

Business Insurance

Reporting weekly for corporate risk, employee benefit and financial executives / \$1.75 a copy; \$70 a year

© Entire contents copyright 1989 by Crain Communications Inc. All rights reserved

Hull war risk underwriters agree to pay \$32 million Pan Am claim

LONDON—Hull war risk insurers for Pan American World Airways have agreed to pay the hull claim arising from the Dec. 21 crash of a jumbo jetliner in Lockerbie, Scotland, following a determination by crash investigators last week that a plastic explosive was detonated aboard the jet.

The leading hull war risk underwriters agreed to pay Pan Am's \$32 million claim for the Boeing 747 jet, a Lloyd's of London spokesman con-

Continued on next page

Rate cutting abounds and capacity expands

By MARK A. HOFMANN

These are the "good old days" for insurance buyers.

Property/casualty insurance capacity is more than ample, with insurers offering up to \$200 million of excess liability insurance outside of the alternative facilities—formed during the hard market—during the just completed Jan. 1 renewal season, brokers report.

Rates continued to drop, with insurers cutting property insurance rates between 25% and 40% and general liability insurance rates between 10% and 33% as they competed for business, often by region, brokers say.

And, insurers continue to improve policy terms and conditions,

Brokers say

brokers report.

Despite the competition in the conventional insurance marketplace, alternative risk financing mechanisms—such as the huge policyholder-owned insurers, single-parent captives and risk retention groups—have not lost their appeal.

In fact, some brokers are counseling their clients to take a close look at alternative mechanisms now, rather than wait until the market hardens again.

The competitive marketplace has meant that brokers had little difficulty completing their Jan. 1 renewals on time.

"We're getting quotes a little earlier this year than we did last," noted Robert L. Ludwig, president of property/casualty operations for Charleston, W.Va.-based McDonough Caperton Insurance Group.

"In many respects, we're back to the good old days," said Larry R. Sorensen, senior vp and director of corporate marketing services for Chicago-based Rollins Burdick Hunter Co., a unit of Aon Corp.

Risk managers had no problem finding the capacity they sought for property risks, brokers agreed.

But, Samuel Alcorn, senior vp of Bayly, Martin & Fay International Inc. of Fort Worth, Texas, observed: "I suspect if we get into offshore oil platforms, there will be less capacity as a result of Piper Alpha."

Continued on page 35

Higher taxes, red ink may stifle competition

By STACY ADLER and MICHAEL SCHACHNER

The looming financial obligations imposed on property/casualty insurers by the Tax Reform Act of 1986 and the prospect of eroding profits are helping to keep 1989 renewal rates from falling dangerously low, insurance company executives say.

According to insurers, renewal rates for most lines of liability insurance are fairly stable, though they concede that property insurance rates are dropping from 5% to 20%.

However, by the fourth quarter of 1989, red ink could start to appear on insurers' financial statements, which should bring an end to the soft market, the executives say.

"Tax reform, residual market assessments and the erosion of profitability together paint a picture that causes insurers to take a conservative view of the marketplace," explained James R. Rabenstine, vp and manager of intercompany and governmental relations at Liberty Mutual Insurance Co. in Boston.

"A lot of companies have rolled the influence of the Tax Reform Act into their estimates of profitability," said Tom Waugh, senior vp at Zurich American Insurance Co. in Schaumburg, Ill. "It has had a stabilizing influence on the market."

"We've all become more conscious of the bottom line. We all know we're going to be paying the federal government," agreed Blaine Bontempo, vp-product management for Charlotte, N.C.-based Royal Insurance Group.

"Somewhere, it has to affect the bottom line, which should bring sobriety to pricing," said Ms. Bontempo.

"When insurers begin to see lower returns on investments and higher combined ratios," they will end the current competition, predicted Am Freund, vp-marketing for Shelby Insurance Co. in Shelby, Ohio, a regional company that writes property/casualty insurance in 13 states.

"1989 will be a year of awakening and 1990 will be a year of implementation" of more conservative

Continued on page 39

Insurers say

1989 renewal report

Renewals a holiday for risk managers

By MICHAEL BRADFORD

Risk managers say

Risk managers are heading into 1989 with a fair amount of holiday cheer as they wrap up year-end renewals.

For many risk managers, liability insurance—particularly directors and officers coverage—is costing less than at the end of 1987 and property rates are falling or holding steady.

In addition, risk managers say that if the market does firm up again, they don't expect the tightening to be as dramatic as in the most recent hard market.

And, some risk managers are changing their renewal dates to avoid the Jan. 1 crunch.

Among companies adhering to traditional renewal dates, Old Kent Financial Corp. in Grand Rapids, Mich., realized a 35% decrease in the cost of its \$15 million in D&O coverage this year, said Sharon Swain, assistant vp/risk manager. "I wasn't expecting that much," she said. "I was estimating a 22% reduction."

Ms. Swain said she believes one of the reasons for the big price break was the decision to seek competitive bids for the account. Even though some insurers would have written the coverage at even cheaper prices, Old Kent renewed with its

existing insurer and received broader terms and conditions along with a lower rate.

"We got some coverages back that were excluded during the hard market," said Ms. Swain. For example, Old Kent now has "regulatory coverage" as part of its D&O package, she explained, which protects the banking company from settlements as a result of suits brought by regulatory agencies.

Elixir Industries, a Gardena, Calif.-based manufacturer of components used in building mobile homes and recreational vehicles, also saw broader D&O coverage and a slashing of its deductible, according to Lea Sirota, the company's risk manager.

Elixir's insurer "took out certain exclusions," said Ms. Sirota, declining to identify the exorcised exclusions. She did point out that the company's deductible in its 1989 D&O policy is half what it was during 1988.

The company's cost for the coverage was slightly lower for this renewal, said Ms. Sirota. She noted that Elixir renewed

the coverage with the same insurer.

The Weyerhaeuser Co. in Tacoma, Wash., is looking at a price break on its D&O coverage at the current renewal but the decrease is "nothing significant," said J.L. Christenson, director of insurance.

Other liability coverages also are costing less this year and some insurers are offering broader terms and conditions.

Thomas V. Hugdahl, manager of insurance at Minnesota Mining & Manufacturing Co. in St. Paul, Minn., said he realized a "significant reduction" in the cost of product liability coverage on aircraft products 3M produces. He would not say how much cheaper the coverage was this year or reveal the limits of that insurance, but he did say this year's price cut was even deeper than the one his company realized during the 1987 renewal season.

Mr. Hugdahl said the coverage is written apart from 3M's general liability coverage and provides first-dollar primary and excess coverage.

Although 3M's excess liability and D&O coverage was set to renew Jan. 1, Mr. Hugdahl said late last month that he had not received any quotes regarding those coverages.

Continued on page 36

6th Circuit rules that American General can alter retiree health care benefits
Page 2

Liability insurance crisis can't be blamed on tort system problems, ABA panel says
Page 2

Update

War risk insurers cover Pan Am

Continued from previous page

firmed. More than 75% of Pan Am's hull war risk insurance is in the London market, led by Lloyd's underwriter Frank Elliot at Janson Green Ltd.

United States Aircraft Insurance Group is the lead insurer on Pan Am's \$750 million of aviation liability coverage, which also covers war risks (BI, Dec. 26, 1988).

The hull war risk underwriters' decision followed the Dec. 28 statement from the Air Accidents Investigations Branch of the British Department of Transport that there was "conclusive evidence" that a "detonating high explosive" made of high-performance plastic ripped apart the jet, killing 259 people on board and an estimated 11 on the ground.

Meanwhile, some aviation insurance sources contend that liability claims from the Pan Am crash may total only tens of millions of dollars because international agreements limit an airline's liability for international flights to \$75,000 per passenger carrying tickets, unless there was willful misconduct on the airline's part.

Shortly after the crash, other underwriters and brokers estimated that liability claims could total as much as \$300 million.

Warrants issued in PCW case

LONDON—Arrest warrants have been issued for former Lloyd's of London underwriters Peter Cameron-Webb and Peter Stephen Dixon, but the warrants come too late to extradite either man from their current residences in the United States.

However, the warrants will stand in the United Kingdom should either man return to the country.

The City of London Police and the Serious Fraud Squad on Dec. 22 issued warrants for the arrests for offenses allegedly committed by Messrs. Cameron-Webb and Dixon while they were directors of PCW Underwriting Agencies Ltd.

Charges on the warrants include conspiracy to defraud, conspiracy to steal and thefts of moneys.

"It is understood that both men are, and have for a considerable time been, living in the U.S.A. Extradition from that country can only be obtained where the application is made within the limitation period of five years from the date of the offense," said a statement from London's Serious Fraud Squad. Offenses of conspiracy to steal and defraud are not extraditable from the United States to England but a warrant for theft is, the statement added.

Sufficient evidence, including documents and witness statements from Switzerland, to justify the warrants were not presented to prosecuting authorities until after the extradition limit expired.

The PCW investigation was closely tied with the criminal investigation into former executives at Lloyd's broker Alexander Howden Group P.L.C., the statement notes (BI, July 20, 1987).

"Both cases arose from enquiries following the takeover of the Alexander Howden Group by Alexander & Alexander (Services Inc.) in 1982. (Former Chairman) Kenneth Grob and three others are awaiting trial, which is due to begin on April 17, 1989," said the Serious Fraud Squad.

IRS 401(k) withdrawal rules

WASHINGTON—Employers will have until April 1 to adopt final Internal Revenue Service rules on hardship withdrawals from 401(k) salary reduction plans, the IRS announced.

IRS Notice 88-127 clarifies a provision in the 401(k) regulations published by the IRS on Aug. 8 that left unclear when the new hardship withdrawal rules had to be adopted (BI, Aug. 15, 1988). The rules generally make it tougher for employees to make in-service withdrawals from 401(k) plans.

The IRS notice also makes clear that a plan participant will not be allowed, as previously permitted, to make contributions to both qualified pension plans and non-qualified deferred compensation plans, such as executive stock purchase plans, for a 12-month period after the participant withdraws money from a 401(k) plan.

PIA attacks Proposition 103

SAN FRANCISCO—Although California's Proposition 103 exempts workers compensation insurance, the voter-approved law still would wreck the state's workers compensation system, claims the National Assn. of Professional Insurance Agents in an amicus curiae brief filed in the state Supreme Court.

Among other things, Proposition 103 repeals state laws forbidding insurance companies and agents from rebating portions of premiums, PIA notes in the brief, filed Dec. 19.

Without these curbs, workers compensation insurers could engage in "predatory price cutting, thereby stripping their reserves to a bare minimum and exposing California's labor force to those harms attendant to carrier insolvency," the brief says.

The PIA also claims that workers would face increased safety hazards. "Rebates, by nature entirely unrelated to an insured's (loss and claim) experience, lessen the incentive for an employer to maintain a safe workplace."

The state Supreme Court last month lifted its stay of the Proposition 103 provision that repealed anti-rebate laws along with its stay of most of the law's other provisions (BI, Dec. 12, 1988).

The National Assn. of Life Underwriters joined in the brief.

Chubb, farmers sue agent

CINCINNATI—Chubb Corp. and the 8,800 farmers who accepted the insurer's offer of \$48.1 million to settle a class-action suit for failing to bind \$400 million in drought coverage are now uniting in a lawsuit against Chubb's agent, Good Weather International Corp.

Minneola, N.Y.-based Good Weather allegedly "exceeded its authority by selling \$350 million to \$400 million in drought insurance when Chubb only authorized it to sell up to \$5 million," said Michael J. Freed, a partner at Much, Shelist, Freed, Denenberg, Ament &

Continued on page 42

ABA panel urges repeal of McCarran-Ferguson

By KATHRYN J. MCINTYRE

CHICAGO—Sidestepping the effects of the tort system on liability insurance costs, a panel of the American Bar Assn. is recommending repeal of the McCarran-Ferguson Act and other insurance regulatory changes to prevent future insurance crises.

The mid-1980s liability insurance crisis cannot be blamed on flaws in the tort system and therefore wide scale tort reform is not justified, according to a majority of a special ABA commission.

"To attribute the sudden dislocations in liability insurance markets experienced in the 1980s to the tort system is too simplistic," the commission's report says, citing a lack of data to prove that the tort system caused the liability insurance crisis.

Instead of tort reform, the majority of the 12-member commission recommended:

- Congress should repeal insurers' current McCarran-Ferguson Act exemption to antitrust laws and permit some cooperative efforts among insurers.

- An agency with subpoena powers should investigate whether improper insurance industry collusion manipulates insurance availability and cost.

- Additional data should be gathered from insurers and the courts to document the costs and the benefits of the tort system, including its effects on the cost and availability of insurance, on loss reduction and on compensation of injured victims.

- States should require plain-language explanations of claims-made policies and should prohibit insurers from including defense costs within policy limits ex-

cept when the policyholder agrees to assume both some costs of the defense and a role in control of the defense.

- Congress should overhaul the 1986 amendments to the federal Risk Retention Act to clarify uncertainties that are impeding the growth of risk retention and risk purchasing groups.

- States should permit mid-term cancellations of liability insurance policies only under specific conditions and should require reasonable notice and a statement of reasons for cancellation or non-renewal.

The ABA's "Report of the Commission to Improve the Liability Insurance System," the culmination of 18 months of work, was released last week. The 12-member commission of lawyers included plaintiffs' and defense lawyers, a corporate staff attorney, two former insurance regulators, an insurance industry trade group executive, a consumer group executive and a U.S. district judge.

The report will be submitted in February to the ABA's House of Delegates, which will decide whether to approve all or some of the 25 recommendations.

The House of Delegates does not necessarily rubber stamp ABA commission reports, as was evidenced two years ago when only a watered-down version of a tort reform package offered by a special ABA commission was approved (BI, Feb. 23, 1987; Jan. 19, 1987).

Any approved recommendations from the recent commission will be forwarded to state bar associations for lobbying in their states, and members of Congress can be expected to consider any ABA recommenda-

Continued on page 42

Court says firm can alter retiree health plan benefits

By JERRY GEISEL

CINCINNATI—Employers can reduce or modify retiree health care benefits without violating federal law if they reserve the right to do so in plan documents, a federal appeals court says.

In overturning a lower court ruling, the 6th U.S. Circuit Court of Appeals said American General Corp., a Houston-based insurance holding company, could alter retiree health care benefits because plan documents state it has the right to make plan changes.

That right to cut retirees' health care benefits—if spelled out in plan documents like a group insurance policy—pre-empts "oral statements" participants may have received about their benefits, the appeals court said.

However, the court did not address whether a company can amend retiree health care benefits if it does not specifically reserve the right to do so in plan documents.

The American General Corp. decision marks the second time in less than three years that the 6th Circuit has reversed a lower court decision and ruled in favor of an employer that attempted to reduce or terminate a retiree health care benefit program.

In 1986, the 6th Circuit ruled employers can terminate health care benefits for retirees. That decision overturned a 1984 U.S. District Court decision involving White Farm Equipment Co. that said courts could fashion common law to mandate vesting of re-

tiree health care benefits (BI, May 12, 1986).

In the White Farm decision, the appellate court said the Employee Retirement Income Security Act does not allow a federal judge to fashion common law providing for the mandatory vesting of retiree health benefits. The court said Congress should decide whether mandatory vesting of retiree health care benefits is appropriate.

And in its ruling in the American General case last month, the 6th Circuit said: "The company clearly had a duty to pay insurance benefits to those who qualified for such benefits under the policies' terms. But if the district court intended to suggest that the existence of such obligations could somehow prevent the company, in its role as employer, from making any change in the design of its welfare plans other than a change from the 'exclusive purpose' of benefiting the plans' participants and their beneficiaries, we believe that the court's understanding" of ERISA was "seriously flawed."

"The court is saying that if plan documents clearly and consistently reserved a right to modify a plan, then modifications, based on those documents, will not be illegal," said Gregory Braden, an attorney with Alston & Bird, an Atlanta law firm that represented American General.

"We feel the decision goes a long way to provide clarity in an area that was previously ill-defined by the courts," Mr. Braden said.

Continued on page 7

Inside

✓ This week's editorial predicts the good and bad trends expected in the year ahead. **PAGE 8**

✓ New Jersey's Insurance Commissioner seeks millions in a lawsuit charging mismanagement by board members of an insolvent health maintenance organization and its parent company. **PAGE 12**

✓ A former MGA for American Centennial Insurance Co. faces criminal charges that he illegally diverted reinsurance premiums. **PAGE 15**

✓ Insurance and reinsurance premium volume written by Bermuda-based companies dropped sharply in 1987, the government reports. **PAGE 19**

✓ Europe is starting to get tough with polluters, Jerome Karter of Johnson & Higgins reports in International Issues. **PAGE 25**

✓ The two executives of Bellew, Parry & Raven (Holdings) Ltd. expelled by Lloyd's contend that most members working at Lloyd's before the early 1980s could be found guilty of the same offenses. **PAGE 29**

Departments

| | |
|----------------------------------|----|
| At issue | 10 |
| Benefit beat | 6 |
| Bermuda briefs | 19 |
| Classifieds | 38 |
| Comings & goings: industry | 18 |
| Datebook | 26 |
| Info | 34 |
| Insurance services guide | 42 |
| International issues | 25 |
| Letters | 8 |
| London | 20 |
| Opinions | 8 |
| Perspectives | 25 |
| Products & services | 28 |
| Ticker | 43 |
| Washington | 14 |
| Worldwide | 13 |

Vol. 23, No. 1—Business Insurance (ISSN 0007-6864) is published weekly at 740 N. Rush St., Chicago, Ill. 60611-2590. Second-class postage is paid at Chicago, Ill., and at additional mailing offices. Postmaster: Send address changes to Business Insurance, Circulation department, 965 E. Jefferson Ave., Detroit, Mich. 48207; 800-992-9970 or 313-446-1611. Copyright 1989 by Crain Communications Inc.

NHL coverage not skating on thin ice

By CAROLYN ALDRED

LONDON—Lloyd's of London underwriters may not condone either threats of violence or actual pummelings by professional hockey players against one another, but the underwriters say they are not going to cancel or restrict the players' disability insurance because of the incidents—yet.

News reports that National Hockey League hockey players may lose their disability insurance after several threats by players against one another are exaggerated, according to the underwriters.

Recent stories in several newspapers and magazines—following an article in The New York Times—have stated that Lloyd's underwriters warned the players to quit threatening one another with violence or risk losing their disability insurance.

However, Lloyd's underwriters and the London and Canadian brokers of the sports disability policy deny that underwriters have threatened to check the players' coverage.

The stories appeared after several incidents in which prominent players threatened each other.

For example, in October, Steve Dykstra of the Pittsburgh Penguins was widely quoted as saying that New York Ranger David Shaw

would be a "dead man" the next time the teams played. Mr. Dykstra made the threat after Mr. Shaw high-sticked Penguins' star Mario Lemieux in a previous game.

Newspapers reported that this, and other incidents, were causing concern among Lloyd's disability underwriters.

However, Keith Ray, a director of Lloyd's broker Crawley Warren Ltd., which placed the policy for the NHL Players' Assn., knew nothing about the affair until someone sent him a copy of the New York Times article.

The Players' Assn. and the NHL arrange the disability coverage.

"None of the underwriters I've spoken to said anything to the Players' Assn. or have any intention of canceling the policy. It's all a storm in a teacup," Mr. Ray said.

"Underwriters would be understandably concerned if players continued making death threats to one another, but no underwriter has formally expressed any concern to my knowledge," said Colin Fairlie, sports underwriting manager for William J. Sutton & Co. Ltd. of Toronto, the insurance broker for the Players' Assn.

Colin Owen, one of the underwriters on the policy, agreed that the underwriters have made no warning to the Players' Assn. or anyone else about the players' public

Continued on page 13



Photo: AP/Wide World

Reports that underwriters will cancel National Hockey League players' disability cover after several threats by players against one another are exaggerated, underwriters say.

Court ruling offers firms guidance on early retirement plans

By DEBORAH SHALOWITZ

All employers that offer voluntary early retirement incentive programs should design the plans so they comply with a recent federal judge's decision that such programs cannot deny eligibility to older workers, benefits consultants recommend.

Noting that the ruling by U.S. District Court Judge John Curtin in Buffalo, N.Y., also says employers can offer older workers smaller incentives than those offered younger workers if employers can justify the difference, benefits experts recommend that employers take the decision into account when designing such plans to avoid potential legal problems.

However, the ruling is not binding on employers nationwide. Employers should structure early retirement plans "very carefully," warned Henry Saveth, a principal in the New York office of A. Foster Higgins & Co. Inc.

If an employer has a voluntary early retirement incentive plan that excludes an older age group, it "might be looking for trouble," Mr. Saveth continued. The employer is "likely to get sued."

Employers will have to be "very cautious" in designing early retirement incentive programs, agreed Fred Rumack, director of tax and legal services in the New York office of Buck Consultants Inc.

"If a company is going to design a voluntary window program, it can't disregard people over a certain age," Mr. Rumack explained.

However, the judge's opinion does "allow some liberalization" in early retirement plans, noted Seth Tievsky, an attorney in The Wyatt Co.'s Research & Information Center in Washington.

Continued on next page

Insurer enters rehabilitation; denies allegations of fraud

By DOUGLAS McLEOD

ST. PAUL, Minn.—State regulators are sorting through the tangled finances of Diversified Insurers Co., which agreed to enter rehabilitation last month in the wake of charges that it has engaged in "fraudulent and dishonest practices."

Minnesota Commerce Department officials concluded after a recent examination that \$10 million in certificates of deposit—which represented the bulk of Diversified's \$11.3 million in assets—"appear to be worthless."

The CDs were apparently collateralized by "precious metal trust receipts" issued by a now-defunct Texas trust company, which in turn were backed by ore from a slag pile in southwestern New Mexico, according to an administrative complaint filed by Commerce Commissioner Michael A. Hatch.

The CDs also were apparently backed by the "good faith and credit" of a California man who has been charged with grand theft for allegedly embezzling funds from several limited partnerships, the complaint says.

In addition, Allin M. Karls, former chairman of Great Global Assurance Co. of Scottsdale, Ariz., was involved in managing Diversified despite the Minnesota department's earlier insistence that he not have any role in directing the company's affairs, the complaint alleges.

Although largely dormant since 1969, Diversified was acquired earlier this year by Zenith Holding Co. Inc. of Eden Prairie, Minn., and was apparently part of

an ambitious plan to produce millions of dollars in reinsurance premiums for a network of U.S. and off-shore reinsurers to be managed by Mr. Karls, documents filed by the Commerce Department show.

Plans for Integrated Insurance Network, as the entity was to be known, included acquisition of Mead Reinsurance Corp. of Dayton, Ohio, and Chicago-based Reinsurance Co. of America, both of which are running off their business and seeking buyers, documents show.

Neither acquisition was ever actually made.

Diversified had written about \$1.3 million in premiums in recent months, most of it related to a professional liability insurance program for a health care administrators' purchasing group, according to Gary LaVasseur, deputy director of enforcement for the Commerce Department. The business written by Diversified also included some restaurant liability insurance policies, he said.

James P. Miley, a Minneapolis lawyer representing Diversified, asserted that "every paragraph" of the Commerce Department's complaint "contains inaccurate and misleading information."

Nevertheless, Diversified decided not to fight the charges, agreeing on Dec. 2 to surrender its license in Minnesota and enter rehabilitation. The Commerce Department has sent notices of the action to insurance regulators in Indiana, Iowa and North Dakota, where Diversified is also licensed, according to Rochelle Bergen, assistant commissioner.

James O. Hagen, a Minneapolis accountant, has been

Continued on page 32

Bank blends HMO and indemnity plans

By DONNA DiBLASE

LOS ANGELES—First Interstate Bancorp is applying a new strategy to managing its group health care aimed at reducing adverse selection and costs, while at the same time maintaining good employee relations.

Under "Health Span," a point-of-service health maintenance organization/indemnity plan unveiled Jan. 1, employees can decide at the time they need to receive health care whether they want to use network or non-network providers.

But, unlike a traditional HMO, employees still receive coverage if they use non-network providers, albeit lower than if they use network providers.

Health Span currently is available to 29,000 employees and retirees under age 65 in four of the 19 states in which the bank operates. The bank's remaining 10,000 or so employees are being offered the indemnity portion of the new plan, but First Interstate plans to phase in the HMO portion to cover most of these employees by 1990.

In addition to implementing the new managed care plan, First Interstate also has reduced to one the number of HMOs it offers in addition to Health Span in the four states. But, employees that choose the HMO option instead of Health Span are subject to the traditional HMO requirement that they use only HMO providers to receive coverage.

