cambridge, Mass.

However, insurers are "not willing to lose accounts if they feel they are making money" on them, Mr. England added.

M. Rerwick Severance, vp-spe-

cial services for Republic Hogg Robinson Inc. in Boston, also has seen instances of insurers seeking to increase rates, but they are "backing off when it won't fly. An increase is the exception rather than the rule."

But, Mr. Severance added that in instances where insurers have lowered their prices, reductions "are a lot less than last year—on the order of 20% to 10%."

"Carriers want to stabilize rates, but 80% of them will match competitive quotes to keep the business," said Frank Robitaille, president of Orange, Calif.-based Armstrong/Robitaille.

"I talked to a major insurer back East who said, 'We're going to get a minimum 10% increase on our book, but we'll do anything to hold our book.' There's a contradiction there," said Bernard H. Mizel, president and chief executive officer of American Business Insurance Inc. in San Francisco. However, he added that most insurers

are trying to increase rates on new business.

Richard L. Shanks, president of Financial Guardian of Kansas City Inc., a subsidiary of Financial Guardian Group Inc., pointed out that insurers may be competing more heavily to protect their renewals simply because, during the "year-end rush, insurers prefer to work on accounts that they already have."

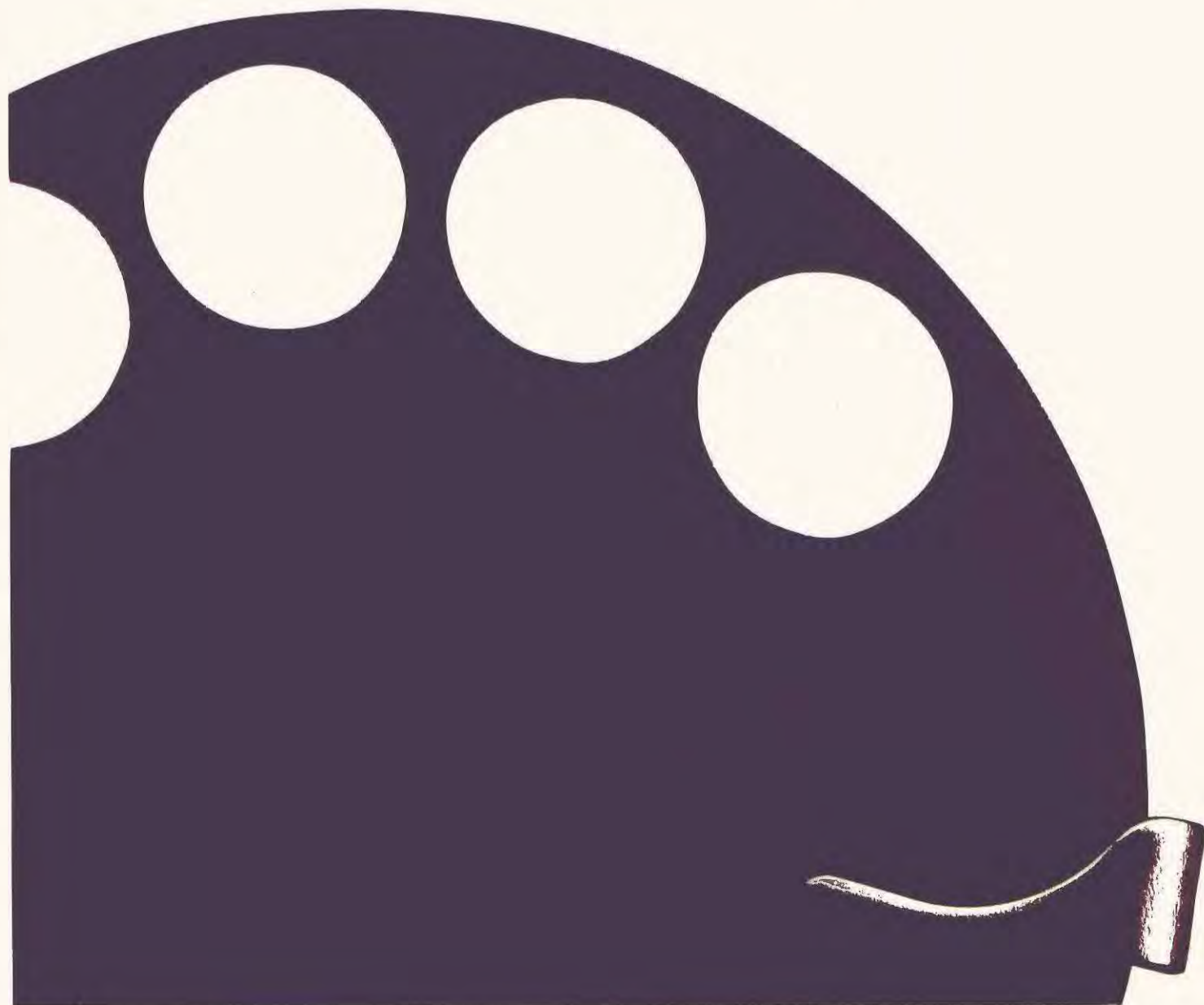
At this time of year, insurers are "less willing to work on a new piece of business" because that business is more time-consuming to process, he added.

RHR's Mr. Severance observed that rates are softer in property lines than in liability lines. "For example, you'll find you can get a 20% rate cut in property, but only 10% in liability," he said.

"Many companies are willing to write property-driven accounts and they still remain relatively competitive, with several of our

Continued on next page

A lot has changed since C



Continued from previous page
companies reporting 10% rate reductions on average," agreed Hastings-Tapley's Mr. England.

In fact, although it was predicted that insurers would raise property rates after they were hit from losses by Hurricane Hugo on the East Coast in September and from the earthquake in Northern California in October, brokers say that is not the case.

"Immediately following those natural catastrophes, there seemed to be thoughts of an abrupt, significant change in the marketplace, but we really can't point to any anecdotal evidence to support that," said John F. O'Sullivan, managing director of Marsh & McLennan Inc. in New York, the retail brokerage subsidiary of Marsh & McLennan Cos. Inc.

Lawrence L. Drake, another M&M managing director, agreed: "80% of renewals are on expiring terms and 20% are seeing rate increases of 3% to 8%, but where rate

increases are substantial, it is due to the client's loss experience," rather than to a reaction to those catastrophes.

V.C. (Bob) Jordan, president of Poe & Associates Inc. in Tampa, Fla., said that catastrophe rates are determined "on a company-by-company basis," depending on losses each policyholder experiences in its line of business, not on the general catastrophes like earthquakes and hurricanes. On selected lines, catastrophe coverage rates are increasing "maybe 10%," he said.

Larry Sorensen, senior vp and director of marketing for Rollins Burdick Hunter Co. in Chicago, the retail brokerage arm of Rollins Burdick Hunter Group Inc., agreed. "We haven't seen that much of an impact, in terms of pricing and capacity, on earthquake or windstorm coverages" due to the catastrophes, he said.

But he predicted that after insurers' reinsurance "treaty renew-

als are completed, by the first of the year, we may be able to better judge the impact."

Workers compensation continues to pose problems because of increasing medical costs, higher residual market assessments and the withdrawal of some insurers from that marketplace, brokers agree.

The workers comp market "is a disaster," said Corroon & Black's Mr. Maxwell. "That's the one area where we are definitely seeing problems, particularly in states with high residual market loadings, like Texas, Florida, Massachusetts, Louisiana, Rhode Island and Maine.

"In some cases, insureds only have the choice of either going into the pool or self-insuring, since insurers are taking tough stances because some state laws are so inadequate. It's an untenable situation, and even in other states there are a lot of problems," Mr. Maxwell added.

Mr. Gallagher agreed. He re-

ferred to workers comp as "a horrible line" causing a "struggle" for insurers.

Most pollution-related risks remain uninsurable because of the potential magnitude of losses, brokers say, although they note that risk retention groups and pools have provided some relief in narrowly defined areas such as coverage for underground storage tanks.

More insurers are coming into the market, particularly for underground fuel and chemical waste storage tanks, said Poe's Mr. Jordan.

"It's almost as if there's some bullishness about some of these peculiar areas," he said.

According to Mr. Jordan, this may be because insurers see less resistance from their policyholders to the higher prices they must charge for pollution coverages than they do to the more "politically sensitive" high-risk coverage areas like daycare liability.

Mr. Robitaille agreed that while

pollution coverage continues to be difficult to secure for reasonable rates, some "new programs are coming in." Some insurers are specializing in pollution coverage as a result of the U.S. Environmental Protection Agency's rule that companies must have \$1 million in liability coverage if they own underground storage tanks, he said.

But, Poe's Mr. Jordan said that there is "major deductible activity" in pollution and asbestos abatement coverage, though deductibles are not increasing as much for more standard lines of coverage.

Energy and petrochemical risks also are posing problems for brokers, and those exposures are seeing a definite market tightening, they agree.

"In the petrochemical industry, there is no doubt about it. We are seeing a re-evaluation by the principal insurers of that business in both the evaluation of exposures and in the capacity they will provide," said RBH's Mr. Sorensen. He could not quantify the size of these increases.

"A long-term relationship will afford a petrochemical client some benefit, whereas new clients will have some difficulty" securing coverage for those exposures, Mr. Sorensen added.

Corroon & Black's Mr. Maxwell agreed, observing that some of the larger petrochemical risks "have to be put together on a layering approach."

James' Senior Vp Charles L. Ruoff agreed that large petrochemical risks may face capacity restrictions and "there will certainly be a reassessment of even the smaller risks in that category."

While he hesitated to quantify the magnitude of the rate increases that may hit those risks, Mr. Ruoff noted that following rate reductions of 10% to 15%, they may see rate increases of 20%.

However, those rate increases "might be offset by higher retentions," he added.

Brokers do not yet see a major change in the high-hazard liability market, which has posed problems in the past.

For example, "we're seeing a softening" of directors and officers and professional liability rates as a result of overreactions during the last hard market, Poe's Mr. Jordan said.

D&O rates are "softer than last year, but they are firming up, more like primary liability," said Craig Clements, co-manager of the Casualty Department for Johnson & Higgins in Los Angeles.

Professional liability rates are "fairly stable. They've softened but not significantly," Mr. Clements added.

ABI's Mr. Mizel said, "all classes of professional liability are still fairly firm. There's no change."

D&O rates "look like they could be poised for an increase, but they're not a pricing problem now," said Mr. Gallagher.

Medical malpractice coverage is "harder to find," but "purchasable and not under great pressure for rate increases," he said.

Rates for municipal liability and specialty lines are "flat," said Mr. Gallagher.

No brokers reported any problems in securing bankers blanket bonds. And, while construction surety bonds remain costly, they are available, brokers agree.

The surety market "remains difficult and we continue to operate in a cautious environment," said Corroon & Black's Mr. Maxwell.

"There has been some return in availability this year, but if you want a surety bond, you have to pay for it," agreed James' Mr. Ruoff.

One broker is seeing preliminary indications that the rampant competition in the aviation insurance market over the past couple of

Continued on next page

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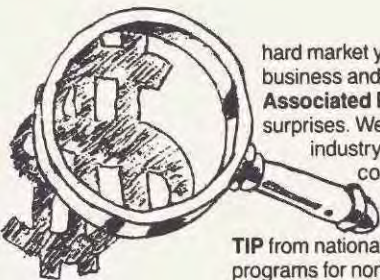
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Brokers

Continued from previous page
years is beginning to dissipate.

"We are starting to see some turn in aviation rates in the tail-end of 1989 and into the 1990 renewal cycle, with some tightening of capacity and some rate increases being discussed," said Hall's Mr. Goulard.

"I expect we will see significant increases in the aviation rating structures in 1990," he added.

However, M&M's Mr. O'Sullivan said that the "aviation market has remained surprisingly competitive, considering the major losses it has experienced."

"The aviation market continues to be very competitive, with what appears to be a fairly significant deficit position for 1989—losses vs. premium. There hasn't been a withdrawal of participation that would suggest a reduction in capacity," RBH's Mr. Sorenson said.

Primary insurers appear to be

leading the general firming trend in property/casualty lines, observed Anderson & Anderson's Mr. Shumaker.

Rates for primary liability and low-layer excess "in most instances are at the bottom" and will see no further decreases, said Gallagher's Mr. Gallagher.

Primary liability and low-layer excess rates are down 2% to 3%, according to Mr. Clements of J&H.

He sees the greatest rate reductions "in the first and second excess layers," where rates are falling from 10% to 25%.

High-layer excess is "somewhat stable, or dominated by special facilities" like Hamilton, Bermuda-based A.C.E. Insurance Co. Ltd. and X.L. Insurance Co. Ltd., said J&H's Mr. Clements. Both markets maintain very stable prices.

And, because many high excess insurers in the United States have minimum premium requirements, that market is "fairly stable," Mr. Clements added.

Several brokers predicted that there will be no major upturn in property/casualty rates until after insurers release their fourth-quarter 1989 results and complete their reinsurance treaties.

"I think we will not see an increase in prices now until insurers report their year-end numbers. Then, if their earnings are off and their reinsurance costs go up, I think we will see" increases, said Michael J. Segal, president of Near North Insurance Agency Inc. in Chicago.

"The key is, what will the reinsurers do?" Mr. Segal added.

"January treaty renewals will be interesting and may have a further effect on the market, but it will take at least three months" for rate hikes to be implemented, predicted Corroon & Black's Mr. Maxwell.

Although brokers stress that their clients never stopped considering alternative risk-financing mechanisms during the competitive market, some are now seeing an increase in clients' interest in those mechanisms in anticipation of a hardening market.

"There is more activity in the alternative risk-financing area, and we try to create an environment where our clients will look at these alternatives. The risk retention group and risk purchasing group areas show a lot of activity," A&A's Mr. Jones said.

According to Mr. Jones, A&A urges its clients to be cautious when considering risk purchasing groups to make sure that the insurer providing the coverage is financially stable.

"There has been a fairly substantial amount of activity in the alternative risk financing area, a great deal of which is based upon an anticipation of a future change in the market. It takes a lot of time to put these things together, so a lot of that is being done now, while the market is calmer," said James' Mr. Ruoff.

Financial Guardian's Mr. Shanks said: "We're seeing an upswing in interest in that area and we're helping clients do it. More of our clients want to talk about self-insurance and find out how they can do it."

Financial Guardian has also recently helped clients set up two risk purchasing groups—one for professional liability coverage and one for underground storage tank exposures, he said.

According to Republic Hogg Robinson's Mr. Severance, there is much more interest among his clients in risk retention and risk purchasing groups than there is in traditional captives, because "everyone who wanted a captive has got one."

Mr. Gallagher also predicts that "there will be a tremendous surge" toward self-insurance "when the market tightens just a whit. Tons of companies are poised to make that move," said Mr. Gallagher. ■

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Flat rates seen in surplus lines market

By STACY ADLER
and MEG FLETCHER

The soft surplus lines market is bottoming out and rates will stabilize in 1990 and 1991, say most non-admitted insurers.

Indeed, surplus lines insurers are seeking to obtain some moderate rate increases during the Jan. 1 renewal season for both liability and property risks.

But, the market still offers some deals, according to surplus lines insurers and brokers.

And, there is still significant competition for large property risks, which is forcing rates down, according to insurers and brokers.

Many brokers and insurers report that risks are renewing at their current premium or at premiums ranging from 10% discounts to 15% increases.

And, plenty of capacity still remains in the market, according to observers.

Overall, "it's the calmest renewal season in the past five years, at least," observed Raymond Freudberg, chairman of United National Insurance Co. in Philadelphia.

After watching up to one-third of their business in 1988 flow into the admitted market, where rates are 10% to 60% lower, surplus lines insurers say they are now down to their core business, which includes tough property risks and high-hazard liability risks.

Still, surplus lines insurers say they are firmly committed to charging adequate rates and will walk away from business that they cannot write profitably.

"Surplus lines insurers are much more disciplined in this market than they were in the early 1980s," said Thomas Bloom, president of broker Willis Faber Holdings Inc. in Grand Rapids, Mich.

"Surplus lines insurers are willing to give a little to keep accounts on renewal," said Charles Garrison, president of broker E&S Facilities Inc. in Cherry Hill, N.J. "But when they are beaten and beaten substantially, they will walk away."

"There is no free lunch," said Kevin Kelley, president of Lexington Insurance Co. in Boston.

"We are committed to charging rates that will provide a reasonable profit opportunity," said Joseph M. Walsh, president of Cincinnati, Ohio-based American Empire Surplus Lines Insurance Co.

Stamford, Conn.-based General Star Indemnity Co., for example, lost \$200 million in gross premiums in the past three years because it would not write business at unprofitable rates, said Kevin Brooks, president of the General Re Corp. subsidiary.

But, now, "the market is catching up to where our price levels have been," he added.

"We have pretty much hit bottom and will see a gradual movement upwards in pricing," predicted Donald Privett, senior vp with broker Swett & Crawford in New York and head of its property division.

However, even though "a lot of managers are making an effort to not see price declines, they are still there," according to Mr. Brooks of Gen Star.

Ralph Palmieri, president and chief operating officer of Boston-based First State Insurance Co., the surplus lines insurance subsidiary of Hartford Insurance Group Inc., said 90% of his business falls between a 10% discount from and a 10% increase over last year's premiums.

"We are really at a point of equilibrium," said Seth D. Freudberg, president and chief executive officer of United National.

"The market will continue to stabilize and we will continue to see modest rate changes," predicted Kieran P. Burke, president of New York-based Tri-City Insurance Brokers Inc.

"It will be a year of transition," Mr. Burke said.

One factor helping to keep prices stable during the January renewal season is what some called the fear of being first.

"Everybody is afraid to take the first step in rate increases for fear of losing market share," said Orville D. Jones, president of broker Crump E&S Group in Dallas.

Insurers view being on the cutting edge of rate changes as "dangerous" in case others do not follow their lead, said Mr. Walsh of American Empire.

Another major reason that the

surplus lines market will be slow to increase rates is because there is excess capacity in the both the admitted and non-admitted market, market observers say.

Mr. Hughes noted that the three large catastrophic losses this fall—Hurricane Hugo, the San Francisco Bay area earthquake and the Phillips Petroleum Co. plant explosion

Renewal rates for liability coverages range from small reductions to increases of 10% to 15%, agreed Mr. Burke of Tri-City Insurance Brokers.

One of the liability lines for which insurers most likely will raise rates moderately is high-hazard liability, according to insurers and brokers.

For example, Admiral Insurance Co. in Cherry Hill, N.J., is seeking rate increases for high-hazard liability risks of 10% to 15%, said Robert Spanfelner, executive vp and chief operating officer.

Moderate rate increases also can be expected for general liability and umbrella coverages, insurers and brokers say.

But, surplus lines insurers still can provide as much as \$300 mil-

Continued on next page

Surplus lines market says

"There is all the capacity you can use," said Mr. Garrison of E&S Facilities.

And, more quality foreign reinsurers are becoming larger players in the U.S. market, which will also expand capacity, said United National's Raymond Freudberg.

"Excess capacity is keeping rates where they are," said Derek Hughes, president of Western World Insurance Co. in Ramsey, N.J.

in Pasadena, Texas—did not even make a dent in the amount of available capacity.

"There is plenty of capacity for good accounts," he said.

Most surplus lines insurers say liability coverages are renewing as is or at rates moderately above Jan. 1, 1989, renewal levels.

"Surplus lines prices are going up 10% to 15% for most liability risks," said Raymond Freudberg of United National.

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The \$500 million Greater Pittsburgh International Airport project will take five years to complete.

Continued from previous page
 lion in umbrella limits, according to Kenneth W. Woods, president of California Union Insurance Co. in Los Angeles, a subsidiary of CIGNA Corp.

In addition, surety and bankers bonds coverages tightened during the January renewals, according to Mr. Burke.

D&C rates also are increasing for the most difficult risks, such as savings and loan institutions, Mr. Burke said.

But, among the liability lines that insurers are holding rates steady in or offering slight decreases in are standard low-risk D&O coverages, say insurers and brokers.

And, rates for most errors and omissions coverages are holding steady or declining, according to insurers and brokers.

For example, errors and omissions coverage for low-risk policyholders, such as an HMO administrator, are holding steady, noted

Mr. Walsh of American Empire.

However, professional liability insurance rates in general continue to fall to grossly inadequate rates, he said.

One notable exception, though, is E&O coverage for lawyers: Rates for that coverage are up 25% to 50%, said First State's Mr. Palmieri.

Gen Star began expanding into errors and omissions coverage in May and plans to broaden its involvement in January, concentrating on miscellaneous risks, such as policies for adjusters and insurance agents, Mr. Brooks said.

In addition, Gen Star is expanding into writing coverage for underground storage tanks.

Gen Star began writing the coverage for California risks in the latter half of 1989. And, as of Jan. 15, it expects to be writing the coverage in Texas, Arizona, New Mexico, Iowa, Nebraska and Missouri.

Mr. Brooks sees UST as a growing area for admitted as well as

non-admitted insurers.