However, to avoid the possibility of employees choosing one plan over the other based solely on the employee's

monthly cost, the monthly premium contribution paid by employees is the same regardless of whether they choose to enroll in Health Span or in the HMO.

In addition, employees that enroll in Health Span can use a new managed mental health and chemical dependency program under which they receive higher benefits for using network providers.

And, employees who use maintenance prescription drugs and are enrolled in Health Span can take advantage of a mail-order drug program.

First Interstate had two major objectives in designing Health Span, according to a bank executive.

"We wanted to continue to offer indemnity plan benefits to our employees. But, to do that, we wanted to design a plan that would keep employees from opting out of the indemnity plan and into HMOs," said Shirley Perkins, senior vp with First Interstate.

This migration to HMOs creates adverse selection against the bank's indemnity plan and drives up indemnity plan costs, she explained. "So, we designed a plan that offers employees a choice of electing at the time they need health care services whether they want to be in an HMO-like or an indemnity plan," as opposed to having to enroll on an annual

basis in either an HMO or the indemnity plan, she said.

The bank also hopes that the new managed care plan will help it to control health care costs, though "we don't have any hard numbers on the savings we expect," she said.

First Interstate had "a need to look at a major change in strategy," explained Donald Sanderson, a vp and partner with TPF&C in Los Angeles, a division of Towers, Perrin, Forster & Crosby Inc. The bank wanted to control its rising health care expenditures without shifting too much of the burden onto employees. "This could have involved HMO consolidation or amending the current plan," he said.

"Managed care was only one of the options, but it just happened to be the one that fit with First Interstate's objectives. This is a major change in philosophy for many employers. But, it all comes back to trying to balance health care cost control with employee relations," he added.

Health Span was developed for First Interstate by New York-based Metropolitan Life Insurance Co.

The plan is self-insured and Metropolitan administers claims and establishes contracts with providers for the HMO portion of the plan. The HMO is an independent practice association model, meaning that providers contract to provide services for Health Span enrollees, but also maintain independent private practices.

The bank has "a risk-sharing arrangement of sorts" with Metropolitan, Ms. Perkins said.

Continued on page 16



Early retirement plans

Continued from previous page

"There will be some ability to provide a lesser benefit for the oldest group of people," he said.

For example, an early retirement incentive program with a graded benefit schedule under which younger workers who retired early would receive the highest level of benefits would be justifiable if the employer provides cost justification for the plan, he explained.

In upholding the legality of voluntary early retirement incentive programs, Judge Curtin ruled that voluntary early retirement incentives for older workers may be less attractive than those offered younger workers if the incentives are based on an objective cost standard (BI, Dec. 26, 1988).

However, a portion of a three-year plan offered by the North Tonawanda School System in western New York discriminated against two workers because the workers were too old to participate in the plan when it was first offered, he ruled.

The school system's plan, which is still in effect, offers early retirement incentives valued at \$10,000 to workers between the ages of 55 and 60. The plaintiffs in the case were both older than 60 when the plan was first offered.

While two previous appellate court decisions upheld the validity of early retirement incentive plans, neither dealt with the issue of whether incentives can be offered to a select group of employees based on their age (BI, June 29, 1987; May 18, 1987).

Judge Curtin ruled that the plan was valid under the Age

Discrimination in Employment Act because it was voluntary and the school system had "legitimate business reasons" for offering the program. But, because the plan used age as an eligibility requirement, the plan was not truly voluntary for the plaintiffs, Judge Curtin ruled.

"The crucial problem (is) . . . that the individual plaintiffs were never given the opportunity to retire 'under the plan' since they were both beyond the age-60 limitation at the time the cash incentive was first offered," Judge Curtin said in his decision.

"Therefore, it cannot be said that the plan was 'truly voluntary' with respect to the plaintiffs."

The judge explained in his decision that early retirement incentive programs must provide "that (1) all retirement eligible employees are afforded an opportunity to voluntarily participate in the plan, and (2) there is a legitimate business reason for structuring the plan with specific age limitations."

However, age differences can be factored into an early retirement incentive plan only if detailed cost justifications accompany the plan design, the judge concluded.

"Absent a maximum age limit, the incentive aspect of any such plan would be largely, if not entirely, negated since all employees would ostensibly become eligible for the plan's benefits upon reaching the triggering age," the judge explained.

Mr. Tievsky cautioned, however, that "it isn't altogether clear that (the decision) would fly in any other district of the country."

However, the ruling closely followed the recommendations of the Equal Employment Opportunity Commission, which filed an amicus brief on behalf of the defendants (BI, Nov. 23, 1987).

"We're pleased that the court agreed with the views of the Commission as expressed in its amicus curiae briefs," said Paul Brenner, an attorney with the EEOC.

The attorney for the school system would not comment on whether the employer will appeal the decision.

Mr. Brenner speculated that the decision will not be appealed because the damages the plaintiffs received—double the amount of the early retirement incentive—were not excessive.

The court ordered the school system to pay each of the two plaintiffs \$20,000 plus interest and attorneys' fees. The total monetary cost of the award probably will not exceed \$60,000 for the school district, Mr. Brenner estimated.

Meanwhile, Mr. Rumack warned that retirees who were excluded from previously offered early retirement plans solely because of their age "may soon be in court and using this case as a springboard to get extra benefits."

According to a 1988 survey of 50 large U.S. industrial companies conducted by Wyatt, 33 companies have offered early retirement incentive plans since 1979—when such plans were first offered—and 17 of those offered more than one such plan.

In 1987, 12 companies offered the plans, and five of those 12 offered an early retirement incentive plan in 1988.

In most cases, eligibility for the plans depended on satisfying an age or a service requirement or both.

The plans—also known as early retirement window plans—typically offered eligible employees a window period of one to three months to participate. However, employers have offered windows as short as one day and as long as three years, said Wyatt. ■

ILLINOIS INSURANCE EXCHANGE

WRITING A GOOD BOOK

The Illinois Insurance Exchange's success is due to its syndicates' willingness to write unusual and hard-to-place business.

The Exchange has built its book through:

- **Entrepreneurial spirit.** The IIE is made up primarily of private investors, who are eager to find creative ways to write your business in both hard and soft markets.
- **Discipline.** Business is written to build profits, capital and surplus reserves — not market share, cash flow or premium volume.
- **Experience.** Underwriters average 18 years in insurance, nearly 10 in surplus lines specialties.
- **Diversification.** More than half the Exchange's book of business is in programs and niches, where risks are known and revenue streams reliable.

To learn more about how the Exchange can help you write your own "good book," call President James M. Skelton at (800) 525-8471 (outside Illinois).



ILLINOIS INSURANCE EXCHANGE

175 West Jackson Boulevard Suite 1234 Chicago, Illinois 60604
(312) 939-2400



IRS rule gives older workers pension credits

WASHINGTON—A proposed Internal Revenue Service requirement governing retirement benefits for workers past retirement age will not significantly boost employers' pension costs, employee benefit consultants say.

Under the IRS notice, published Dec. 27, all employees who worked at least one hour in 1988 are entitled to recognition of years of service before Jan. 1, 1988, that were denied because of age.

Under the Omnibus Budget Reconciliation Act of 1986, employers were required beginning in 1988 to accrue benefits for workers past retirement age.

At issue was whether employers had to retroactively accrue for prior years of service that were disregarded for current plan participants who had achieved normal retirement age before 1988.

Some employers have been accounting for pension service for workers past normal retirement age since the passage of the act.

A 1987 Wyatt Co. survey of 622 pension plans found that 32% of plans were accounting for additional years of service and final pay earned in years of service beyond normal retirement age.

Another 9% of the plans were accounting for just additional service and 4% were accounting for final pay earned by those who worked beyond normal retirement age.

Experts also say that few workers who are covered by pension plans by their current employer stay on the job after normal retirement age.

In 1986, the latest year for which figures are available, there were about 350,000 of such workers, Wyatt estimates.

However, the Employee Benefit Research Institute, a Washington-based benefits think tank, says there could have been as many as 900,000 of such workers in 1986.

If all workers past retirement age retired immediately and began receiving benefits, employers could be liable for about \$1 billion to \$2 billion in retroactive service and pay accrual, said Sylvester Schieber, director of Wyatt's Research & Information Center in Washington.

However, he noted that "in relative terms, (the liability) is not big" compared with current total pension trust assets of \$1.5 trillion.

Furthermore, because many workers past normal retirement age will not retire immediately, some employers may end up saving money because employers' resulting savings from a shorter duration of pension payments will be greater than the cost of the additional pension benefits, experts said. ■

THE FLEXIBLE BENEFITS PLAN FOR SMALL COMPANIES THAT THINK LIKE THE BIG COMPANIES.

For years, big companies have been able to take advantage of the benefits flex plans offer.

But smaller companies have had to settle for flexible benefits plans that tried to act big, but in reality fell short.

Now you can really think big.

Because NWNL Group has developed a unique approach to flexible benefits for companies with 200-2000 employees. Which means you can enjoy the advantages of big company coverage without the big ticket price.

You see, at NWNL Group we look at your insurance needs differently, so we find solutions that others may not have seen before.

Take flexible benefits, for example. We learned how to control costs, design benefits, and provide the administrative support and employee communication you need by extensively researching and studying the successful plans developed for large companies.

In simple terms, we saw a way to shrink the best of what the big plans offered into a flexible benefits plan that is specifically tailored for smaller and medium size companies.

That's what we call looking at things differently. And we'd like to show you how our approach to flexible benefits could work for you.

So start thinking big. For our free booklet "Looking At Flexible Benefits Differently" call or write Rick Naymark/NWNL Group, Box 20, Minneapolis, MN 55440, (612) 372-5784.

 **NWNL GROUP**

We look at things differently.™



GM workers to get profit-sharing payment

By GLENN HUNTLEY

About 450,000 General Motors Corp. employees will soon receive the first profit-sharing payments made by their employer since 1985.

The payments will average about \$200 per employee under a profit-sharing arrangement negotiated by the Detroit-based automaker and its major labor union last year.

"While the anticipated amount of profit-sharing per worker will be quite modest, the basic news that GM is making money while our members enjoy the greater job security provided under the national agreement is welcome, indeed," according to a prepared statement from Owen Beiber, president of the United Auto Workers Union, General Motors Division.

The profit-sharing payments will be paid to salaried and hourly employees early this year in amounts dependent upon actual profits reported by the company at the end of 1988, according to General Motors.

In 1985, the last time the automaker paid profit sharing benefits to employees, the average payment was \$328 per employee.

The UAW negotiated a new profit-sharing plan last fall that connects the payments to a ratio of U.S. profits-to-sales, rather than the previous formula of profits in excess of defined annual returns.

"The new formula helps, but the key is still the profitability of U.S. operations, and that's where our members' active participation is really having an impact," the union statement said.

Detroit-based General Motors, which has struggled to maintain its share of the automobile market in recent years, anticipated its 1988 production would result in profit-sharing based on its performance.

While 1988 financial results are not yet known, the anticipated pretax profits for the year are expected to generate a profit-sharing distribution of \$90 million, General Motors said.

The payments were made possible by increased production and efficiency at the company's plants, officials said.

"We have come a long way and the profit-sharing payments are further evidence that General Motors has turned the corner and is achieving improved results in our U.S. operations while providing job security," GM Chairman Roger B. Smith explained in a prepared statement.

Eligible employees were sent forms this month to assign profit-sharing payments to themselves or to place them on a tax-preferred basis into their GM savings-stock purchase program or personal savings plan.

Long-term care

A Milwaukee company is offering a long-term care insurance plan to its 7,000 employees, 3,000 retirees and their spouses.

The plan, which is also open to parents of employees of Harnischfeger Industries Inc., covers home health care, nursing home care and adult day care.

Eligible employees can elect their own level of coverage: \$25, \$35 or \$50 a day for home health care and adult day care; and \$50, \$70 or \$100 a day for nursing home care.

Depending on the coverage option, the plan pays a maximum of \$75,000, \$105,000 or \$150,000, respectively. The benefit is designed to pay for about four years of continuous nursing home care.

The company recognizes "the vulnerability of our employees and their families to long-term care situations and the resulting astronomical costs," said Dick Schulze, senior vp of human resources.

"That is why we are offering a benefit that will help them prepare financially for this possible expense,"

Benefit beat

Mr. Schulze pointed out. The company manufactures heavy equipment including overhead cranes and mining shovels.

Travelers Corp. of Hartford, Conn., will underwrite the company's long-term care coverage.

Harnischfeger employees pay for the plan through payroll deductions. Retirees and covered parents can be billed directly.

Rates for employees, spouses, parents and retirees are based on age at time of enrollment and will not change as they get older. For example, an individual 50 to 54 years old would pay \$20.22 monthly for \$50 per-day nursing home coverage.

The plan also includes a "paid-up"

benefit that allows some benefits even after payments to the plan cease. For example, after paying premiums for 10 years, employees retain 30% of the daily benefit even if they stop payment. The paid-up portion increases to a maximum of 75% after 25 years and remains in force until needed.

Employees also can apply for coverage when they are first eligible without submitting evidence of insurability. However, other family members and employees who enroll later will be required to complete a medical questionnaire.

The Travelers plan also includes a toll-free telephone referral service to provide enrolled employees and

their families with information on community resources available to address long-term care needs.

Early retirement offer

More than 180 employees at Mutual Benefit Life Insurance Co. have opted for early retirement under a program that offered full pension benefits to many of them.

The early retirement program was offered to about 240 employees who were at least 50 years old and had a minimum of 10 years of service with the company by Dec. 31, said a spokesman for the Newark, N.J.-based life insurer.

Although some retiring employees will be replaced, the early retirement program did result in a reduction of staff, he said.

Under the program, employees

whose age plus the number of years of service equaled 80 or more years were eligible for full pensions, the spokesman said.

Others who met the minimum requirements but did not total 80 years of combined service and age were offered pensions that were discounted proportionately, he said.

Eligible employees were given a packet of information including a calculation of specific benefits. Meetings were held to further explain the program and answer questions.

Mutual Benefit Life, which employs about 3,000 people nationwide, made the offer to employees throughout the United States.

Made any benefit changes? Write Glenn Huntley, Business Insurance, 6404 Wilshire Blvd., Los Angeles, Calif. 90048; 213-651-3710.

DAVE GRUPP HAS A LOVE FOR HIS JOB



Dave Grupp is a Kemper fire protection engineering specialist who wears a number of hats.

He surveys commercial facilities for hazards that could cost lives, property and dollars. He trains loss control consultants to know what to look for in a building

and what to look out for. And he teaches underwriters the facts of fire he's learned over the years.

When the heat goes out of the day, he heads home where he keeps another hat handy: Volunteer Fire Chief of Long Grove, Illinois.

As a volunteer firefighter who never stops caring, Dave is typical of the 7,700 resourceful and motivated people who make up the Kemper National Property & Casualty Companies.

These people are busy these days. Their business has grown more

Retiree benefits

Continued from page 2

Robert Ballow, a partner with King, Ballow & Little, the Nashville, Tenn., law firm that represented the plaintiffs in a class-action suit against American General, described the decision as a defeat for retirees.

"The court seems to be saying that employers can change benefits if they reserved the right to make changes in plan documents," Mr. Ballow said. He noted that plan participants may not have easy access to those documents.

Mr. Ballow said the plaintiffs have not decided whether to ask the Supreme Court to review the 6th Circuit's decision. "We are evaluating our options," he said.

The American General case involves a suit filed by employees of NLT Corp., a Nashville-based holding company that American General acquired in 1982.

The NLT retirees sued after

'Nowhere in the entire contract is there any prohibition against amendments requiring premium contributions from retirees for whom no contribution requirement was in effect. . . ' the appeals court said.

American General altered the NLT retiree health care plan so that it matched the benefit program that American General offered to its own employees.

For example, effective July 1, 1984, American General boosted the ceiling on maximum annual out-of-pocket health care expenses to \$1,000 from \$600 per individual for NLT employees who retired before 1984. American General also said it would pay only 80% of the first \$3,000 of certain hospital expenses, down from 100% coverage.

And, for pre-1984 retirees age 65 or older, a monthly premium of

\$16.10 was charged; previously, retirees did not pay a premium.

American General also began to charge retirees under age 65 a \$14.87 monthly premium beginning July 1, 1984. The coverage for those retirees also had been free.

And, the monthly premium was scheduled to rise to \$29.75 on July 1, 1985. However, a lower court injunction stopped that increase.

In 1985, U.S. District Court Judge Thomas Wiseman in Nashville, Tenn., ruled in favor of the retirees, noting that prospective employees were told that one of the advantages of working for the

company was free post-retirement health care benefits.

In addition, summary plan descriptions distributed to retirees and employees conflicted, Judge Wiseman said. While the descriptions said the company had the right to amend or terminate the plan, the descriptions also said no premium contributions would be required for post-employment health care coverage.

"To read the plan as providing lifetime paid-up medical insurance and, at the same time, reserving the right to terminate the benefits at any time constitutes an illusory promise," Judge Wiseman said.

But, in overturning Judge Wiseman's decision, the 6th Circuit said the NLT group insurance policy clearly stated that the company had the right to terminate health insurance or require premium contributions.

"Nowhere in the entire contract is there any prohibition against amendments requiring premium

contributions from retirees for whom no contribution requirement was in effect. . . If there is any ambiguity in this sentence, we have not been able to detect it," the appeals court said.

While group insurance policies are not normally distributed to participants, NLT employees were told how to obtain the documents, the appeals court noted.

In addition, in the summary plan descriptions required by ERISA, NLT employees were informed that if the summary plan descriptions and the official group insurance policy conflicted, the terms of the group policy would prevail.

The appeals court also said that Judge Wiseman erred in ruling that a provision in the summary plan description that said retiree health care coverage was free conflicted with another provision that said the company had the right to make changes.

"Wherein lies the supposed conflict in the summary plan description booklets? Each booklet, as far as we can see, did accurately summarize the main features of the group insurance policy as in effect at the time the booklet was issued. . . . And when the company made such a change (requiring contributions) in 1984, it was doing something that the booklets had said all along it had the right to do," the appeals court said.

In addition, the appellate court said that oral promises—like telling prospective employees that the company provided free post-employment health care and reminding employees of the free benefits—should not pre-empt plan documents. Nowhere in Judge Wiseman's lower-court opinion is there a specific finding that NLT employees received an oral promise that retiree health care coverage would be permanent, irrevocable and fully "paid-up," the 6th Circuit ruling noted.

"We cannot be certain that no such oral promise was ever made; but we are quite certain that Congress, in passing ERISA, did not intend that participants in employee benefit plans should be left to the uncertainties of oral communications in finding out precisely what rights they were given under their plan. That is why ERISA makes it mandatory that every plan be established and maintained under a 'written instrument,'" the appeals court said.

"It is not always easy to determine exactly what a benefit plan says even when the language of the plan has been reduced to writing. If the terms of these often complex plans could be made to depend upon evidence as to oral statements that may not have been worded very precisely in the first place. . . the degree of certainty that Congress sought to provide for would be utterly impossible to attain," the appeals court added. ■

Wind damages set at \$50 million

NEW YORK—Santa Ana winds that blasted portions of California and Utah last month caused an estimated \$50 million in insured property damages, according to the Property Claims Services division of American Insurance Services Group Inc.

The Dec. 14-15 windstorm caused the most extensive damage in California, where the high winds produced an estimated \$40 million in insured property damage. Property losses were heaviest in Central California, in a region from Sacramento to San Francisco to San Jose.

Property damage in Utah primarily was confined to the northern portion of the state and is estimated at \$10 million.

The storm was assigned Catastrophe No. 78 by Property Claim Services. ■

HAT NEVER COOLS.



than 12% annually since 1982. They now have over one million customers to serve.

Their success is a direct result of their desire to help and of the exceptional financial strength of the Kemper National P&C Companies.

Our people insure our future.



© 1987 Lumbermens Mutual Casualty Company



Opinions

Looking ahead. . .

OVERCOME BY THE urge to predict the future at this time of year, herewith is the second annual *Business Insurance* analysis of what will be "in" and "out" during the coming year among the trendy in the risk management, employee benefit management and commercial insurance markets.

We did rather well last year with our predictions, we are both happy and regretful to say (*BI*, Dec. 28, 1987).

So, once again, for both good and bad, in the coming year we expect to see:

In: An active Labor Department, revitalized by the energy, enthusiasm and ability of Elizabeth Dole.

Out: Timidity from the secretary of labor at Cabinet meetings. (Can you even name him?)

In: Clarifying amendments to the Risk Retention Act.

Out: Conflicting court rulings on regulating risk purchasing groups.

In: Loss prevention and loss control programs.

Out: Preoccupation with risk financing.

In: Controlling medical care costs under workers compensation programs.

Out: Employers accepting rising workers compensation insurance premiums as just another cost of doing business.

In: Suing corporations for fear of developing a long-latent disease.

Out: Liability suits against the government.

In: AIDS-related damage suits.

Out: Blatant ambulance chasing.

In: Suing for insurance coverage for hazardous waste cleanups on a site-by-site basis.

Out: Suing for insurance coverage for pollution cleanups on a nationwide basis.

In: Suing only the insurers most likely to be held liable for claims.

Out: Suing every insurer that ever wrote coverage for a policyholder.

In: Section 89.

Out: Ignoring Section 89.

In: Better-funded defined benefit pension plans.

Out: Billion-dollar claims against the PBGC.

In: Health care cost inflation.

Out: CEOs patting employee benefit managers on the back.

In: Long-term medical care legislation.

Out: Mandating that employers provide health care coverage.

In: Open-ended health maintenance organizations, plans that control retiree health care costs and managed mental health and chemical dependency programs.

Out: Triple-option health care plans, disregarding retiree health care liabilities and employers offering multiple HMOs.

In: Increasing recognition of employees' needs for child care.

Out: Using both flexible spending accounts and federal tax credits to fund child-care expenses.

In: Usable claims data from HMOs.

Out: Discrimination in group health care plans against AIDS patients.

In: Antitrust lawyers specializing in insurance.

Out: Dinners at private clubs in London.

In: Suing insurers for bad faith, fraud, false advertising and anything else creative plaintiffs' attorneys can think of.

Out: Third-party bad-faith actions in California.

In: Property/casualty insurers and brokers preaching long-term relationships.

Out: Property/casualty industry profits.

In: Studying to become an actuary.

Out: Underwriting discipline.

In: Proposition 103-type legislative proposals to force across-the-board reductions in property/casualty insurance rates, especially in states with high personal auto insurance costs.

Out: Roxani Gillespie as California Insurance Commissioner, who unfortunately says she has no taste for politics and won't run for office as required by Prop. 103.

In: Straight talk from insurers and brokers to the insurance-buying public about how the insurance industry functions.

Out: Calendars from insurance brokers.

In: Ralph Nader.

Out: Tort reform.

Letters

Tort system changes must be debated

To the editor: Your editorial, "Figures Tell Straight Story" is an unfortunate example of the one-sidedness with which many people in insurance and risk management view our tort liability system (*BI*, Dec. 12, 1988). In unabashedly jumping aboard the Insurance Services Office Inc. Claim File Data Analysis bandwagon, you assert that:

• Unlimited damages from "intangibles" such as pain and suffering unfairly permit claimants to recover "far more" (an average of 1.5 to three times) than their economic loss.

You don't say, however, why compensation for a lifetime of pain and suffering should be limited to the amount of medical bills or lost wages. Though difficult to quantify, surely pain and diminished quality of life are no less real losses than "actual" economic damages. Nothing can

truly compensate a victim for pain and suffering caused by another's failure to act responsibly.

Our justice system and juries can only compel those proven negligent to try—through monetary damages—to provide a substitute for loss of health and a normal life.

• Settlements and judgments don't take into account collateral sources of recovery. You assume that they should.

However, most, if not all, states have long ago concluded that public policy requires a contrary position. If an injured party is responsible enough to buy medical insurance, for example, better that he or she benefit from this prudence and expense than that the negligent party who caused the injury receive a windfall offset to liability.

• The "mere demand" for punitive damages drives up the cost of settlements and judgments.

Come, now. Insurers are not such soft touches as to open their bank accounts to "mere demands" made "as a matter of course." They respond with settlement dollars only when the demands are at least arguably (and probably completely)

legitimate. If not, insurers can and do ignore punitive demands, or petition the court to strike them as unfounded.

• Public entities are the classic "deep pockets."

Joint and several liability is another fundamental issue reflecting competing public policy considerations. When two negligent defendants injure an innocent party, and one negligent defendant is unable to pay its "fair" share, who should

suffer the result? The other negligent defendant or the innocent party?

You exalt defendants' proportional responsibility as inherently

fair, but where is the fairness in the innocent claimant going uncompensated when another negligent defendant—not just the nearest "deep pocket"—is able to compensate for the harm he jointly caused?

• Tort liability costs are paid for by insurance buyers.

Of course, but as ISO's chairman himself conceded, many other factors besides tort recovery rules affect the cost of insurance (e.g., interest rates, market competition, inflation, reinsurance availability, etc.). More to the point, should we

Insurers are not such soft touches as to open their bank accounts to 'mere demands.' Insurers respond only when the demands are at least arguably legitimate.

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

Business Insurance®

Reporting weekly for corporate risk, employee benefit and financial executives

Publisher: Alfred Malecki (New York)

Associate Publisher/Editor: Kathryn J. McIntyre, A. R. M. (Chicago)

Managing Editor: James M. Burcke (Chicago)

Senior Editor: Jerry Geisel (Washington)

Assistant Managing Editor: Dave Lenckus (Chicago)

Assistant Managing Editor/Graphics: Holly E. Seguire (Chicago)

CHICAGO: Stacy Adler (Associate Editor)

Karen Brown (Assistant to the Editor)

Linda J. Collins (Agent/Broker Editor)

Meg Fletcher, A.R.M. (Associate Editor)

Mark A. Hofmann (Associate Editor)

Karen Huelsman (Copy Editor)

Mariou Jones (Directory Editor)

Jacqueline LaSota (Assistant Copy Editor)

Laura Mazzuca (Agent/Broker Topics Associate Editor)

Amy Palmer (Graphic Artist)

Roger Schillerstrom (Editorial Cartoonist)

Paul Winston (Copy Editor)

Joanne Wojcik (Copy Desk Chief)

Christine Woolsey (Editorial Assistant)

DALLAS: Michael Bradford (Associate Editor)

LONDON: Stacy Shapiro (International Editor)

Carolyn Aldred (Associate Editor)

LOS ANGELES: Donna DiBlase (Bureau Chief)

Glenn Huntley (Associate Editor)

NEW YORK: Douglas McLeod (Bureau Chief)

Judy Greenwald (Associate Editor)

Collin Nash (Editorial Assistant)

Michael Schachner (Associate Editor)

WASHINGTON: Deborah Shalowitz (Associate Editor)

Advertising Director: Donald A. Walsh (New York)

Midwest Sales Manager: Robert L. Niesse (Chicago)

CHICAGO: Deborah D. Neale (District Manager)

Margaret Hikido (District Manager/ Classified Sales)

Elmer Kerstowske (Production Manager)

Eastern Advertising Manager: Martin J. Ross (New York)

NEW YORK: Charles A. Horvath (District Manager)

Jack Forrest (District Manager)

Courtney Bauer (District Manager)

Nora Reid (District Manager)

LOS ANGELES: Michael J. Sharpe (Western Advertising Manager)

Director of Communications: Ronnie I. Drachman

(New York)

EDITORIAL: Chicago: 312-649-5398

Dallas: 214-363-1066

London: 01-404-4228

Los Angeles: 213-651-3710

New York: 212-210-0140

Washington: 202-662-7200

ADVERTISING: New York: 212-210-0133

Chicago: 312-649-5276

Los Angeles: 213-651-3710

COMMUNICATIONS: New York: 212-210-0132

CIRCULATION: Detroit: 313-446-1611

Published by Grain Communications Inc., Chicago

G.D. CRAIN JR.

Founder (1885-1973)

MRS. G.D. CRAIN

Chairman

S.R. BERNSTEIN

Chairman-executive committee

RANCE CRAIN

President

KEITH E. CRAIN

Vice chairman

MARY KAY CRAIN

Treasurer

MERRILEE P. CRAIN

Secretary

WILLIAM A. MORROW

Senior Vp-operations

ROBERT C. ADAMS

Vice president-production

H.L. STEVENSON

Corporate editor

ALICE SIELOFF

Corporate marketing manager

Published weekly at 740 Rush St., Chicago, Ill. 60611, Telex 6871241. Fax 312/280-3174. Cable GRAINCOM. Offices: 220 E. 42nd St., New York, N.Y. 10017, Telex 640207, Fax 212/210-0704, CRAIN COM NYK; 1 Northpark, East Suite 114, 8950 N. Central Expressway, Dallas, Texas, 75231, Fax 214/696-1936; Suite 814, National Press Building, Washington, D.C. 20045, Fax 202/638-3155; 6404 Wilshire Blvd., Los Angeles, Calif. 90048, Fax 213/655-8157; 20-22 Bedford Row, London WC1R 4EB, England, Fax 01/430-2176. \$1.75 a copy, \$70 a year in U.S. Canada and all other foreign add \$32 for surface mail. Europe and Middle East only add \$72 for air delivery. First-class mail to U.S., add \$77; to Canada add \$87. Bermuda only, \$152 per year expedited delivery. WILLIAM STRONG, vp-circulation. BARBARA KISCH, circulation manager. JOHN HUFFMAN, fulfillment director. Four weeks' notice required for change of address. Send subscription correspondence to Circulation Department, Business Insurance, 965 E. Jefferson Ave., Detroit, Mich., 48207, or phone 800-992-9970 or 313-446-1611, Fax 313/446-1650. Microfilm copies are available from University Microfilms, 300 Zeeb Road, Ann Arbor, Mich. 48013. Microfiche copies available: Bell & Howell, Micro Photo Division, Old Mansfield Road, Wooster, Ohio 44691. Portions of the editorial content of this issue are available for reprint or reproduction in other media. For information and rates to reproduce in general circulation media, contact: ART MERTZ, The Grain Syndicate, 740 Rush St., Chicago, Ill. 60611, 312-649-5303. For reprints or reprint permission contact: Reprint Department, Business Insurance, 220 E. 42nd St., New York, N.Y. 10017, 212-210-0229, Fax 212/210-0704.

BPA

Member of Business Publications Audit of Circulation

ABP

Continued on page 10

Architects & Engineers...

it's tough getting a second chance.

When architects Bonanno and William began construction on the leaning tower of Pisa in 1174, they had no idea that they were embarking on what would become one of the greatest architectural fiascos in history. Had this project been attempted in modern times, it would have resulted in enough litigation to keep a battery of lawyers busy for twenty years.

At a time when liability litigation is becoming a national pastime, no aspect of business should dare go unprotected. Reliance National's Professional Liability Coverage for Architects and Engineers provides the necessary protection against costly and often crippling litigation.

Our \$10,000,000 capacity, premium financing program, discovery clause and policy provisions, combined with our knowledgeable and professional claims staff, make Reliance National, THE CHOICE for Architects and Engineers coverage.

Get the right protection for your clients in case their next project starts to...lean.



- Architects
- Civil Engineers
- Electrical, Mechanical, Heating, Ventilation, and Air Conditioning Engineers
- Land Surveyors
- Interior Designers
- Landscape Architects
- Selected Soil Engineers and Testing Labs

THE CHOICE



Reliance National

a unit of
Reliance Group Holdings, Inc.

For Further Information
Please Call 212 858-3600

At issue

What is your opinion of utilization review as a cost-containment tool?



John Thompson
Supervisor-benefits
Rollins Inc.
Atlanta

I think it's a good cost-containment tool today, (but) I'm not sure that as time goes on the savings will continue. A replacement for UR in the cost-containment area could and should be medical case management, in other words, getting the most bang for your buck by suggesting alternative care facilities, etc.



Joseph Charles
Group director-employee benefits
Ryder System Inc.,
Miami

UR firms cost money, but they're doing the job that was never done by insurance companies, who said they'd control costs, but they haven't had an impact. UR firms have. I notice the biggest difference in preadmission certification. Before UR we had an average hospital stay of 5.2 days and last year it was down to 4.5 days, or about 3,500 days less for the year.



Robert C. Penzkover
Director-employee benefits
The Quaker Oats Co.,
Chicago

An aggressively managed UR program can be effective as one tool in a total health care cost-containment strategy. But UR exists because providers deliver more care and treatment than necessary and consumers are not well-informed about the appropriate level, cost and quality of care. Plan design and a better informed public would take care of that.



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

It's been a very useful program to reduce our health care costs. We've seen a 47% decrease in hospital admissions and a 34% decrease in hospital days per 1,000 covered lives since 1984. We feel UR has had a significant role in that reduction.

Compiled by Christine Woolsey

Letters

Continued from page 8
truly expect that the tort reforms you so ardently advocate will translate into lower premiums?

In California, Proposition 51 implemented major facets of these reforms and the infamous (to insurers) Royal Globe decision has been overturned. Nonetheless, California insurance buyers have seen neither premiums drop nor public entity insurance become more available, notwithstanding promises of insurers.

Although your editorial is disappointingly biased and simplistic in adopting these positions, it at least gives lip service to letting the pub-

The principles shaping the American tort system have evolved over centuries.

lic decide how people should be compensated for tortious injuries and who should pay the cost. Moreover, *Business Insurance* is certainly right in recognizing that "not everyone presented with these figures will suddenly agree that these tort reforms should be enacted to reduce recoveries."

Before any thoughtful person does, more is required than simply and uncritically presenting only the insurance industry's "facts" and conclusions.

The principles and policy interests underlying and shaping the complex American tort system have evolved over centuries. They should be continually analyzed and debated.

And, as an important and influential forum for such vital discussion, *Business Insurance* should try harder to be both more informative and more balanced.

Arthur J. Levine
Fullerton, Calif.

Sen. Dunne makes points with article

To the editor: New York State Sen. John R. Dunne, R-Garden City, made several good points in his article "Prop. 103 is Evidence of Consumers' Disdain for Insurers" (*BI*, Dec. 5).

Among them was to ask rhetorically "Who is going to convince Rep. James Florio, D-N.J., that his ongoing efforts to bring federal oversight to solvency regulation and guaranty funds is not in the public's interest?"

Insurance is necessary to the continued evolution of our economy and our society.

I think the answer is another rhetorical question: Has federal oversight and solvency regulation of savings banks and savings and loan associations been successful?

Insurance is necessary to the continued evolution of our economy and our society. I commend Sen. Dunne for his excellent article and for suggesting that his fellows in the industry engage in critical self-evaluation.

Eugene R. Anderson
Anderson Russell Kill & Olick P.C.
New York

"Feasibility is important. But do-ability is even more important."

Dick Rice, Senior Vice President and Director, on alternative markets:

A feasibility study might tell you it's okay to self-insure.

But doing it is something else again.

The advantages of self-insurance can be illusory. To do it right, you may need support from nontraditional insurance sources. And clear understanding of your options. That requires knowledge of worldwide risk-financing resources.

That's why we created Global Risk Services. By grouping experts from several

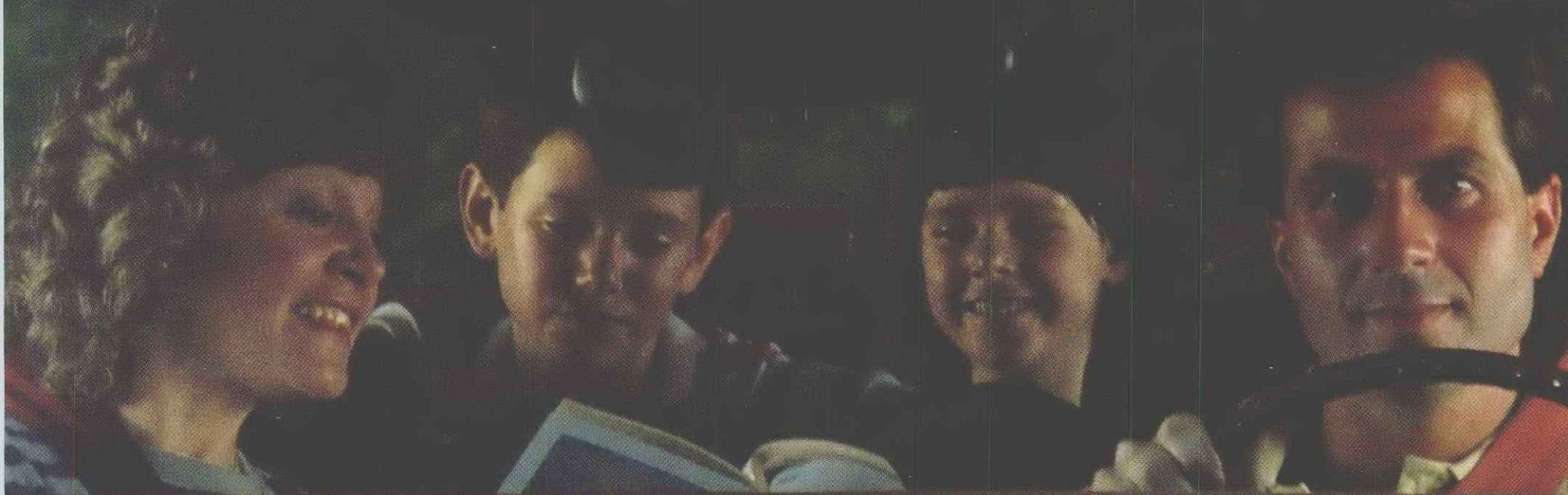
different disciplines into one unit we can examine alternative market options from several perspectives at once. Then, if we get a 'go,' we can make it happen, whether it's domiciled in Vermont, Bermuda or even the Pacific Rim.

But maybe the most important thing we can do for you is to advise you about being your own insurance company in the first place.

JOHNSON & HIGGINS

Innovation Driven by Experience.

RISK AND INSURANCE MANAGEMENT SERVICES; EMPLOYEE BENEFIT CONSULTING WORLDWIDE.



Frank Sullivan, model father, loving husband, successful manager, and prime candidate for suicide.

"Frank Sullivan" is a fictitious name. But his case is real, and it's a story that concerns companies of all sizes.

One out of five Americans will experience mental health problems this year. And with the many counseling options available to an employee seeking help, the most appropriate and effective form of treatment isn't always the one chosen.

If that isn't enough to scare you, the costs will. Especially when you consider that mental health costs are growing at twice the rate of other healthcare costs.

Working with the American Psychiatric Association, Intracorp has developed an innovative outpatient mental health and substance abuse review program. We see that employees with problems are directed to the treatment they need—psychiatric care, family counseling or something in between. We monitor treatment plans on an ongoing basis to control expenses and

ensure the quality and appropriateness of care.

And, if necessary, our mental health advisors work with treating clinicians to develop alternative plans which can better serve the patient's needs.

Intracorp's dedicated mental health review specialists make this unique system work. They take steps to see that patients get the care they need from the appropriate professionals—psychiatrists, psychologists, family counselors, or other mental health clinicians. And they do this with an eye towards the quality of the care rendered as well as your company's bottom line.

So people like Frank won't continue to slip through the net.

For more information on the comprehensive inpatient and outpatient review services Intracorp can offer your company, call 1-800-345-1075 (In PA, HI

and AK call collect, 1-215-889-2600).

But please, call soon. Because you may be saving your company more than just money.

Intracorp, Greg Riedi, Director of Marketing BI-FS
1205 Westlakes Drive, #300, Berwyn, PA 19312

Please send me more information on Intracorp's Medical Review Services including Outpatient Mental Health and Substance Abuse Review.

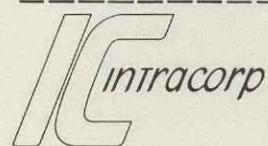
Name/Title: _____

Company: _____

Street: _____

City: _____ State: _____ Zip: _____

Phone: _____ Ext. _____



Regulator sues HMO's, parent's directors

By MIKE SCHACHNER

TRENTON, N.J.—New Jersey Insurance Commissioner Kenneth D. Merin is seeking more than \$8.4 million in two lawsuits charging mismanagement by board members of both a health maintenance organization that was declared insolvent in April and its parent company.

The suits, filed in New Jersey Superior Court in Cumberland County, seek the sums from board members of Omnicare, a Vineland-based HMO declared insolvent by about \$2 million on March 31, and CompaAS Health Systems Inc., which owns and managed Omnicare.

Omnicare was placed into receivership on April 22.

In his action against CompaAS

directors, Mr. Merin, who is the court-appointed supervisor of Omnicare, seeks the return of \$1.26 million in management fees that the insolvent HMO paid CompaAS while failing to pay other arm's-length creditors.

Mr. Merin contends CompaAS received full payments for management service fees between December 1987 and April 1988 even though CompaAS board members and Omnicare board members knew that Omnicare was insolvent.

The \$1.26 million in management service fees had been established in an agreement signed in November 1984 when Omnicare entered into a management contract with CompaAS. CompaAS later exercised an option to purchase Omnicare in June 1987.

However, New Jersey Deputy

Attorney General Stephen P. Tasy, who is trying the case, said a "voidable transfer" involving the management fees occurred because 20 outside creditors of the HMO were not paid in full during this time. By law, arm's-length creditors must be paid prior to creditors that are not at arm's length, Mr. Tasy explained.

"We contend that they not only knew they were insolvent but that they knew they were not going to pay their creditors in full when they were paying themselves in full," Mr. Tasy said.

Among the 19 named defendants are:

- CompaAS.
- Omnicare.
- CompaAS Chairman, President and Chief Executive Officer Dominick V. DeCencio, also the

former president and CEO of Omnicare.

- CompaAS Chief Financial Officer and Director Arthur Schalick. Mr. Schalick also was board chairman for the non-profit organization that sold Omnicare to CompaAS.

- Marc Feldman, a CompaAS director and an Omnicare officer.

- Leo Plante, a CompaAS director.

A New Jersey Insurance Department staff member said he knew of no D&O coverage that would apply to the dispute.

CompaAS attorney George Moore, with the Philadelphia law firm Ballard, Spahr, Andrews & Ingersoll, said Mr. Merin's allegations are "completely without merit."

"The examples the commissioner

has chosen to use are exceptions rather than the rule," Mr. Moore said. "All contracted, capitated providers were paid in advance."

Mr. Moore said CompaAS paid its contracted providers more than \$400,000 per month during the time it allegedly conducted the voidable transfer with Omnicare. Mr. Moore also said all utilities and other contractors were paid in full.

A hearing on the commissioner's lawsuit, which does not seek punitive damages, has been rescheduled for Feb. 3.

In another suit filed last April, Mr. Merin seeks more than \$7.14 million from both CompaAS and Omnicare board members, charging them with self-dealing, negligence, mismanagement and depleting and diverting the insolvent HMO's assets.

In that action, Mr. Merin is seeking:

- \$813,000 as compensation for Omnicare's loss of book value because of its sale to CompaAS.

- \$3.7 million as compensation for the lost opportunity of selling Omnicare to King of Prussia, Pa.-based Heritage Health Systems Inc.

- Nearly \$2 million as compensation for the 19 named defendants' mismanagement of the HMO.

The suit also asks the court to set aside Omnicare's outstanding \$668,977 debt for management fees to CompaAS, calling the fees excessive. Mr. Merin also seeks unspecified punitive damages.

The April lawsuit alleges several instances of mismanagement, including:

- Selling Omnicare to CompaAS for a price below Omnicare's fair market value.

- Underbidding premiums for subscriber contracts without regard for financial harm.

- Entering into contracts with providers at rates exceeding fair market value.

- Contracting at a rate more than \$100,000 higher than fair market value with an ophthalmologist whose partner was married to Omnicare's president.

Named defendants are CompaAS; Omnicare; and Provident Life & Accident Insurance Co. of Chattanooga, Tenn., which reinsured Omnicare.

According to Mr. Tasy, provisions of the reinsurance policy:

- Allows Omnicare subscribers to opt for continued full coverage from Provident from the time of Omnicare's insolvency until the end of the subscription period.

- Provides that Provident offer Omnicare subscribers within 31 days of the HMO's insolvency replacement health insurance that provides the same benefits at the same rates.

- Provides continued benefits to subscribers already receiving care at the time of the insolvency until care is completed.

Attorneys for Provident would not comment on policy details.

The New Jersey Insurance Department has reached an oral agreement with Provident regarding claims payment under the terms of the policy, confirmed Mr. Tasy and John Degnan, an attorney with the Morristown, N.J., law firm Shanley & Fisher who represents Provident.

Mr. Tasy and Mr. Degnan said they hoped to reveal details of the agreement later this month.

In an earlier interview, Mr. Tasy said the Insurance Department hoped Provident would indemnify the HMO early next year. "That would expedite the rehabilitation process," he said.

A court date on the suit that was filed in April has not been set. ■

When it comes to CARGO

...come to MCGEE!

WORLDWIDE INSURANCE COVERAGE FROM

WM. H. MCGEE & CO., INC.

UNDERWRITING MANAGERS SINCE 1887

Four World Trade Center, New York, N.Y. 10048

Telephone: 212-775-1300 • Telex: 12-9249 • Fax: 212-524-6805

Atlanta • Baltimore • Boston • Charlotte • Chicago • Clifton • Columbus • Dallas • Detroit
Hamilton, Bermuda • Hato Rey, P.R. • Houston • Los Angeles • Melville, L.I. • New Orleans
New York Regional • Philadelphia • Pittsburgh • San Francisco • Seattle • Syracuse
Toronto • Vancouver

Correspondents throughout the world



Skandia renews bid for Norway's Vesta

STOCKHOLM, Sweden—Sweden's largest insurer is rekindling plans to buy Norway's second-largest insurance company as part of its overall plan to build a pan-Scandinavian insurance group.

Skandia Insurance Co. Ltd. last May had dropped its attempt to acquire Vesta Group P.L.C. after Norwegian authorities said they would not relax their 10% limit on foreign ownership in Norwegian insurance companies (*BI*, May 16, 1988).

But Bjoern Wolroth, managing director of Skandia, said that after discussing the matter with Gunnar Berge, Norway's minister of finance, he felt the problem had been resolved.

In addition, Mr. Wolroth said Vesta's management supports Skandia's bid of 800 million Swedish krona (\$130.5 million) for all equity in the insurer.

However, Skandia's bid is lower than the 476 million Norwegian krone (\$72.5 million) that the insurer offered in May for only 25% of Vesta.

After the acquisition, Skandia plans to sell Vesta subsidiary Hygea Life Insurance Co. to a group of Norwegian investors, said a Skandia spokesman.

Bank sources said one reason the earlier deal had foundered—apart from the Norwegian government's opposition—had been opposition to Skandia's inclusion of Hygea in the deal.

Vesta controls some 18% of the Norwegian non-life insurance market and 9% of the nation's life

Worldwide

insurance business, the Skandia spokesman said.

Vesta, which is a leading underwriter of oil rig insurance, has reported losses of more than \$153 million in each of the last two years.

Skandia, which controls 24% of the non-life insurance market and 33% of the life insurance market in Sweden, recently acquired companies in Denmark and Finland as a means of securing a dominant position in Scandinavia before 1992, when trade barriers are scheduled to be removed in Europe.

—By John Parry

J&H eyes broker

MADRID, Spain—Spain's largest insurance broker, Gil y Carvajal S.A., has reached a verbal agreement for the sale of 25% of its shares to Johnson & Higgins of New York.

The companies currently are auditing the value of the Spanish broker, but a valuation of 100% of Gil y Carvajal's equity is expected to be in the neighborhood of 7 billion pesetas (\$61.4 million), according to Javier Barcaiztegui, partner and managing director of Gil y Carvajal.

"We have been hoping to have a

deal with Johnson & Higgins for many years," Mr. Barcaiztegui said, adding that his company has not yet made any legal ties with Johnson & Higgins.

Gil y Carvajal is the exclusive correspondent in Spain for Johnson & Higgins and a member of UNISON, an international brokerage network based in Brussels, Belgium, that includes Johnson & Higgins.

"It is very logical if we cede 25% to Johnson & Higgins in order to be more unified in the future," commented Mr. Barcaiztegui, who said he feels the deal will better prepare the Spanish insurance broker for stiffer European competition after trade barriers fall in 1992.

As part of the acquisition agree-

ment, Johnson & Higgins has the option to increase its holdings to 50% within the next five years. However, control of Gil y Carvajal will remain in Spain, according to Mr. Barcaiztegui.

The future of Gil y Carvajal has been the subject of intense speculation within Spanish business circles since last spring, with reports stating that some shareholders were interested in selling their holdings to certain Spanish banks.

However, Mr. Barcaiztegui said that discussions with banks did not ever focus on a sale.

Spanish banks have been aggressively moving to increase and diversify their holdings in other sectors of the financial services industry.

—By Maria Kielmas

TO INSURE THEIR LIVES GO TO LONDON TO PROTECT THEIR TEETH COME TO DELTA

You know where a professional free-style skier would go to insure his life.

But do you know where over 17 million Americans in over 21,000 companies go to protect their teeth? They come to the Delta Dental Plan, America's first, leading and largest.