On the property side, rates are remaining static or are edging down slightly during the January renewal season, most surplus lines insurers and brokers said.

Property rates "have bottomed out at a grossly inadequate level,"

'The American buyer will only tolerate so much,' says Charles Garrison, president of E&S Facilities.

said American Empire's Mr. Walsh. But, he expects to see property rates increase later in 1990 and in 1991.

"We're more likely to move into a hard market on property than liability because of disasters which may make reinsurance more ex-

pensive," Mr. Brooks said.

California Union is trying to renew most property risks on an as-is basis, said Mr. Woods.

But, competition for some large property risks has resulted in price cuts of 20% to 25%, he said.

Earthquake insurance, though, is one line of property coverage for which insurers generally are hiking rates.

California Union and other insurers said they are seeking rate increases for quake risks as a result of the San Francisco Bay area temblor this fall.

In addition, some markets will no longer write more than \$100 million in limits for California earthquake coverage, according to Mr. Privett of Swett & Crawford.

And, those underwriters still writing quake coverage in California want 25 cents per \$100 of insured property value.

Before the California earthquake in October, insurers were seeking 10 cents per \$100 of insured prop-

erty value, he said.

Mr. Woods of California Union and Raymond Freudberg of United National both noted that insurers also are seeking rate increases for insurance buyers with windstorm risks as a result of Hurricane Hugo earlier this year.

And, the explosion at the Phillips Petroleum petrochemical plant in Texas this year is leading to stable prices for oil and gas property coverages, according to brokers and insurers.

"Oil and gas is the most stable line of property coverage," said Mr. Bloom of Willis Faber.

Mr. Jones of Crump E&S agreed. And, some petroleum risks can be hard to place due to the Phillips catastrophe, he said.

The surplus lines insurers and brokers noted some geographical differences in pricing as well.

There is more tightening in the Northeast than in the Midwest or California, excluding California's tightening earthquake coverage market, said Mr. Burke of Tri-City Insurance Brokers.

And, there are more opportunities for surplus lines insurers as a result of the turmoil in California stemming from Proposition 103, said Mr. Spanfelner of Admiral.

In addition, the Northeast corridor never goes through as much of a swing in pricing, said Mr. Walsh of American Empire.

However, surplus lines insurers continue to compete on price in the Southeast, according to Mr. Palmieri of First State and Mr. Woods of California Union.

Mr. Bloom of Willis Faber predicted that rates in the surplus lines market will not rise across the board until combined ratios for the entire insurance industry reach 115%.

However, "the thing that really turns the industry is cash flow," he said. "When insurers see negative cash flow, then the market will turn quickly."

"Insurers don't live off combined ratios," he quipped. "I don't see an upturn in 1990, but in 1991," said Mr. Bloom, referring to a hardening market.

Mr. Spanfelner of Admiral agreed: "It will take until 1991 until there is enough red ink to make the market turn."

But, when the market does harden, it will be less severe than in previous cycles, most surplus lines insurers and brokers predict.

"I'm optimistic that the industry will react in a responsible manner and we will not see dramatic rate increases," said David N. Thompson, chairman and chief executive officer of Crum & Forster Managers Group and president and chief operating officer of International Surplus Lines Insurance Co., both in Chicago.

"I do not see the crisis market of 1986 repeating itself," said Mr. Hughes of Western World Insurance, adding that consumers will not allow triple-digit rate increases.

"The American buyer will only tolerate so much," said Mr. Garrison of E&S Facilities.

"The insurance industry has lost the confidence of the American public," he added. "I think the insurance industry is too smart to have another availability/affordability crisis."

However, the size of rate increases "depends on how deep a hole companies dig by continuing to be competitive before they start to change things," noted Roland Miller, vice chairman of Omaha-based National Fire & Marine Insurance Co.

Mr. Spanfelner of Admiral agreed: "The longer it takes for the cycle to turn the more severe it will be."

Generally, the market turns slowly and then picks up speed as the herd mentality takes hold, according to Mr. Thompson of Crum & Forster.



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Let's still the troubled waters together.



Insurance laws change worldwide

By Douglas N. Smith

AS WE ENTER 1990, many countries are reviewing recent and forthcoming changes in local insurance practices. Let's go globe trotting for a first-hand view:

• **West Germany.**

On Nov. 15, the West German Bundestag, one of two houses of West Germany's parliament, passed the European Commission's Directive on Strict Liability for Defective Products.

The West German legislature has chosen all three options provided under the European Commission's directive 85/374/EEC. For example:

- ✓ The act's definition of a "product" excludes agricultural and stock-farming/fishery products.
- ✓ The act allows a producer's total liability for damage resulting from death or injury caused by identical items with the same defect to be capped at 160 million deutsche marks (\$94.4 million) or 70 million European Currency Units (\$82.6 million).

✓ The act allows the development risk defense, which permits a producer to escape liability for producing, manufacturing or supplying a defective product on the basis of a state-of-the-art defense; that is, that scientific and technical knowledge at the time the product was put into circulation was insufficient to allow discovery of the defect.

But because the EC directive does not amend the legal requirements already stipulated by West German pharmaceutical law (*lex specialis*), the development risk defense does not apply to pharmaceuticals.

The West German act took effect Jan. 1.

• **Denmark.**

Denmark, which passed a Strict Product Liability Act on May 30, is now working to amend its Insurance Companies Act to bring national legislation in line with the EC's Second Directive on Non-Life Insurance.

Also pending is legislation to amend the Danish Occupational Injury Insurance Act of April 1, 1978. Danish employers currently are obligated to compensate employees and their dependents for occupational injury, illness, disease or death.

The new legislation is expected to encourage preventive measures by increasing employer's contribution levels. In addition, a complete overhaul of the existing system is expected by mid-1990.

• **European Community.**

The EC record of support for the principle that the "polluter pays" for the costs of damage to the environment was translated into law in Europe recently when the EC adopted a proposal that would make producers of waste strictly liable for damage or injury to the environment.

If approved by the EC Environment Ministers, the new proposal will not be restricted to "hazardous" waste. Instead, producers will be responsible for all wastes generated by commercial activities. Exceptions are expected to include nuclear and household waste, as well as environmental pollution that is

International issues

already regulated by other legislation.

Liability would be joint and several when more than one party is responsible for the same incident. Liability also would be prospective; in fact, EC member states would be required to legislate a three-year statute of limitations from the date when the damage or injury occurred and a 30-year cap would apply to the occurrence that gave rise to the damage.

The proposal does not apply to negligible or temporary damage, and punitive damages and financial ceilings are not allowed. Instead, non-recoverable damages will be addressed by a future EC directive.

• **South Korea.**

In South Korea, the government has adopted a rigid agenda for dissolving the country's industrial fire insurance pool by Oct. 1, 1992. The pool, which acts as the exclusive insurer for all specified property in most South Korean localities, presently consists of 11 South Korean and two American property/casualty insurers. The Korean

The EC recently adopted a proposal that would make producers of waste strictly liable for damage or injury to the environment.

Reinsurance Corp. promulgates rates and conditions and accepts mandatory reinsurance from the pool.

In practical terms, the pool's dissolution will allow an insurance buyer to select a local underwriter or agent. However, the South Korean government has no immediate plans to revise or liberalize the current property insurance tariff or to modify the requirement for compulsory reinsurance cessions to Korean Re.

• **Philippines.**

An industrial "all-risk" policy now can be purchased by manufacturing operations in the Philippines, as long as all of the property to be insured is within a 10-kilometer radius and its total insured value exceeds \$125,000. A complex formula must be used to calculate values, which also are subject to indexation.

The all-risk policy, utilizing British wording, is not subject to tariff rating. Rather, the rate may be determined by the international reinsurance market and loaded for overrides and commissions, both of which are subject to examination and veto by the insurance commissioner.

• **South Africa.**

In the Republic of South Africa—excluding the "emancipated states" but including the area of Walvis Bay—the South African Special Risks Insurance Assn. is the sole insurer of politically and non-politically motivated riot and strike damage. When attached to a South African Insurance Assn. property policy, a SASRIA coupon will pay the lesser of either the total insured value or an annually aggregated limit of 200 million rand (\$78.3 million).

SASRIA coverage does not apply to the profit element of consequential or indirect loss or damage, other than to loss of rent, which is limited to 12 months when specifically insured. Continuing expenses may be insured for consequential loss.

Beginning Jan. 1, SASRIA rates will be reduced.

For example, the rate of 0.03% of insured value for residential property was reduced to 0.015%, while the 0.12% rate for non-residential property was reduced to 0.075%.

As in the past, no additional discounts are allowed for underlying long-term agreements or deductibles.

• **Brazil.**

In late summer, the superintendent of insurance authorized the use of *daily* indexation for all policies that renewed after Aug. 1, 1989. Unfortunately, any indexed policies that renewed before Aug. 1 continued to be corrected on a *monthly* basis. But, from Oct. 24 insurance authorities have been permitting policies to be converted from monthly to daily indexation at a daily charge of .004% of the original premium per day for the remainder of the policy period.

For example, a policyholder whose policy renews on March 1, 1990, would incur an additional expenditure of 2.5% of the original premium for the remaining two months of the policy period.

All eligible policyholders are strongly urged to convert to daily indexation, since this basis could yield up to 40% greater loss recovery if a claim were to occur at the end of the month.

• **Peru.**

Insurance tariffs in Peru, which are promulgated by the local insurance companies, traditionally have been undercut through regulations that permitted payment periods of up to 270 days.

Today, new regulations require premium payment within 20 days for policies issued in local currency. U.S. dollar-denominated policies, on the other hand, require a 50% down payment, with the remaining premium payable in six monthly installments.

At the same time, the Peruvian government has reduced the premium tax to 15% from 20%.

• **Chile.**

The Chilean government recently approved a program that will allow some significant alternatives in insurance regulations. While many of the changes relate to insurers and reinsurers, U.S. multinationals operating in Chile should benefit from the following new rules:

✓ Manuscript all-risk policies may be issued in lieu of current tariff-prescribed primary property damage and business interruption policies, but only when the policy premium exceeds 200 unidades de fomento (inflation-linked units of currency), or about \$3,600.

✓ Insurance companies have been granted the authority to settle claims without the intervention of an official adjuster.

These changes are expected to foster greater underwriter sophistication in the Chilean market, as well as a better appreciation of risk management techniques.

• **Colombia.**

During 1988, the Colombian Banking Superintendency modified the "malicious damage" endorsement to the basic fire policy in that country. Currently, the explosion peril will indemnify loss or damage that results from any internal or external event, including resultant fire. Explosion resulting from vandalism is specifically excluded.

Also, the endorsement covering the perils of strike, riot, civil commotion and vandalism *excludes* material damage and fire following "subversive acts." Instead, a new endorsement for "malicious damage caused by third parties" is used to cover all destruction or physician damage caused by third parties, including terrorist acts; that is, acts caused by individual members of a subversive group. However, this endorsement is available only when the policyholder purchases strike, riot, civil commotion and vandalism coverage.

• **Argentina.**

As part of President Carlos Menem's restructuring of the public sector, the state reinsurer in Argentina, the Instituto Nacional de Reaseguros, is losing its quasi-monopoly over reinsurance operations.

In the past, local subsidiaries of foreign insurance companies could buy 40% of their reinsurance coverage outside of Argentina. Sometimes, 40% reinsurance flowed to U.S. multinationals' offshore captive insurers but, more commonly, local foreign insurers ceded up to 40% reinsurance to their parent companies.

During the same period, local Argentine insurers were required to cede 100% of their reinsurance to INDeR. But, Resolution 412 allows local Argentine insurers to also cede up to 40% of their reinsurance to companies other than INDeR beginning Jan. 1.

In the meantime, INDeR is complying with Resolution 412's second article. By Jan. 30 a government-appointed supervisor will submit an in-depth report on the state reinsurer that is expected to serve as a plan for deregulating Argentina's insurance and reinsurance industry by July 1, 1991.

While foreign reinsurers are eager to capture some of the direct business that will now be available, the Argentine market is not expected to quickly adapt to these changes.

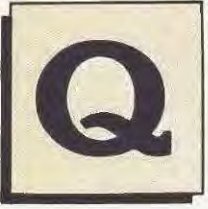
Some of these changes around the globe are *faits accomplis* but others, like the ongoing changes in Brazil and Argentina, should be closely monitored during the coming year. ■



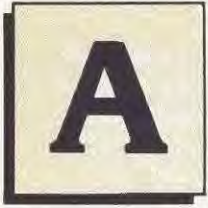
Douglas N. Smith is vp and manager of the International Department of Johnson & Higgins in New York. His column appears the first Monday of every month.

ASK A CASUALTY ACTUARY

New NAIC requirements affect annual statements



How reliable are analyses of insurers' loss reserves based on information in their annual statements?



Even in the best of circumstances, there still is a large amount of uncertainty in any analysis of loss reserves.

Optimal circumstances would typically include a thorough inside knowledge of the marketing, underwriting, claims and

accounting practices of the insurer in question and of any changes in those practices and in the operating environment of the insurer in the past several years.

Nevertheless, the ultimate value of loss reserves of any given statement date may vary substantially from the best analysis performed on the most relevant information that could be hoped for. This is due to the fact that the ultimate settlement value of all claims arising from incidents that occurred prior to any given statement date is subject to an uncontrollable variety of future events. Those events may string out over many future years for lines like liability or workers compensation or medical malpractice.

These future events may not just vary randomly about some known pattern, but may tend in some cases to vary systematically away from a past pattern. Such systematic deviation often occurs as the result of shifts in the legal or socio-economic environment—or in claims department practices—that affect the settlement value of each claim. On top of this there will be the random variation of the final settlement value of each claim, as negotiations or litigation come to an unpredictable end for each claim.

The whole process of reserve analysis may be compared with the task of predicting where Hurricane Hugo would slam into the U.S. coast as it was tearing up the Caribbean a few days earlier. The inside actuary is like the meteorologist who has studied the past behavior of similar hurricanes and who has current information on the movements and positions of all high- and low-pressure systems.

On the other hand, the outside analyst using information from an insurer's annual statement to gauge the adequacy of its reserves is like the person reading newspaper articles about the hurricane and then trying to second-guess the forecasters based on the weather maps in the papers. The predictions of where Hugo would strike ranged from Jacksonville, Fla., to Cape Hatteras, N.C., but Hugo had a mind of its own. So it is with the claims settlement process.

The National Assn. of Insurance Commissioners recently adopted sweeping changes to the portions of the annual statement (Sections O and P) that focus on loss and loss adjustment expenses payments and reserves. While these changes place a much greater burden on companies, the changes will make it much easier to perform reserve analyses and will most likely substantially improve their predictive value.

These changes will largely eliminate those major shortcomings of the old schedules that severely limited their value. The difference in predictive value between the new and the old statements may be likened to driving in a heavy fog with good windshield wipers, good headlights and a clearly marked center line, as compared to driving in a heavy fog with non-functioning wipers, one headlight burned out and a badly faded center line!

Some of the shortcomings of the old Schedules O and P were:

- All premiums and losses were shown only on a

net of reinsurance basis. Because of this, various reinsurance transactions, or changes in treaty provisions, could either mask or distort loss development patterns.

- Some lines of business with long development periods—like reinsurance and aviation insurance—were only shown in Schedule O, where only two or three years of development at best were detailed prior to 1988.

- Some dissimilar lines of business—such as private passenger auto vs. commercial auto and homeowners insurance vs. commercial multiperil—were aggregated.

- Historical detail on loss adjustment expenses was fairly limited.

- The level of reporting on reserves for incurred-but-not-reported losses was fairly limited.

- Claim count information was limited to the number of open claims by line and accident year for only the lines included in Schedule P.

- Insurance companies were not asked to disclose significant events or changes that would distort the accuracy of reserve analyses performed using the data in the annual statement. Exceptions to this were inquiries on loss portfolio transfers and changes in the highest retention on any risk.

Beginning with the 1989 annual statement, these shortcomings have been addressed, in various degrees:

- Earned premiums will now be reported separately on a direct plus assumed and a ceded basis as well as on a net basis.

- Loss and allocated loss expense payments, case loss reserves, case allocated loss expense reserves, bulk and IBNR loss reserves, bulk and IBNR allocated loss expense reserves, and incurred losses and loss expenses will be shown separately for direct plus assumed business and for ceded business.

- Salvage and subrogation received will be displayed for losses and loss expenses.

- The amount of discounting—other than workers compensation annuities—will be shown separately for losses and loss expenses.

- Intercompany pooling participation percentages must be shown by accident year.

- The number of claims reported on direct and assumed business combined, as well as the number of claims closed with and without loss payment, must now be shown by accident year.

- Ten-year development schedules must now be shown for each of the old Schedule P lines of business for incurred losses and allocated loss adjustment expenses, paid losses and allocated loss adjustment expenses, and bulk IBNR reserves for losses and allocated loss adjustment expenses.

- The multiperil and special peril lines that previously had been combined in Part 1E of Schedule P will now be split in three groupings: homeowners and farmowners multiperil (Part 1A); commercial multiperil (Part 1B); and special liability (ocean marine, aircraft, and boiler and machinery) (Part 1G).

- The auto liability lines that previously had been combined in Part 1E of Schedule P will be shown separately as private passenger auto liability/medical (Part 1B) and commercial auto/truck liability/medical (Part 1C).

- Lines of business for which claims settle quickly, and which previously were shown separately in Schedule O, will be grouped into special property (fire, allied lines, inland marine, earthquake, glass, burglary and theft) (Part 1I); auto physical damage (Part 1J); fidelity, surety, financial guarantee and mortgage guarantee (Part 1K); and other lines (including credit and accident and health) (Part 1L). As before, results for these lines will only be separate for the latest two accident years and aggregated for all prior accident years.

- Lines of business for which claims may settle slowly, which previously were shown in Schedule O, will now be shown with 10-year runoffs. These include international (Part 1M) and reinsurance (Part 1Q), with the latter including all 1987 and prior reinsurance previously reported on Line 30 in Schedule O.

- As with the 1988 annual statement, three new categories must be shown for non-proportional reinsurance business: Group A—property; Group B—multiperil, malpractice, workers compensation, other liability, auto liability, aircraft and international; and Group C—financial guarantee, fidelity, surety, credit and international risks of the foregoing nature. Proportional reinsurance should be included with the appropriate line of business as assumed business.

- A new interrogatory has been added that states: "The information provided in Schedule P will be used by many persons to estimate the adequacy of the current loss and expense reserves, among other things. Are there any especially significant events, coverage, retention or accounting changes which have occurred which must be considered when making such analyses (an extended statement may be attached)?"

These changes should improve the predictive value of reserve analyses based on the information in the annual statement in the following ways:

- The effects of ceded reinsurance on loss development will be more observable.

- Ten years of development history must now be shown for all lines of business with long-tail claims.

- The new statement will provide much more information on allocated loss adjustment expenses.

- The new information on the number of reported claims and the number of claims closed with and without loss payments will permit the application of several actuarial methods that often shed meaningful light on the magnitude of required reserves.

In addition, such claims statistics will make possible analyses that might confirm or deny the existence of any speedup or slowdown in the settlement of claims.

- The new groupings of lines of business were intentionally selected on the basis of similarities in loss development characteristics.

- The explicit display of the extent of discounting present in the reserves should clarify for the public the company's own view of its reserves.

- The new interrogatory on significant events or changes that should be considered in an analysis of reserves will give companies an opportunity to point out key factors that might lead the outside analyst to misleading conclusions.

All things considered, the new schedules should significantly improve the value of external studies of reserves and encourage insurers to keep loss information on a more consistent basis from company to company. At least now it will be possible to drive in the fog more safely! ■

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

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

This month's column on actuarial issues in the casualty field is written by Richard E. Sherman, a principal with Coopers & Lybrand in San Francisco. William J. Miner, an actuary with The Wyatt Co. in Chicago, answers actuarial questions in the benefits field. Susan M. Werner, director of risk management at Hardee's Food Systems Inc. in Rocky Mount, N.C., answers risk management questions. And, Joseph W. Duva, director of employee benefits at Allied-Signal Inc. in Morristown, N.J., answers benefits management questions.

Mr. Sherman's and Mr. Miner's columns appear alternately on the first Monday of each month. Ms. Werner's and Mr. Duva's columns appear alternately on the second Monday of each month. Mr. Sherman's next column will appear in March.

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



Mr. Sherman

A whimsical scene with a large tree on the left. A ginger cat sits on a branch. A Dalmatian dog sits on a log in the center. A golden retriever dog stands on a grassy cliff on the right. The background is a clear blue sky.

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Reinsurance market 'mixed' after disasters

By DOUGLAS McLEOD

NEW YORK—Unprecedented catastrophe losses and a firming retrocessional market are having surprisingly little impact on an inconsistent year-end property reinsurance market, brokers and reinsurers agree.

Prices are up 40% or more on catastrophe reinsurance renewals for insurers hit badly by Hurricane Hugo and the Phillips Petroleum Co. plant explosion, industry

sources report.

However, capacity still is plentiful for catastrophe programs, and

Reinsurers say

prices are flat and in some cases falling for insurers that escaped severe losses in 1989.

The property treaty reinsurance market, meanwhile, remains highly competitive, and many insurers are winning rate reductions and other improvements in terms as reinsurers scramble to pick up their business, brokers and reinsurers say.

Separately, the casualty reinsurance market—the focus of relatively little attention in the wake of last year's huge property losses—has changed little, with rates remaining stable or declining slightly and other terms continuing to improve for buyers.

Reinsurance brokers appear pleasantly surprised by the state of the property market.

"The market looks fantastic, rarely better. The market doesn't even know we've had a loss," quipped Ward B. Gordon, chairman of Intere Intermediaries Inc. in New York.

Robert O'Leary, president of Willcox Inc. in New York, noted that the losses have not produced a marketwide, across-the-board reaction.

The current "mixed" market is unlike the hard market of 1985, he observed: "In 1985, there was a fixed position: Everyone said 'No.'"

Reinsurers seem equally surprised by the market, though not pleasantly so.

"It's not a very rosy picture," observed Lawrence S. Doyle, president of Boston-based New England Reinsurance Corp. "It's absolutely amazing the market has not responded with more sizable rate increases in light of the catastrophes we have seen during the year."

"I see some firming in catastrophe coverage layers that got hit by Hugo. Beyond that, I don't see too much firming at all," added Michael G. Fitt, chairman of Employers Reinsurance Corp. of Overland Park, Kan.

"When you have the worst 30 days in the history of this industry and it has no impact whatever, you have to wonder what's wrong," Mr. Fitt said.

"I'm not an optimistic camper," said James E. Dwane, president of Prudential Reinsurance Co. in Newark, N.J.

"In order to stop the violent fluctuations between peaks and troughs of the cycle, you have to have some discipline, and I do not see the reinsurance community having that," Mr. Dwane said. "I think we are in for a competitive year."

However, primary insurance underwriting results are deteriorating "quarter by quarter," and reinsurers cannot remain immune for long, noted Bard E. Bunaes, chairman of Constitution Reinsurance Corp. in New York.

"The rates start hardening when we all have to report to our boards how badly we are hit," Mr. Bunaes observed. "When will it change? When we have suffered enough. When will we have suffered enough? Damned if I know."

Continued on next page

A STABLE MARKET FOR OCEAN, INLAND MARINE, PROPERTY AND RELATED RISKS



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If the property reinsurance market remains competitive next year, it will be in spite of a contracting retrocessional market.

The property retrocessional market is tightening quickly because of the Hugo and Phillips losses, with "pretty severe rate increases" of 20% to 40% across the board, especially on upper layers, according to Michael E. Rothpletz, executive vp with reinsurance intermediary G.L. Hodson & Son Inc. in New Hyde Park, N.Y.

"It's universal," Mr. Rothpletz said.

Retrocessional costs are going up 20% to 30% depending on the size of a reinsurer's Hugo losses, said New England Re's Mr. Doyle.

The extent of the increase depends in part on the "bank" of excess premiums a reinsurer has built up with its retrocessionaires in previous years, Mr. Doyle said.

Many large reinsurers had already seen their "banks" depleted before this year by losses from Hurricane Gilbert, Hurricane Alicia, the 87J storm in England and the Piper Alpha oil rig explosion.

In addition to increasing prices, some London retrocessionaires tried—largely unsuccessfully—to force increases in the attachment points of retrocessional covers, according to Mr. Doyle. The London market, he said, became somewhat more competitive once initial estimates of California earthquake damage proved exaggerated.

Retrocessionaires also are looking for increased pro-rata co-participation with ceding reinsurers on layers of retrocessional programs, Mr. Doyle said.

A reinsurer that retained 5% of a retrocessional layer last year may now be retaining 10%, he explained.

Retrocessional programs are being hit with rate increases across the board, with the biggest increases facing reinsurers that suffered Hugo losses and had to buy additional reinstatements of retrocessional limits last year, said Michael W. Cashman Sr., president

and general partner of E.W. Blanch Co. in Minneapolis.

Rate hikes have generally been in the 30% to 40% range, and capacity is shrinking, he said.

"Frankly, markets do not want a lot of retro protections on their books," Mr. Cashman said.

While the squeeze in retrocessional capacity may ultimately affect the property reinsurance market, it hasn't happened yet, he added.

Reinsurers are now writing at a net premium-to-surplus ratio of less than 1-to-1, and the large amount of unused capital is producing aggressive underwriting, he explained.

Paul D. Hawksworth, president of Mercantile & General Reinsurance Co. of America, agreed that the tightening retrocessional market has not yet driven any changes in the reinsurance market itself.

However, he noted that the market may see a replay of a problem that emerged in 1984-85, when a

lack of retrocessional capacity left reinsurers unable to fill out their programs, and many had significant holes in their covers.

Philip W. Mitchell, managing director of TPF&C Reinsurance in Philadelphia, noted that the full impact of a tightening retroces-

sional market would not be felt this renewal season in any case.

"It's too soon for the change to happen. . . It's more likely to happen 1/1/91," Mr. Mitchell said.

Reinsurers and brokers agree that the only tightening in the property reinsurance market has

some of their accounts remain flat while the cost of retrocessional coverage is rising.

Large insurers with a total loss on their catastrophe programs last year are seeing 25% to 40% rate increases on renewals, added Willcox's Mr. O'Leary.

Insurers that haven't had big losses, he added, "can get the covers done without any problems and with some rate reductions."

Many catastrophe programs were more than 100% funded, with premiums over the last four or five years exceeding this year's catastrophe losses, observed Hodson's Mr. Rothpletz.

In cases where the "bank" of excess premiums has been hit, rates for insurers are up 10% to 15%, he said.

Insurers that were not badly hit, on the other hand, are being offered "modest" reductions of 8% to 15%.

For some insurers not hit by Hugo, rates are down as much as 7.5%, said James P. Snedeker, senior vp with Gill & Roeser Inc. in New York.

Those that were hit are seeing the price of their coverage rise with the inclusion of provisions for a payback of the catastrophe losses

Continued on next page

'I thought that Hugo and the earthquake would have more of an impact on the pricing of all property business, both catastrophe and per risk, but it doesn't seem to have had any on the per risk,' says Philip Mitchell of TPF&C Reinsurance.



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Reinsurance

Continued from previous page over a defined period, he said.

Pru Re's Mr. Dwane also said rates are rising for insurers with catastrophe losses, with increases of 20% to 30% in layers that were exhausted.

Mr. Dwane also reported seeing dramatic reductions: Submissions to Pru Re have called for 30% to 40% rate cuts in cases where the ceding companies were not hit by losses.

Blanch's Mr. Cashman also reported seeing 10% to 20% rate reductions for insurers not battered by catastrophe losses.

"There has not been the dramatic impact one would have expected," he said.

While rate increases are being limited to companies that have suffered losses, catastrophe reinsurance capacity has remained plentiful and many insurers are buying additional limits, reinsurers and brokers report.

Only insurers already buying limits close to the worldwide market capacity of about \$400 million may have trouble buying additional limits, said New England Re's Mr. Doyle.

An insurer that has bought only \$250 million in catastrophe protection in the past should have no trouble finding additional limits, he said.

However, an insurer that has already "tapped out the market" with a \$350 million to \$400 million program may not be able to find

additional capacity, he explained.

Blanch's Mr. Cashman agreed that smaller insurers are having no trouble increasing catastrophe limits by 25%, but that large companies have problems as they approach the market limit of \$350 million to \$400 million.

Along with buying additional limits, some insurers are considering other changes in their programs, among them the inclusion of provisions that would reinstate limits exhausted by previous catastrophes in the same year.

Catastrophe programs generally provide for one automatic reinstatement of exhausted limits, though more insurers are now interested in buying a "third loss cover" to provide an additional reinstatement, said TPF&C's Mr. Mitchell.

Only 5% to 10% of TPF&C's clients bought a third loss cover last year, while 30% to 40% are now interested in one, he reported.

"It's certainly not everyone, but that's a dramatic increase," Mr. Mitchell said.

"There's plenty of capacity for everything," added Blanch's Mr. Cashman.

Some insurers are also considering reinsurance covers that would cut their retentions on a second catastrophe loss during one year.

For example, an insurer with a \$50 million retention may buy such a "second event" cover to provide limits of \$25 million excess of \$25 million in the event of a second catastrophe loss, effectively cutting

its retention to \$25 million, explained M&G's Mr. Hawksworth.

Mr. Hawksworth added, however, that tightening in the retrocessional market may limit insurers' ability to buy this added protection.

"The problem is there may not be enough capacity around to write that," he observed.

While catastrophe renewals appear to be a mixed bag depending

'There has not been the dramatic impact one would have expected,' says Mr. Cashman.

on experience, property treaty renewals are the target of more heated and widespread competition, reinsurers and brokers report.

"Very difficult property business is getting some rate decreases," Mr. Cashman said. "It's definitely a soft market."

The property treaty market is "slightly softer than last year," with most insurers renewing at expiring rates or reductions of up to 10%, said TPF&C's Mr. Mitchell.

Rates are going up only where experience has been bad, he added.

"I thought that Hugo and the earthquake would have more of an impact on the pricing of all property business, both catastrophe and per risk, but it doesn't seem to

have had any on the per risk," Mr. Mitchell said.

Reinsurers are increasingly granting ceding companies a point or two more in ceding commissions or profit commissions on pro-rata property business, Mr. Doyle noted.

Per-risk property reinsurance is also "very competitive," with rates weakening somewhat for companies not hit with losses.

The reason, according to Mr. Doyle: "Too much capacity. It's an overcapitalized, highly competitive industry, contrary to what the attorneys general are saying in their class action" lawsuit.

"A lot of pro-rata property is still somewhat competitive and even more competitive in certain instances than last year," confirmed Pru Re's Mr. Dwane.

"Competition is very very aggressive," added Willcox's Mr. O'Leary. "There are some reinsurers that are trying to take advantage of some confusion in the market... to establish themselves with a few core accounts."

Reinsurers still have a strong appetite for writing property treaty business on "unreasonable" terms, complained M&G's Mr. Hawksworth.

"We see very little opportunity to write any business that could generate a profit," he said.

For example, reinsurers are offering swing-rating plans on high-risk excess and surplus lines property business, where such plans make sense only on high-frequency, predictable lines, he said. "To introduce swing rates or profit commissions for this business is ludicrous."

The casualty reinsurance market, meanwhile, has been the focus of far less attention amid concerns about the impact of Hugo and last year's other catastrophes.

"Everybody has been so preoccupied with Hugo, it's sort of been swept away," Intere's Mr. Gordon said of attention on the casualty market.

The market has in fact changed little, with many contracts renewing at expiring rates and others seeing small increases or reductions depending on experience, brokers and reinsurers say.

Plain vanilla casualty risks with good experience are getting 5% to 7.5% rate reductions, noted Will-

cox's Mr. O'Leary.

Profitable business may win a ceding insurer a 5% rate reduction, while most other risks will see a slight increase, according to Mr. Doyle, who described the casualty reinsurance market as "fairly stagnant."

Though the casualty market is slightly more competitive than last year, the competition takes the form of improved terms rather than rate cuts, Blanch's Mr. Cashman said.

While there may be some price competition on general casualty business, he added, there is little for excess and surplus lines casualty and professional liability risks.

Insurers with good experience are winning "almost insignificant" rate reductions of less than 5%, while reinsurers continue to eliminate or liberalize restrictions like sunset clauses and loss ratio caps, Hodson's Mr. Ruchpletz said.

Sunset clauses phase out occurrence-based reinsurance coverage over a defined period of years, while loss ratio caps eliminate reinsurance coverage after the loss ratio on business exceeds a defined point.

Along with extended sunset clauses and other improvements, Gill & Roeser's Mr. Snedeker noted that casualty reinsurers are offering more generous profit commissions to ceding insurers.

In one case—which Mr. Snedeker described as an extreme example—a reinsurer allowed a 50% profit commission on general liability business, which will be first calculated one year after the inception of the contract with no provision for incurred-but-not-reported loss reserves. The profit commission is recalculated in subsequent years to reflect loss development, but the initial calculation gives the ceding company the benefit of cash flow on its premium.

Brokers report that the market is also competitive for casualty clash covers, which protect insurers in cases where multiple policyholders suffer losses stemming from a common occurrence.

Reinsurers are taking larger lines on clash covers, offering more favorable terms and conditions and renewing at expiring rates or in some cases with reductions, Mr. O'Leary said. ■

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Business Insurance

Agent/Broker Topics

A monthly editorial section sent exclusively to agents and brokers



Agents connect with consumers

By LAURA MAZZUCA

Independent insurance agents are at the drawing board designing ways to win consumer confidence.

Reaching out to grass roots community organizations is among the most popular methods agents use to make their case on today's increasingly complex insurance issues.

And agent associations, concerned about public perception of the industry, are both coaching members on communication skills and forming alliances with some strange bedfellows—including the most outspoken of consumer activists—on certain issues.

In addition, agents and associations are running a consumer information telephone hot line, broadening communication with business, stepping up lobbying efforts and distancing themselves publicly from insurance companies.

Twenty years ago, "image" concerned movie stars, not independent insurance agents, who generally were automatically respected as part of local business communities.

But as agencies, brokerages and insurers fell to mergermania in the '70s and '80s, the industry in general became larger and more impersonal. And in many parts of the country, rising auto insurance rates were the bane of agents' image.

But fluctuations in the industry did not cause all the changes in consumer relations. The mobilization of society over the past 20 years, mass merchandising and the urbanization of small-town America have helped to erode the agent-customer relationship, observes Larry Burroughs, president of Policy Writers Inc., an agency in Mesa, Ariz., where the population has grown nearly sixfold to 365,000 in 20 years.

"Because of fast food, people think that mass merchandising is the best way (to sell) because it brings the price down, but our business is one business that doesn't work that way."

In addition, many auto insurers now directly bill policyholders, removing one regular contact an agent used to have with clients.

Mr. Burroughs is involved in a state consumers' council, through which he speaks at schools and civic organizations.

In those talks, he stresses that "it's very easy to solve a problem when you don't know anything about it."

Public alienation, exacerbated by extreme fluctuations in market conditions and difficulties in dealing with insurers on claims, eventually manifested itself in California's Proposition 103 and other consumer initiatives.

Agents' support of insurers in the Proposition 103 battle

hurt agents' public standing, said Joseph J. Annotti, vp of public affairs for the Independent Insurance Agents & Brokers of California.

In addition, insurance—an expensive but intangible product—"is naturally situated so the person has animosity toward it," says Dean Krueger, president of Krueger Insurance Management Inc. in Newton, Kan., and a past state director for the National Assn. of Professional Insurance Agents.

But a 1986 national survey on insurance information credibility found that while consumers generally view the insurance industry with a jaundiced eye, they are more charitable toward their own agents and insurers.

Among 645 respondents to the Independent Insurance Agents of America poll, 39% rated their own agents as "somewhat believable"; 36.3% rated them "very believable"; 14.6% ranked their own insurance agents as "not very" believable; and 5.9% said their agents were "not at all" believable.

The responses do not total 100% because of response coding errors.

The insurance companies the respondents used were rated "somewhat believable" by 46.5% of the respondents; "very" believable by 30.1%; "not very" at 13.6%; and "not at all" at 6%.

However, neither insurance agents nor companies in general were given high marks for credibility.

For example, only 9.9% of respondents rated agents in general "very" believable. Another 42.2% of the respondents called agents in general "somewhat" believable; 31.8% called them "not very" believable and 13.8% ranked them "not at all" believable.

The rankings for insurance companies in general were almost parallel. Insurers received a "very" believable ranking from only 9.8% of the respondents; a "somewhat" believable ranking from 41.2%; a "not very" believable ranking from 31.5%; and a "not at all" believable ranking from 15.3%.

That's why associations and insurers are encouraging the independent agent to act as a sort of ombudsman and to communicate with customers through Kiwanis and Rotary clubs.

For many who hear an agent speak, it is the first time insurance has been made understandable.

"There's a huge misconception about insurance out there," said Margaret Brownlee, director of the Professional Insurance Agents of South Carolina's agency services division. "We all feel it's critical for the public to know the role the agent plays and to understand the real issues."

Ms. Brownlee, who was an independent agent for 20 years,

is involved in both lobbying state legislators and addressing consumers on the problems with South Carolina's auto insurance.

She has her work cut out for her since South Carolina's auto insurance rates were ranked the 16th highest in the country in 1987 by Oldwick, N.J.-based A.M. Best Co.

Auto insurance has been mandatory in South Carolina since 1974, Ms. Brownlee explained. To make it possible for insurers in the state to take on the higher risk drivers, the state instituted a reinsurance pool. Today the pool is operated by the insurers underwriting auto insurance in the state.

That pool has registered "horrendous" losses, she said. Since July 1988, insurers have been required to show policyholders the percentage of their premiums that are being paid into the reinsurance pool. This has angered consumers, who complain that they are paying higher rates to subsidize high-risk drivers.

Ms. Brownlee must explain to consumers that unlike many other profit-making organizations, insurers are regulated and cannot arbitrarily raise their rates.

People are also unclear on the agent's function, said Mr. Krueger.

"Guys like me just have to make it very evident to our customers that we are most interested in their welfare," said Mr. Krueger, who has spoken to civic groups for 20 years. "We have to stress that if they ever need to use that product, we'll be there working like holy hell for them."

While some agents like Mr. Krueger have been involved in this aspect of consumer relations for many years (see story, page 28C), agents making their first presentations must be both factual and entertaining—and that's where the associations come in.

"In many cases, you have experienced speakers that are not necessarily good speakers," said Barbara J. Taylor, vp of consumer affairs and education for the Insurance Information Institute in New York. "They can pass on a lot of their knowledge to new speakers, but they may also be guilty of some bad habits they've established."

To correct this, the National Assn. of Professional Insurance Agents in Alexandria, Va., developed the Agents & Communities Together program last summer.

Based on a similar III program begun almost three years ago, ACT gives agents free speakers' kits with facts and figures on insurance issues, as well as public speaking tips.

The inaugural speakers' kit focuses on auto insurance and includes information on why rates are perceived as high, how the

Continued on next page

Agent/Broker Topics

Big brokers stress educational efforts

By LAURA MAZZUCA

Public speaking campaigns and community outreach programs—the staple of independent agents' public relations efforts—are no longer adequate for national brokers who deal with increasingly sophisticated risk managers, brokers say.

Instead, national brokers concentrate other contacts with their clients, like appearing on Risk & Insurance Management Society conference panels and sponsoring seminars for clients and prospective clients on insurance and risk management issues.

Risk managers, increasingly recognized as professionals in their

own right, are requiring brokers to be more professional and to improve educational standards, said C. Richard Peterson, National Assn. of Insurance Brokers president and executive vp of Fred S. James & Co. Inc. in New York.

As a result, brokers now offer guidance on specialized insurance issues like mergers and acquisitions and directors and officers liability coverage.

Despite the complexity of risk management, many of the same problems plaguing the personal lines arena—market volatility, misunderstanding of insurance distribution and client alienation—ultimately affect commercial lines customers.

"If one looks at Proposition 103, it's something that was created, generated and passed because of personal lines," said Dennis R. Connolly, senior vp at Johnson & Higgins in New York. But commercial lines brokers cannot separate themselves from these issues since initiatives like Proposition 103 could discourage insurers from writing in some states, he added.

And while brokers have long lobbied legislatures, they must now confront their image problem, said Mr. Peterson.

"We have a terrible image as an industry, but we have to recognize that we have it before we can get off the dime and accomplish anything," he said.

Regulation, solvency and, most seriously, market volatility, are the industry's primary areas of concern, said Mr. Peterson.

He equates the insurance industry's excessive volatility with program trading in the investment industry—it gives the entire business a black eye.

And a more visible presence in the local community is not enough for large brokers, said Mr. Connolly. "Those kindly 'outreach' kind of cliches aren't going to turn it around," said Mr. Connolly.

Instead, brokers—and associations like NAIB—want to polish their image with intensive "education," both through programs aimed at clients and through more

rigorous education requirements for brokers.

Virtually all national brokers regularly offer educational seminars for clients and prospects.

"We do it on the concept that an educated client is a good client," said Lucien P. Laborde Jr., president and chief executive officer of Corroon & Black Corp.'s research and development division in Nashville, Tenn., which coordinates C&B's seminars, newsletters and educational seminars.

Corroon & Black has sponsored such seminars for 12 years and now offers about three topics annually to branch offices, said Mr. Laborde.

Past topics have been: tailoring a risk management program for a company; the effect of mergers and acquisitions on risk managers; international insurance for U.S. risk managers; and U.S. insurance practices for international risk managers acquiring U.S. companies.

Continued on next page

February

Franchising/Clustering

Only a few franchises exist in today's market. BI will report on why franchising has faded and examine the growth in clustering — agents pooling resources for administrative and clerical services while remaining autonomous.