Why? For four very understandable reasons: cost containment, quality of care, flexibility, and dollar value.

Whether your company is large or small, give us a call at **1-800-441-3434** for complete information.

 **The Delta Dental Plan**
America's First, Leading and Largest

Hockey cover

Continued from page 3
threats.

Mr. Owen, who is one of Lloyd's leading personal accident insurers for professional U.S. athletes, underwrites for Lloyd's syndicate 718, which is managed by Oxford Syndicate Management Ltd.

Alan Eagleson and Sam Simpson, directors of the Players' Assn., also say the underwriters have not threatened to cancel or alter the policy because of the public rows.

While the Players' Assn. has sent a letter to players asking them to stop threatening one another, the letter does not warn players that their disability insurance is in jeopardy, according to Mr. Eagleson.

He added that the Players' Assn. has a good working relationship with the underwriters.

The Players' Assn. would not release a copy of the letter it sent to the NHL players.

The insurance policy's disability benefits are offered to players through membership in the Players' Assn. The policy, which is not due for renewal until September 1989, offers up to \$150,000 for players under the age of 26 who are injured and disabled. Lower limits apply for players who are older than 26 or near the end of their contracts, according to Mr. Fairlie.

A scale of limits according to players' ages was introduced several years ago because of the high incidence of claims filed by older players nearing the end of their careers, Mr. Fairlie explained.



Government offers Medicare guidelines

By DEBORAH SHALOWITZ

WASHINGTON—The federal government is offering guidelines to employers for estimating the value of benefits they offer for acute catastrophic illness costs that now are covered by the expanded Medicare program.

Under the new law, employers must estimate the value of the retiree health care benefits they offer and determine whether those benefits duplicate any of those now offered under Medicare. Also under the law, if employers have provided benefits that duplicate those now offered by Medicare, employers must offer beneficiaries a refund or some additional benefits (BI, June 13; June 6).

In a clarification of the law published Dec. 6 in the Federal Register, employers owe beneficiaries a refund or additional benefits only if the value of the duplicated benefit is at least 50% of the total value of the additional Medicare benefits.

The value of the additional benefits that Medicare beneficiaries are entitled to under the expansion of Medicare Part A in 1989 is \$65, according to estimates prepared by the Health Care Financing Administration. Employers also may estimate the value of those benefits themselves.

The value of the additional benefits Medicare beneficiaries will be entitled to under the expansion of Medicare Part B in 1990 will be published by Jan. 1, 1990, according to HCFA.

Medicare Part A covers inpatient hospital services, care in a hospice and some skilled nursing facility care. Medicare Part B covers physician services and other medical services, such as diagnostic X-rays and laboratory fees.

The refund or additional benefits employers provide to beneficiaries must be equal in actuarial value to the duplicated benefits. The actuarial value of the benefits must be calculated with respect to how much they are worth to the beneficiary, not how much they cost the employer to provide.

"Thus, we do not consider administrative or other overhead costs that an employer may incur in establishing the additional benefits or refunds appropriate for consideration by employers in determining the actuarial value of the new benefits or the amount of any refunds," HCFA stated.

Employers must provide additional benefits in place of the duplicated benefits for a full year or calculate a refund for the portion of the year not covered, the notice said. Also, refunds must be available to the beneficiary by the end of the calendar year in which the duplicated benefits were provided.

For further information on the actuarial values and guidelines, contact Kenneth Leong at 301-966-7908. For further information on other related topics contact Herbert Pollock at 301-966-4474.

Medicare study

The government should establish financial incentives to ensure that Medicare does not pay medical bills other insurers should cover, recommends a new report by the U.S. General Accounting Office.

Between 1980 and 1986, Congress established Medicare as the secondary payer to certain other health insurance plans. About 5% of all Medicare beneficiaries—1.5 million people—have insurance coverage that is required to pay their medical bills ahead of Medicare.

For example, employer-provided group health care plans are the primary payer for employees stay-

Washington

ing on the job after age 65.

Currently, there is no financial incentive for other insurers covering Medicare beneficiaries to ensure that Medicare pays only expenses not covered by the primary payer, according to the report.

"Insurers that do not pay beneficiaries' medical bills appropriately as the primary payer face no penalty and save themselves money by not doing so," stated the report.

Therefore, Congress should allow the government to collect twice the amount owed from insurers that do not properly treat Medicare as the secondary payer, recommended the report.

Copies of the report, "Medicare:

Incentives Needed to Assure Private Insurers Pay Before Medicare," are available from the U.S. General Accounting Office, P.O. Box 6015, Gaithersburg, Md. 20877; 202-275-6241. The first five copies of the report are free. Additional copies are \$2 each. Orders must be prepaid by cash, check or money order made out to the Superintendent of Documents.

PBGC payments

The Pension Benefit Guaranty Corp. next year will boost the maximum benefit to participants of terminated single-employer plans.

For plans that are terminated in 1989, the new monthly maximum guarantee per participant will be \$2,028.41, up 6.3% from \$1,909.09 for plans terminated this year. In 1987, the maximum monthly guarantee per participant was \$1,857.95.

The maximum guaranteed amount is adjusted annually according to a formula prescribed by law and is based on data from the Social Security Administration.

The average monthly benefit paid to participants of terminated pension plans is much lower than the maximum, though. For example, in fiscal 1987, the latest year for which figures are available, the average monthly benefit paid to participants of terminated single-employer pension plans was only \$250.

The PBGC pays benefits to workers and retirees whose pension plans terminate with insufficient assets to pay guaranteed vested benefits.

Auto safety

Courts must have substantial freedom to award damages to people injured in unsafe cars because the federal government has become so lax in setting auto safety standards, says a research organization founded by plaintiffs' attorneys.

Furthermore, weakening the tort rights of people injured by auto safety defects could remove needed pressure on car companies to make less hazardous products, the group charged in a position paper released last month.

Continued on next page

NO CANNED ANSWERS

MGA faces fraud, conspiracy charges

By DOUGLAS McLEOD

NEW YORK—A former managing general agent for American Centennial Insurance Co. is facing criminal charges that he illegally diverted reinsurance premiums ceded to American Centennial by a Bermuda-based utility industry captive insurer.

John A. Kraeutler, who headed The Underwriters Inc., a former American Centennial MGA, was indicted on wire fraud and conspiracy charges by a federal grand jury Dec. 15.

Mr. Kraeutler was scheduled to be arraigned on the charges in U.S. District Court in New York last Thursday.

The indictment comes more than four years after American Centennial sued Mr. Kraeutler, Parsippany, N.J.-based TUI and several

The indictment comes more than four years after American Centennial sued Mr. Kraeutler, TUI and others for allegedly diverting millions of dollars of premiums ceded by Associated Electric & Gas Insurance Services Ltd.

others for allegedly diverting millions of dollars of premiums ceded by Associated Electric & Gas Insurance Services Ltd., the utility industry captive.

That suit, charging violations of the Racketeer Influenced and Corrupt Organizations act, is still pending in U.S. District Court in Newark, N.J.

Both the civil and criminal allegations against Mr. Kraeutler arise from TUI's involvement in binding

American Centennial as the principal reinsurer of the AEGIS program beginning in 1978.

Under the program, AEGIS—which provides general liability and other casualty coverages for scores of U.S. utility companies—retained \$1 million of a \$10 million direct excess liability program, reinsuring the remaining \$9 million in three layers.

TUI bound American Centennial as the sole reinsurer on a first \$1.5

million layer and as a retrocessionaire of another reinsurer on a second \$2.5 million excess of \$2.5 million layer and a third \$5 million excess of \$5 million layer.

In its 1984 civil racketeering complaint filed in Newark federal court, American Centennial charged that Mr. Kraeutler and a group of reinsurance brokers conspired to divert premiums by:

- Skimming off brokerage commissions. Although American Centennial was notified of only one producer—TUI—on the AEGIS reinsurance program, Mr. Kraeutler and the other defendants siphoned off substantial brokerage commissions, concealing the alleged diversions by falsely reporting the fees to American Centennial as AEGIS ceding commissions, the complaint charged. Diversions on first-layer reinsurance premiums alone totaled \$4.5 million, according to the suit.

- Funneling American Centennial's retrocessions on AEGIS business to intermediaries and reinsurers owned or controlled by some of the defendants. These included Island Reinsurance Corp., a Cayman Islands reinsurer whose principal shareholder was Mr. Kraeutler, the complaint alleged.

In addition to Mr. Kraeutler, TUI and Island Re, the complaint named Joseph Ambriano, a New York insurance executive who acted as a broker on the AEGIS reinsurance placements, and Nicholas Jones, president of Bermuda-based Fordingbridge International Underwriters Ltd. Mr. Jones also acted as a broker on the program.

The four-page federal indictment of Mr. Kraeutler outlines some of the same allegations contained in the American Centennial lawsuit.

The indictment charges that between May 1978 and January 1984, Mr. Kraeutler devised a fraudulent scheme in which he would gain control of the stream of AEGIS reinsurance premiums and divert a portion of the premiums to himself and others.

Mr. Kraeutler executed the alleged scheme in part by falsely telling AEGIS that no broker would be involved in the reinsurance placements with American Centennial and that no broker's fees would be paid, the indictment says.

Between May 1978 and September 1983, Mr. Kraeutler also submitted reports to American Centennial that "falsely stated, among other things, the identity of the recipient of portions of the premiums which Kraeutler was diverting for his own benefit and the benefit of others, as well as the true amount of the premiums owed by AEGIS for the insurance coverage provided by" American Centennial, the indictment alleges.

Three counts of wire fraud against Mr. Kraeutler are based on three wire transfers totaling \$583,220.88 from the Bank of Bermuda Ltd. to American National Bank in Morristown, N.J., in December 1983 and January 1984.

The indictment also charges Mr. Kraeutler with one count of conspiracy for allegedly combining with others not named in the indictment to commit wire fraud and to transport money taken by fraud in interstate and foreign commerce.

Mr. Kraeutler's indictment resulted from an investigation of the AEGIS reinsurance program begun more than a year ago by U.S. Postal Service investigators and the office of the U.S. Attorney for the Southern District of New York.

The investigation has also targeted other individuals involved in the reinsurance program, though federal officials refuse to name additional targets. ■

NOTHING BUT PERFORMANCE.SM

Arkwright has one purpose. To help its customers throughout the world minimize their long-term cost of risk. To do this, we provide a wide range of risk management services, which we apply in a disciplined and straightforward way. First, working with our customers to identify, evaluate and reduce risk through engineering. Then, tailoring a program to protect exposures that cannot be eliminated. This calls for a fresh perspective and original thinking. Every time. We're not saying we're perfect. Only that at Arkwright, you're going to get solutions that are developed for you. Not somebody else.

ARKWRIGHT

Arkwright Mutual Insurance Company
Hobbs Group, Inc.

First Interstate

Continued from page 3

Metropolitan and First Interstate agree to a projection of claims expenses for the coming year, Ms. Perkins explained. If claim costs exceed the projection by up to 25%, Metropolitan and First Interstate each pick up 50% of the excess. Claims costs in excess of 25% of the projection will be paid by First Interstate.

This is different from the arrangement negotiated between Hartford, Conn.-based CIGNA Corp. and Morristown, N.J.-based Allied-Signal Inc.

Allied-Signal launched a similar, but more restrictive, point-of-service HMO plan in early 1988. Under its "Health Care Connection" plan, employees can enroll only in the CIGNA HMO/indemnity program (BI, Feb. 22, 1988).

And, under a three-year contract with CIGNA, the insurer guarantees that Allied-Signal's health

care costs will not rise above a stipulated amount during each year of the contract.

"Health Span" now is available to First Interstate employees in Arizona, Colorado, California and Oregon.

Employees in California, Colorado and Oregon also can elect to enroll in a Kaiser Foundation Health Plans HMO. Employees in Arizona can elect a CIGNA HMO, since Kaiser does not operate in that state, said Jerry Murbach, manager of benefits for First Interstate.

The bank had offered several HMOs in each of these states—as many as eight or nine in California alone—but began consolidating its HMO offerings over the last year, said Ms. Perkins.

In addition to a health care plan, employees also can choose either an indemnity-style dental plan administered by local Delta Dental Plans or a prepaid dental plan, administered by local Safeguard

Health Plans.

Employees' share of the premium contribution for their health care coverage is the same regardless of whether they enroll in Health Span, CIGNA or Kaiser, said Ms. Perkins.

As a result of the equal premium contributions, "the choice for employees is really what doctors and facilities are available under each plan," instead of just cost, explained Mr. Murbach.

Employees who elect Health Span and use network providers do not pay an annual deductible but there are some copayments.

For example, employees pay \$50 a day for a maximum of four days when they are hospitalized. After that, the plan pays 100% of expenses.

And, employees pay a \$25 copayment toward emergency room visits, unless the visit results in a hospital admission.

In addition, employees pay \$10 per visit to a physician's office; \$10

per visit for routine physicals; up to \$10 per injection for immunizations; \$5 toward brand name prescriptions; and \$3 toward generic prescriptions.

Employees who choose to enroll in Health Span must select a primary care physician to direct their care when they use network providers. And, they must use their primary care physician when using the network in order to receive full benefits.

Employees do not have to file claims forms when they use network providers.

Coverage is reduced to 70% from 100% on most services when employees use non-network providers, Mr. Murbach explained.

Also when using non-network providers, individuals are subject to an annual deductible of \$250, plus an out-of-pocket maximum of \$3,000. Families are subject to an annual deductible of \$750, plus a maximum out-of-pocket expense of \$6,000.

In addition, routine physicals and immunizations are not covered at all unless they are delivered by network providers.

First Interstate plans to expand the HMO portion of Health Span to employees in Nevada, New Mexico, Oklahoma, Utah and Washington by 1990. The network then will be available to about 90% of the company's employees.

For now, employees in no-network states are covered by an indemnity plan that also is called "Health Span." The plan is similar to the indemnity plan in network states. However, benefits are paid at 80% instead of 70%.

Under the no-network Health Span indemnity plan, employees pay an annual deductible of \$250 for individual coverage, plus an annual maximum out-of-pocket expense of \$1,500. For family coverage, employees pay a maximum annual deductible of \$750, plus an annual out-of-pocket maximum of \$3,000.

The lifetime maximum coverage is \$2 million under both the network and no-network plans.

Employees in no-network states also can choose from a variety of HMOs. However, as the Health Span network is expanded to these states, the number of other HMOs will be reduced, Ms. Perkins explained.

As part of Health Span, First Interstate also introduced on Jan. 1 a managed mental health and chemical dependency program. Administered by Santa Monica, Calif.-based Managed Health Network Inc., the program is available to employees in both network and no-network states.

Employees can access the MHN network either through the employee assistance program at their bank location or by calling a toll-free number 24 hours a day, seven days a week.

Employees who use the MHN network receive higher benefits. For example, they pay nothing for the first five visits to a mental health provider; \$10 for the next five; \$20 for the next five; and \$30 for the 16th through the 50th visit. The plan covers a maximum of 50 visits.

If employees do not use the network, they receive coverage of 50%, up to a maximum of \$25, per individual session and 50%, up to a maximum of \$10 per visit, for group sessions.

A maximum of 20 individual sessions and 40 group sessions are covered.

There is no annual deductible for mental health services regardless of whether a network or non-network provider is used. And, there is a \$50,000 lifetime maximum for coverage.

For inpatient and outpatient chemical dependency treatment, employees receive 100% coverage up to \$6,000 per program per year if they use MHN providers. Coverage is reduced to 50% for the first two days, up to \$300 per stay, if employees go outside the network.

For detoxification, employees receive 100% coverage for a maximum of five days in the network and 50% for the first two days, up to \$300 per stay, outside the network.

There is no annual deductible for chemical dependency treatment. Employees are covered for a maximum of two treatment programs per lifetime.

Also as of Jan. 1, Health Span enrollees can participate in a mail service prescription program for maintenance drugs, Mr. Murbach said.

Under the program, employees can order 90-day supplies of maintenance drugs—such as those used to treat high blood pressure or heart conditions—and pay a \$3 copayment. Employees file no claim forms under the program, which is administered by National Rx Services Inc. of Las Vegas, Nevada. ■

Crawford 1989 Directory

Crawford
Covers the States . . .
and Canada, too

Request your free copy today!

Your guide to the more than 700 Crawford & Company Service Offices
in one handy volume.

We now have FAX numbers for most of our office locations.
Check the new 1989 Directory for details.

Please send 1 2 4 5 10 _____ complimentary copies.
SPECIFY NUMBER

Name: _____

Title: _____ Telephone: (____) _____

Company: _____

Street Address: _____

City: _____ State: _____ Zip: _____

Mail to Crawford & Company, Market Communications
P.O. Box 5047, Atlanta, GA 30302



Benefit communication stresses choice of plan

LOS ANGELES—The communication program First Interstate Bancorp used to promote its new health care plan stresses that while the number of options were reduced, employees still have several choices.

In addition, the banking firm also wanted to make sure employees were educated about the new point-of-service health maintenance organization/indemnity plan.

Under the bank's redesigned benefits plan, employees in four of the 19 states in which the bank operates now have two health care plan choices: "Health Span," the HMO/indemnity plan, and one other independent HMO. The company also introduced on Jan. 1 a managed mental health and chemical dependency benefit plan (see related story).

"We wanted basically to inform and educate employees about the plan. And, we wanted to try to motivate people to have a positive response to the benefits changes,"

'We wanted to try to motivate people to have a positive response,' says Mr. D'Anna.

explained Joseph R. D'Anna, a communication consultant with The Wyatt Co. in Sherman Oaks, Calif.

And, "in the four states with the managed care network, we had a lot of HMOs in the past and a lot of employees enrolled in them. So, for the majority of employees, we did not have to explain what an HMO is or how it works," said Jerry Murbach, manager of benefits for First Interstate.

With Wyatt's help, First Interstate developed a communications package that includes newsletters announcing and describing the new plan, an 11-minute video, brochures and an enrollment booklet.

All communications materials feature a graphic of a rainbow shooting through a pyramid and the slogan "Health Span: A Managed Care Program."

Employees received the first of three newsletters in July.

The July edition includes a letter from the company's chairman about health care cost inflation and First Interstate's efforts to control costs for the company and employees.

The newsletter also gives an overview of the new point-of-service plan.

The next two issues provide more information about the benefits coverage if employees use the network or go outside the network, as well as information about the managed mental health care plan.

Employees also viewed a video at their annual enrollment meetings in November that was intended to give a broad overview of the main components of Health Span, Mr. Murbach explained.

In the video, an actor portraying a physician discusses the features of the new plan. "The main message was that employees do still have a choice of providers, but that they get better benefits when they use the network," said Mr. D'Anna of Wyatt.

Employees also received an enrollment booklet that provides details about the coverage available

under Health Span and the other HMOs offered by the company. The booklet also discusses the rising cost of health care and the bank's hopes that Health Span will control costs and quality for employees.

The booklet includes brochures on the managed mental health plan, a mail order prescription

drug program, the utilization review program, and questions and answers about Health Span.

While final enrollment figures were not yet available, "the feedback we have received on the communications is that it was very well organized," Mr. Murbach said.

—By Donna DiBlase

Special Facility for Reinsuring Pure and Association Captives and Risk Retention Act Companies

CAPTIVE SYNDICATE MANAGEMENT, LTD.

U.S. REPRESENTATIVE OFFICE
26 BROADWAY, SUITE 400 . NEW YORK NY 10004
TELEPHONE (212) 837-7743 FAX (212) 837-7923



California Quail

75 Years

**STATE
COMPENSATION
INSURANCE
FUND**

1914 1989

The California Quail. For centuries this hardy little bird has flourished in the hills and valleys of California, and since 1931 has been the official State Bird.

State Fund is proud to be a part of the Golden State, providing quality workers' compensation insurance to California employers for the last seventy-five years.

800-892-6000

© State Compensation Insurance Fund, 1989

Leistner named president of McAlear

Ralph Leistner has been named president of McAlear Associates Inc., a Grand Rapids, Mich.-based subsidiary of Willis Faber Holdings Inc. In his most recent position, Mr. Leistner was executive vp of the surplus lines broker and managing general agent.

Mr. Leistner's former duties have been distributed between two new positions: **David Martin** was promoted to executive vp-operations and **Beverly Naedele** was promoted to executive vp-administration.

Thomas Bloom, formerly chairman and president of McAlear, will retain the title of chairman. He also is president of Willis Faber Holdings Inc.

Also, **Dennis Randolph** and **Mark Patterson** were named senior vps.

Willis Faber Holdings, formerly Stewart Smith Holdings, is the second-largest surplus lines wholesaler based on 1987 premium volume of \$383 million (BI, Aug. 8).

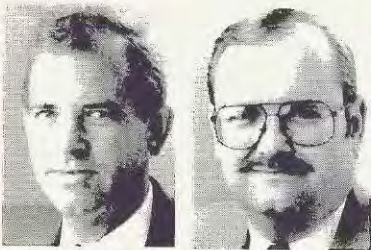
Insurers

G. David Hurd, president of The Principal Financial Group of Des Moines, Iowa, has been named to the additional post of chief executive officer effective Jan. 1.

Mr. Hurd joined the company—then Bankers Life Co.—in 1954. He was named an officer in 1960, vp in 1971, senior vp in 1983 and executive vp in 1985.

Mr. Hurd succeeds Chairman and CEO John R. Taylor, who will retire July 1.

Also at The Principal Financial Group, **David J. Drury** promoted to senior vp and chief actuary, and **Richard H. Neil** named senior vp-group operations, a newly created position.



Mr. Bell Mr. Zimmerman



Mr. Meyer Mr. Ward

Maryland Casualty Co. of Baltimore announced the following promotions in its home office: **Thomas J. Bell** to vp-claims; **Keith W. Zimmerman** to vp-claims administration; **Johannes Meyer** to vp-workers compensation claims; and **Charles A. Ward** to vp-property claims.

John Hill promoted to vp and assistant to the president for The Home Insurance Co. of New York.

William C. Koenig named vp and chief actuary of Northwestern Mutual Life Insurance Co. of Milwaukee.

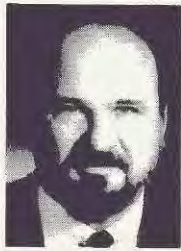
Donald K. Wilson Jr. appointed executive vp of The Hartford Steam Boiler Inspection & Insurance Co. of Hartford, Conn.

Agents/brokers

Thomas V. Hallett officially named executive vp of Frank B. Hall & Co. Inc. in New York, as known since October.

Also, **David A. Rankin** joined Frank B. Hall & Co. of Ohio Inc. in Akron as vp. Most recently, Mr.

Comings & goings: industry



Mr. Hallett

Rankin was a regional vp for Maguire Insurance Group in Wynnewood, Pa.

In addition, **Galt Grant** named vp in the Boston office of Hall. Mr. Grant had been director of risk management at Foliaroid Corp. in Cambridge, Mass.

Fred S. James & Co. Inc. of Chicago announced the following appointments to executive vp: **John E. Doerr**, **James M. Herrmann** and **William R. Storie**. James also ap-

pointed to senior vp: **Cynthia L. Ferrara**, **Patricia A. Saony** and **Kenneth Gladkowski**. In addition, **L. Keith Burkhardt** appointed to vp.

In addition, **Terry R. McCubbin** joined Fred S. James & Co. Inc. in Chicago as senior vp. Previously, Mr. McCubbin was deputy managing vp with Alexander & Alexander Services Inc. in St. Louis.

Reinsurance

Steven A. Mestman promoted to vp-treaty casualty for Prudential Reinsurance Co. in Newark, N.J., a subsidiary of The Prudential Insurance Co. of America.



Mr. Mestman



Mr. Mottola

Also, **John T. Mottola** promoted to vp-claims of Prudential Re.

Peter F. Toy promoted to vp-facultative branch casualty manager of Princeton, N.J.-based American Re-Insurance Co.'s Hartford, Conn., branch. In addition, Mr. Toy was named major accounts manager for the New England major accounts region.

Ronald C. Stanziale Jr. pro-

moted to vp of Skandia America Group of New York.

HMOs/PPOs

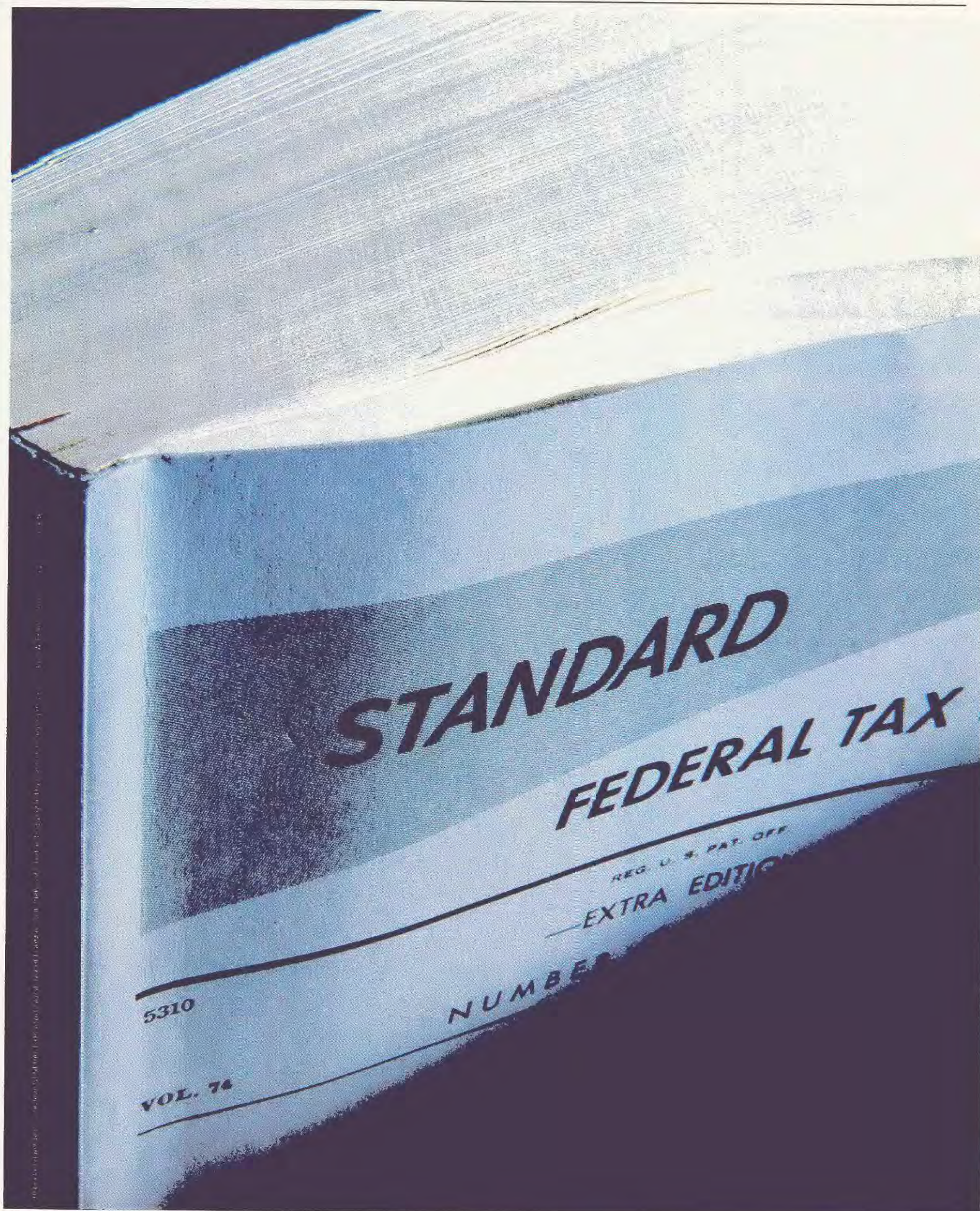
Dr. Peter R. Kongstvedt named chairman and chief executive officer of HealthAmerica of Pittsburgh. Also, Executive Director **C. Michael Blackwood** named to the additional post of president.



Dr. Kongstvedt

Other suppliers

Lowell E. Tanzer joined Buck
Continued on next page



Continued from previous page

Consultants Inc. of New York as director-administrative consulting services. Most recently, Mr. Tanzer was president of Trust Fund Administrators Inc. in Columbia, Md.



Mr. Tanzer



Mr. Nee



Mr. Kocher

In addition, Timothy L.S. Nee joined Buck's Dallas office as consulting actuary. In his previous position, Mr. Nee was a principal with William M. Mercer-Meidinger-Hansen Inc.

Also, Ronald L. Kocher joined Buck's Detroit office as a benefit consultant. In his most recent position, Mr. Kocher was an executive vp with Northern Group Services, a third-party health claims administrator.

Helen Darling joined the Stamford, Conn., office of New York-based William M. Mercer-Meidinger-Hansen Inc. Most recently, Ms. Darling was a senior health policy adviser to Sen. Dave Durenberger, R-Minn.

Robert C. Phillips joined A. Foster Higgins & Co. Inc. of New York as executive vp. Mr. Phillips, who will be based in Los Angeles, was previously a vp and board member of TPF&C, a division of Towers, Perrin, Forster & Crosby Inc. ■

Competitive market takes toll on Bermuda market in 1987

By ROGER SCOTTON

HAMILTON, Bermuda—Insurance and reinsurance premium volume written by Bermuda-based companies dropped sharply last year, according to government statistics released last month.

Gross premium volume dropped 17% to \$10.3 billion in 1987, while net premium volume declined by 23% to just more than \$8 billion, according to the Bermuda Ministry of Finance.

The decline was due to "a reduction in the levels of original rates combined with the increased utilization of the standard commercial markets by captive owners," said Bermuda Registrar of Companies

Verbena Daniels.

The figures are based on statistical returns from 1,333 companies.

While premium volume among Bermuda insurers and reinsurers declined, their assets and their capital and surplus grew, Ms. Daniels noted. Capital and surplus rose 20% to \$14.9 billion at year-end 1987 from \$12.5 billion a year earlier, while total assets reported by Bermuda insurers and reinsurers grew 13% to \$34.8 billion from \$30.8 billion at year-end 1986.

Despite an apparent general softening in certain rates for prop-

Bermuda briefs

erty coverages, increased availability of certain previously difficult-to-locate casualty coverages and continued heavy marketing by onshore and other offshore jurisdictions, Bermuda continues to hold her own as the pre-eminent offshore insurance international center for insurance, Ms. Daniels said. The continued growth in gross assets and capital and surplus indicates that the industry in Bermuda is both profitable and willing to build the necessary reserves for a long-term commitment to the business.

Ms. Daniels said that the latest figures continue to demonstrate "the extremely conservative" relationship between premiums and surplus in Bermuda.

Fifty-two new insurance companies were formed in Bermuda during the first 10 months of 1988, which compares with the 82 insurers that were formed in Bermuda in all of 1987.

Cambridge Re claims

Creditors of the insolvent Cambridge Reinsurance Ltd. have been given until Feb. 28 to object to an actuarial calculation of their claims against the reinsurer or be legally bound by the liquidators' estimates.

The deadline is contained in a 21-page document prepared by joint Cambridge liquidators David Lines and Gerry Weiss that was approved by the Bermuda Supreme Court last month.

The document, which is being sent to about 3,000 Cambridge creditors and debtors, sets March 31 as the date of the "determination" of a cash dividend, the first since Cambridge collapsed in April 1985 with total debts of about \$80 million.

Cambridge, a subsidiary of National Sea Products Ltd. of Nova Scotia, is insolvent by \$63.6 million.

The liquidators' report includes new actuarial estimates of creditors' claims, including an unprecedented calculation of Cambridge's contingent liabilities (*BI*, March 16, 1987).

An explanatory memo accompanying the report explains that the liquidators' methodology in assessing the liabilities is based on Cambridge's reported premiums and claims experience, appropriately weighted in each individual case. It says this approach represents an improvement over earlier provisional claims calculations that relied solely on reported premiums.

"The claims which are more susceptible to a methodology based upon reported premiums will be estimated using a weighting reflecting that fact, whereas claims which are more susceptible to a claims-driven methodology will be estimated using an appropriate claims weighing," the memo explains.

Claims calculation forms sent to creditors show how the liquidators have arrived at a gross valuation of losses worked out for each contract for each underwriting year. Draw-downs from letters of credit are then subtracted to arrive at a net valuation for each contract.

However, the calculations are not yet set in stone. Creditors and debtors can still appeal the calculations if they file notice with the Bermuda Supreme Court by Feb. 28 and supply the liquidators with

Continued on next page

How to understand 1379 pages of tax simplification.

Talk to American Re. We have experts who will translate the Tax Act into terms you can work with. They'll give you clear

answers about its impact on your bottom line. Not just this year, but for the long term, too. So you can plan your pricing

and investment strategies from a position of strength. In the era of Tax Reform, it pays to talk to American Re.

American Re-Insurance Company

American Re Plaza, 555 College Road East, Princeton, NJ 08543-5241 (609) 243-4200

Atlanta • Boston • Chicago • Columbus • Dallas • Hartford • Kansas City • Los Angeles • Minneapolis • New York • Philadelphia • San Francisco • Bogota • Cairo • London • Melbourne • Montreal • Santiago • Singapore • Sydney • Tokyo • Toronto



Bermuda briefs

Continued from previous page

a copy of the notice within seven days of filing.

Separate notices are required for each disputed claim valuation.

In cases in which proof of debt has been requested, the appropriate documents are to be completed and returned no later than Jan. 16 if a claim is to be considered for participation in the first interim dividend.

Cambridge Re creditors that are also debtors will have their balances offset to establish net claims, according to the liquidators.

"In some cases, the operation of set-off will be required to make payment to the joint liquidators. Insurance debtors of Cambridge who are debtors by virtue of contracts of retrocession will receive a further notice in due course," the liquidators said.

"Funding" arrangements—the practice of brokers advancing balances to their clients as they became due from Cambridge—and letters of credit are singled out by the liquidators for special mention.

"On Nov. 4, 1988, the joint liquidators wrote to Cambridge's brokers and other intermediaries, inviting them to identify by Jan. 16, 1989, any funded balances in which they claim to have an interest," the

liquidators wrote.

"In order to give brokers time in which to make appropriate arrangements with their clients in relation to such balances, the court has directed that the joint liquidators be at liberty to withhold the payment of dividends for a period of 90 days from the dividend payment date on that part of any claim by contract year in respect of which a broker claims an interest.

"If at the end of that period no assignment or specific written authority has been provided to the joint liquidators to enable them to pay the relevant dividend to the broker, then the dividend will be released to the insurance creditor," the liquidators said.

Concerning letters of credit, the liquidators point out that some creditors have failed to provide the liquidators with "adequate information" on draw-downs or interest earned on excess funds or have failed to account for excess funds. The liquidators warn: "Until clarification of the position in each and every case has been achieved, it will be quite impossible for the joint liquidators to agree with the value of any such creditors' claims in the liquidation."

Creditors that dispute the liquidators' numbers are being urged to act promptly and make use of the court-approved appeal procedure.

"If you (the creditor) do not do so, then under the terms of the court order you will be bound by such valuation," the liquidators explained. ■

London

House of Fraser insured for arson-damage loss

By CAROLYN ALDRED

LONDON—House of Fraser P.L.C. has property insurance to cover an estimated 24 million pounds (\$43.4 million) worth of fire damage to several of its department stores on Dec. 19.

Animal rights activists claimed responsibility for a series of fires and incendiary devices found in House of Fraser stores throughout the United Kingdom, including its Harrods store in London.

Although two of the bombs were deactivated, thousands of pounds worth of damage was sustained

when bombs exploded at a store in Cardiff, Wales, and at Harrods in London. In addition, police are linking a fire that destroyed a store in Plymouth the same day to the other attacks.

Property damage to all the stores likely will total about 17 million pounds (\$30.8 million) while business interruption costs will be about 7 million pounds (\$12.7 million), according to a House of Fraser spokesman.

House of Fraser has primary property coverage and primary coverage for business interruption due to property loss through Stag Insurance Co. Ltd., its Guernsey-based captive insurance company (BI, Oct. 20, 1985). Excess property insurance is led by Legal & General Group P.L.C. and excess business interruption insurance is led by Eagle Star Insurance Co. Ltd., the House of Fraser spokesman confirmed.

The insurance is placed by Genavco Insurance Ltd., a subsidiary of House of Fraser, said the spokesman, who did not disclose the policies' limits or deductibles.

**MANUFACTURERS
HANOVER**

Pacesetter



Letters of Credit have their place, but reinsurance is no longer one of them.

The Reinsurance Trust®—from Manufacturers Hanover Trust Company deserves a slot all its own.

As an alternative for unauthorized reinsurers and companies with self-insurance programs, it offers participation at a fraction of the cost of L/Cs. No annual renewal required, either. Furthermore, the trust fund not only protects the interests of all parties but also satisfies regulatory requirements.

Select our Reinsurance Trust, and other benefits fall neatly into place. Customization, for one. By effectively creating one fund out

© 1989 Manufacturers Hanover. All Rights Reserved.

of many, we are able to provide each beneficiary with its own fund to claim, while offering the cost-effectiveness of a single fund. Personal service, for another. We service your account on a one-on-one basis, assigning an administrator to handle all aspects of the relationship. Accessibility, for still another benefit. A local phone call directly to our quality GEOPAC® reporting system allows you to generate your own reports.

Also, consider the track record we've established in the field of trusts. For decades, our staff has

been known for its professionalism in servicing collateralized trust arrangements. In fact, the excellence of our performance over the years has made Manufacturers Hanover one of the world's largest providers of these complex, specialized services.

The Reinsurance Trust from Manufacturers Hanover. Now, you're no longer boxed in by the rising costs of reinsurance L/Cs.

For more information, contact John Hogan in New York at (212) 971-3316 or contact David Zell in London at (01)-315-6000.

BUPA buys Sanitas

The British United Provident Assn. Ltd. of London, Britain's largest health insurer, has acquired a majority shareholding in Sanitas S.A., Spain's largest health insurer.

"This is a major step in our strategy of developing in the international marketplace and is also our first response to the dismantling of European trade barriers in 1992," said Bob Graham, BUPA's chief executive.

BUPA, a non-profit company, provides coverage for more than 60% of Britain's corporate and private medical insurance market. In addition, it owns and operates 15 hospitals, 23 medical centers and a nursing agency.

Sanitas provides health coverage for 1 million people in Spain, owns two hospitals in Madrid and operates 11 specialist diagnostic and therapeutic centers. Sanitas operates from 45 branch offices throughout the country.

Its clients include many of Spain's leading companies, whose workers are serviced by about 20,000 doctors, according to a statement from BUPA.

New Council members

The Council of Lloyd's of London has appointed three new external members.

The new appointees are:

- Mark Sheldon, a senior partner of London law firm Linklaters & Paines.

- Patrick Egan, a director of Unilever P.L.C.

- Matthew Patient, a senior partner in the London office of accountant Deloitte, Haskins & Sells.

The Council appointments follow the departures of: Edward Walker-Arnott, who recently was elected an honorary member of Lloyd's; Elizabeth Freeman, who is leaving because of increased family commitments; and Alan Hardcastle, recently appointed head of the British government's accounting service.

Wellington buys agency

Lloyd's of London underwriting agency Wellington Underwriting Holdings Ltd. has acquired Lloyd's members' agency A.P. Leslie Un-

Continued on next page

Continued from previous page
derwriting Agency Ltd. for an undisclosed sum.

In 1989, the Leslie agency will handle the affairs of 218 Lloyd's members with a gross underwriting capacity of 96 million pounds (\$173.8 million).

As a result of the acquisition, Wellington will act for more than 500 members with a total of more than 190 million pounds gross capacity (\$343.9 million), according to a statement released by Wellington.

New reinsurance unit

Alexander Howden Reinsurance Brokers Ltd., the London-based reinsurance brokering subsidiary of Alexander & Alexander Services Inc., has formed a unit in New York.

The subsidiary, which has been named Alexander Howden Reinsurance Intermediaries Inc., will produce and market international reinsurance treaty business to the North American reinsurance market.

Joseph Artel has been appointed senior vp of the new subsidiary. Mr. Artel previously was a vp at A&A subsidiary Thomas A. Greene & Co. Inc. in New York.

The new office "will be primarily concentrating on production as well as the expansion of their existing book of business, in addition to providing the North American marketing resource for Alexander Howden Reinsurance Brokers' global reinsurance client base," said Ron Isles, chairman of AHRB.

Sun Alliance reinsurance

Sun Alliance & London Insurance P.L.C. is again buying catastrophe reinsurance.

Sun Alliance canceled its catastrophe excess-of-loss reinsurance coverage in 1985 because of the high rates at the time, and the insurer has not purchased such coverage since then, said Michael Langner, group reinsurance manager.

However, last month Sun Alli-

ance bought 100 million pounds (\$181 million) of catastrophe excess-of-loss reinsurance excess of a 100 million pound retention, Mr. Langner confirmed.

The coverage is placed with reinsurers worldwide through Lloyd's of London brokers Willis Faber P.L.C. and Sedgwick P.L.C. The reinsurance is led by Munich Reinsurance Co. of West Germany, Mr. Langner said.

Sun Alliance sustained property insurance losses exceeding 100 million pounds as a result of the October 1987 storm that devastated southeast England. However, Mr. Langner said the decision to again purchase catastrophe protection was not made because of the storm losses.

"The decision reflects a change in market conditions," he said.

Workplace injuries

Britain's Health and Safety Executive plans to criminally prose-

cute corporate executives and employees whose negligence leads to death or injuries of others in the workplace, the HSE warns in its latest annual report.

"The Executive is determined to secure by all means in its power a substantial improvement in attitudes to the taking of sensible precautions. . . . We shall be prepared, where responsibility for lack of precaution resulting in injury can be clearly fixed, to prosecute individuals whether they be directors, managers or workers," states the report, which was published last month.

In 1987-88, the HSE—the British equivalent of the U.S. Occupational Safety and Health Administration—prosecuted several companies for safety violations. For example, British Petroleum Ltd. in March was fined 750,000 pounds (\$1.4 million) for a lack of safety precautions at a refinery in Grangemouth, Scotland, where three deaths previously had occurred.

The fine "represents a landmark in the application of safety law. It marks the seriousness with which the judiciary are prepared to regard serious breaches by firms with the heaviest responsibilities and where there is the potential for disaster," the report says.

Piper Alpha toppling

Occidental Petroleum International Oil Inc. plans to remove a large portion of the Piper Alpha North Sea oil platform to eliminate hazards to shipping.

The British government has approved plans by Occidental, the platform operator, to clear the Piper Alpha platform to a depth of 250 feet below sea level.

The technique—known as toppling—has never been used in the North Sea and is expected to take about six weeks to complete, according to a statement from Occidental.

The company would not com-

ment on the cost of the operation.

Occidental has held off from beginning the toppling procedure "until all efforts to search for missing men in the area . . . have been concluded."

Some 167 people died when the rig exploded last July. Thirty-two bodies still have not been recovered.

The last body was recovered about six weeks ago, according to an Occidental spokesman.

The company also will continue to monitor the area around the rig "for some time" to ensure pollution levels remain low, the spokesman added.

Comings & goings

Murray Emerson has been appointed managing director of Heath North American Reinsurance brokering Ltd. Mr. Emerson previously served as a director of Heath Fielding Reinsurance brokering Ltd.

EMPLOYEE BENEFITS BULLETIN: CNA FLEXIBLE BENEFITS MAKE SENSE

A benefits plan that works for everyone.

You spent big dollars last year on your employee benefits program, and your employees are still not happy. Sally is a working mother and would like help with her dependent care expenses. John wishes he had more life insurance for the security of his wife and four youngsters. And you wish you could better meet your employees' needs while containing your own costs.

Now you can—with a customized benefits plan from the CNA Insurance Companies. Our program lets each employee choose the type

and level of benefits that makes sense for his or her situation.

And you choose, too. Like which CNA group products you want to offer and how much you want to invest in your total benefits package. CNA specialists will do the rest, from program setup through worry-free administration.

To learn more about the plan that works for both you and your employees, call John Reed at 312-822-6602 and ask about Flexible Benefits from CNA.



CNA

For All the Commitments You Make®

Group Benefits from CNA: Life & Health • AD & D • Vision • Dental • LTD • Flexible Benefits Programs • Pensions
Coverage is underwritten by Continental Assurance Company and Continental Casualty Company, two of the CNA Insurance Companies.

From The Reprint Department Of:

Business Insurance

Reporting weekly for
corporate risk, employee benefit
and financial executives

Reprints/Permission

If you want copies of articles appearing in BI to distribute at corporate or industry meetings, or for promotional mailings — or permission to produce your own reprints — contact the BI Reprint Dept. We've expanded to provide you with fast, low-cost service. (Minimum print order is 100 copies.) Call or write:

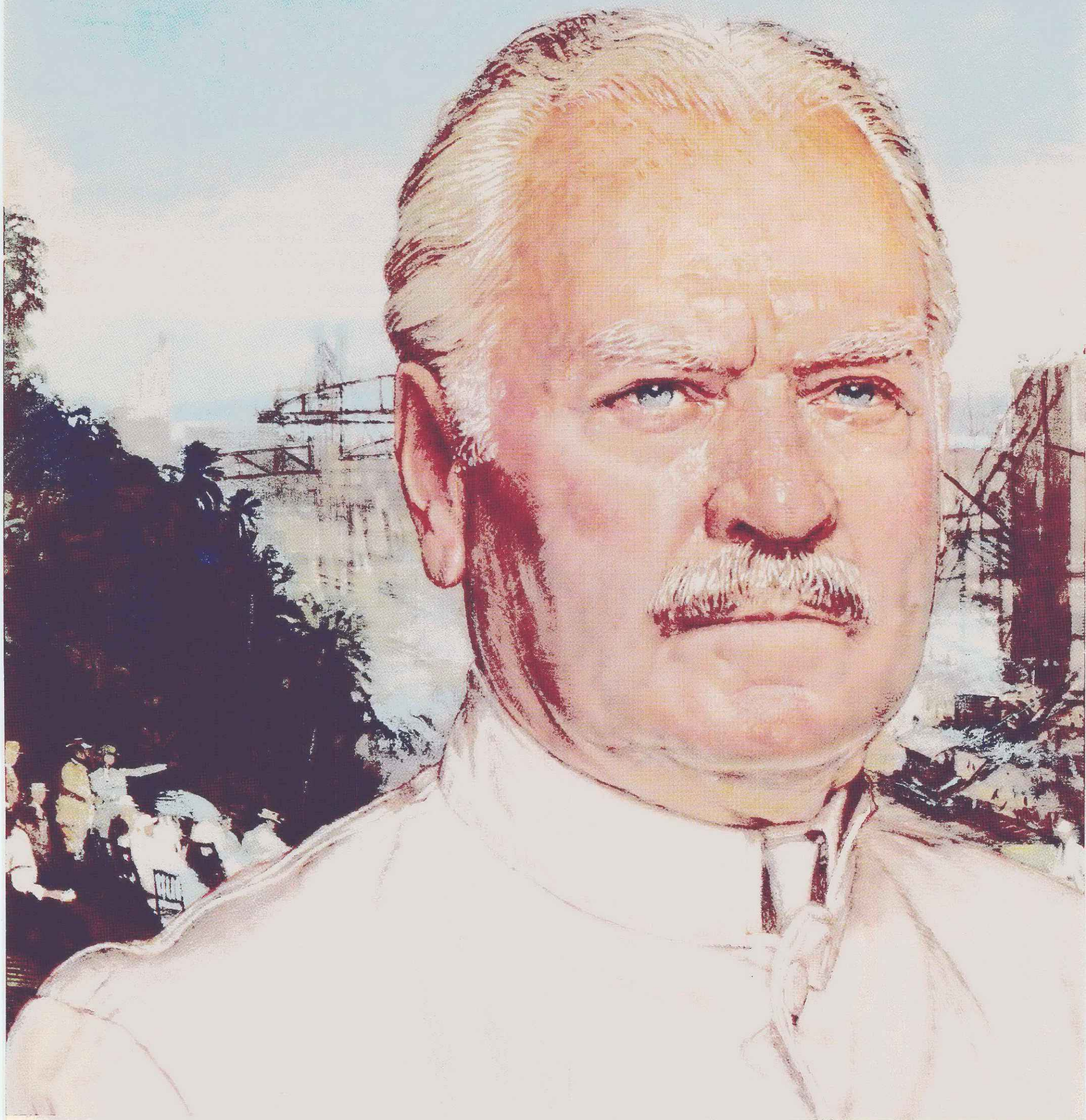
REPRINT DEPARTMENT
Business Insurance
220 East 42nd Street
New York, NY 10017
(212)210-0229.

Article Photocopies

If you missed an article in BI and would like a photocopy — send your request along with \$3⁰⁰ per copy / per article and a self-addressed envelope to the BI Reprint Dept. Please specify issue date and headline of article. Only pre-paid written requests will be fulfilled.