Issue: February 5, 1990
Ad Closing: January 24

March

Agency-Insurer Relations/ Errors & Omissions

Agents are looking for help from their insurers, and insurers are willing to give agents financial, marketing, training and other advice. But, is the price agents must pay for this help too high? In addition, this issue will examine how agents can prevent errors and omissions claims and how they can best finance the risk.

Issue: March 5, 1990
Ad Closing: February 20

April

Compensation & Incentives

Agency principals are becoming innovative when it comes to luring new producers to their firms as well as for retaining their current employees. BI will review these innovations, look at compensation and the employee benefits most often offered to producers.

Issue: April 2, 1990
Ad Closing: March 20

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Agent/Broker Topics

Agent outreach

Continued from previous page
moved on to national competition in California.

For BMR Cos., a property/casualty agency in Gardner, Mass. (population: 20,000, including nearby towns), community involvement takes standard forms, with agents sitting on the boards of the local hospital, savings and loan and community college.

But it also means hosting "Mythical Mardi Gras," a costume charity ball for Worcester Art Museum—about 20 miles southeast of Gardner—and partially sponsoring an alcoholism treatment center.

"We have always been a local company with local people, so (community involvement) was a natural evolution," said John Brisbois, president of the agency's property/casualty division. "Our business is part of our life, and we're involved in our community."

BHR also partially sponsors the North Central Alcohol Commission, the detoxification center and an annual Easter Seal black-tie fund-raiser, said Mr. Brisbois.

He puts in his time at Rotary Club lunches, but also praises the agency's 30 employees as the driving force in community involvement.

For example, one employee who just completed a public speaking course recently participated in a panel discussion on workers compensation for the local Furniture Manufacturers Assn., he said.

And, the agency's general manager, who happens to own a tractor with a backhoe, recently devoted a week to pitching in to build a new children's playground in the town.

In fact, the cost of community involvement can be "considerable," especially in employees' time, he said. "We're lenient about volunteer work, but we still expect (producers) to hit their sales goals," said Mr. Brisbois.

Costs are not limited to employee time: Advertising and charity cost the agency about \$30,000 last year, he said.

But it's well worth the price, said Mr. Brisbois.

"From a business standpoint it gives us high visibility as well as credibility, but I don't think that we've ever written a piece of business from a pure connection to this," said Mr. Brisbois.

"I don't know how you put a price on credibility or the ability to meet others who are active in the community," he said. "In that sense, it's invaluable." ■

Broker efforts

Continued from previous page

Two- to three-hour seminars for 50 to 75 clients and prospects are structured around a breakfast or lunch. C&B's home office provides speakers, workbooks and handouts.

C&B spends "several hundred thousand dollars" a year on the presentations and does not charge those attending, said Mr. Laborde.

As other large brokers, Johnson & Higgins offers educational seminars on "crucial" issues like environmental liability, directors and officers insurance and the industry's future, said Mr. Connolly.

Such seminars are offered in a J&H office about once a week and are not always generated by the main office. For instance, if a client in Louisville is particularly interested in environmental liability, the branch manager can contact a J&H expert to organize a session.

The presentations explain a complex issue, but can also improve a broker's image, he said.

Educational seminars are not limited to the home offices of the large national brokers. For instance, the Oak Brook, Ill., branch of Financial Guardian Group Inc., a regional firm based in Kansas City, recently put together seminars on cost control and risk management techniques for McDonald's franchise owner-operators in a self-insured workers comp program, said Norbert F. Koebs, the branch's executive vp.

The branch also pays for annual school bus driver safety courses, with about a dozen Illinois school districts placing coverage through the branch.

Brokers and the NAIB also are more closely allied with RIMS than in years past, with most national brokers coordinating seminars at the annual RIMS convention.

"We've always had a relationship with RIMS, but this has become more productive recently," as brokers have become more professional and less aligned with insurers, said NAIB's Mr. Peterson, who will speak on a solvency panel at this year's RIMS meeting in Boston.

"RIMS (annual convention) for a national broker is not just an opportunity, but an obligation," said C&B's Mr. Laborde. "The negative feedback for not attending would be intense."

C&B's most popular offering is its "Value Added Performance" seminar, which has been offered for the past three years, said Mr. Laborde.

C&B is a "relative newcomer" to RIMS since the brokerage was not considered national until 1968 and did not participate until 1976, said Mr. Laborde.

Twelve C&B employees are now working on the 1990 presentations. Employees working at RIMS are rewarded with money and stock, said Mr. Laborde.

Johnson & Higgins also encourages brokers to participate at RIMS meetings, said Mr. Connolly, who spoke on sexual harassment in 1987.

Participating brokerages are asked to submit topics for panel discussions, said Mr. Connolly.

Through its participation on panels or boards of directors of the American Tort Reform Assn., the Yale Law School civil liability study and the Wharton School of Risk and Decision Processes, J&H hopes to bolster brokers' standing, said Mr. Connolly.

"If 30-second sound bites decide the issue, we probably won't come up with a fair result," he said. "It's important for brokers to explain the distinctive role and market that exist apart from personal lines."

While NAIB plans to study stiffer licensing requirements, including raising educational standards for brokers in 1990, most brokerages are offering educational programs.

For instance, J&H has monthly roundtables for brokers, including market reviews and case studies.

However, as national brokers turn

to increasingly specialized approaches, outreach on the branch office level frequently resembles the efforts of small individual agencies, complete with speaking engagements, charity drives and other hands-on projects.

For instance, Alexander & Alexander's Owings Mills, Md., office coordinates volunteer work of 100 of its 700 employees, said Giles Madray, senior vp of the division.

A&A volunteers work with the Urban League in Baltimore to train the unemployed for jobs, coordinate a Thanksgiving dinner for the homeless, collect money and clothes for Hurricane Hugo victims and counsel ex-convicts.

Most events cost only a few hundred dollars, though last year's marathon to benefit cystic fibrosis research cost considerably more, said Mr. Madray. Total 1989 volunteer efforts cost \$10,000.

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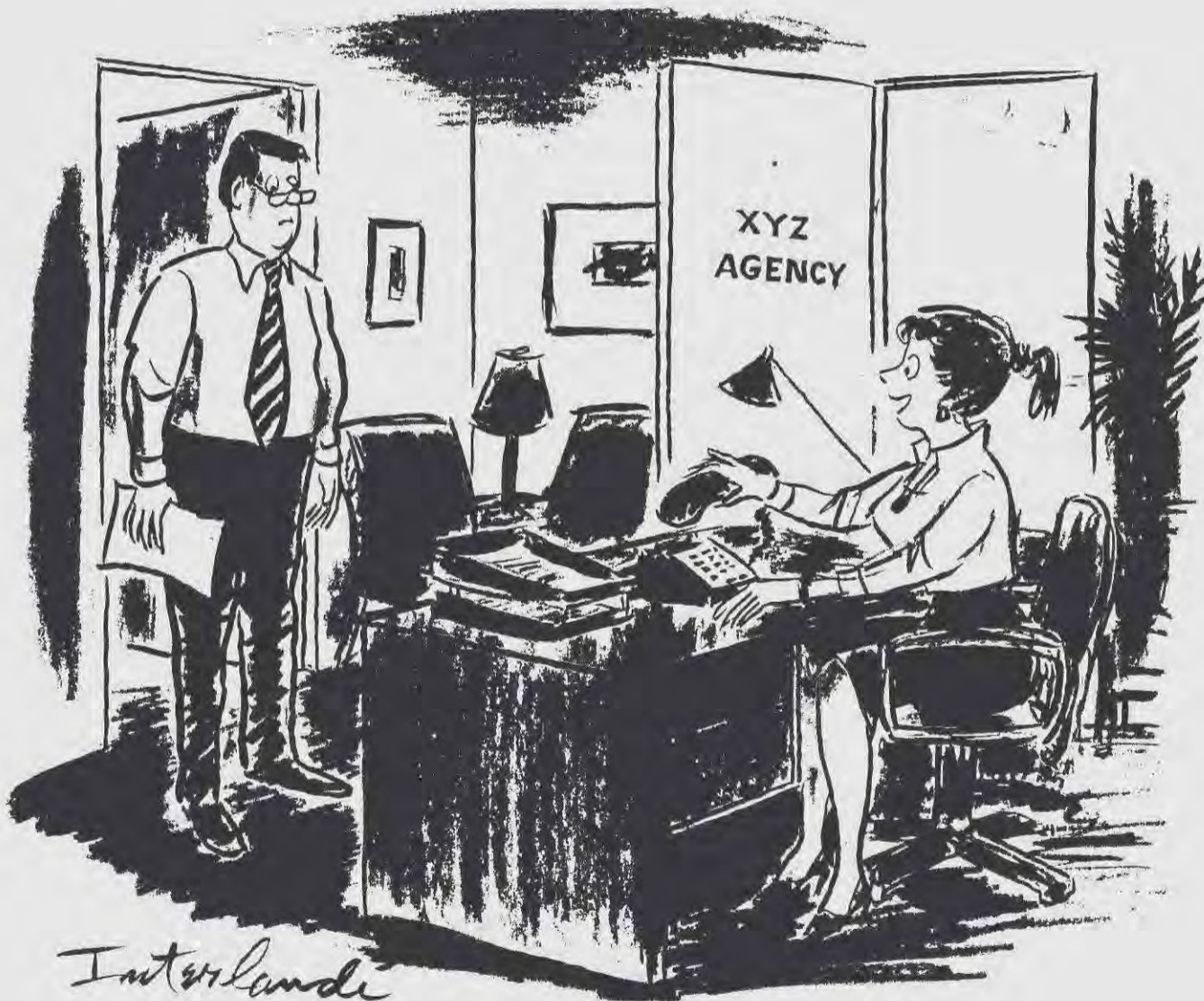


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Agents join disaster recovery efforts

By LAURA MAZZUCA

After Hurricane Hugo hit the East Coast and an earthquake rattled through Northern California, many independent insurance agents showed consumers they were willing to roll up their sleeves and help.

Besides raising money, agents and their associations volunteered in other ways—from explaining to harried hospital workers how to file their own claims to hauling plasterboard for families whose homes were destroyed by the hurricane.

The crisis emphasized the importance of insurance and the agency system, said Theodore T. Mappus III, vp of Mappus Insurance Agency Inc. in Charleston, S.C. "I know people have rung the (agents') phone off the hook till 11 at night—sometimes for information, and sometimes just for someone to talk to. But this is what insurance is all about—the catastrophic loss."

Throughout the crises, agents across the country donated to as-

sociations, which gave the proceeds to the American Red Cross.

The Independent Insurance Agents of South Carolina in Columbia canceled a convention it had scheduled in Charleston two weeks after Hugo hit, and urged agents to donate registration fees and other money to the relief effort. Agents contributed almost \$15,000, said Lee Ruef, the group's executive vp.

Agent association involvement did not end with cutting checks.

For instance, the California and Nevada PIA made its toll-free phone line available to the public to reach quake-stricken Californians and offered claims information via an "Earthquake Hotline" (A/BT, Nov. 13).

To aid Hugo victims, PIA National in Alexandria, Va., has "adopted" rural Williamsburg County, S.C., which was almost totally wiped out by Hugo, said Jovita Mask, executive vp of the Carolinas PIA.

Before Thanksgiving, national PIA donated \$1,500 and collected 32 boxes of children's clothing to

be distributed at a local firehouse to families in Williamsburg County, two-thirds of whom live below the poverty level, said Ms. Mask.

Despite the rush of claim filings, individual agents also pitched in.

Mr. Mappus, who heads a \$4 million premium volume agency in Charleston, took time out of his 16-hour work days to tell employees at Charleston's Roper Hospital how to file their own claims.

"These people had to let their personal lives go" to handle Hugo victims, Mr. Mappus said.

His two-hour talk, about insurance in general and particularly how to file wind damage claims, was videotaped so other employees could see it, he said.

Mr. Mappus remained to take individual coverage questions after his talk, no mean feat considering his agency handled more than 2,000 claims in the 10 days after the storm.

The main complaint from both hospital employees and his own customers, said Mr. Mappus, was that there were not enough claims

adjusters to handle the state's 300,000 storm-related claims.

"Most people really didn't understand the scope of it," he said, adding that the double whammy of Hugo and the California earthquake made adjusters scarce and policyholders impatient.

"We just tell people it's never been like this before," said Mr. Mappus. "The problem is, when you have so many people affected, you still can only deal with only one at a time."

Tommy Blanton, president of Associated Insurance Agency of Wallace, a \$2.2 million premium volume agency in Wallace, N.C., about 175 miles from the stricken area, had no Hugo claims.

But he wanted to help and says he was "not exactly interested in just writing a check that would disappear somewhere."

About a week after Hugo struck, Mr. Blanton and his wife drove to hard-hit McClellansville, S.C. Homeowners and civic leaders told him that food, shelter, medical attention and clothing were adequate, but that residents needed

help rebuilding their homes.

With \$2,700 from businesses and \$3,000 from members of his church in Wallace, he bought a tractor-trailer full of plasterboard, rounded up six men and headed back to McClellansville.

He and the crew helped repair 10 houses that had been "totally washed away," he said.

Plasterboard went "right into the boondocks" to help rebuild homes in poor neighborhoods, he added.

Though he only worked on the houses for a day, coordinating the efforts cost him four days away from his business, he said.

But he said the effort was worthwhile, and he would gladly do it again—"maybe even more so now, because you see how helpless everybody gets," he added.

Besides re-emphasizing the importance of the independent insurance agent in the community, Hugo has also made policyholders more aware of the coverage they buy, added Mr. Mappus.

"People for the first time in their lives are reading their insurance policies," he said. ■

Network to develop, sell specialty products

By LAURA MAZZUCA

COLUMBUS, Ohio—An agent/broker network is launching a new venture to develop specialized commercial insurance products to be sold and serviced exclusively by member agents.

The Assurex International Corp. program will provide participating agents with new products, like specialized pollution and municipal liability coverages, while offering insurers a focused marketing force for these products.

In addition, the program will benefit both consumers and the insurance industry by creating competitively priced, customized coverages that will withstand market fluctuations, said Robert P. Ashlock, president of Assurex International in Columbus, Ohio.

The Assurex Marketing Group, which was formed in September, will allow participating Assurex agents to work closely with insurers to develop new insurance products, said Mr. Ashlock.

The AMG products will be underwritten by insurers with which AMG plans to set up specific relationships—such as joint ventures—for each product sold, said H. Howell Taylor Jr., principal with the Day, Webb & Taylor agency in Denver. Mr. Taylor, who will become chairman of Assurex in 1990, is an AMG director.

The marketing group may also form an offshore captive to underwrite some coverages, Mr. Taylor said.

AMG's exclusive arrangement with the participating insurers will protect the specialty program from

market upheavals, he said.

"We know the hard market is coming, and it's coming fast," Mr. Taylor said. "The timing of AMG probably couldn't be better."

The structure of AMG is similar to that of Assurex's Professional Agencies Reinsurance Holdings Ltd., a Bermuda captive specializing in reinsuring errors and omissions risks for agents and brokers (A/BT, Nov. 2, 1987).

Although PAR was established in the hard market to provide E&O coverage when such coverage was scarce, PAR policyholders have stayed with the program in the soft market because of the stability it offers (A/BT, Aug. 7).

The marketing group will target "fairly sophisticated clients, people who pay big bills and have tough insurance problems" and are more concerned with a stable market than low prices, said Mr. Taylor.

Assurex agents have an average premium volume of about \$50 million and AMG's products primarily will be designed for medium-sized risks with unique coverage requirements and premiums of at least \$50,000, said Mr. Ashlock.

Products could include environmental impairment liability and municipality liability coverage and some coverage for the high-risk elements of the construction industry, he said.

Products will have broader coverage and higher limits than the many similar products now available, he predicted.

Assurex formed a committee of partner agencies to direct product development, with an emphasis on expanding existing local or regional insurance programs.

AMG also plans to "customize" existing products to provide broader coverage and modify them to appeal to specific markets.

The specialized products will be target marketed, said Mr. Ashlock.

Each participating Assurex agency, which is contractually required to sell the new products, will assign "very experienced, technically oriented products and sales people" to AMG, Mr. Ashlock added.

AMG members have had initial meetings with several insurers, and "company response is quite positive," noted Mr. Ashlock. He plans

to include life insurers in AMG to develop specialized group life insurance products as well.

Insurers participating in AMG joint ventures will not be required to put up capital, but will be required to assist with product development, he said. They will also handle policy issuance, claims processing and other administrative tasks, Mr. Taylor said.

In addition to product development, sales and service, AMG will perform wholesale brokerage functions for participating agents, said Mr. Taylor.

In addition, AMG, which had contemplated acquiring a surplus lines insurer, plans to eventually create one from scratch, he said.

Capitalization for the AMG program came from a one-time common stock purchase of approxi-

mately \$25,000 per participating agency that closed Nov. 15, said Mr. Ashlock. AMG has more than \$1.3 million in capital, generated by the 50 Assurex agencies that purchased stock, he said.

AMG hopes to introduce the first specialized products by the second quarter of 1990.

Assurex International is an agency network and the successor to Insurance Service Associates, an organization of leading independent brokers founded in 1954.

Its shareholders are large, independently owned agents and brokers, with 64 partner firms in 40 states and some Canadian provinces. Assurex partner agencies operate more than 150 branches, with more than 4,000 employees generating an annual premium volume of more than \$2.7 billion. ■

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Business Insurance

Police loss control training hits the air

By LAURA MAZZUCA

RICHMOND, Va.—Wholesale insurance broker Markel Service Inc., which specializes in placing police and law enforcement liability coverage, is offering premium discounts to agencies that participate in a televised training and loss control program.

Markel is collaborating with the founders of the Law Enforcement Television Network to reduce police officers' liability exposures. LETN produces satellite television programs that cover areas likely to produce law enforcement errors and omissions claims, said James W. Chapman, senior vp of Markel's governmental programs division.

"If used properly by the subscribing (law enforcement) agency, LETN can provide valuable training which may instruct police officers in the avoidance of possible civil liability situations," said Mr. Chapman.

Subscribers to LETN, a division of Westcott Communications, a Dallas-based satellite television company, may qualify for premium discounts of up to 10% on liability coverage, Mr. Chapman said. Since annual premiums average about \$14,000 per law enforcement agency, savings can be substantial, he said.

Richmond, Va.-based Markel Service, the brokerage subsidiary of Markel Corp., places coverage for about 7,000 law enforcement agencies, or about 30% of the nation's total, said Mr. Chapman.

Attorneys working with Markel have suggested to Carrollton, Texas-based LETN the situations that are likely to produce the highest risk of litigation, said LETN President Billy Prince.

"We're going to revolutionize the way police are trained" to minimize police liability exposures and improve agencies' ability to defend themselves if they are sued, said Mr. Prince, a former Dallas police chief.

LETN's format is modeled on that of Cable News Network and is designed to avoid the tedium associated with many law enforcement seminars and training films, said Mr. Prince.

"Since most young officers grew up with television, we're using a medium they're familiar with, combining lectures and factual information in an action-oriented format so we don't bore them to death," he said. "It's kind of an adult 'Sesame Street.'"

Noting an increase in lawsuits against both police departments and individual officers, Mr. Prince said the best way to avoid such litigation is to hire good people and keep them up-to-date. "That's where we come in," he said.

LETN offers five 30-minute training programs per week, which are accessible to officers on all work shifts because the network broadcasts 24 hours a day, Mr. Prince said.

Using the LETN monthly program guide, a law enforcement agency commander can determine which officers could benefit from specific programs, he said.

For example, viewers of "Crime Scene" and "Street Beat" are taught skills such as handcuffing techniques, the correct use of safety vests and stun guns, legal considerations for patrol officers first responding at a crime scene and the best way to deal with a hostile motorist pulled over for speeding.

The television network provides written pre- and post-viewing tests, said Mr. Prince. Should an officer or department be sued, the

videotape and test results can be used as evidence to show the officer was properly trained, said Mr. Prince.

The network also will offer several live, interactive broadcasts throughout the year, in which officers can phone in questions, he added.

LETN began 24-hour broadcasting in July with about 300 initial subscriber agencies, said Mr. Prince. The network hopes to triple its current 725 subscribers by late 1990, he said.

Monthly subscriber fees range from \$288 for departments with 10 or fewer officers, to \$588 for those with more than 100 officers.

The fee includes the satellite dish

If case of a suit, the tape and test results can be used in an officer's defense, says Billy Prince.

and program decoder.

LETN's programming day begins with "Roll Call," a variety of short segments featuring training, news and information for patrol officers, packaged in five 15-minute segments.

Other programs include "Drug Crackdown," a segment produced

with the Drug Enforcement Administration covering narcotics, undercover investigation concerns, and legal issues; "Command Update," geared toward administrators and trainers; and "Alert, Alive and Well," which addresses issues such as physical fitness, nutrition and stress management.