Issue Sales

For a copy(s) of any back issue of Business Insurance, contact Single Copy Sales. Call (313)446-1609.



In 1914, when the Panama Canal was finally carved out, A

Two oceans joined at Panama. Men had dreamed of it for centuries. But it wasn't until 1904 that engineers began successfully carving out the dream from the land. Three years later, chief engineer George W. Goethals led the way. It took over \$352 million and ten years to complete. And when the first ship steamed through the

canal, Allendale had been setting a steady course for 79 years.

In fact, former Allendale president John R. Freeman, himself an engineer, served as consultant during the construction of the canal.

Today at Allendale, we continue to shape the history of



Allendale's engineers had been cutting losses for 79 years.

loss control with engineering, training, research and testing, responsiveness and fairness in the way we do business.

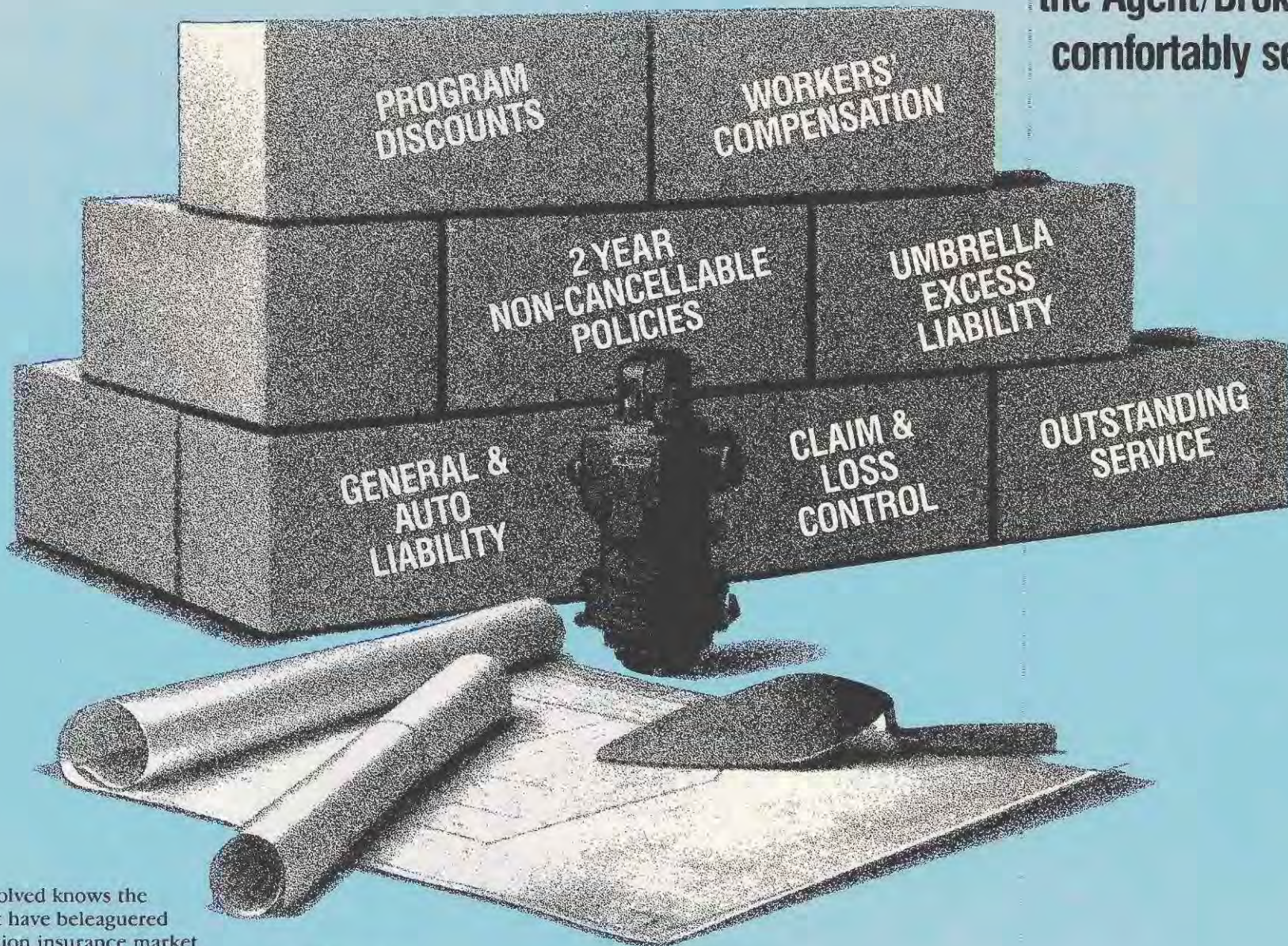
Throughout the years we've been more than an ordinary insurance company. Commitment to our insureds goes well beyond the property coverages we provide.

After a century and a half, that part of our philosophy is not about to change. Allendale Insurance, P.O. Box 7500, Johnston, Rhode Island 02919.

Allendale Insurance/Factory Mutual System
Over 150 years of progress and stability.

CISCO HAS BUILT A GREAT CONSTRUCTION INSURANCE PROGRAM

Engineered to make
the Agent/Broker...
comfortably secure



Everyone involved knows the problems that have beleaguered the construction insurance market for the past several years. What everyone doesn't know is that the CISCO program had the strength of performance to weather that period and emerge as the flagship of comprehensive construction insurance programs.

The professionals at CISCO have worked long and hard developing this program. A program that not only provides broad coverage and stable pricing but... a TWO YEAR renewal guarantee. And... a program that boasts a proven track record for over 3 years.

WORKING CLOSELY WITH AGENTS/BROKERS... NOT REPLACING THEM

As Program Managers, CISCO works closely with contractor's agent or broker. This ensures, among many things, a close liaison between the policyholder, the agent/broker and the underwriter. Also, CISCO conducts an in-depth analysis of all submissions for eligibility in keeping with underwriting criteria.

THE PROGRAM SUMMARIZED

Workers' Compensation

Workers' Compensation written selectively on guaranteed cost, deviations, dividend and retention plans.

General Liability, Automobile Liability and Physical Damage

1. Each contractor is subject to individual underwriting and rating sensitive to the contractor's exposure and loss experience.
2. General and Automobile Liability and Physical Damage policies are issued including a TWO YEAR non-cancellable clause.
3. The non-cancellable provision also provides a renewal premium, *rate guarantee formula, based upon the individual experience of the contractor.*

Umbrella and Excess Liability

First and Excess Layer Umbrella capacity utilizing domestic and international markets.

Wrap Up Programs

Primary and excess markets for term of project including... total service package... individual policy issuance... Claim and Loss Control... statistical data... for Wrap Up participants.

KEY SERVICES PROVIDED

Underwriting/Service

1. Provide underwriting evaluation, guidelines and loss analysis.
2. Issuance of policies, endorsements and certificates of insurance and collection of premiums.

Claim Control

Monitor specialized Claim Service to ensure quality handling... submit an analysis of claims to each participant.

Cost-of-Risk Management

Provide the policyholder with up-to-date loss information.

Loss Control

1. Review services provided by insurance companies Loss Control operations.
2. Design a Loss Control schedule of service, sensitive to the contractor's exposure and needs.
3. Ongoing review of accident experience to measure effectiveness of Loss Control activities and the need for remedial action.

To find out how this great program is in serving the needs of contractors and... if you're serious about establishing a relationship that provides long-term stability in coverage and pricing, call TOLL FREE

1-800-HI-CISCO.
(442-4726)
FAX: 516 294 5826



C I S C O

QUALITY + LONG TERM PROTECTION

Construction Industry Services Corp.
300 Old Country Road, Suite 31
Mineola, New York 11501

POLLUTION LIABILITY

EC, European nations considering tougher regulations

By Jerome Karter

HISTORICALLY, EUROPEAN COMMUNITY pollution liability standards have not been as onerous as the cradle-to-grave legislation that regulates both the generation and disposal of hazardous waste in the United States. But despite a slow start, Europe is getting tough with polluters!

Since 1973, the EC has adopted more than 100 legislative measures on contaminants of all types. Like that in America, early European legislation concentrated largely on air and water sources of pollution, including oil spills. But today, the focus in Europe has broadened to include soil and land pollution arising from waste deposits.

Let's look at some recent developments.

First, the EC draft legislative proposal on waste, which seeks to impose a single, communitywide strict liability regime covering all sources of environmental damage, has not yet been adopted.

Modeled after the strict liability feature of the EC product liability directive, the draft broadly defines "waste," "producer," and "damage" in terms analogous to those drawn up by the Paris-based Organization for Economic Cooperation & Development. Founded in 1960, the OECD is a non-governing body that seeks to promote economic growth and cooperation.

The EC draft directive for waste would make environmental protection an essential element of all EC economic and social policies. But, according to Patricia Casey, a vp with Johnson & Higgins National Casualty Office in New York, the draft proposal is not likely to be enacted in its present form because the EC Commission is not interested in adopting a liability standard for all pollution damages in member states.

Adoption of the draft, however, would seemingly enforce the EC-favored principle that the "polluter pays" for the costs of damage to the environment. Until recently, the principle has been more theoretical than legal because Europe, unlike the United States, has not opted to enact specific environmental liability laws that embody this concept.

Yet some believe that placing liability on the producer may contradict the "polluter pays" principle because the draft places liability on the "producer" of the waste, without regard to fault. Thus, a producer could be held liable as a polluter, even if the waste was disposed of in a responsible manner.

Moreover, an importer can be held liable as a producer and ultimately as a polluter when hazardous waste is brought into one country from another.

One the other hand, the draft EC directive allows the producer to escape liability if the hazardous waste has been deposited at an authorized waste treatment or disposal plant or if it is exported, with authorization, outside of the EC.

The draft EC directive for waste also establishes specific procedures to be followed when transporting, disposing and dumping toxic materials. The EC Commission would strictly control the licensing of disposal firms and would require that transported waste be properly packaged and labeled.

Furthermore, the EC Commission is considering a requirement that would subject hazardous waste disposal firms to regular on-site inspections by national authorities. National authorities would be required to send all information regarding disposal facilities in member states to the EC Commission by 1991 for input into a data bank known as Tox Waste.

A second EC draft legislative proposal, also under consideration, seeks to harmonize national laws in member states by clearly defining the terms "waste," "disposal," "collection" and "transport." Essentially, this second directive aims to reduce cross-border shipments of hazardous or toxic waste within EC member states. Another feature of the second directive would require disposal plants to provide national

authorities with data on recycled waste.

Ms. Casey also reports that during 1988, the EC Commission submitted a proposal to amend the scope of the Seveso Directive. Presently, the Seveso Directive covers only isolated storage of an industrial activity, as well as storage within an industrial installation.

The proposed amendment would increase to 28 the number of specified controlled substances in isolated storage covered by the Seveso Directive and would extend the directive's provisions to any type of storage, whether isolated or within an industrial installation. The proposal also requires industrial concerns to identify major accident hazards, develop emergency plans and provide information to authorities.

Yet, despite the need for a cohesive communitywide environmental policy in Europe, EC legislation does not supplant the national law of the various member states. Instead, an EC directive co-exists with the member states' national laws, just as the U.S. Congress has ruled that federal environmental laws do not pre-empt state environmental laws.

Essentially, the EC provides member states with lead time—ranging from one to several years—to implement individual directives. But the result is often varying stages of implementation in member states, as well as differing state laws.

International issues

For example, Spain, Italy, the United Kingdom, West Germany and Switzerland have broadened their laws to include "hazardous substances." Prefectures—regional government authorities in France—are allowed to issue cleanup orders or, alternatively, to perform the cleanup and seek reimbursement.

Water pollution in Germany has been governed for years by the strict liability principle but draft legislation proposes to extend strict liability to soil and air pollution.

Additionally, Italy and the Netherlands have renewed their efforts to conform national laws to EC directives following recent scandals involving waste shipments to the Third World.

For the time being, U.S. multinationals may be able to rely on locally issued general liability policies to indemnify losses arising from pollution exposures in Europe. But U.S. risk managers with controlled master programs should be sure that master policy exclusions do not override local market practices.

To help U.S. risk managers become *au courant* about pollution liability coverage in Europe, we have prepared the following analysis:

- **Belgium.** The policy type is general liability, on either an occurrence or claims-made basis. Damages covered include sudden and accidental property damage and bodily injury liability, pure financial losses and, sometimes, gradual property damage liability.

The policy wording is pollution occasioned by "an unforeseen, abnormal and unintentional event."

- **Denmark.** The policy type is a general liability policy on a claims-made basis. Damages covered include sudden property damage and bodily injury liability as well as financial losses resulting from bodily injury and property damage.

The policy wording is liability for "unexpected, unintended and sudden occurrences leading to pollution of or through air, ground or water."

- **France.** The policy type is general liability on a claims-made basis, plus N.E.S.P., a separate policy for cleanup expenses. Damages covered include property damage and bodily injury for an "unforeseeable event." Some gradual coverage is available (not excluded) if the policyholder acts in accordance with laws and regulations.

The policy wording contains no "sudden" requirement but specifies it must be an "unforeseeable

event." Pollution of "soil, atmosphere or water" is included in the general liability policy wording. Coverage is also available for "pollution from noise, temperature, smell, vibrations and natural radiation."

- **West Germany.** The policy type is general liability on an occurrence basis, plus a separate water pollution liability policy. Damages covered include sudden property damage and bodily injury liability, pure financial losses and cleanup if the latter prevents imminent third-party damage.

West Germany's draft comprehensive environmental impairment policy wording covers only "damage to water, air and soil that results from the breakdown of normal operations."

It is expected that bodily injury and property damage arising from water pollution hazards will be subject to these restrictions in the near future. Other expected changes include pure financial/cleanup losses that are substantially reduced by a sublimit, as well as an exclusion for owned property.

- **Italy.** The policy type is general liability on a claims-made basis. Sudden and gradual pollution coverage is excluded.

ANIA, the Italian pollution pool coverage pool, provides sudden and accidental as well as gradual pollution coverage on a claims-made basis. Pure financial losses and cleanup expenses to prevent third party damage are also available.

- **Netherlands.** The policy type is general liability on an occurrence basis. Damages covered include sudden and accidental damage and bodily injury liability.

The policy wording excludes liability for damages as a result of environmental pollution as defined within the policy "unless the environmental pollution concerns a sudden and accidental occurrence that is not the direct result of a slowly acting process."

- **Spain.** The policy type is general liability on either an occurrence or claims-made basis. Damages covered include sudden and accidental property damage and bodily injury liability, plus salvage or cleanup costs when sudden and accidental is available.

Under the policy wording, no liability coverage "unless such seepage, pollution or contamination is caused by a sudden, unintended, unexpected happening during the period of the insurance policy."

- **Sweden.** The policy type is general liability on an occurrence basis. Damages covered include sudden and accidental property damage and bodily injury liability.

- **Switzerland.** The policy type is general liability on an occurrence basis. Damages covered include sudden and accidental property damage and bodily injury liability.

- **United Kingdom.** The policy type is general liability on an occurrence basis. Damages covered include sudden and accidental property damage and bodily injury.

Currently there is no pollution exclusion. Increasingly, however, insurers are adding a pollution exclusion to the general liability policy.

Many believe that the European tradition of cooperation between business and government will result in the negotiation of more reasonable and affordable pollution solutions than those found in the United States. But good safety practices will help to control future legal liabilities and foster goodwill within the surrounding community.

Jerome Karter is senior vp and manager of the International Department of Johnson & Higgins in New York. His column appears the first Monday of every month.



Datebook

JAN. 9. Associate in Risk Management-55, Essentials of Risk Control Course in New York City, sponsored by the New York chapter of the Risk & Insurance Management Society; \$145 for RIMS members; \$195 for non-members. Julie Taylor, New York RIMS, 205 E. 42nd St., Suite 1504, New York, N.Y. 10017.

JAN. 10. Expanding Health Care Coverage symposium in Washington, D.C., sponsored by the Assn. of Private Pension and Welfare Plans; \$75 for APPWP members; \$125 for non-members. Wendy Schick, APPWP, 1331 Pennsylvania Ave. N.W., Suite 719, Washington, D.C. 20004; 202-737-6666.

JAN. 12-13. Occupational Health Nursing Principles and Certification Review course in Atlanta,

sponsored by Fireman's Fund Risk Management Services Inc.'s Occupational Health Consulting & Ergonomics division; \$295. **Also Feb. 9-10** in Torrance, Calif.; **Feb. 23-24** in Denver; **March 9-10** in Cambridge, Mass.; and **March 30-31** in Arlington, Va. Annette B. Haag, Occupational Health Consulting, Fireman's Fund Risk Management Services Inc., P.O. Box 777, Novato, Calif. 94998-9002; 415-899-2423.

JAN. 12-13. The Hawaii Second Annual Captive Conference in Honolulu, sponsored by the Tillinghast division of Towers, Perrin, Forster & Crosby Inc.; \$550. Eileen B. Callahan, Conference Director, Tillinghast/TPF&C, 695 E. Main St. Stamford, Conn. 06901; 203-326-5400.

JAN. 12-13. Insurance, Excess and Reinsurance Coverage Disputes seminar in New York City, sponsored by the Practising Law Institute; \$450; \$45 for coursebook only. **Also Jan. 26-27** in San Francisco. Practising Law Institute, Dept. 3A-105, 810 Seventh Ave. New York, N.Y. 10019; 212-765-5700, ext. 271.

JAN. 12-13. Financial Analysis for Risk Management course in New York City, sponsored by The College of Insurance; \$595 for College sponsors; \$695 for non-sponsors. **Also Feb. 2-3** in Los Angeles, **March 15-17** in Dallas. Professional Programs, The College of Insurance, 101 Murray St., New York, N.Y. 10007-2132; 212-962-4111.

JAN. 17. Park and Recreation Risk Management Seminar in Denver, sponsored by the Public Risk Management Assn.; \$150 for PRIMA members; \$200 for non-

members. **Also Jan. 19** in Tampa, Fla. Lynne Armstrong, PRIMA, 1120 G St. N.W., Suite 40, Washington, D.C. 20005; 202-626-4650.

JAN. 17-20. Third Annual National Conference on Industrial Loss Prevention & Control in Orlando, Fla., co-sponsored by CIGNA Corp. and Industrial Risk Insurers; \$297 for members of the International Society of Fire Service Instructors or CIGNA and IRI clients; \$347 for others. Registrar, International Society of Fire Service Instructors, 30 Main St., Ashland, Mass. 01721; 508-881-5800.

JAN. 19. Bad Faith Insurance Litigation Video Law Review Program via satellite to 50 cities, sponsored by the American Law Institute-American Bar Assn. Committee on Continuing Professional Education; \$135. Susan T. O'Connor, Audio and Video Law Reviews, American Law Institute-American Bar Assn., 4025 Chestnut

St., Philadelphia, Pa. 19104; 800-253-6397; 215-243-1661 within Pennsylvania.

JAN. 19-20. Environmental Pollution Liability conference in London, sponsored by the Insurance & Reinsurance Research Group Ltd.; 385 pounds (\$716). Judith Hobday, Insurance & Reinsurance Research Group Ltd., Bridge House, 181 Queen Victoria St., London, England EC4V 4DD; phone: 01-236-2175; fax: 01-489-1487.

JAN. 19-20. Products Liability Litigation course in New Orleans, sponsored by the American Law Institute-American Bar Assn. Committee on Continuing Professional Education; \$350. Registrar, American Law Institute-American Bar Assn., 4025 Chestnut St., Philadelphia, Pa. 19104; 800-253-6397; 215-243-1661 within Pennsylvania.

JAN. 22-25. American Medical Care & Review Assn.'s Annual Medical Issues/Data Management Conference in Phoenix, Ariz.; \$395 for AMCRA members; \$495 for non-members; \$395 for government employees; \$125 for spouse/guest. American Medical Care & Review Assn., 5410 Grosvenor Lane, Suite 210, Bethesda, Md. 20814; 301-493-9552.

JAN. 23. Hot Topics: Section 89 in '89 Conference for Plan Sponsors in Los Angeles, sponsored by the Employers Council on Flexible Compensation; \$285 for ECFC members; \$335 for non-members. **Also Jan. 25** in Chicago, **Jan. 27** in Newark, N.J. Employers Council on Flexible Compensation, 927 15th St. N.W., Suite 1000, Washington, D.C. 20005; 202-659-4300.

JAN. 23-25. Reinsurance Accounting & Auditing course in Scottsdale, Ariz., sponsored by The College of Insurance; \$795 for College sponsors; \$895 for non-sponsors. **Also March 15-17** in Hamilton, Bermuda. Professional Programs, The College of Insurance, 101 Murray St., New York, N.Y. 10007-2132; 212-962-4111.

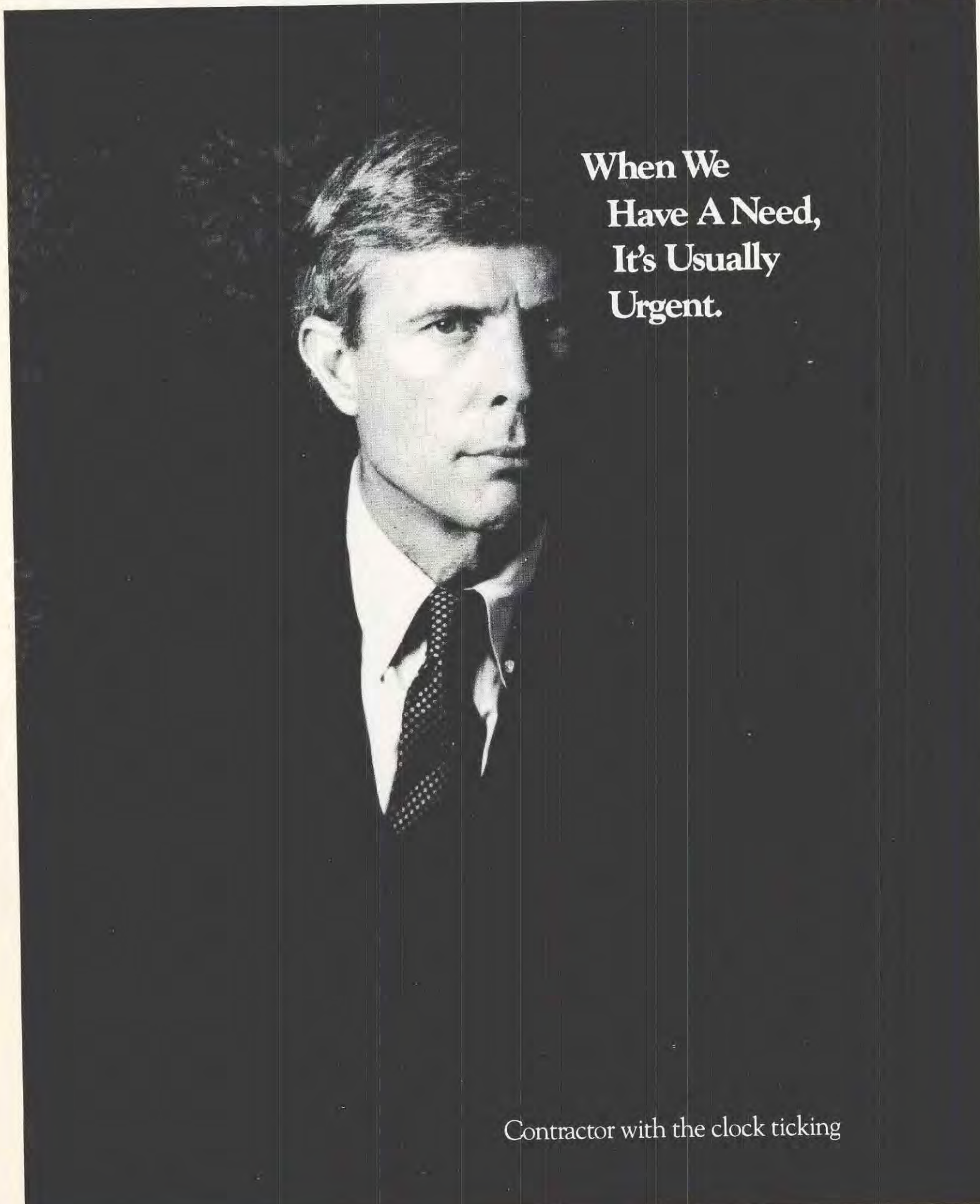
JAN. 24. Directors and Officers Liability workshop in New York City, sponsored by the Society of Chartered Property & Casualty Underwriters; \$175 for Society of CPCU members; \$200 for non-members; \$50 discount for registration by Dec. 24. Mari Jennings, Society of CPCU, 720 Providence Road, CB#9, Malvern, Pa. 19355; 213-251-2741.

JAN. 24-25. Asset/Liability Management for Insurance Companies conference in New York City, sponsored by Executive Enterprises Inc.; \$990; \$895 for each additional registrant from same organization. Executive Enterprises Inc., 22 W. 21st Street, New York, N.Y. 10010-6904; 800-831-8333; 212-645-7880 within New York.

JAN. 24-27. American Bankers Assn. National Security and Risk Management Conference in Scottsdale, Ariz., sponsored by the American Bankers Assn.; \$650 for ABA members; \$800 for non-members; \$195 for spouses. Sandra Currence, American Bankers Assn., 202-663-5290.

JAN. 25-26. Managing Risk Communications seminar in New Orleans, sponsored by E.I. du Pont de Nemours & Co.; \$925; \$795 each for two or more registrants from same company. **Also Feb. 15-16** in Denver; **March 30-31** in Houston; and **April 26-27** in Philadelphia. Du Pont, Room X51430, P.O. Box 4500, Greenville, Del. 19807; 800-532-7233; 302-999-6982 within Delaware.

Continued on next page



When We
Have A Need,
It's Usually
Urgent.

Contractor with the clock ticking

Continued from previous page

JAN. 25-27. Reinsurance Underwriting Workshop in London, sponsored by the Insurance & Reinsurance Research Group Ltd.; 460 pounds (\$856). Joy Bam-brough, IRRG, Bridge House, 181 Queen Victoria St., London, England EC4V 4DD; phone: 01-236-2175; fax: 01-489-1487.

JAN. 25-27. Health Agenda 1989: A Health Policy and Cost Management Conference in Washington, D.C., co-sponsored by the Washington Business Group on Health and the National Assn. of Manufacturers; \$545 for WBGH/NAM members; \$655 for non-members. Washington Business Group on Health, 229½ Pennsylvania Ave. S.E., Washington, D.C. 20003; 202-547-6644.

JAN. 25-27. Sixth Annual Atlanta Risk Management Educational Conference sponsored by the Atlanta chapter of the Risk & Insurance Management Society; before Jan. 11: \$100 for RIMS members, \$115 for non-RIMS members, \$25 for students; after Jan. 11: \$125 for RIMS members, \$140 for non-RIMS members, \$25 for students. Sheldon Roth, Conference Chairman, Contel Corp., 245 Perimeter Drive, Atlanta, Ga. 30346; 404-391-8132.

JAN. 26. Health Cost Containment, Wellness and the 1990s breakfast meeting in Lisle, Ill., sponsored by the West Suburban Chicago Chapter of WEB; \$15 for WEB members; \$20 for non-members. WEB-West Suburban, L. Zoeller, 200 W. Adams, Suite 2015, Chicago, Ill. 60606; 312-558-4585.

FEB. 2. Controlling Claims Costs: The Bottom Line seminar in New York City, sponsored by the Tillinghast division of Towers, Perrin, Forster & Crosby Inc.; \$595. Conference Director, Tillinghast/TPF&C, 695 E. Main St., Stamford, Conn. 06901-2138.

FEB. 3. Questions on the New CGL and CP Policies? Ask the Claims Department workshop in Wilmington, Del., sponsored by the Society of Property & Casualty Underwriters; \$130 for Society of CPCU members; \$160 for non-members. Mari Jennings, Society of CPCU, 720 Providence Road, CB#9, Malvern, Pa. 19355; 215-251-2741.

FEB. 3. European Economic Community Strict Liability in 1992: The New Product Liability Rules seminar in New York City, sponsored by the Practising Law Institute; \$325; \$45 for coursebook only. Practising Law Institute, Department 8A-105, 810 Seventh Ave., New York, N.Y. 10019; 212-765-5700, extension 271.

FEB. 3. Brief Reinsurance course in Chicago, sponsored by The College of Insurance; \$195 for College sponsors; \$245 for non-sponsors. Also **March 16-17** in New York City. Professional Programs, The College of Insurance, 101 Murray St., New York, N.Y. 10007-2132; 212-962-4111.

FEB. 9-10. Reinsurance Claim Management course in Hartford, Conn., sponsored by The College of Insurance; \$595 for College sponsors; \$695 for non-sponsors. Professional Programs, The College of Insurance, 101 Murray St., New York, N.Y. 10007-2132; 212-962-4111.

FEB. 9-10. Coping With Volatility: A Conference on Pension and Other Benefit Issues for 1988 and Beyond in Washington, D.C., co-sponsored by the National Assn. of State Auditors, Comptrollers & Treasurers and the lawfirm of Jones Day Reavis & Pogue; \$285. Helena Sims, NASACT, 202-624-

5451.

FEB. 21-24. Reinsurance Contract Wording seminar in Tarrytown, N.Y., sponsored by Robert W. Strain Seminars Inc.; \$1,445. Also **Sept. 5-8**. Robert W. Strain Seminars Inc., P.O. Box 1000, Wingdale, N.Y. 12594; 914-832-9384.

FEB. 22. Human Factors in Loss Control course in New York City, sponsored by The College of Insurance; \$195 for College sponsors; \$245 for non-sponsors. Professional Programs, The College of Insurance, 101 Murray St., New York, N.Y. 10007-2132; 212-962-4111.

FEB. 24. Hot Topics: Section 89 in '89 Conference for Consultants and Plan Administrators in Dallas, sponsored by the Employers Council on Flexible Compensation; \$285 for ECFC members; \$335 for non-members. Em-

ployers Council on Flexible Compensation, 927 15th St. N.W., Suite 1000, Washington, D.C. 20005; 202-659-4300.

FEB. 28-MARCH 1. Reinsurers' Perspective on Environmental Claims seminar in New York City, sponsored by Preston, Thorgrimson, Ellis & Holman; \$995; \$795 for second registrant from same company; \$595 for third registrant from same company; \$595 for training manual only. James Stirn, Preston, Thorgrimson, Ellis & Holman, 1735 New York Ave. N.W., Suite 500, Washington, D.C. 20006.

MARCH 8-10. Insurance Insolvency and Liquidation course in Honolulu, sponsored by The College of Insurance; \$895 for College sponsors; \$995 for non-sponsors. Professional Programs, The College of Insurance, 101 Murray St., New York, N.Y. 10007-2132; 212-962-4111.

MARCH 15-16. Dynamic Company Exposed: A Practical Forum on Insuring and Managing Exposure in Chicago, co-sponsored by the Risk Management, Underwriting, Claims, Agency Administration, Reinsurance, International Insurance and E/S/SL Sections of the Society of Chartered Property & Casualty Underwriters; \$175 for section members; \$185 for Society of CPCU members; \$225 for non-members. Mari Jennings, Society of CPCU, 720 Providence Road, Malvern, Pa. 19355; 215-251-2734.

APRIL 9-14. 27th Annual Risk Management and Employee Benefits Conference in Atlanta, sponsored by the Risk & Insurance Management Society Inc.; full week: \$595 for members, \$695 for non-members; partial week: \$475 for members, \$575 for non-members; one-day registration: \$195 for members and non-members; full week and partial week regis-

tration fees increase by \$100 after Feb. 10. RIMS Conference Department/Registration, 205 E. 42nd St., New York, N.Y. 10017; 212-286-9292.

APRIL 25-27. National Managed Health Care Congress '89 in Boston, sponsored by Cambridge Marketing Inc.; \$345. Cambridge Marketing Inc., 1 Forbes Road, Lexington, Mass. 02173; 617-860-7100.

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

We Know. That's Why We Keep A Bag Packed.

Time is money. Especially if you're a contractor. And there's nothing much more important, nor much more urgent, than your surety bond package.

At Collier Cobb, we've been representing contractors' interests to the Markets for more than 60 years. We've learned to do it extremely well. And when the need is urgent, we're on our way on a moment's notice—thanks to an aviation department and an action-oriented corporate mind-set. Both dedicated to the needs of our clients.

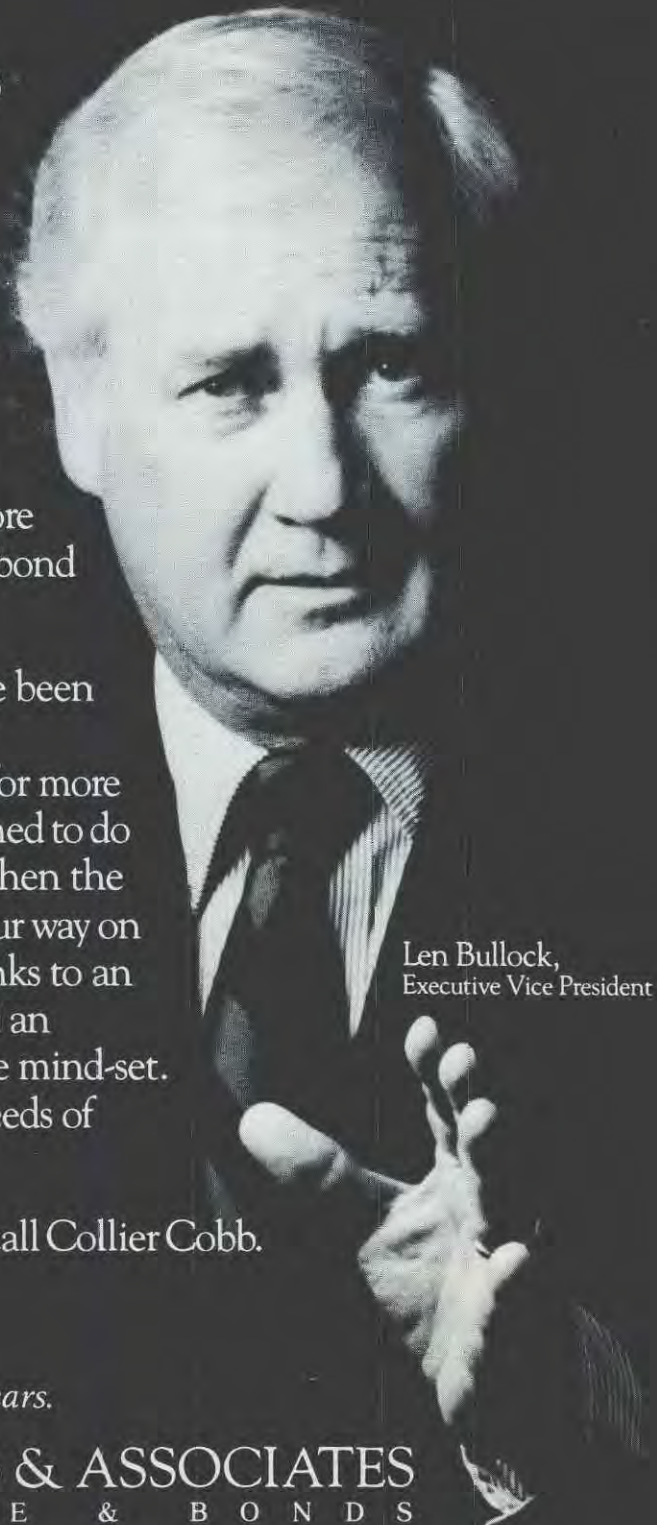
When it's important; call Collier Cobb. Our bags are packed.

Serving Business For 60 Years.

COLLIER COBB & ASSOCIATES
INSURANCE & BONDS

Charlotte Boston Chicago Chapel Hill Dallas Houston

Montgomery Pittsburgh Washington, DC



Len Bullock,
Executive Vice President

Software profiles insurance coverage

A new software system that provides corporate risk managers with an integrated, retrospective profile of their organizations' insurance programs has been introduced by Tillinghast, a division of Towers, Perrin, Forster & Crosby Inc.

RISKMASTER/Claims Recovery Support System is designed to assist in managing claims against organizations that have merged, been acquired or been divested.

"The new program helps organizations orchestrate risk management by producing a coverage profile that is complete enough to answer their claims exposure questions in a timely manner," says Mark E. Dorn, Tillinghast vp responsible for the RISKMASTER product line.

"RISKMASTER/CRSS is of particular value with so-called 'long-

Products & services

tail' liability claims incurred as a result of an organization's products or experience going back a number of years," says Michael Levin, a Tillinghast consultant who assisted in designing the program.

Such liability claims are currently confronting risk managers in the chemical, pharmaceutical, transportation and manufacturing industries, he added.

The major components of the RISKMASTER/CRSS program are: policy register, policy terms and conditions abstract and claims data base linkage.

In addition, reports produced by the system include exhibits detail-

ing schedules of insurance coverage, policy abstract exclusion files, attachment level analysis summaries and quota-share participation reviews.

The program also includes special data collection forms that encourage quick analysis of insurance coverage as well as policy terms and conditions that pertain to product claims, class action suits, environmental site claims and similar long-tail claims.

The RISKMASTER/CRSS product is priced at \$9,995 and includes all required software programs, on-site training, data abstract collection forms and on-site consulting time.

The program is compatible with most personal computers as well as larger systems from International Business Machines Corp., Digital Equipment Corp., Unisys and Prime Computer Corp.

For more information, contact Mr. Dorn at Tillinghast, 33063 Schoolcraft Road, Livonia, Mich. 48150; 313-261-4440.

Health care D&O

A new directors and officers liability insurance program for non-profit health care providers with limits up to \$30 million now is available through Executive Risk Management Associates of Simsbury, Conn.

The program, which is underwritten by Aetna Life & Casualty Co. of Hartford, Conn., covers

directors, trustees, officers and staff at non-profit health care institutions, according to an Aetna spokesman.

Policy features include:

- Coverage for all hospital employees, volunteers and committee members.

- Coverage for all existing hospital subsidiary boards, as well as subsequently formed non-profit subsidiaries and, in certain instances, newly formed for-profit subsidiaries.

- Coverage for suits arising out of credentialing decisions as well as suits for wrongful termination and suspending staff privileges.

- Advancement, rather than reimbursement, of defense costs.

- Extension of coverage to suits against the health care industry itself.

Premiums for the coverage vary based on the risk, the Aetna spokesman said.

For more information, contact Richard Cartland, ERMA president, at 203-244-8901; or Stephen C. Sills, ERMA's vp-underwriting, at 203-244-8906.

IF YOU NEED TO OBTAIN COVERAGE IN MEXICO, YOU NEED GO ONLY AS FAR AS AEGEN.



Mexico. A major trading partner to our south. The dynamics of the economy can make it quite difficult to do business here, but each day many Americans must. That is why AEGEN is represented in Mexico.

Nearly anywhere in the world you need to conduct business, AEGEN is able to help. And it is no accident that our prices are highly competitive. Or that

we can provide quick quotations.

It comes from knowing the people and speaking the language. From centralized underwriting. Responsive decision-making. And from the multinational experience and financial strength of Aetna Life & Casualty, Generali Group, and Taisho Marine & Fire.

For a no-obligation review of your multinational insurance requirements, you need go only

as far as your telephone. Call Tom McLenithan toll free at 1-800-245-4506. Or in New York, 212-432-6700.



AEGEN spans the globe, so you need go only as far as AEGEN.

AEGEN INTERNATIONAL, INC.

Citrus tree coverage

A new citrus tree insurance program that covers Florida groves for damage caused by frost and hurricanes is being brokered by Alexander & Alexander Inc.

"The severe weather of the late 1970s and early 1980s devastated the industry and caused tremendous financial loss for growers," said Tom Gillingham, vp of A&A's Fort Myers, Fla., office. "This program enables the farmer to insure his citrus trees, (that way) in the future some of this loss can be recovered."

The annual premium for the coverage is based on the number of trees per acre, ages of the trees and the location of the grove.

For example, the annual premium range is \$52 to \$66 per acre for groves located in the lowest rated counties with trees at least 5 years of age, while the annual premium range is \$75 to \$104 per acre for groves located in the highest rated counties that also have trees at least 5 years of age.

Likewise, the limits of the coverage are based on the age of the trees. For example, if the trees are more than 4 years old, the maximum insurable value is placed at \$25 per tree and the policy is subject to a maximum insurable value of \$3,500 per acre.

However, no insurance is available for groves north of Interstate 4 or within 15 miles of the ocean or gulf.

The Citrus Tree Insurance Program is underwritten by London and European insurers. Claims adjusting and grove inspections will be administered by Florida Citrus & All Risk Insurance.

For more information and a written proposal outlining premiums and coverage in detail, call or write Tom Gillingham, Alexander & Alexander Inc., 33 Barkley Circle S.W., Fort Myers, Fla. 33907; 813-936-4042.

Books/videos

"Risk Financing," is a two-volume manual that consolidates a wide range of information needed by risk management professionals. Among the subjects addressed by the reference book are casualty insurance rating, dividend plans, retrospective rating, paid-loss retros, compensating balance plans, pooling, self-insurance and captives. The manual is available for \$199 from International Risk Management Institute Inc., 12222 Merit Drive, Suite 1660, Dallas, Texas 75251-2217; 214-960-7693.

Execs expelled by Lloyd's dispute severity of actions

By STACY SHAPIRO

LONDON—The two executives of Bellew, Parry & Raven (Holdings) Ltd. expelled by Lloyd's of London last month contend that most members working at Lloyd's before the early 1980s could be found guilty of the same offenses.

The BPR executives claim in a recent letter to members that their reinsurance transactions on behalf of their syndicates were "market practice" in the 1970s and they are "amazed" at the severity of their sentences.

A Lloyd's disciplinary committee headed by trial lawyer Richard Southwell found that the reinsurance transactions conducted by the executives and two other BPR executives who were given lesser sentences went beyond the bounds of market practice.

The BPR executives' actions without disclosure to names went against "simple business ethics," says the committee in its disciplinary report.

John Raymond Parry and Frederick Charles Raven on Dec. 7 were both expelled and fined \$150,000 pounds (\$272,700) each after being found guilty of improper conduct, negligence and breach of their duties in placing reinsurance of BPR syndicates with offshore companies that they owned or controlled.

In addition, BPR executive Arthur Henry Bertram Grattan-Bellew was suspended for five years and fined 150,000 pounds for similar offenses.

And, former Lloyd's Council member Edward Ernest Nelson, an underwriter in the BPR group, was suspended for two years and fined 150,000 pounds for, among other things, failing to disclose fully to his names the existence of companies he controlled that conducted business with his syndicates (BI, Dec. 12).

All four BPR executives, however, were acquitted of acts of dishonesty.

While suspended from the market, Messrs. Grattan-Bellew and Nelson are barred from entering the Lloyd's market or from conducting business in the Lloyd's community.

Meanwhile, former BPR group underwriter Albert John Stratton, who now underwrites for syndicate 782, was acquitted of all charges of misconduct in the BPR affair.

Lloyd's also ordered that restitution be made to BPR members, the amount of which was calculated by a committee set up in September and chaired by Jeremy Hardie, chairman of National Provident Institution, a life insurance company based in Tunbridge Wells, Kent.

The members can expect an offer of restitution from BPR and Mr. Nelson of more than 15 million pounds (\$27.3 million) in 1989, according to letters released by Oxford Agency Holdings Ltd., a subsidiary of Sturge Holdings P.L.C. that bought the BPR agencies late last year for 15 million pounds (BI, Nov. 16, 1987).

After Lloyd's announced the sentences, Mr. Parry and Mr. Raven issued a letter expressing their side of the story to all Lloyd's members involved with BPR syndicates.

"We were accused of dishonesty," they said. "We did not run away. We persistently denied the charge, defended ourselves at very great expense and were found NOT GUILTY."

Mr. Parry and Mr. Raven added

that "broadly speaking" the remaining charges against each of them related to using money that belonged to members of syndicates managed by BPR in an undisclosed conflict of interest.

The BPR executives, who unsuccessfully had appealed Lloyd's penalties and fines against them before the penalties and fines were

announced, said they realize they can do nothing about the sentences now, according to the letter.

But, they add: "We remain amazed at the severity of our punishment. In our view, it takes no account of the reality of market practice at Lloyd's during the 1970s."

Continued on next page

Schirmer

SCHIRMER ENGINEERING CORPORATION
OFFERING FULL LOSS CONTROL ENGINEERING SERVICES

- ✓ Underwriting & Loss Control Surveys
- ✓ Fire Protection Engineering
- ✓ Safety & Health Engineering
- ✓ Litigation Support Services
- ✓ Building & Fire Code Consultation
- ✓ Sprinkler System Design
- ✓ Alarm System Design

SCHIRMER ENGINEERING CORPORATION
707 LAKE COOK ROAD • DEERFIELD, IL 60015 • 312/272-8340



Meet the Bonnie and Clyde of the 80's.

They hold advanced degrees, not tommyguns. But just because today's criminals are clean-cut and more difficult to identify doesn't mean they won't rob your business blind.

That's why people rely on Honesty Insurance from F&D to protect their businesses from the damaging, even crippling losses, today's white-collar felons can inflict.

Find out why F&D's Honesty Insurance is your best policy. Just ask your agent or broker or write: A. Macdonald Rees, Marketing, P.O. Box 1227, Baltimore, Maryland 21203.

 **The Fidelity and Deposit Companies**



STRUCTURED SETTLEMENTS

STRENGTHEN YOUR POSITION

You can count on Structured Financial Associates' experience in creative settlements as a unique resource for your use in personal injury claims. Our backgrounds in insurance, law, economics, claims, and financial planning, combined with our unwavering commitment to service, have proven instrumental in successful settlements. SFA's advantages extend not only to injured persons, but to you as well. Insurers, self-insureds, and attorneys repeatedly count on us to strengthen their positions in difficult claims, and that is why SFA was the fastest growing structured settlement firm in the industry last year.



With offices nationwide, an SFA settlement specialist can be with you at your next settlement conference, or as close as your phone, to respond immediately to your concerns.

keeping negotiations moving toward successful completion. SFA - Strengthening your position

Call today for your FREE Settlement Reference Manual.

1-800-638-5890



STRUCTURED FINANCIAL ASSOCIATES, INC.
OFFICES NATIONWIDE

BPR executives

Continued from previous page

Other Lloyd's executives have said that until the 1980s it was common for Lloyd's underwriters not to disclose their interests in offshore companies that handled their syndicates' reinsurance premiums and to benefit from interest and fees from reinsurance of their syndicates' business.

"We always believed that we were acting in names' interests, but we did not appreciate (like many others at Lloyd's) the implications of our conflict of interest or the severity of the legal rules applicable to them," wrote Mr. Parry and Mr. Raven in their letter.

"We never sought to hide from names what we were doing. We still believe that our principal error was that, although we did make disclosure to names, we did not do so in the full detail which the law and proper practice requires," they added.

Mr. Grattan-Bellew sent a similar letter to BPR syndicate members, but his lawyers at Simmons & Simmons said they could not release the letter.

The Lloyd's disciplinary committee consisting of Mr. Southwell and Lloyd's underwriters Peter Carpmal and Derek Pollock claim that the reinsurance arrangements at BPR were not market practice.

In outlining the BPR case and the verdicts, the committee acknowledged that during the 1970s "Lloyd's provided little guidance on disclosure of conflicting inter-

'We always believed that we were acting in names' interests, but we did not appreciate (like many others at Lloyd's) the implications of our conflict of interest or the severity of the legal rules applicable to them,' wrote Messrs. Parry and Raven.

est. Before 1977 there appears to have been no such guidance."

The committee also notes that in 1977 a Lloyd's working party headed by Lloyd's underwriter Robert Kiln recommended that all active underwriters and managing agents disclose shareholdings in insurance companies if they held more than 10% of the voting shares or the share capital as a whole of the conflicting company. However, Lloyd's did not implement the recommendation at the time.

"During the relevant period, it was not the general market practice for underwriting agencies to disclose their shareholdings in related companies," the committee acknowledged.

There was some disclosure of potential conflicts of interest by Lloyd's largest agency groups, Sturge Holdings P.L.C. and Merrett Holdings P.L.C., to their Lloyd's members, and by agencies that were owned by Lloyd's brokers before they had to be divested under Lloyd's Act 1982, according to the committee.

"But there was little disclosure other than this," the committee admits.

However, the disciplinary committee said it kept in mind what "right-thinking members of Lloyd's" would have done between 1974 and 1982—the time the offenses were carried out by the BPR executives.

Those members "would have said that it was a matter of simple business ethics," to fully disclose their interests in the reinsurance arrangements, said the committee. Given the circumstances, BPR executives "could not take this large personal benefit without first informing the names and obtaining their informed consent. No responsible and right-thinking member would have thought otherwise.

"The Lloyd's market could not have survived if during that period right-thinking members abandoned ordinary business ethics and accepted that this kind of large

personal benefit could be taken by an active underwriter from his names without their consent," said the committee.

Lloyd's self-regulation rules now require full disclosure to names of any potential conflicts of interest.