Programming is created and coordinated by Mr. Prince and a staff of 10 other former law enforcement officials. The segments are taped at LETN's Dallas studios and on location across the country.

The satellite television approach is the newest in Markel's loss prevention services for law enforcement agencies. The wholesale brokerage introduced educational

seminars for police in 1980 and today conducts up to 20 seminars annually across the country, said Mr. Chapman.

Markel also provides clients with newsletters featuring tips on preventing errors and omissions and a risk management manual for its public entity clients.

Markel Service, which produces an annual premium volume of about \$70 million, specializes in liability coverage for law enforcement agencies, public officials and school boards.

Mr. Chapman added that the satellite television approach to loss control may eventually be expanded to Markel's public entity and school board clients.

1989 / 1990

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Analysts don't expect big rate hikes in '90

By JUDY GREENWALD

While most analysts who track the property/casualty insurance industry believe a turn in the commercial insurance market is imminent, they say rate hikes will be mild this year.

Abundant capital will curb all but modest increases and a handful of insurance companies, bent on increasing premium volume, could easily undercut any sharply higher rates, they say.

Even the most bullish observers believe insurance rates will rise only 5% to 6% in 1990, unlike the

derwriting profits may not bottom out until 1991.

Capacity and insurers' willingness to accept risk are the important variables in assessing a market turn, he said.

Main Street, "commodity-type" business is "seeing relatively modest price increases almost across the board," said Michael Smith, an analyst with Shearson Lehman Hutton Co. in New York. But, he added, for large attractive accounts there is a "lot of a competitive fever for this business, with prices being cut still."

"All in all, the rate stability

However, the deviation for commercial auto rates increased by one percentage point to about 25%.

ISO advisory rates are based on losses, premiums and expenses, but do not take into account investment income or income taxes.

The deviation tends to be less for commercial fire insurance because it is a short-tail line of business. Therefore, there is less opportunity for insurers to make up for underwriting losses by generating investment income, the spokesman explained.

While the study may support the idea of a market turn following the second quarter, "before you declare a trend, you like to see it moving in the same direction at least two quarters," the ISO spokesman said.

Other observers do not see an immediate turn in the market.

"I don't think it will turn in early 1990. My opinion is it won't be until early '91," said Jeffrey Cohen, a senior analyst with Goldman Sachs & Co. in New York. With rates stabilizing and loss costs rising, rates are, in effect, still declining, he said.

"I wouldn't be surprised if we didn't see a significant pricing turnaround in January," said Marvin L. Shulman, senior analyst at Moody's Investors Service Inc. in New York. "I think there might be some increases over a year ago, but I'm not sure they're going to be very significant."

Despite some insurers' announced rate hikes, all that is needed to undercut higher rates is a few companies that decide they need to increase their premium volume, Mr. Shulman said.

Some companies may attempt rate hikes, but "I doubt very much they could make any increases stick," said Barbara Stewart, president of Stewart Economics in New York. "I would be very surprised if there would be a movement upwards in price in the renewal season, or any lasting momentum."

"It's still a fairly healthy business, and there's plenty of capacity available. And if one insurer is raising prices, there's always going to be a few out there not raising prices, and that's all there is to it," she said.

"Any turn is at least a year or more off. It's not likely to be a sharp turn as we saw it in '84 and '85," said Ms. Stewart.

"I just don't think 1990 is going to be a golden year," said David Wells, a vp with Fitch Investors Service in New York. "I don't really think the threshold of pain is there on a cash flow basis to turn things

around."

Catastrophes, interest rate swings and tax law changes are all "wild cards" that could "accelerate the bad results, and then perhaps you might see a turn," Mr. Wells added.

A.M. Best Co.'s year-end report is also pessimistic about an imminent market turn: "There is no evidence that the quarterly decline of commercial lines premium growth will reverse itself soon. The 1.54-to-1 premium-to-surplus ratio at 1989's year-end indicates an overcapacity that invites continued price-cutting."

The report concludes that "with today's high levels of investment income and capital gains, the cycle still has plenty of room on the downside before an industrywide change in competitive habits be-

comes necessary for survival. But that does not mean that nobody should try to do better."

Others say they still are unclear as to how the market might develop this year. "I think we've seen the end of price cutting, and that's the only thing I feel confident of," said analyst Herbert E. Goodfriend of Prudential/Bache Securities in New York.

"I think it's pretty unclear," agreed Gordon D. Luce, assistant manager at Brown Bros. Harriman & Co. in New York. "It depends on whom you talk to," he added.

"It's still too early on to say exactly what's happening," said Michael A. Lewis, first vp at Dean Witter Reynolds in New York. He predicts, however, more indications of rate hikes during the year.

Analysts say

sharp price hikes that marked the last cycle upturn.

"Our sense is that there's probably going to be a turn in the market," said Sean F. Mooney, senior vp and economist of the Insurance Information Institute in New York.

"Prices will be increasing but in general, in a mild sort of upturn, as opposed to a violent one," he explained.

Others, however, say that while rates have stabilized, the market has not yet turned.

"I think things may have stabilized, but I don't think it's enough to nudge things in the other direction," said James F. Guenther, assistant vp with rating agency Duff & Phelps Inc. in Chicago.

Analysts generally agree there is too much capital in the market for insurers to increase rates dramatically.

Under a worst-case scenario that includes losses from the recent string of catastrophes, the industry's reserve-to-surplus ratio is still a healthy 1.8-to-1, said Joanne Morrissey, a principal with Firemark Consultants Inc. in Morristown, N.J. "That's nothing. The industry is still overcapitalized, and there's not a problem there."

Modest rate hikes may be successful, she said. "I think the setting is there psychologically. I think people are prepared to pay additional premium dollars. So why not, as they say, strike while the iron is hot?"

Rates range from flat to up by 5% to 10% during January renewals, said Gloria Vogel, an associate director at Bear, Stearns & Co. in New York.

"I think we're seeing some firming. It's going to be a gradual" and modest turn in the market, she said. Most companies will try to increase rates 5% to 10% and "10% is something that could stick," Ms. Vogel said.

"I'm hearing that most of the brokers are seeing modest price increases late in the year," said Thomas Rosencrants, senior vp and director of research at Interstate/Johnson Lane Inc. in Atlanta. "There are still pockets of competition," but far less than there was three to six months ago, he noted.

"I think the trough in terms of price competition probably occurred sometime in October or November," said Mr. Rosencrants, who predicted "very modest" price hikes of 2% to 5% in the first quarter and "some acceleration during the year."

"We think this type of rate momentum is much healthier for the insurance market than the very sharp price increases from mid-1984 through the early part of 1986," Mr. Rosencrants said.

The market "is turning, but the turn is not very sharp," said Alan Levin, senior vp at rating agency Standard & Poor's Corp. in New York, who predicted a 2% overall rate increase for the entire year. A recent S&P report warns that un-

we're seeing now is favorable to what we had anticipated on Sept. 1, but overall, is disappointing in view of what we were looking for on Oct. 18," the day after the California earthquake, said Mr. Smith.

He compared insurers' hesitancy to raise rates to kids playing on railroad tracks. "I can't believe it. They won't get off the damn track until the locomotive is on top of them," he said.

"I suppose it's turning a little bit" said David Anthony, a Fox-Pitt, Kelton analyst in New York, who predicted 1990 rate hikes of 5% to 6%, but mostly in the second half of the year.

An abundance of capital will not permit more significant rate increases, he said. A decline in the industry's capitalization preceded the rate hikes of 1975 and 1985, but the industry's capital increased in 1989, he noted.

Policyholder surplus for the industry rose about 13% to \$134 billion in 1989, according to a report released today by A.M. Best Co. of Oldwick, N.J.

And, a study released last month by the Insurance Services Office Inc. in New York found the discrepancy between some of its advisory rates and those actually offered either narrowed or held steady in the second quarter of 1989 for the first time since late 1986.

The difference between advisory and actual rates for general liability insurance leveled, while it declined for commercial fire and multiperil lines, an ISO spokesman said.

That deviation is now about 30% for commercial multiperil rates, about 25% for general liability and less than 15% for commercial fire rates, ISO reported.

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DENTAL BENEFIT PROVIDERS, INC.

Risk managers

Continued from page 1

But this renewal season insurers "could well be trying to keep the good risks and maybe upping the price on some that they don't care to retain," said Edward Aiello, general manager of corporate insurance for H.J. Heinz Co. in Pittsburgh.

Joe Mallia, director of corporate risk management at Time Warner Inc. in New York, predicted that premium hikes will not be the "broad-brush increases" that hit all risks in 1985.

Mr. Mallia said the traditional "high-exposure" companies will likely feel the brunt of price hikes in 1990, but those without hazardous exposures and high loss experiences will see small increases, if any at all.

Time Warner, which was wrapping up renewals on part of its property insurance program during the Christmas season, is not expecting "much of a problem with the property. Earthquake has gotten a little tighter, but it's not completely unavailable," said Mr. Mallia.

He expects property insurance rates to increase, but not "as they have in the past. There's a little more surplus capacity. The reinsurers are not as weak as they have

been in the past," Mr. Mallia said.

The recent merger of Time Inc. and Warner Communications Inc. leaves the new company in a unique situation as insurers that wrote coverages for both companies "are keeping an aggressive attitude," because neither wants to

area," Mr. Overmyer said. "We have a single-limit catastrophe-type policy" under which all of the hospitals are covered, he explained.

He would not provide policy limits, but did say the coverage—written by Zurich-American Insur-

California earthquake," but the toy manufacturer expects "a flat renewal, no increase or decrease" in premiums on its domestic and international property/casualty renewals, even though the company has new risks this year, said Mr. Pinner.

Mattel also is buying earthquake coverage for a new 14-story headquarters building and a new 26,000-square-foot distribution center, both located in the Los Angeles area.

Although the headquarters is designed to be earthquake-resistant, "anytime you have a high-rise building, you have an earthquake exposure," he said.

The distribution center is only a single-story facility, but it represents "a substantial exposure with the inventory that is in it," Mr. Pinner said.

Mattel will be seeking the same property limits this renewal season, which is scheduled to be completed Jan. 31, that it obtained in 1989, he said.

"We're pretty comfortable where we're at. There doesn't seem to be any real reason to make any waves," he said.

Mattel renegotiated about a 12% break on the cost of its crime and fidelity coverage during the recent renewal. The coverage was renewed with limits of \$20 million.

"We've been hearing insurance rates are going up for over a year," Mr. Pinner said. "There have been a couple of attempts, but it's like the airline rates—it doesn't work unless they all go along."

Like Mattel, other toy makers and retailers under the gun to finish renewals during the busy Christmas season are finding it easier than during recent year-end renewal seasons.

"Generally, we're seeing it's still pretty easy out there," said Bruce Hackett, director of risk management at Toys R Us Inc. of Rochelle Park, N.J.

He was unsure whether the toy company got any price breaks on its property coverage, written by The Home Insurance Co.

'The domestic catastrophes have pushed up rates,' but insurers writing property coverage for overseas risks 'have not reacted to that,' Mr. Seuntjens explains. 'There haven't been any catastrophes in the international sense.'

lose business on account of the merger, he noted.

Mr. Ingerman of Burnby said that Johnston, F.I.-based Allendale Mutual Insurance Co. cut the manufacturer's property insurance cost 13% from last year's renewal price and a similar amount the year before.

Shriners Hospitals for Crippled Children in Tampa, Fla., has obtained rate reductions on property coverage for its 22 hospitals and the organization's international headquarters, according to Kenton R. Overmyer, insurance consultant for the non-profit hospital group.

"We've had no problems in that

ance Co. in Schaumburg, Ill.—includes a \$5,000 per-loss deductible.

International property coverage costs are dropping, but domestic costs should increase slightly, according to Tom Seuntjens, director of insurance and risk management for Honeywell Inc. in Minneapolis.

"The domestic catastrophes have pushed up rates," but insurers writing property coverage for overseas risks "have not reacted to that," he explained. "There haven't been any catastrophes in the international sense."

Honeywell had only minor losses in the California earthquake and none from Hurricane Hugo.

But Mr. Seuntjens still expects a slight increase in the cost of his property coverage because of the disasters.

Despite "a push for an increase in premiums because of the well-known domestic catastrophes," he has no intention of switching insurers during the Jan. 1 renewals, he said.

Honeywell's domestic property coverage is written by units of The St. Paul Cos. Inc. of St. Paul, Minn. and Industrial Risk Insurers of Hartford, Conn. In addition, CIGNA Corp. of Philadelphia writes its international property insurance.

Even some companies with 1989 losses find the property market remains soft.

For example, rates did not go up for Marriott despite \$1.5 million in Hurricane Hugo losses, a "high six-figure" loss from fires at two of its restaurants in 1989 and minor earthquake damages, Mr. Davenport said.

"If we had a better loss record, rates would possibly be less," Mr. Davenport speculated.

The hotel chain renewed its property coverage with Allendale, the insurer that wrote its property coverage last year.

"I actually find renewals in an orderly fashion, rather than a couple of years ago, when you waited until the 11th hour for a quote" observed Mr. Pinner of Mattel.

"We'll hold our breath on the

The toy company is re-evaluating the amount of coverage it needs, but plans to obtain at least \$125 million in coverage, said Mr. Hackett.

Toys R Us escaped the earthquake with no losses, and Mr. Hackett said that he has noticed only "a little tightening" in the market that writes earthquake insurance.

Michael Crasnick, risk manager at Hasbro Inc. in Pawtucket, R.I., said renewals are "not too bad" this year. "We haven't seen too much difference compared to last year."

Hasbro avoids a lot of renewal headaches by self-insuring its large workers compensation exposure, he said.

Casualty renewals are seeing "just about the status quo," Mr. Crasnick noted. "We're not seeing any major reductions, but we aren't seeing any major increases either."

Hasbro plans to renew its primary and excess casualty coverage again this year with Aetna Casualty & Surety Co. of Hartford, Conn., at the same limits as last year.

Other risk managers also report little change in the casualty market.

Shriners Hospital began self-insuring its medical malpractice and general liability exposures two

years ago because coverage "became ridiculously priced," said Mr. Overmyer.

Self-insurance for directors and officers liability exposures began five years ago, according to Mr. Overmyer.

Shriners Hospital purchases excess coverage for the general liability and professional liability risks.

Lexington Insurance Co. is among the insurers that writes excess general liability coverage for the hospital group, and Lexington and Zurich-American agreed to write the group's excess professional liability coverage for a slight premium decrease during recently completed renewals of this coverage, said Mr. Overmyer.

Duke Power Co. in Charlotte, N.C., found its excess general liability and directors and officers liability insurance slightly cheaper during year-end renewals with utility industry captive Associated Electric & Gas Insurance Services Ltd. in Bermuda.

The captive offered the utility company additional occurrence-based excess general liability and claims-made D&O limits for a slightly higher price, said Laura Lawson, insurance assistant at Duke Power.

"But we didn't take them," because management is comfortable with its \$25 million in D&O limits and \$25 million in excess general liability insurance limits, Ms. Lawson said.

The power company's D&O coverage with AEGIS carries a \$1 million per claim deductible for nuclear-related losses and a \$1.2 million per claim deductible on non-nuclear related claims, she said.

The power company's excess general liability coverage with AEGIS is written over a \$2 million self-insured retention.

Atlanta-based MetroVision Inc.'s excess general liability coverage should cost about the same as last year, when the price rose slightly, according to Kathy Dupree, risk manager.

'We've been hearing insurance rates are going up for over a year,' Mattel's Mr. Pinner says. 'There have been a couple of attempts, but it's like the airline rates—it doesn't work unless they all go along.'

"We're not looking for much change at all," Ms. Dupree said. "I haven't written a memo to management and said, 'Brace yourself, guys.'"

Liberty Mutual Insurance Co. of Boston writes the bulk of MetroVision's excess casualty coverage, according to Ms. Dupree.

"The casualty market still appears to be softening," said Heinz Co.'s Mr. Aiello, who expects decreases of 5% to 10% on casualty renewals. "There are signs of softness."

Heinz is buying \$100 million in per-occurrence liability insurance with a \$1 million per-occurrence retention, he said.

Competition for the business was keener than it has been recently, but Heinz is renewing its coverage with the same insurer, Mr. Aiello said.

"Casualty remains soft," said Mr. Seuntjens of Honeywell.

Honeywell just renewed its aircraft product liability coverage with Associated Aviation Underwriters of Short Hills, N.J., a group of insurers that write aircraft-related coverages.

While Mr. Seuntjens would not elaborate about the aircraft coverage, he did say that Honeywell obtained the same limits that it had purchased last year but for "a substantial reduction" in premium.

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London renewals

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the next year.

For example, many brokers and underwriters predict that the capacity shortage and rate increases in the LMX market could translate into rates increases in the U.S. insurance and reinsurance markets by the spring or summer.

"It's probably too late to affect the pricing for Jan. 1 renewals but it may affect the pricing for April or July renewals," predicted Stephen Burnhope, a leading Lloyd's of London casualty underwriter for syndicate 1067, managed by Merrett Underwriting Agency Management Ltd.

This year's renewal season "is almost a period of suspense in both meanings of the word," said Brian Hibbert, chairman and chief executive of Bowring North America Worldwide Ltd. What's happening in the LMX market could mean changes in the direct insurance market, "but it takes longer for (the disasters) to shake through the whole system. Certainly the results indicate" there should be rate increases, he said.

This year-end renewal season "is harder, but similar to last year," he said. "Casualty and property (insurance brokers) are not frantically busy, but the reinsurance boys are."

"There is no immediate sign of turning, though there is talk about it," added Steve Matanle, managing director of the property insurance division of Bowring North America. "But I perceive that during the first quarter or second quarter of next year, rates may increase."

"We haven't seen any dramatic changes" during this year's renewal season for U.S. property/casualty insurance, added Nigel Chamberlain, chairman of the North American division of Lloyd's broker Nicholson Chamberlain Colls Ltd.

"We are sitting there poised, but nothing's happening... It's a brave man who will predict what will happen in the next six months," he said.

The year-end renewal season in the London market normally begins in early October and continues through January. The season is primarily for London underwriters to place their retrocessional programs and for U.S. ceding companies to place their reinsurance programs.

The year-end renewals season used to be a major time for U.S. property/casualty insurance packages, too, but many brokers now spread these renewals throughout the year to avoid the London pre-Christmas reinsurance renewal season rush.

"We don't have many renewals now," said Nick Daniels, managing director of Lloyd's broker Price Forbes Ltd., a division of Sedgwick Group P.L.C., who said there wasn't much change in conditions from before the earthquake and Hurricane Hugo. It's "quiet" on the direct side, he said.

"We don't have a lot of year-end renewals," added Mr. Chamberlain of Nicholson Chamberlain Colls. "We try to enjoy our year-end and place the (renewals) during mid-year."

"1/1 isn't what it was," added Mr. Hibbert of Bowring, referring to Jan. 1 renewals. "We moved hard over the year to get away from Jan. 1 renewals because the underwriters' own reinsurance is almost never in place. So we spread them throughout the year."

Besides year-end is a terrible time of year in London when people—particularly this year—are suffering from flu or colds, and commuting can be terrible, Mr. Hibbert added.

The insurance programs that are placed during the year-end renewals season—mainly for energy and

major industrial companies—are finding needed capacity at rates reasonable to the buyer, brokers agree.

"There is nothing dramatic" happening this renewal season, said Dennis Mahoney, chairman of Lloyd's of London wholesale brokerage group Alexander Howden Ltd., a unit of Alexander & Alexander Services Inc.

"Rates are still declining in some areas," said Mr. Mahoney, pointing to some 10% to 20% rate reductions in both property and casualty insurance programs for major multinational companies.

There has been a "slowing" of rate reductions, however, and a few rate increases where losses justified the increase, he added.

Especially on the casualty side, "not much is changing," said Mr. Hibbert of Bowring. Because of the disasters that hit the property market, "we are half anticipating an increase in rates (soon), but more as a knock-on effect from

property results."

"We're going to see a change before the middle of next year in the direct insurance market," predicted Mr. Burnhope. "We will see a firming up in most areas when U.S. companies begin to look at their year-end results."

"Although there's still a vast amount of capital and surplus around, there is a question mark from analysts over insurers' reserves," he noted.

It all depends on what American International Group Inc. in New York, "which controls the casualty market these days," plans to do, said Mr. Hibbert.

AIG has said that it will no longer give rate reductions. "If they stick to no more reductions, then (rates will renew) as before, and then they may move up."

Peter Wilson, chairman of London's largest U.S. casualty underwriter, H.S. Weavers (Underwriting) Agencies Ltd., also believes that the disasters in the

United States should affect the market by this year's first quarter.

Hugo and the earthquake "have to lead to a cash-flow drain and at least hold casualty rates at the same levels" as 1989, said Mr. Wilson. "But the full effect of the losses has not yet been felt. Wait until the first quarter of 1990."

London underwriters continue to mainly offer general liability coverage on a claims-made basis, said Mr. Hibbert. About \$40 million of claims-made general liability capacity is available this renewal season, he said.

There is some liability business written on an occurrence basis in London, but it is usually to fill layers of coverage already led in the United States, said Mr. Hibbert.

And there are property programs that will provide \$1 million of liability coverage on an occurrence basis, said Mr. Chamberlain, but the coverage is for non-contentious risks such as hotels.

As a rule, however, London is sticking quite firmly to claims-made policies for U.S. casualty business, agreed Mr. Burnhope and Lloyd's underwriter Richard Hazell of syndicate 190, managed by Three Quays Underwriting Management Ltd.

Meanwhile, London-based broker Bowring is trying to put together a \$100 million liability insurance facility with the help of Marsh & McLennan Inc. in New York. The layer would be purchased above the excess limits available from Bermuda-based excess specialists A.C.E. Insurance Co. Ltd. and X.L. Insurance Co. Ltd.

Bowring's Mr. Hibbert would not comment on the proposed facility, but Mr. Hazell confirmed that he has agreed to jointly lead the \$100 million layer.

However, the additional liability layer, which will sit under a top layer provided by A.C.E., will not

Continued on next page

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London renewals

Continued from previous page
be available for the current renewal season, said Mr. Hazell.

The facility, proposed following the success of A.C.E. and X.L., will be a "way of attracting new business" to London, according to Mr. Hazell.

Meanwhile, Lloyd's brokers continue to support and place liability insurance programs with London's largest U.S. liability insurance underwriter, H.S. Weavers (Underwriting) Agencies Ltd.

The security of Weavers' underwriting stamp was questioned in a letter sent in April to clients by Alexander & Alexander Services Inc. (BI, April 24, 1989).

But Tillinghast, a division of Towers, Perrin, Forster & Crosby Inc., endorsed the adequacy of the reserves of Weavers' sister company and leading stamp underwriter Walbrook Insurance Co. Ltd. (BI, July 10, May 22 and May 8, 1989). Walbrook writes 55% of the Weavers line slip.

Banking services group John Head & Partners L.P. of New York announced in October that it planned to buy Anglo-American Insurance Co. Ltd., which writes the remaining 45% of the Weavers line slip, from CalFed Inc. for about \$100 million. The acquisition is subject to approval by the British Department of Trade and Industry.

London brokers report that Mr. Head has personally reassured many of them that Anglo-American will continue writing in the London market.

In addition, Weavers parent, London United Investments P.L.C., saw the share price of its stock plunge to 23 pence from 31 pence Dec. 20.

However, last week the price recovered to 28 pence per share after the company reassured analysts that the drop was caused by the

sale of one shareholder's stake of 25,000 of LUI's 58 million outstanding shares.

Instead of selling the shares in one batch, 5,000 shares were placed with five separate market makers, which caused some speculation in the market that the company had had more troubling news, said Stuart Hughes, LUI's chief finance officer.

Brokers view Weavers as they always have.

The "situation (vis a vis Weavers) is exactly as it has always been," said Mr. Hibbert. "Weavers main handicap is that they write claims-made."

"We will continue to support" Weavers, said Mr. Chamberlain of Nicholson Chamberlain Colls. "We basically feel that Head's purchase of Anglo-American is a positive move."

"There is no reason why there shouldn't be support" for Weavers from brokers, said Mr. Wilson. "We continue to have the support which we have enjoyed for the past 26 years."

Mr. Head's acquisition "is not affecting our business," said Mr. Wilson. "Our relationship remains the same with Anglo-American whether Mr. Head buys it or not," he said, referring to Anglo-American's five year underwriting agency agreement with Weavers, which lasts until April 1992 (BI, Oct. 16, 1989). Either party may cancel the agreement with a one-year notice.

Meanwhile, casualty risks that are considered "uninsurable," like environmental impairment liability and asbestos-related activities, may be covered via new policies known as "financial insurance and reinsurance."

Under these policies, the policyholder pays a hefty premium equivalent to the discounted value of anticipated losses.

The premium, which is tax-deductible because there is a transfer

of risk, is paid to an insurance or reinsurance company offshore, usually in Bermuda, though more recently such companies have sprung up in Dublin, said Andrew J.D. Leasor, director of Lloyd's broker Lloyd Thompson.

"In the last nine months, a whole myriad of reinsurers (to do financial insurance and reinsurance) have been set up," said Mr. Leasor. The most notable is Centre Reinsurance Holdings Ltd. in Bermuda.

Meanwhile, the series of catastrophes in the United States have "just about stopped" rate reductions for property insurance pro-

grams, said Mr. Hibbert. "We believe that the next step is for underwriters to put property rates up to between 10% and 12.5% in mid-term 1990."

largest line slips in the market. The line slip would write a variety of property risks and eventually be available to other brokers in the market, the brokerages confirm.

Rod Quill, chairman and chief executive of Marsh & McLennan Bowring (London) Management & General Insurance, who thought of the idea for the line slip, and Mr. Mahoney of Alexander Howden are working together to develop the line slip and hope it will be supported by leading underwriters in the market.

The chairmen had hoped the line slip would be available for Jan. 1 renewals, but "the earthquake, the

'Capacity for quality (energy) risks and good clients is holding up,' said energy broker John Wallace. 'The market looks relatively stable. Everybody's talking about a reduction in capacity, but it is not occurring.'

hurricane and the chemical explosion happened," so they are waiting "until the dust settles" to proceed, said Mr. Mahoney and Mr. Quill.

"It looks most exciting for the London market and the clients," said Mr. Mahoney.

"We would all benefit," added Mr. Quill.

Meanwhile, major energy companies and their insurers still can obtain plenty of capacity from marine underwriters, despite rate hikes and a reduction in the marine excess-of-loss retrocessional market, brokers say.

"Capacity for quality (energy) risks and good clients is holding up," said John Wallace, managing director of London-based energy broker Heath Oil & Gas Ltd.

"The market looks relatively stable, especially for original insurance business. Everybody's talking about a reduction in capacity, but it is not occurring," said Mr. Wallace.

Most energy-related reinsurance rates are increasing "anything from 15% to 100%, depending on loss experience, but there is still plenty of capacity out there, and direct insurance rates are staying the same," according to broker Tony Pickering, a director of London-based Jenner Fenton Slade Ltd.

However, "underwriters are being more careful in noting aggregation of lines as a result of major energy losses and this ultimately may affect capacity, although there's no sign yet," said Mr. Wallace.

"Also, if underwriters are unable to buy excess-of-loss retrocessional protection, capacity may fall," Mr. Wallace noted, adding that "a lot of underwriters have managed to obtain their excess-of-loss protections."

Although there is no capacity shortage yet, major accounts are not being placed so easily in the marine market, said Richard Youell, underwriter for marine syndicate 932 managed by Janson Green Management Ltd.

"There certainly is a firming of underwriters' positions. Underwriters are not automatically renewing as before and the philosophy of widespread rate reductions has changed," he said.

"One or two underwriters are quoting 100% to 200% price increases and say they are prepared to lose business to get the ratings right," said Alan Hiscock, deputy chairman of Sedgwick Energy Ltd.

He added: "I haven't seen too many reductions" and many energy accounts are "renewing at the same rates as last year," particularly if they were charged a premium increase last year following the Piper Alpha loss.

Meanwhile, once leading underwriters have agreed to the terms and rates on an account, brokers have no difficulty in finding following underwriters to write the rest of the program.

"There is no shortage in capacity," said Mr. Hiscock. ■

Reinsurers in London hesitant to boost rates

By CAROLYN ALDRED and STACY SHAPIRO

LONDON—London reinsurers, battered by huge losses and vastly increased retrocession costs, still are not daring to significantly hike rates or withdraw reinsurance capacity for U.S. cedants this renewal season.

And yet, there is an air of expectation in the market, as many underwriters predict that nearly all U.S. commercial insurance and reinsurance rates will be heading upward later this year.

Although some U.S. insurance companies are paying increased prices for their reinsurance protection, London's reinsurance underwriters still generally are com-

meaningful way," he said.

The primary reinsurers are "making the assumption that they are going to get their retrocessional covers in place," but the severe re-

London reinsurers say

peting for business and are reluctant to raise rates too much for fear of losing accounts, brokers say.

And, for ceding companies with good loss histories, rates actually may still be falling.

At the same time, though, the London retrocessional market continues to contract rapidly, translating into huge rate hikes for reinsurers' own excess-of-loss protections and anticipated capacity crunches.

As a result, many underwriters predict that the turning retrocessional market will mark the end of the current soft market for primary property/casualty risks.

London underwriters have "a perception that there's still a very competitive market, but they fail to realize that the capital for the competition (from overseas markets) comes from London's retrocessional market," noted one leading London reinsurance underwriter for U.S. ceding companies.

The underwriter predicted that losses now hitting the retrocessional market and the "significant withdrawal" in capacity in that market will force reinsurance rate hikes for U.S. insurers during July renewals.

"The real reaction will come when the retrocessional market gives up the ghost and starts to crack up in a

duction in retrocession cover will "become apparent in January and as we go on through the year there will be more and more people reducing their exposures and pulling out of the retrocessional market, which will feed down to the insurance companies starting in July," he predicted.

Meanwhile, the confusion and anxiety over conditions in the retrocessional London market excess-of-loss reinsurance market is delaying the completion of many reinsurance renewals in London.

"We're seeing a late renewal season, partly because of uncertainty in London's (excess-of-loss retrocessional) market," said Brian Clayton, manager and chief underwriter of the property division of Royal Reinsurance Co. Ltd. in London.

Overall, despite the delays, primary property/casualty insurers are not facing the huge hike in reinsurance rates that are common in the retrocessional market.

"We're in a period of uncertainty at the moment. Some rates still are going down, some are stabilizing. It's being done entirely on a case-by-case basis," said Mr. Clayton, referring to the reinsurance market for primary companies.

The London market "is like the
Continued on next page

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**Business
Insurance**

Continued from previous page
 proverbial curate's egg—it's good in parts," said Lloyd's of London underwriter Richard Hazell of syndicate 190, managed by Three Quays Underwriting Management Ltd.

While rates for some areas of business are seeing "substantial increases," rates for others still are falling, he explained.

"The renewal season is late," agreed Ian Gale, executive director of the North American reinsurance division of broker Willis Faber & Dumas Ltd.

"A lot of companies still are trying to get a handle on (losses from) Hurricane Hugo and the San Francisco earthquake. The season will trail well into January," Mr. Gale said in late December.

However, so far rates for U.S. business generally are holding steady despite predictions last fall that the recent catastrophes like Hurricane Hugo, the California earthquake and the explosion at a Phillips Petroleum Co. plastics plant in Pasadena, Texas, would cause the overall market to tighten, many brokers note.

"For mainstream pure risk (excess-of-loss reinsurance) and property catastrophe reinsurance, each account is being looked at differently. Companies with substantial losses are paying more, but for many companies rates are staying stable," said Mr. Gale.

"There are even some underwriters prepared to give reductions," he said.

Even when U.S. insurers that suffered heavy losses from Hurricane Hugo attempt to renew their reinsurance, London reinsurers "are being fairly receptive and are asking for measured premium increases," Mr. Gale noted.

In cases in which accounts have been hit with major losses this year, underwriters are attempting to recoup their losses over a period of several years and are not hiking rates dramatically, particularly if the account has been underwritten in London for some time, agreed Callum Stewart, managing director of Heath Fielding Reinsurance Broking Ltd. in London.

Overall, "property catastrophe reinsurance rates have been fairly steady with even some easing of rates for U.S. Midwest insurance accounts" not exposed to Hugo or earthquake losses, said Mr. Stewart.

Primary reinsurers have "moved rates up a bit" with reinsurance premiums for large national U.S. insurance companies increasing about 5% to 15% if they have not been hit badly with recent losses, said one leading London underwriter.

However, "a lot of smaller U.S. companies have had no rate increases at all," he noted.

Meanwhile, "there is no problem with capacity" for primary insurers, said Mr. Stewart, adding that "there is competition for accounts without losses and some of these are staying in the (U.S.) domestic market."

For example, one broker noted that an account that had been in the London market for about 25 years has been written in the U.S. market because "London underwriters couldn't match the domestic terms."

Mr. Gale agreed that the London reinsurance market is "more stable and flexible than predicted" this renewal season because the "U.S. market is being more competitive than London, as it hasn't been hit by losses as much as London. Also, the U.S. market hasn't been hit by retrocessional price increases yet."

For U.S. ceding companies, "capacity has stood up well. Rates are reasonable, though steadying," said Hady Wakefield, chairman of C.T. Bowring & Co. Reinsurance Ltd.

The renewal market for U.S. ceding companies probably would have been "much softer" had it not been for the series of catastrophes, observed Mr. Wakefield.

Ceding companies without major losses renewing primary casualty reinsurance are renewing on an "as is" basis, with terms, conditions and rating levels remaining the same as

the expiring treaty, said Mr. Stewart.

There is slightly increased capacity for casualty reinsurance, particularly high-level U.S. umbrella business and clash covers, said Mr. Stewart.

"Existing underwriters are increasing their capacity although rates are staying firm and there are no reductions," he said.

"On the reinsurance side there's a little bit more interest in writing casualty business" following several major property catastrophe losses, agreed Lloyd's of London underwriter Stephen Burnhope, underwriter for syndicate 1067, managed by Merrett Underwriting Agency Management Ltd.

Meanwhile, for non-U.S. ceding companies seeking property/casualty reinsurance protection, "capacity is available and there is competitive rating," said Mr. Wakefield.

"While some of the pressure to reduce rates is being dissipated," rates—particularly for proportional treaty reinsurance—will continue to decline

Continued on next page

1989 / 1990

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IRI: Alive and Well

Dozens upon Dozens of Telephone Calls were made to numerous IRI offices across the country after the November 14, 1989 edition of the *Journal of Commerce* appeared with a story titled "Heavy Losses Cast Doubts On IRI's Future." These calls were made by insureds, their agents and brokers, representatives of our Member Companies and friends. Most of the calls were from people who understand the nature of the large loss business we are in and knew that our capacity and solvency were not in doubt. In addition, they were supportive of the awkward position we had been placed in by the ambiguous and contradictory information in the story. Here is a summary of the information in the story as well as a description of the events that occurred after the story appeared:

The article inferred that IRI and its Member Companies were in some sort of financial difficulty as the result of large losses from Hurricane Hugo, the California earthquake and the Phillips Petroleum explosion and fire. As you probably know, IRI is an association of 45 of the world's leading insurance companies. All of IRI's members must meet very high financial standards and be rated by Best's as "A" or better to maintain membership. Each of these companies factors in one or more catastrophe-type losses as part of its annual planning process and arranges its reinsurance accordingly. The very structure of IRI, which limits membership participation to no more than 10 percent for any one company, provides a built-in spread of risk and allows IRI to underwrite the large risks for which it was intended, beginning in 1890.

The article additionally inferred that energy, chemical and petrochemical properties make up IRI's book of business. Actually, these classes account for less than 20 percent of our book. The article ignored the fact that IRI's basic purpose is to provide a capacity market for broadly-based industry. This purpose has been successfully served for the past 99 years, and we intend to keep serving it as we enter our 2nd Century. As a result of this success, IRI continues to be supported by 45 of the most financially capable insurance companies in the world.

IRI Representatives Met with Representatives of the *Journal of Commerce* on November 17, and a follow-up article appeared on Monday, November 20 under the headline "IRI: Future Secure Despite Losses." Key points mentioned in the article were IRI's \$31 billion surplus base of the 45-member property insurance pool and that no single carrier is going to be devastated by the Phillips loss which is distributed worldwide. Despite the above-mentioned catastrophic losses, IRI is alive and well and looking forward to entering our 2nd Century of business, starting in February 1990.



Industrial Risk Insurers, 85 Woodland Street, Hartford, Connecticut 06102

London reinsurers

Continued from previous page for non-U.S. ceding companies, agreed Royal Re's Mr. Clayton.

But, "there is much greater risk selection. Underwriters' ability to select business and its price has become a more key issue than straight writing for volume," he added.

While primary insurers looking for reinsurance in London are encountering few problems, reinsurers looking for retrocessional protection are finding a much different—and tighter—marketplace.

Even before this year's series of disasters, the London excess-of-loss retrocessional market, better known as the LMX market, already was reeling from several major catastrophes, including the 1987 October windstorm in Southeast England and Western France that caused about \$3 billion of insured damage; the \$1.4 billion Piper Alpha North Sea oil rig

disaster in July 1988; and \$1.3 billion in claims from Hurricane Alicia in 1983.

Losses from Hurricane Hugo, the Phillips plant explosion and the earthquake similarly will spiral from underwriter to underwriter in the LMX market, causing further havoc (BI, Nov. 6, 1989).

"The LMX market is pretty bloody. Following the effects of Piper Alpha and a horrendous 1989 loss experience, the XL on XL (excess-of-loss of excess-of-loss) market is getting pretty difficult," said Lloyd's marine reinsurance underwriter Tony Berry.

Rates for some high-layer excess-of-loss retrocessions—known as XL on XL—are increasing more than 100%, said Mr. Berry.

Rates throughout the LMX market are increasing at least 25%, brokers say.

Meanwhile, capacity is shrinking dramatically in both the marine and non-marine LMX market.

For example, syndicates managed by Merrett Underwriting Agency Management Ltd. recently announced a dramatic reduction in the amount of non-marine retrocessional LMX business they are prepared to underwrite (BI, Dec. 4).

Dennis Purkiss, Merrett's LMX underwriter, announced that Merrett syndicate 421 would not write any non-marine LMX business. He also plans to write no more XL on XL retrocessions—called "spiral business"—for Merrett syndicate 1135.

And Lloyd's members' agents have begun taking Lloyd's names off some syndicates that write large amounts of LMX business. Most notably, 1,500 members have resigned from XL syndicate 298, managed by Gooda & Partners Ltd. As a result, the syndicate's underwriting capacity for next year has sunk to 6 million pounds (\$9.8 million) from 44.7 million pounds (\$72.7 million) (BI, Dec. 18).

"There are 25% to 30% shortfalls

in capacity in the upper levels and even shortfalls of capacity in the lower levels," said Mr. Stewart.

And the situation in the LMX marketplace will become worse, many predict.

"We're taking a fairly cautious view of the LMX sector, bearing in mind the recent pullout by Merrett. If a player of that stature pulls out, it makes one think," said Mr. Clayton of Royal Re. "A major player doesn't walk away from a market lightly."

At the moment, the LMX market is split between "those underwriters who are beginning to see the end of the spiral and are starting to plan their underwriting accounts for the future and those heavy committed LMX underwriters who still are writing spiral business," said Mr. Purkiss.

"This really is the thin end of the wedge for the LMX market. In 12 months' time we'll see a further dra-

matic withdrawal of capacity for LMX syndicates when members' agents pull more members off," said one leading Lloyd's underwriter.

"A lot of people are going to be very short in terms of reinsurance. There are going to be a lot of casualties this year. The action we've taken has caused a massive reduction in the LMX market," said Mr. Purkiss.

The tightening of the LMX market could begin to impact premiums and rates when U.S. retrocessional and catastrophe reinsurance programs are renewed in April and July, predicted Mr. Purkiss.

"I expect there will be a real drying up in capacity for U.S. catastrophe and retrocessional accounts in the next three to four months," he said.

"The retrocessional market is where the tightness comes first. This will affect the catastrophe reinsurance accounts by mid-year and rates

Continued on next page

The professional marketplace

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Financial:
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Sub-total **24,021**

Associations 554
Government, Unions and Educational Institutions 1,417

Commercial Consumers
Sub-total **25,992**

Insurance Agents and Brokers 10,515
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Others Allied to the Field 2,771

TOTAL **50,751**

* Source: Business/Occupational breakdown of qualified circulation, May/29, 1989 issue, as submitted to BPA for June 1989 BPA Publisher's Statement.

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Continued from previous page

in the rest of the market, including original rates, will tighten by the end of 1990," predicted Mr. Purkiss.

But many primary and reinsurance underwriters in London welcome tightening of the retrocessional LMX market, which they claim provides illusory capacity and weakens the entire reinsurance marketplace.

In recent years, underwriters have retained only a small percentage of the risk, passing on the rest to reinsurers, which in turn retrocede most of their risk to other reinsurers, which inflates the amount of perceived capacity in the marketplace.

Now that several huge losses are spiraling in the LMX market, many observers maintain that the collapse

of that market is inevitable.

"The LMX market is running at a 600% to 700% loss ratio. All the underwriters in that business have got horrendous losses, but they're all still playing pass the parcel, thinking that they are not going to be left with the parcel," said one leading Lloyd's underwriter.

However, "someone is going to pay for the losses. The real problem is building up the spiral and as capacity is pulled out of the market, it will feed backwards like a blocked drainpipe," he said.

"There's been a whole culture of arbitrage in the LMX market—just passing the risk onto another player. It is increasingly damaging to the reinsurance business, but it is coming

to an end," said another underwriter.

However, "the reinsurance industry will be badly damaged for a long time. The perception is that it's a London problem, but it isn't. A big chunk of the U.S. and continental (European) market buys retrocessional cover in the LMX market," he added.

The LMX market simply "recycles the same pound note throughout the market and produces an inordinate amount of paper in doing so," said Lloyd's underwriter Mr. Hazell.

The insurance and reinsurance market will not harden or underwrite risks at adequate levels "whilst we've got a set of circumstances where underwriters can siphon everything off their books (through

reinsurance)," said Mr. Hazell.

However, some form of London retrocessional market is necessary for the world's reinsurance industry to survive, underwriters admit.

"Reinsurers need a retrocession market, but not to the extent we have one now. However, there are very long-term changes going on," said one underwriter, noting that the amount of risk in London that is retroceded will be reduced.

"The XL on XL market is highly necessary for the onward success of the market," said marine reinsurance underwriter Mr. Berry.

After Hurricane Betsy in 1965, "the LMX market collapsed in a more spectacular way, but it survived," he noted.

"There's nothing wrong with LMX business providing underwriters recognize the risk involved. This market needs to look in the mirror and recognize it's a risk market and properly assess the risk," Mr. Berry said.

Part of the problem is that XL on XL reinsurers can only rate the underlying risks by charging a "rate-on-line"—or a specified percentage of the original premium—without assessing the risk in detail, he said.

"The XL on XL market is not the root of the problem, it's the end of the problem. If the direct rates are wrong, the XL rates will necessarily be wrong. We need the direct underwriters to run the risk and therefore rate it properly," Mr. Berry said.

Open-ended HMO enrollment grows

Continued from page 3

in Pennsylvania; and more than 31,000 members, or 10.4%, in Oregon.

However, HMO enrollment declined in 17 states during the first half of 1989, with the largest losses reported among HMOs in Iowa, where enrollment dropped 22% to 222,000 as of July 1 from 285,000 as of Jan. 1.

In Tennessee, HMO enrollment dropped 17.8% to 231,000 from 281,000.

And, in Indiana, HMO enrollment fell 11.7% to 400,000 from 453,000.

Overall, 13.2% of the nation's population is enrolled in pure HMOs. More than 20% of the population in six states as of July 1 was enrolled in traditional HMOs.

States with the highest percentage of their population enrolled in traditional HMOs as of July 1 include: California, with 8.4 million enrollees, representing 29.8% of the state population; Massachusetts, 1.5 million enrollees, or 4.7% of the population; Oregon, 52,000 enrollees, or 23.6% of the population; Hawaii, 241,000 enrollees, or 21.9% of the population; Wisconsin, 1.1 million enrollees, or 1.8% of the population; and Rhode Island, 213,000 enrollees, or 1.4% of the population.

States with the smallest percentage of the population enrolled in HMOs as of July 1 include: Alaska and Mississippi, where no HMOs were operating as of July 1; Montana, 2,900 enrollees, or 0.4% of the

population; Wyoming, 2,600 enrollees, or 0.5% of the population; Idaho, 20,000 enrollees, or 2% of the population; Maine, 25,000 enrollees, or 2.1% of the population; South Carolina, 75,000 enrollees, or 2.2% of the population; and Arkansas, 56,000 enrollees, or 2.3% of the population.

Traditionally, HMO membership has been concentrated in the largest HMOs, a trend that continued in the first half of 1989.

For example, as of July 1, 19.2 million people—or 59.1% of all HMO members—were enrolled in the 78 HMOs that each had more than 100,000 enrollees.

On Jan. 1, 18.1 million people—or 56.7% of total HMO enrollment—were members of the 74 HMOs that each had enrollments exceeding 100,000.

"The strong keep getting stronger," said InterStudy's Ms. Gruber.

However, some small HMOs did make enrollment gains, while other somewhat larger HMOs saw enrollment shrink, according to InterStudy.

For example, among the 83 HMOs with fewer than 5,000 members, enrollment shot up 8.6% to 202,000 as of July 1 from 186,000 on Jan. 1.

However, enrollment among the 126 HMOs with between 5,000 and 14,999 members fell 14.3% to 1.2 million from 1.4 million during the same period.

Enrollment gains and losses also varied in the first half of 1989

based on HMO operating structure.

For example, enrollment in group model HMOs climbed by 10.8% to 9.2 million as of July 1 from 8.3 million on Jan. 1. Group model HMOs contract with independent, multispecialty physician groups to provide services to HMO subscribers.

But, enrollment in staff model HMOs slipped 5% to 4 million as of July 1 from 4.2 million enrollees as of Jan. 1. Under a staff model HMO, physicians and other health care professionals are employed by the HMO.

And, enrollment in network model HMOs fell 3.4% to 5.7 million from 5.9 million in the first six months of 1989. Network model HMOs contract with two or more independent group practices. While a network model HMO may contain a few solo practitioners, it is predominately organized around groups.

Enrollment in individual practice association HMOs held steady at about 13.6 million during the period studied. An IPA HMO contracts directly with physicians in private practice who primarily provide services to patients who are not enrolled in HMOs.

The nation's oldest HMOs have the biggest chunk of enrollment and are racking up the biggest increases, the survey found.

For example, between Jan. 1 and July 1, HMOs that were at least 10 years old gained about 2 million members, or around 12%, increasing their total enrollment to 18.9

Info

An environmental services firm in conjunction with a national law firm has published the third edition of "Superfund Handbook," which provides an overview of environmental and legal requirements that govern hazardous waste sites designated by the U.S. Environmental Protection Agency. ENSR Corp.'s Consulting and Engineering division and the law firm Sidley & Austin explain EPA policies and actions, cleanup standards, corporate liability and the assessment of risks associated with human exposure to toxic materials. A limited number of free copies is available to risk managers and environmental professionals from the ENSR Corp. Marketing Department, 35 Nagog Park, Acton, Mass. 01720; 800-722-2440.

"Return to Work...by Design" is a guide to corporate disability management techniques. The book includes cost-containment tips, case management practices, "problem" case profiles, methods for sorting labor relations problems from disability issues and sample return-to-work programs. Gene L. Dent, disability manager for the University of California's Lawrence Livermore National Laboratory, wrote the guidebook. Copies are available for \$8 each from Gene Dent, Martinennison Press, 3633 Stone River

Circle, Stockton, Calif. 95209-3146.

• "INFORM, Insurance Needs for Recipients of Medicare" is an educational program prepared for benefit managers to use in educating employees about long-term care insurance. HealthCare Education Associates developed the program under a contract from the Health Care Financing Administration. It includes a consumer's guide and a leader's guide aimed at encouraging planning for long-term care protection. The consumer's booklet is \$10.95 and the leader's guide is \$49.95 from Rita Strombeck, President, HealthCare Education Associates, 70 Campton Place, Laguna Niguel, Calif. 92677; 714-240-2179.

• The Alliance of American Insurers has published a booklet, "Workers Compensation Insurance Issues," which examines public policy questions about coverage for on-the-job injuries. Subjects of interest to employers include the exclusive remedy doctrine, delivery of benefits and cost containment measures that can be applied in workers comp programs. Copies of publication WC-00004-0989 are free to Alliance members and are \$1 each to non-members through the Alliance of American Insurers, Order De-

partment, 1501 Woodfield Road, Suite 400W, Schaumburg, Ill. 60173-4980; 708-330-8500.

• "International Benefits Guidelines," published by William M. Mercer Meidinger Hansen Inc., offers benefit managers basic information about government and employer-provided benefits in 60 countries. The 268-page handbook includes country profiles with information on medical, disability, retirement and death benefits; workers compensation; social security programs and benefit-related tax considerations. Free copies are available from any of Mercer's U.S. offices or by contacting International Marketing Support Services, William M. Mercer Meidinger Hansen Inc., 3500 Texas Commerce Tower, 2200 Ross Ave., Dallas, Texas 75201; 214-220-3541.

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million and their HMO market share to 57.9% from 53%.

By contrast, enrollment among HMOs that were between 1 and 2 years old slipped 46.4% during the same period to 1.5 million from 2.8 million. At the same time, the HMO market share held by these HMOs fell to 4.6% from 8.8%.

In addition, as of July 1:

• HMOs less than 1 year old had 0.15% of the market with 49,000 enrollees.

• HMOs between 3 and 5 years old had 22.1% of the market with 7.2 million enrollees.

• HMOs between 6 and 9 years old had 15.3% of the market with 5 million enrollees.

Other findings reported by InterStudy include:

• HMO enrollment is highest in the West with 11.8 million members, followed by the Midwest with 7.5 million members, the Northeast with 7.2 million members, and the South with 6 million members.

• Enrollment in federally quali-

fied HMOs is more than three times greater than non-federally qualified HMOs. As of July 1, federally qualified HMOs had 25 million enrollees compared with 7.6 million enrollees in non-federally qualified HMOs.

However, the 307 federally qualified HMOs only slightly outnumber the 283 non-federally qualified HMOs.

• HMO enrollment is closely divided between for-profit and not-for-profit HMOs. About 17.5 million people were enrolled in not-for-profit HMOs as of July 1, 1989, compared with 15 million in for-profit HMOs, InterStudy found.

Copies of the "InterStudy Edge" for the first half of 1989 are available for \$60 each. Specify Volume 4. Annual subscriptions to "InterStudy Edge" are available for \$225. For more information, contact InterStudy, 5715 Christmas Lake Road, P.O. Box 458, Excelsior, Minn. 55331; 612-474-1176.

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Insider trading

Aetna Life & Casualty Co.: John F. Donahue, director, disposed of by gift 6,545 shares of common stock at an unreported price per share from Nov. 2 to Nov. 14 and now directly holds 416,923 shares.

Aetna Life & Casualty Co. stock was trading at \$56.50 per share on Dec. 27.

Argonaut Group Inc.: Charles E. Rinsch, president, purchased 1,070 shares of common stock at \$68.25 per share on Nov. 24. Mr. Rinsch also indirectly purchased 351 shares of common at \$68.25 per share on Nov. 27. He now directly and indirectly holds 10,724 shares.

Argonaut Group Inc. stock was trading at \$68.25 per share on Dec. 27.

Aon Corp.: John D. Manley, director, purchased 700 shares of common stock at \$38.63 per share on Nov. 20 and now directly holds 2,700.

Aon Corp. stock was trading at \$43.25 per share on Dec. 27.

Chubb Corp.: Percy Chubb, director, indirectly sold 3,000 shares of common stock at \$91.00 per share on Nov. 8, and now indirectly and directly holds 139,521 shares.

Chubb Corp. stock was trading at \$99.50 per share on Dec. 27.

CIGNA Corp.: Charles P. Hale, vp, exercised an option for 1,280 shares of common stock at \$37.18 per share on Nov. 20, and now directly holds 3,393 shares.

CIGNA Corp. stock was trading at \$66.75 per share on Dec. 27.

Continental Corp.: Ivan A. Burns, director, purchased 300 shares of common stock at \$33.33 per share on Nov. 10, and now directly holds 500 shares.

Continental Corp. stock was trading at \$38.63 per share on Dec. 27.

Corroon & Black Corp.: Robert F. Corroon, officer and director, disposed of by gift 3,100 shares of common stock at an unreported price per share from Nov. 27 to Nov. 29. He now indirectly and directly holds 153,676 shares.

Corroon & Black Corp. stock was trading at \$41 per share on Dec. 27.

General Re Corp.: Walter F. Williams, director, purchased 500 shares of common stock at \$82.38 per share on Oct. 18 and now directly holds 500 shares.

General Re Corp. stock was trading at \$96.25 per share on Dec. 27.

Hilb, Rogal & Hamilton Co.: John C. Adams, officer and director, sold 11,000 shares of common stock at \$23.00 per share on Oct. 27, and now directly holds 55,000 shares.

Robert H. Hilb, president, sold 30,000 shares of common stock at \$23.25 per share on Oct. 25 and now directly holds 251,600 shares.

Theodore L. Chandler, director, purchased 2,100 shares of common stock at \$23.50 per share on Oct. 19 and now indirectly holds 14,000 shares.

Hilb, Rogal & Hamilton Co. stock was trading at \$25.75 per share on Dec. 27.

Marsh & McLennan Cos. Inc.: Michael A. Waskon, vp, sold 100 shares of common stock at \$85.38 per share on Nov. 27 and now directly and indirectly holds

1,119 shares.

Robert J. Newhouse, director, disposed of by gift 702 shares of common stock at an unreported price on Nov. 17 and now indirectly and directly holds 127,079 shares.

Marsh & McLennan Cos. Inc. stock was trading at \$89.75 per share on Dec. 27.

The St. Paul Cos. Inc.: Walter T. Gryska, vp, sold 500 shares of common stock at \$61.00 and now indirectly and directly holds 752 shares.

Edward T. Pendergast, vp, sold 2,000 shares of common stock at \$62.25 per share on Nov. 20, and now indirectly and directly holds 1,422.

St. Paul Cos. Inc. stock was trading at \$63.50 per share on Dec. 27.

Transamerica Corp.: Burton E. Broome, vp, exercised an option for 1,719 shares of common stock at \$17.06 per share on Nov. 9 and now indirectly and directly holds 7,882 shares.

Kent L. Colwell, vp, indirectly exercised an option for 7,455 shares of common stock at \$17.06 per share from Nov. 6 to Nov. 16 and now indirectly and directly holds 16,549 shares.

Gary L. Depolo, vp, exercised an option for 8,680 shares and disposed of by gift 1,500 shares of common stock at between \$17.06 and an unreported price per share from Nov. 6 to Nov. 15. He now indirectly and directly holds 26,573 shares.

James F. Kiraly, vp, exercised an option for 1,306 shares of common at \$17.06 per share on Nov. 6 and now indirectly and directly holds 11,215 shares.

James B. Lockhart, vp, exercised an option for 1,278 shares of common stock at \$17.06 per share on Nov. 14 and now indirectly and directly holds 3,725 shares.

William H. McClave, vp, exercised an option for 1,275 shares of common stock at \$17.06 per share on Nov. 14 and now indirectly and directly holds 4,564.

Blair C. Pascoe, vp, exercised an option for 8,680 shares of common stock at \$17.06 per share on Nov. 6 and now indirectly and directly holds 23,167 shares.

Arthur E. Van Leuven, vp, exercised an option for 10,741 shares of common stock at \$17.06 per share on Nov. 9 and now indirectly and directly holds 40,259 shares.

Robert R. Lindberg, vp, exercised an option for 2,136 shares of common stock at \$17.06 per share of Nov. 13 and now indirectly and directly holds 9,889 shares.

Transamerica Corp. stock was trading at \$48.00 per share on Dec. 27.

UNUM Corp.: Kenneth S. Axelson, director, purchased 6,000 shares of common stock at \$45.75 per share on Nov. 2, and now directly holds 9,867 shares.

UNUM Corp. stock was trading at \$49.00 per share on Dec. 27.

USF&G Corp.: Jeanne H. Eddy, vp, sold 1,400 shares of common stock at \$30 per share on Nov. 24 and now directly holds 401 shares.

USF&G Corp. stock was trading at \$34.00 per share on Dec. 27.

Insider Trading, prepared by Invest/Net Group of Miami from reports filed with the Securities and Exchange Commission, tracks stock sales and purchases by insurance industry directors and officers.

Transcare

Continued from page 3

Mr. Hoskie—who failed Florida's broker licensing exam in January 1988 and is not licensed, according to Florida Insurance Department records—also is a former officer of the defunct St. Eustatius Insurance Co. N.V. of the Netherlands Antilles (*BI*, May 5, 1986).

- ARIG, which the complaint seeks to hold liable for the coverage.

- Aram Management Co., identified in the complaint as an "authorized agent" of ARIG.

- American Trust Insurance Co. Ltd., an offshore insurer that wrote Adams, Clay's errors and omissions coverage.

Adams, Clay charges the insurer wrongfully refused to cover E&O claims against the agency stemming from the Transcare debacle.

American Trust, one of several Turks & Caicos Islands insurers formerly managed by Alan Teale, was barred from writing business in three states in 1988 after regulators questioned the value of some of its assets (*BI*, July 25, 1988).

Adams, Clay was originally formed in 1970 as an insurance unit of The Bekins Co. and was bought out by its management in 1985, according to Mr. Flynn.

The brokerage currently has 10 employees, down from a peak of 35, and will generate premiums this year of \$17 million, he said.

Transcare was originally incorporated in November 1987 with Charlotte C. Rentz as its chief executive officer, Georgia records show. Ms. Rentz was also a top officer of Mr. Teale's Atlanta-based International Underwriting Group America, an insurance holding company.

International Underwriting Group affiliates underwrote business for both Victoria and American Trust.

Mr. Flynn said that Adams, Clay organized Transcare to serve as a vehicle for obtaining A&H coverage for transportation companies, and that various elements of the association's insurance program were initially written by Victoria and American Trust.

Ms. Rentz was Transcare's chief executive only as a convenience for incorporation purposes and was replaced within months of Transcare's formation, Mr. Flynn said, noting that Transcare's officers have since been association members or transportation industry representatives.

According to the Transcare complaint, Mr. Hoskie contacted Adams, Clay in November 1988 about shifting Transcare's coverage from Victoria—which was facing regulatory problems in Georgia—to ARIG.

Adams, Clay then contacted Philip Golding, Brown Shipley's managing director, to get more informa-

tion on ARIG, the suit says.

After receiving information from Mr. Golding, Adams, Clay asked Mr. Hoskie to have an ARIG representative confirm that Mr. Hoskie and National Underwriters were authorized to issue a binder on ARIG's behalf. James Harrison—allegedly an ARIG representative—later called Adams, Clay to confirm National Underwriters' authority, the suit says.

Mr. Hoskie issued a binder Dec. 1, 1988, showing that Transcare had coverage with ARIG and said a formal cover note would be issued by a Lloyd's of London broker within 10 days, the suit says.

About two weeks later, Adams, Clay received instructions from Mr. Hoskie to forward Transcare premiums to an Aram Management bank account in London called as "ARIG SUSP. ACCT.," the suit alleges.

By February 1989, Adams, Clay still had not received an ARIG cover note, and brokerage officials met Mr. Dyson in Luxembourg to discuss the problem. Mr. Dyson said Brown Shipley and Berisford Moccatta would issue a cover note and act as co-brokers on the account, the suit says.

Mr. Golding of Brown Shipley later told Adams, Clay that he had received a stamped line slip from ARIG and that he had personally verified the authenticity of the underwriter's stamps in a visit to ARIG's London office. Brown Shipley issued a temporary cover note to Adams, Clay in April showing that there was "100% Arab Insurance Group" coverage for Transcare, the suit charges.

However, in early June, Adams, Clay received a phone call from an ARIG official in London who said he could find no evidence that Transcare's coverage had ever been placed with ARIG.

In an interview, Mr. Flynn said that ARIG apparently first learned of the cover when a competing broker forwarded a copy of the Transcare benefit booklet asking if it also could produce business for the program.

On June 8, ARIG wrote to Brown Shipley and Berisford Moccatta saying it was unable to identify the purported ARIG stamp on the broker's line slip and that the Aram Management bank account in London was not a bona fide ARIG account, the suit alleges.

In an interview, Mr. Lack, the plaintiffs' lawyer, said the purported ARIG stamp on Transcare's policy was "completely different" from the actual ARIG stamp.

Later in June, ARIG wrote to Adams, Clay saying the insurer's name had been used unlawfully and that it would not accept responsibility for money wired to the Aram account, according to the suit.

Adams, Clay later learned that Luxembourg police were questioning Mr. Dyson about his role in the Transcare placement and had seized

numerous documents at Mr. Dyson's Luxembourg home, according to the complaint and Mr. Flynn.

The lawsuit charges all the defendants except ARIG and American Trust with professional malpractice, negligent misrepresentation and breach of fiduciary and statutory duties.

Brown Shipley and Berisford Moccatta are charged in the suit with intentional misrepresentation, for allegedly trying to defraud Transcare and Adams, Clay by falsely representing their verification of the ARIG coverage.

ARIG, meanwhile, is charged with breach of contract for failing to provide insurance coverage to Transcare under the purported policy.

Adams, Clay is also asking the court for a declaratory judgment that American Trust, its E&O insurer, must cover claims filed by roughly 1,000 Transcare members that Transcare has been unable to pay.

Mr. Flynn said in an interview that Adams, Clay has already paid claims to numerous Transcare members out of a trust account that it maintained for the program. Unpaid claims and incurred but not reported losses for Transcare's remaining members are estimated at \$300,000 to \$400,000.

The suit also charges American Trust with bad faith for, among other things, failing to pay claims and implying that Adams, Clay and Transcare "committed dishonest, fraudulent, criminal or malicious acts in attempting to secure coverage for the Transcare program."

American Trust had earlier filed its own declaratory judgment action against Adams, Clay and numerous other defendants in Los Angeles Superior Court, said an American Trust attorney, Gary S. Sachs of Kroll & Tract in New York.

American Trust has argued that it is not obligated to pay benefits to Transcare members under the E&O policy and that Adams, Clay has not incurred any legal duty to pay claims in the case, he said.

None of the defendants has yet answered the Transcare complaint.

Mr. Golding of Brown Shipley declined to comment on the litigation, referring questions to the firm's lawyer, who could not be reached.

Roger Oyston, a Berisford Moccatta official, also declined to comment.

An attorney for National Underwriters and Mr. Hoskie vehemently denied the charges.

"All of the allegations are outrageous, untrue and are absolutely and completely denied," said Stephen Skoller of Lowenstein, Sandler in Roseland, N.J.

Mr. Dyson could not be reached at numbers for Arab American Trust in Luxembourg or in Amsterdam, The Netherlands. Mr. Dyson's home phone number in Luxembourg is unpublished. ■

Update

Court kills VDT safety law

Continued from page 2

The bill would have set uniform standards for VDT equipment and required the city to pay for a portion of biennial vision examinations during work hours and for lenses needed from working with VDTs.

Mr. Koch, whose term ended today, asserted that "these issues properly belong in the collective bargaining forum unless there is compelling medical evidence that (VDTs) pose a serious health threat." He also said the bill would drive away business.

A mayoral spokesman said the council plans to reintroduce the bill.

Best rates international firms

OLDWICK, N.J.—A.M. Best Co. Inc. is rating foreign insurers for the first time.

The first biannual "Best's Rating Monitor-International" rates only 40 international insurers—20 property/casualty and 20 life/health—but Best says it plans to expand listings in future spring and fall editions.

"We intend to eventually report on and rate all companies in the insurance business domiciled outside of the United States and its territories," a statement said.

Thirty-six of the insurers received an A+—or superior—rating and four received an A—or excellent—rating. Eighteen of the 40 insurers are Canadian, 12 are Japanese, four are West German, three are Swiss, two are Italian and one is Swedish.

Each insurer rated has adjusted policyholders' surplus exceeding \$10 million in U.S. currency, and 27 have adjusted policyholders' surplus exceeding \$500 million.

Poe cancels acquisition

TAMPA, Fla.—Poe & Associates Inc. terminated its plan to acquire Arthur A. Watson & Co. Inc. of Hartford, Conn., after Watson decided to remain independent, said William F. Poe, chairman of the Tampa, Fla.-based brokerage.

Poe, the 15th-largest U.S. broker based on 1988 revenues of \$35.1 million, announced its proposed acquisition of Watson in November (*BI*, Dec. 4, 1989). Watson is the 57th-largest U.S. broker, based on 1988 gross revenues of \$11.2 million (*BI*, June 26, 1989).

Based on their combined 1988 gross revenues, the Watson acquisition would have made Poe the 13th-largest U.S. broker.

Guaranty fund seeks infusion

BATON ROUGE, La.—The Louisiana Insurance Guaranty Assn. will run out of money in May if the state Legislature does not allow it to raise new funds to pay claims against insolvent insurers, according to Chairman Paul Ross.

The fund currently has about \$6.5 million available to pay claims but needs \$90 million to meet its 1990 obligations, he said.

The fund faces outstanding claims of \$180 million, including \$120 million related to Champion Insurance Co. of Baton Rouge, which was ordered into liquidation this summer (*BI*, June 12, 1989).

Mr. Ross submitted three proposals to a state House subcommittee last month, any of which, he said, would raise \$90 million:

- Increasing the assessment against net written premiums to 3% from 1% for all admitted insurers in the state.
- Charging insurance buyers a 2% premium surcharge.
- Directly appropriating money from the state.

"We are meeting with state officials to discuss the proposals and hope to put together a plan for the Legislature by the time it convenes in April," he said.

Ohio to supervise Celina unit

CELINA, Ohio—First National Indemnity Co., an inactive reinsurance subsidiary of Celina, Ohio-based Celina Financial Corp., has voluntarily entered into a supervisory agreement with the Ohio director of insurance.

Don W. Montgomery, Celina's chairman and president, said that U.S. Securities and Exchange Commission regulations require that such a disclosure be made but that the supervisory agreement did not indicate that First National Indemnity was insolvent.

However, he would not comment further because of complex litigation involving the inactive reinsurance subsidiary.

An Ohio Insurance Department official said he could not comment on the agreement.

First National Indemnity was organized as a successor to Celina's Ohio Reinsurance Corp. subsidiary in 1985. Ohio Re was sold to Kansas City-based Kensu Holdings Inc. in September 1985, changed its name to Ohio General Insurance Co. and reinsured all of its obligations with First National Indemnity.

First National Indemnity then canceled all of its treaties on Dec. 31, 1985, and has accepted no new business. The reinsurer reported surplus of \$3.9 million at year-end 1988.

Ohio Re is among several reinsurers that attempted to void their liabilities to Pacific Reinsurance Management Corp., the defunct reinsurance pooling subsidiary of insolvent Mission Insurance Co., because of allegedly fraudulent management by PRMC. A Los Angeles arbitration panel, however, awarded \$94.5 million in damages to PRMC from the reinsurers in November (*BI*, Nov. 6, 1989).

Briefly noted

Gretchen Babcock, commissioner of the Vermont Department of Banking and Insurance since 1987, is resigning to join the Federal Reserve Board as a senior managing attorney. A successor has not been named. . . . A three-judge panel of the 1st U.S. Circuit Court of Appeals in Boston has denied an appeal by defendants in the **San Juan Dupont Plaza hotel fire litigation** to remove presiding U.S. District Judge Raymond L. Acosta because of a potential conflict of interests (*BI*, Aug. 28, 1989; Aug. 14, 1989). While relatives of Judge Acosta's clerks represent both plaintiffs and defendants in the litigation, the appeals court found that the defense was aware of this before the trial and that the judge has conducted the proceedings impartially.

Claims fraud

Continued from page 2

the Miami-based hospital.

According to the charges, the defendants developed a scheme beginning in late 1980 to:

- Inflate the settlement value of insurance claims with fraudulently prepared medical tests and procedures.

- Solicit clients to undergo unnecessary and dangerous medical procedures to inflate the value of claims. In one case, Marvin Marks offered a client \$1,000 to undergo back surgery the client did not want, court papers allege.

- Alter, forge and conceal medical reports, test results and bills to inflate the value of claims.

Marvin Marks and Gary Marks dictated to Dr. Centrone what medical reports and bills prepared by CNS should say, and Mark Marks employees forged or altered other medical reports, according to the investigator's affidavit.

Mark Marks employees also buried medical reports and test results not favorable to their clients' claims. Several such reports—

which were never forwarded to insurers—were found in a search of the law firm's files with the word "bury" written on the back, the affidavit says.

- Steal money from clients' insurance settlement proceeds to pay medical fees of Dr. Centrone and Woolsey, Gelety that exceeded the fees allowed under comp laws.

- Steal interest earnings from trust accounts holding clients' insurance settlement proceeds.

- Instruct Mark Marks clients to give false testimony in depositions regarding insurance claims.

The affidavit contends that Mark Marks had an "incentive program" under which non-lawyer employees would receive a percentage of the legal fees generated by the firm in addition to their base salaries.

Several of the defendants surrendered after the charges were filed, though none has yet been arraigned, and no arraignment date had been scheduled last week.

Employees of the Mark Marks law firm could not be reached.

Ronald Strauss, a lawyer with

Highsmith Strauss Glatzer & Deutsch in Miami representing Marvin Marks, said: "Our position is that he is absolutely not guilty of any of the allegations."

A CNS employee referred questions to Jonathan Lubell, a lawyer with Morrison Cohen Singer & Weinstein in New York.

"I can state unambiguously that they are innocent and that the charges are not well-founded," Mr. Lubell said, referring to CNS; Woolsey, Gelety; Dr. Centrone; and Dr. Gelety.

Separately, in Massachusetts, a two-year investigation by the governor's Auto Theft Strike Force has led to the arrest of 22 people and the issuance of arrest warrants for 14 others in connection with an elaborate scheme to allegedly bilk at least 10 insurance companies of at least \$1 million in liability claims for fraudulent car accidents.

The individuals named in the scheme face charges in 181 grand jury indictments of larceny and filing false claims. ■

Australian quake

Continued from page 3

or self-insured retentions, noted David Goodlad, managing director of Melbourne-based Risk Technologies Pty. Ltd.

Insurance analysts said late last week that insured losses from the earthquake would total at least \$100 million Australian, but some said they thought the damage toll would rise much higher.

John Westmore, assistant chief executive of the Insurance Council of Australia, who flew to Newcastle on Thursday, was reported as saying that insured damage could reach \$1.5 billion Australian, though he noted that was a very early estimate.

Mr. Westmore on Friday stepped back from the earlier estimate, but he did say that insured losses "could be hundreds of millions of dollars if commercial claims are big."

Estimates from other industry sources suggested that insured damage could total as high as \$1 billion Australian (\$799 million U.S.), though observers said it could be more than a week before a solid tally could be provided.

Australian insurance companies on Friday were setting up temporary offices to replace those damaged in the inner-city area and to handle the expected flood of claims.

Sydney-based Manufacturers' Mutual Insurance Ltd., a major non-life insurance company in New South Wales; has moved its Newcastle operations to Maitland, 20 miles from the city, where it is accepting claims.

T. David Stubing, New South Wales manager for AMP General Insurance Ltd. of Sydney, a non-life unit of Australian Mutual Providence Society, said his company would open a temporary office in Newcastle on Tuesday.

Much of Newcastle, a city of more than 150,000, was without electricity, gas and water services after the quake hit. Buildings that were not toppled, including the city's main hospital, were evacuated because of structural damage. People injured by the quake were treated in parks and on sidewalks.

Eleven people were killed in the Newcastle Workers' Club, a social club where the second and third floors collapsed onto several hundred people, many of them elderly, who had gathered to gamble on poker machines.

An industrial and manufacturing complex owned by Melbourne-based Broken Hill Proprietary Co. Ltd., Australia's largest company, was reportedly damaged by the

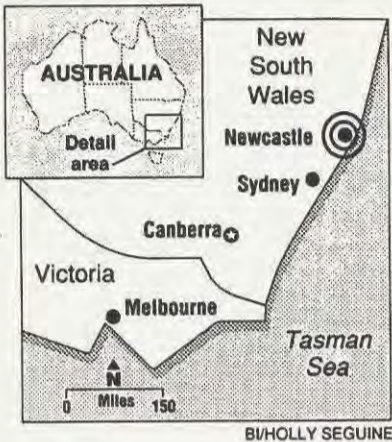
quake.

The complex includes the nation's second-largest iron and steel smelter.

However, a BHP executive was reported to say Friday that production should be back to normal within two days and that structural damage was "minimal."

BHP's shares fell 14 cents on the Sydney-based Australian Stock Exchange to \$9.26 Australian (\$7.40 U.S.) Thursday after power was restored to the exchange, one of the many buildings in Sydney that lost power for several hours following the quake.

Engineers estimated that 70% of the buildings in the Newcastle suburb of Hamilton, the area hit hardest by the earthquake, had been



destroyed or would be condemned.

In the center of Newcastle, engineers said 50% of the single-story buildings and 70% of the multiple-story buildings had suffered major damage.

Damage in Newcastle and the surrounding area could be aggravated by the network of underground coal mines in the area, some of which extend under the city's harbor, said Jim Irish, a Sydney-based insurance industry consultant and environmental engineer.

Some major companies in the Newcastle area escaped serious damage.

Bill Dunne, risk manager for Sydney-based Coal & Allied Pty. Ltd., said there was no reported damage at his company's two strip mines and three underground coal mines in the Hunter Valley region that surrounds Newcastle.

"There was severe shaking and shuddering and the mines lost power, but the power has been restored," Mr. Dunne said 3½ hours after the quake struck.

Mr. Dunne confirmed that Coal & Allied's ISR policies include earth-

quake coverage, though he said the company's deductibles were larger than the minimum offered.

Several observers said last week that the earthquake would cause the soft property/casualty insurance market in Australia to harden.

"Rates will certainly harden," said Mr. Irish. "Reinsurers will seek 10% to 30% increases in premiums."

Mr. Irish noted that Australian ceding companies have had an easy time buying reinsurance from foreign underwriters because there had been few major claims in Australia.

Ian C. Meek, deputy chief executive of AMP General Insurance Ltd., also said the quake undoubtedly would affect reinsurance costs for Australian insurers.

"The fact is that it's on top of (Hurricane) Hugo and the San Francisco (earthquake). It's a 'pimple' compared to them, but it will add to them," Mr. Meek said.

"The Australian insurance industry and Australian policyholders will have to bear some part of the San Francisco (earthquake) that may have been ascribed elsewhere," he explained, though he said he could not predict the magnitude of rate increases in Australia.

"There will be a hardening" of the market, "but to what extent, and when, it is hard to say," Mr. Meek said.

Earthquakes are rare in Australia, though quakes with magnitudes of 5.0 or greater have occurred in the Hunter Valley region in 1925, 1961 and 1973.

No significant damage was reported from the earlier earthquakes because their epicenters were not in populated areas.

The largest previous earthquake in a populated area of the country occurred in 1954 in Adelaide in the state of South Australia.

The quake, which measured 5.4 on the Richter scale, caused damages totaling \$62 million Australian (\$49.5 million U.S.) converted to 1989 dollars.

Australia currently has no mandatory standards for earthquake-resistant buildings, though seismologists have called for revisions to Australian building codes to reduce possible quake damage.

A seismologist from the University of Queensland in Brisbane flew to Newcastle Friday to assess the damage as part of a project to draw up an emergency response plan for the state of Queensland, in northeastern Australia. Jack Rynn said there are no response plans in Australia because earthquakes are so infrequent.

Family leave

Continued from page 2

The New Jersey legislation would apply only to employers with more than 100 employees during the first year it is in effect. The bill would take effect 120 days after enactment.

Employers with 75 or more employees would be required to comply with the law beginning in the second year it is in effect, and employers with 50 or more employees would have to comply beginning in the third year.

The bill provides for penalties of up to \$2,000 for the first violation and up to \$5,000 for each subsequent violation.

The bill also calls for biennial reports from the director of the Division of Civil Rights, part of the state's Department of Law and Public Safety, on the law's economic impact on business during the first four years following enactment.

Annual reports would have to be produced beginning in the fifth year.

The New Jersey bill is a "little bit more generous" to workers than the U.S. House family leave bill, said State Sen. Donald T. DiFrancesco, R-Westfield, a sponsor of the bill in the New Jersey Senate.

For example, the U.S. House bill calls for only 10 weeks of unpaid leave and would allow employers to deny leave to employees who ranked among the top 10% in pay, Mr. DiFrancesco said.

However, Mr. DiFrancesco noted, while the New Jersey bill provides for a phase-in period, the House bill would immediately apply to employers with at least 50 employees and would apply to employers with at least 35 employees three years after it becomes effective.

The U.S. Senate family leave bill, which would require employers with 20 or more employees to comply immediately, also would require employers to offer 10 weeks of unpaid leave but would not establish exemptions for the most highly paid employees, according to Ms. Lenhoff.

An August survey by the Women's Legal Defense Fund found that 24 states now offer some employees unpaid leave to care for some family members.

However, only Connecticut, Maine and Wisconsin currently require employers to provide unpaid leave for workers caring for any ill family member, a newborn or a

newly adopted child, according to the survey.

New Jersey would be the sixth state to guarantee parents job security if they take leave from work because of a child's serious illness, a birth or an adoption. In addition to Connecticut, Maine and Wisconsin, the other states are Rhode Island and Washington, according to the survey.

Minnesota and Oregon require employers to provide leave just for parents of newborn or newly adopted children but not for ill children, the survey says.

Kentucky requires parental leave be granted only for adopted children.

Ten states require employers to provide leave for women only, and this is usually limited to a period of maternity-related disability, according to the survey. They are: California, Hawaii, Iowa, Kansas, Louisiana, Massachusetts, Montana, New Hampshire, Tennessee and Vermont.

Six states offer some type of leave just to state employees: Florida, North Carolina, North Dakota, Oklahoma, Pennsylvania and West Virginia.

In September, Illinois Gov. James Thompson vetoed a bill that would have required employers in the state with 50 or more employees to provide up to eight weeks of unpaid leave to care for all family members, according to a spokeswoman for the governor. The governor said at the time that family leave should be negotiated between representatives of business and labor.

Meanwhile, Connecticut, Maine and Wisconsin are the only states to require employers to provide unpaid leave for all employees who themselves suffer serious health problems.

Similar medical leave legislation passed the New Jersey Senate last year but has not yet been introduced into the Assembly.

An increasing number of state legislatures are considering requiring employers to provide workers with unpaid leave in addition to maternity leave. Ms. Lenhoff of the Women's Legal Defense Fund said. There was at least some consideration of bills in the areas of family and medical leave in 32 state legislatures last year, she noted.

State legislators are beginning to recognize family and work conflicts and that "it's not much of a solution to give something to women just at the point of birth," Ms. Lenhoff said.

American Re acquires Becher & Carlson

American Re-Insurance Co. has acquired Becher & Carlson Risk Management Inc. of Woodland Hills, Calif.

Among the operations acquired by American Re are Becher & Carlson's brokerage and captive management companies, including Becher & Carlson Management Ltd. in Hamilton, Bermuda, and Becher & Carlson Management (Vermont) in Burlington, Vt.

Terms of the acquisition were not reported.

Becher & Carlson provides risk management services to large corporations and groups in the hospitality, wholesale food and automobile importing industries. It will continue its current operations, independent from American Re's underwriting activities.

Princeton, N.J.-based American Re, a unit of Aetna Life & Casualty Co., is the world's eighth-largest reinsurer, based on 1988 net written reinsurance premiums of \$976 million (BI, Aug. 28, 1989).

New brokers

A new wholesale broker, Alex-

Markets

ander J. Wayne & Associates Inc., has opened in Chicago.

Affiliated with C.E. Heath P.L.C. of London, Wayne & Associates is a Lloyd's of London correspondent and places business with domestic admitted and surplus lines insurers.

President Alexander J. Wayne most recently was an executive vp at Bowes & Co. and Swett & Crawford.

"We'll provide all the traditional classes," as well as professional liability, ocean cargo and excess insurance for self-insured workers compensation programs, he said.

For more information, contact Al Wayne, President, Alexander J. Wayne & Associates Inc., 651 W. Washington Blvd., Suite 303, Chicago, Ill. 60606; 312-993-9666.

Also, a new wholesale brokerage, National United Brokers Inc. in Columbus, Ohio, has been established by Stephen S. Davis, a former national director of sales for Central Benefits National Life In-

surance Co. in Columbus, Ohio.

The firm will specialize in helping agents develop employee benefit products for their clients.

National United also has offices in Detroit, Chicago, St. Louis and Phoenix, Ariz.

"We are not a large firm, but we have an experienced staff that can assist an agent in finding a group insurer for his three-person or 3,000-person, multi-location client," Mr. Davis said.

For more information, contact Stephen S. Davis, National United Brokers Inc., 251 E. Dublin-Granville Road, Suite 220, Columbus, Ohio 43229; 614-890-7373.

New administrator

A new claims administration and loss control company has been launched in Sacramento, Calif.

Bragg & Morse provides property, casualty and workers compensation claims administration on a statewide basis to small and re-

gional self-insureds and to participants in statewide pools and risk retention groups.

In addition, the company provides safety and loss prevention guidance.

Employing more than 100 claims and loss control personnel, the company has offices in Chico, Fairfield, Glenda Orange, Redding, San Bernardino, San Diego, Santa Barbara and Stockton.

For more information, contact Greg Bragg, P.O. Box 41528, 4811 Chippendale Drive, Suite 707, Sacramento, Calif. 95841; 916-348-6650 or David Morse, 750 Fairmont Ave., Glendale, Calif. 91203; 318-545-0225.

Joint venture

Gill & Roeser Inc., a reinsurance intermediary, and McKinley Allsopp Inc., an investment banking firm, have formed a joint venture to consult on mergers, acquisitions and sales of insurance companies.

Howard T. Cohn, formerly of Tillinghast, a division of Towers, Perrin, Forster & Crosby Inc., will manage the joint venture between

the New York-based companies. The operation has not been named.

For more information, contact Howard T. Cohn, 500 Fifth Ave., New York, N.Y. 10022; 212-527-2491.

Mergers/acquisitions

San Francisco-based broker American Business Insurance Inc., the nation's 13th-largest broker with 1988 gross revenues of \$38.5 million, has acquired Bay Pacific Insurance Brokers Inc. Bay Pacific, also located in San Francisco, reported 1988 gross revenues of \$2.7 million.

In addition, ABI also has acquired Harvey, Percy & Jones Insurance Inc. of Tampa, Fla. The company will merge with ABI subsidiary Crowder Jacobs Fendig.

The eighth-largest U.S. broker, Arthur J. Gallagher & Co. of Rolling Meadows, Ill., has acquired the assets of Englewood, Colo.-based Aviation Risk Managers Inc., a specialty aviation brokerage. The aviation operation will be merged into Gallagher's Denver branch.

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