The most serious charges against the BPR executives and Mr. Nelson stem from transactions between reinsurance companies that were wholly or partially owned by the four defendants and Mr. Stratton's and Mr. Nelson's syndicates.

The BPR Group, which was set up in 1967 by Messrs. Grattan-Bellew, Parry and Raven, by 1983 consisted of 70 underwriting, brokerage and investment companies.

BPR controlled Haynes & Clack Underwriting Agencies Ltd., which managed syndicates underwritten by Mr. Stratton; and the K.F. Alder Underwriting Agency Ltd., which managed syndicates underwritten by Mr. Nelson.

Among the reinsurance companies involved in the disputed transactions were Midland Reinsurance Co. Ltd. of Bermuda, the majority of whose shares were held by a BPR family trust; The Bermuda Reinsurance Co. Ltd. in Bermuda, held in part by the BPR principals and in part by Mr. Nelson through various financial routes; Hamilton Co. Ltd. in the Isle of Man, 40% indirectly owned by BPR Group until 1983 when it became 100% owned; and Ocean Reinsurance Co. Ltd. in the Cayman Islands, which was 97% held by the BPR executives' family trust.

The committee did not question the validity of the reinsurance companies or the underwriting of "rollover" reinsurance policies by the BPR offshore companies but instead the amount of profits earned in certain transactions involving Mr. Stratton's and Mr. Nelson's syndicates.

Until tax liabilities made them unattractive in 1985, syndicates routinely purchased "rollover" re-

Continued on next page



CHILTINGTON INTERMEDIARIES LIMITED London, England

is pleased to announce the formation of
CHILTINGTON (AMERICA) INC.

This new entity has been formed as a joint venture with Hamburger Internationale Rueckversicherung, A.G., Hamburg, West Germany, to offer the following expanded reinsurance services on a world-wide basis:

- Collection of Reinsurance Recoverables
- Commutation Negotiations
- Consultancy Advice to Regulatory Authorities
- Consultancy Advice to Liquidators and Rehabilitators
- Due Diligence Research
- Management Consultancy
- Portfolio Runoff
- Technical Audit and Inspection of Records

We are immediately available to service your needs through our fully staffed offices in Orlando and London.

For additional information, please contact:

North and South America
Paul Walther or
Ken Hutchinson
Orlando: Tel. #407-895-0288

Europe and Asia
Ivor Kiverstein or
Ian Marshall
London: Tel. #44-1-252-0316

NEW YORK MARINE AND GENERAL INSURANCE COMPANY GOTHAM INSURANCE COMPANY MUTUAL MARINE OFFICE, INC. AND AMERICAN HOST INSURANCE, INC.

Announce the mutual termination
of their agency relationship,

including commercial property and casualty insurance
through the hospitality industry
program entitled Pro Host, USA.

This termination is effective December 31, 1988,

only as to new and renewal business
and does not affect business
written prior to that date.

Continued from previous page
insurance policies under which premiums were "rolled over" from year to year and collected interest. Syndicates collected the premiums and interest when needed to pay catastrophe claims.

For example, the committee did not cite for disciplinary proceedings arrangements under which Lloyd's syndicates earned up to 75% of the total interest on the premiums for rollover policies that were placed with BPR-owned Hamilton Co. in the Isle of Man. Hamilton kept the other 25% of the interest earned.

However, cited for discipline was the fact that Hamilton did not return interest to Mr. Stratton's syndicate 782 on rollover policies that were written between 1972 and 1982 until 1984 and then only with 60% interest.

It was in 1983 that Mr. Grattan-Bellew realized that Mr. Stratton's syndicate was going to take a loss for 1981, the year just closing under Lloyd's three-year accounting system. Messrs. Grattan-Bellew and Parry agreed that syndicate 782 should call back the rollover funds along with 60% interest. However, Mr. Stratton thought he was going to receive all of the interest less a nominal fee, according to the report.

The sum of \$21,934 pounds (\$1.7 million) was not readily available from Hamilton to Mr. Stratton's syndicate, however, and Hamilton had to be recapitalized before the money was eventually paid in 1984, according to the disciplinary proceedings.

Hamilton did not have enough money, the committee alleges, because 75% of the interest earned on Mr. Stratton's syndicate's rollover funds was paid to BPR-owned broker Western Co. in the Isle of Man, which treated the money as "distributable income."

And Western helped purchase—with the BPR executives' knowledge—farmland, a house in the Isle of Man and a yacht, among other things. Western also made loans to BPR companies.

Although Mr. Stratton, who was charged with misconduct in these transactions, was found innocent by the disciplinary committee, Lloyd's concluded that Mr. Parry, Mr. Raven and, to a lesser extent, Mr. Grattan-Bellew breached their duties of care owed to the members of Mr. Stratton's syndicate.

The committee also levied charges against Messrs. Grattan-Bellew, Parry, Raven and Nelson regarding rollover reinsurance policies that were placed on behalf of Mr. Nelson's syndicates to BPR-controlled Bermuda Re. The committee concluded that the syndicates should have received 80% of the interest accrued on their rollover reinsurance premium instead of the 60% the syndicates actually received.

As a result, Bermuda Re made "excessive profit at the expense of the syndicates," Lloyd's charged. Mr. Nelson held a majority of the income-bearing shares in the company, and BPR execs held the majority of the management shares.

Bermuda Re was supposedly managed by Surplus Reinsurance Management Ltd. of Bermuda, which was ultimately 35% owned by Mr. Nelson's family trust and 65% by the BPR executives' family trust. Surplus received 20% of the interest earned on Bermuda Re's business.

But, the committee says, "in fact, Surplus did not manage Bermuda Re and performed no services whatever in return for receiving 20% of the interest."

From July 1, 1978, to June 30, 1983, Surplus made aftertax profits of \$2.1 million and paid dividends of \$1.7 million.

The committee concluded that Mr. Nelson's syndicates should have received this 20% of interest

transactions to Bermuda Re "gave an undue benefit to the reinsurer, and caused serious detriment to the syndicates."

Mr. Nelson was found guilty from these and other transactions of three counts of discreditable conduct.

During testimony, members of the market praised Mr. Nelson for his services to the Lloyd's market during his career.

Mr. Nelson had been a member of Lloyd's Council, chairman of Lloyd's Underwriters' Non-Marine Assn. and chairman of Lloyd's Asbestos Committee. In fact, he was asked to be Lloyd's deputy chairman in the latter part of 1982, but he disclosed to then-Lloyd's Chair-

man Peter Green that he had an indirect interest in Bermuda Re. As a result, the offer was withdrawn.

But the committee found that the charges against Mr. Nelson were severe enough to warrant a two-year suspension, which he did not appeal because of the time and expense.

Mr. Nelson, who has suffered ill health since the allegations were made, said in a letter, "I have strenuously endeavored to fulfill the undertaking given to the Council to make a fair and equitable restitution. It remains for me to apologize to you for any inconvenience or trouble which you may have been caused."

Reinsurance Capacity Available

CAPTIVE SYNDICATE MANAGEMENT, LTD.

Surplus Relief & Excess of Loss Treaties for Domestic & International Ceding Companies Worldwide

U.S. REPRESENTATIVE OFFICE
26 BROADWAY, SUITE 400 . NEW YORK NY 10004
TELEPHONE (212) 837-7743 FAX (212) 837-7923

The Rock® or a hard place. The choice is yours.



You could find out you chose the wrong reinsurance company the hard way: when it's too late. Or you could be farsighted enough to choose The Rock from the beginning. Prudential Re has the rock-solid® resources you can count on.

Our expertise and creativity in underwriting let us analyze and define risks precisely. Your rates

reflect only true exposure.

Prudential Re is the choice for service, too. The same underwriter who first gets to know you and your business is the one who'll be there over the long haul.

It's not hard to see why The Rock is the right place to be.

The Rock in Reinsurance
Prudential Re



Diversified

Continued from page 3

named rehabilitator for Diversified.

Zenith was incorporated in Minnesota as an insurance holding company in May 1987, and its acquisition of Diversified was approved by the Commerce Department in March 1988.

Initially, Zenith and Diversified were to be controlled by Wingate Capital Ltd. of Eden Prairie, a firm headed by Mr. Karls.

However, the complaint indicates that the Minnesota department refused to allow Mr. Karls to "directly or indirectly manage" any Minnesota insurer, pointing to the Arizona Insurance Department's 1986 receivership order against Great Global, Mr. Karls' former company.

Zenith then agreed that Mr. Karls would not serve as a director or officer of Diversified and would not directly or indirectly have any management responsibilities for the insurer. Zenith also agreed that Mr. Karls would not directly own any stock in Zenith, and that Wingate's ownership would be limited to no more than 15%, the complaint says.

Subsequent filings with the Commerce Department showed Zenith's largest shareholder to be Richard B. Stair, president of Security National Ltd., a Solano Beach, Calif., escrow agent.

When department examiners visited Diversified's Eden Prairie offices in November, however, they found that all telephones at the office were answered in the name of Wingate, Mr. Karls' company; that office personnel said they were employees of Wingate; and that Mr. Karls had signatory authority on Diversified checking accounts, the complaint alleges.

Following an examination of Diversified, the Commerce Department issued a statement of charges and ordered the company to show cause why its license should not be suspended or revoked. Among other things, the complaint charged that:

- The extent of Mr. Karls' involvement with Diversified was misrepresented to the Commerce Department.
- Diversified improperly invested "purported funds of the company" and failed to meet statutory surplus requirements. The insurer and "persons affiliated" with Diversified also engaged in fraudulent and dishonest practices.
- Diversified's principal management is so "incompetent and untrustworthy" as to make the insurer's operations hazardous to the public.
- Diversified is "controlled directly or indirectly through ownership, management, reinsurance transactions or other business by a person or persons whose business operations are or have been marked by the manipulation of assets, reinsurance or accounts."

Mr. Karls referred questions to Mr. Miley, who is with the Minneapolis firm of Larkin, Hoffman, Daly & Lindgren Ltd. In a written statement, Mr. Miley denied that Mr. Karls had been involved in managing Diversified, but conceded that he was "inadvertently" left on as a signatory on bank accounts of Zenith and Diversified and had signed one \$2,500 check in connection with Diversified's acquisition.

An examination of Diversified's Sept. 30 quarterly financial statement resulted in the department disallowing \$10.3 million of the insurer's \$11.3 million in assets.

The largest of these assets comprised \$10 million in CDs—also referred to as "pay order certificates" and "loan commitments"—from HCG Financial Services Inc. of Inverness, Ill.

Department officials were at first concerned about the concentration of Diversified's assets in a single investment with HCG, according to Mr. LaVasseur.

Minnesota law prohibits insurers from investing more than 5% of their admitted assets in the obligations of any one corporation or business trust.

The complaint says the Minnesota department refused to allow Mr. Karls to 'directly or indirectly manage' any Minnesota insurer, pointing to Arizona's receivership order against Great Global.

As they began to sort through the confusing tangle of Diversified's finances, though, examiners later questioned whether the assets existed at all, Mr. LaVasseur said.

Even now, the Commerce Department officials say they are unclear about many aspects of Zenith's and Diversified's financial dealings.

Officials of the Commerce Department, lawyers for Diversified and a finance company that dealt with Zenith tell widely different stories about the insurer's financing.

The \$10 million in HCG certificates appeared to be "directly or indirectly collateralized" by precious metal trust receipts issued by First Dominion Trust Co. of Austin, Texas, the complaint says. The trust receipts in turn were apparently backed by supposedly valuable ore contained in a slag pile in Deming, N.M.

Mr. Stair's firm, Security National, had acted as an escrow agent for First Dominion in attempts to place precious metal trust receipts with several insurers, including Diversified, Commerce Department documents show.

First Dominion records also show that \$50 million in pre-

vious metal trust receipts were issued to Diversified in exchange for Diversified preferred stock, the complaint says, though Diversified's records never reflected such a transaction.

First Dominion had claimed the total net worth of the slag pile to be \$2 billion, though the Commerce Department notes in its complaint that its actual worth "is believed to be negligible" and that First Dominion was placed in liquidation by the Texas Department of Banking in September.

Diversified's \$10 million in HCG certificates were also contingent on the "good faith and credit" of Robert Eugene Cheney and Ro-Mar Farmaceutica Mexicana S.A., a company Mr. Cheney controls, the complaint says.

Mr. Cheney—who at one time owned the slag pile—was also involved with Security National in the placement of First Dominion trust receipts, and Ro-Mar held options to purchase stock in two Security National subsidiaries, according to the Commerce Department.

Mr. Cheney was jailed from 1979 to 1981 after being convicted of grand theft in California, and was accused of additional grand theft charges by the California Attorney General's office in September for allegedly embezzling more than \$100,000 from several limited partnerships in 1984 and 1985, documents show.

When Commerce Department officials first contacted HCG about the Diversified certificates of deposit, HCG Vp Paul Graffia said HCG could honor the certificates "because HCG is a subsidiary of Ford Motor Co. and because Cheney owns over \$700 million of California real estate," the complaint says.

HCG's parent company, Hartford Financial Corp., is 50% owned by United States Portfolio Leasing Inc., a Ford unit.

Mr. Graffia later said that HCG would not redeem the Diversified certificates until Mr. Stair, Security National, Mr. Cheney and Ro-Mar deposited \$10 million with HCG, the Commerce Department complaint says.

Before executing the certificates for Diversified, HCG had received as collateral two \$5 million promissory notes signed by Mr. Stair on behalf of Security National and by Mr. Cheney and his wife on behalf of Ro-Mar, according to Mr. LaVasseur.

Mr. Graffia told Minnesota Commerce Department officials that HCG had intended to redeem these notes before allowing Diversified to draw on the certificates, Mr. LaVasseur said.

HCG had earlier dealt with Mr. Cheney in the course of Mr. Cheney's efforts to arrange financing for a refining plant to process ore from the New Mexico slag pile, according to Mr. LaVasseur.

Commerce Department officials later contacted representatives of a Ford Motor subsidiary who said that HCG "is not

Continued on next page

Alternatives
Self-Insurance

Your Market Has Alternatives

In today's fast paced business world, realizing and understanding the alternatives are critical to the bottom line.

On January 30 Business Insurance will publish its annual Spotlight Report on Self-Insurance, bringing readers news and information on important alternatives:

- review of new developments in self-insurance
- reports on alternative risk financing mechanisms, including self-insurance, captives & risk retention
- ranking of the largest third party claims administrators for self-insured employee benefits and property/casualty claims
- listing of companies specializing in self-insurance services — the annual BI Directory of Claims Administrators.

Business Insurance

New York: 212/210-0228

Chicago: 312/649-5276

Los Angeles: 213/651-3710

Reach Them First In Business Insurance

Advertisers in BI reach a top level audience ... CEOs, financial and administrative executives, risk and employee benefits managers ... executives who turn to BI first for news and developments in the commercial insurance industry.

Everyone of our corporate insurance buyer readers is challenged by conditions and trends in today's marketplace. Only BI provides the insights and information they need to meet the complex challenges they face daily. That's why it's not surprising that 50%* of our readers specify or buy both property/casualty and benefits self-insurance services.

Let every BI reader know you offer an alternative!

Reserve space today and reach the executives who reach for Business Insurance first, every week.

* Subscriber Profile, 'Corporate Insurance & Reinsurance Buyer', 1988.

Publishing: January 30

Alternatives

Ad Closing: January 17

Continued from previous page financially capable" of issuing instruments like the Diversified certificates and "could not do so unless they first obtained \$10 million from an outside source," the department's complaint says.

The California Attorney General's office also said they know of no assets owned by Mr. Cheney, the complaint says.

HCG's Mr. Graffia did not return phone calls for comment on this story. Mr. Cheney could not be reached.

Diversified maintains that its \$10 million in certificates from HCG were "irrevocable and unconditional," and were not contingent on HCG's ability to collect on other collateral, such as the notes posted by Mr. Stair and Mr. Cheney, said Frank Giberson, a Larkin, Hoffman lawyer representing the insurer.

Mr. Giberson explained the chain of transactions this way: HCG loaned Security National and Ro-Mar \$10 million in exchange for the two \$5 million promissory notes, which were secured by common shares of Zenith, Diversified's parent.

Security National then took control of the entire \$10 million by issuing a promissory note to Ro-Mar, and loaned the money to Mr. Stair personally. Mr. Stair then deposited the funds with HCG on behalf of Zenith and Diversified, according to Mr. Giberson.

HCG later confirmed to auditors that it was holding \$10 million in cash deposits for the accounts of Zenith and Diversified, Mr. Giberson pointed out.

He also denied that First Dominion precious metal trust receipts had ever been used to secure the \$10 million loan from HCG.

First Dominion trust receipts did show up in an Aug. 31 audited financial statement for Zenith, which was attached to the Commerce Department complaint.

The statement, which consolidated the finances of Zenith and Diversified, reported a total of \$31.2 million in assets, including:

- \$10 million in certificates of deposit, presumably from HCG.
- \$15 million in First Dominion precious metal trust receipts.
- A \$2 million note receivable from Vir-Cal Holdings Ltd., a unit of Mr. Stair's Security National.
- Land valued at \$2.3 million at "Indian Acres," described as a planned community in Thornburg, Va. The land was contributed by Ultimate Insurance Co. Ltd., another unit of Security National.

However, Mr. Giberson disputed the accuracy of this financial statement, denying that either Zenith or Diversified had ever actually carried precious metal trust receipts as assets on their books.

Mr. Stair had proposed placing trust receipts in the two companies, but members of Zenith's board had rejected the idea "out of hand," Mr. Giberson said.

Mr. Stair also ordered the Zenith

financial statement without the authorization of Zenith's board of directors, and the auditing firm involved later withdrew the report, Mr. Giberson said.

Derezin, Breier & Delsen, a San Diego, Ca., accounting firm, prepared the statement. Bernard Breier, a partner with the firm, could not be reached for comment.

Mr. Stair suffered from a "delusion" that he would be able to sell the trust receipts to insurance companies hoping to use them as admitted assets to bolster their surplus, Mr. Giberson added.

Mr. Stair referred questions about this story to his lawyer, Bert Greener, with the Minneapolis firm of Fredrikson & Byron.

In a written statement, Mr. Greener confirmed that Mr. Stair had been involved in "discussions" about obtaining trust receipts for Diversified, but that "he did not personally represent they would be an acceptable investment for a licensed insurance company."

Mr. Greener also noted that the opinion of the accounting firm that produced Zenith's audited statement was also qualified as to the value of the trust receipts, and that the trust receipts were never carried as assets by Diversified.

Mr. Stair was not a director, officer or employee of Zenith or Diversified, Mr. Greener added, and "could not have unilaterally directed preparation of a financial statement unless it was purely pro forma. A financial statement prepared by an auditing firm from the journal and ledger of Zenith must have used entries made by management, not an outside investor."

In addition to disallowing Diversified's \$10 million in CDs, the Minnesota department also disallowed \$300,000 in uncollateralized promissory notes from Trafalgar Holdings Ltd. of Los Angeles.

Trafalgar Holdings is headed by Charles W. Knapp, former chairman of Financial Corp. of America, which filed under Chapter 11 of the Federal Bankruptcy Act earlier this year after regulators disposed of its ailing thrift subsidiary, American Savings & Loan Assn., according to the Minnesota Commerce Department documents.

After Mr. Knapp resigned from FCA in 1984, FCA filed a claim with its fidelity insurers accusing Mr. Knapp of manipulating FCA's assets and earnings to inflate the company's stock price, the Commerce Department complaint notes. Mr. Knapp has denied the allegations.

Trafalgar Insurance, a Trafalgar Holdings unit formed as a holding company for domestic and offshore insurers, is headed by Mr. Karls.

In an April 13 letter to Trafalgar shareholders, Mr. Knapp reported that Trafalgar has "completed a transaction involving the funding of Diversified Insurers, a Midwestern reinsurance company which we are currently expanding into an offshore reinsurance network through a newly formed entity,

Trafalgar Reinsurance Corp."

However, Zenith never revealed in its filings with the Minnesota department that Diversified would be funded by Trafalgar "or any entity associated with Karls," the Commerce Department complaint charges.

While Trafalgar has conceded receiving wire transfers of funds from Diversified in exchange for promissory notes, it has since denied any funding of Diversified, the complaint says.

Mr. Miley, another Larkin, Hoffman lawyer representing Diversified, said that the insurer had invested about \$800,000 with Trafalgar in exchange for promissory notes, \$500,000 of which was repaid and \$300,000 of which remained outstanding.

Trafalgar had initially planned to contribute \$5 million in stock to Zenith in exchange for Zenith shares, but the transaction was never consummated, Mr. Miley said.

Mr. Giberson added that Trafalgar was "premature" in announcing the proposed funding deal in its letter to shareholders.

Meanwhile, Diversified was also part of a planned network of U.S. and offshore insurance and reinsurance companies to be known as Integrated Insurance Network and to be headed by Mr. Karls, Commerce Department documents show.

A business plan for Integrated Insurance Network included an organizational chart showing Diversified and another unnamed primary insurer ceding business to two U.S. reinsurers identified as "Meade Re-insurance Co." and "R.C.A." These reinsurers would then retrocede business to several offshore reinsurers, including a company identified as Transatlantic Insurance Co. Ltd., the chart

indicates.

The reinsurers identified as "Meade" and "R.C.A." were Mead Reinsurance Corp. and Reinsurance Co. of America, both licensed insurers that are running off their business and looking for buyers, according to David M. Evans, Diversified's president.

Mr. Evans said the organizers of Integrated had planned to buy the two reinsurers and include them in the network, though the acquisitions were never made and the network concept itself never got off the ground.

Officials of Mead Re and Reinsurance Co. of America confirmed that they were approached by Mr. Karls and other representatives of Wingate Capital, but that nothing ever came of the contacts.

Transatlantic Insurance, also headed by Mr. Karls, is a Turks & Caicos-based insurer that is unrelated to Transatlantic Reinsurance Co., an American International

Group Inc. affiliate based in New York.

A July 31 pro forma balance sheet for Transatlantic Insurance included in the Integrated business plan shows total assets of \$54 million, including \$100,000 in cash, \$10 million in precious metal trust receipts and \$43.9 million in notes receivable secured by real estate, mineral leases and "proven oil reserves."

While the Integrated concept may not have gotten off the ground, the plans were ambitious.

The business plan projected the ultimate combined capital of U.S. and offshore Integrated members at \$450 million to \$800 million, allowing the network to write \$2 billion in annual premiums.

Transatlantic itself projected writing net reinsurance premiums of \$150 million in 1989, increasing annually until net volume hit \$1.5 billion in 1993, the business plan shows.

Working Partnership Or Conflict Of Interest?

The sophisticated Risk Managers we work with consider it a conflict of interest for a brokerage firm to manage their captive. Captives are an alternative to conventional markets represented by brokers. In Vermont, go with the independent captive manager that offers a spectrum of choices for savings and better service.

TOLL FREE 800-USA-RISK
H. Lincoln Miller, CEO

Vermont Insurance Management
P.O. Box 306, Montpelier, Vermont 05602

STATE'S LARGEST INDEPENDENT
See you at RIMS - Booths 1033 & 1132



Today, the insurance market is sharp-eyed. Clients are more sophisticated. More informed. More aware of their options. What counts is substance. Here's ours: RLI's niche is specialty products and personal and small business umbrellas. To be the best in our niche, we're investing in better service systems, more streamlined claims processing capability. We're expanding our staff with specialized experts. Pros you can depend on for answers and action. Our image is substance.

If you need a market for personal or small business umbrella or coverage for targeted groups then call us at (800) 445-5468 (National Accounts); in Illinois (800) 322-7344.

IMAGE VS SUBSTANCE

RLI

Reliability • Leadership • Innovation

© 1988 RLI Corp.

Financial Technology Consultants, Inc.

We added to our name...

because we've added to our service!

Specializing in Rent-a-Captives, Cash Flow, Self-Funded and Alternate Risk Funding Programs ...and now...

a major breakthrough in the Rent-a-Captive market...

4x Funding Available!

For qualified organizations, the face value of this new policy can be up to 4x greater than actual funding

Please Call (213) 937-3091 for complete details

5455 Wilshire Blvd. Suite 1610. Los Angeles, CA 90036 FAX (213) 937-0463

CONTROLLING CLAIM COSTS

THE BOTTOM LINE

FEBRUARY 2, 1989

HOTEL INTER-CONTINENTAL
NEW YORK, NEW YORK

The loss costs and expenses involved in reserving and resolving property/casualty claims have skyrocketed in recent years. The impact of these increasing costs and expenses has had a significant influence on bottom-line financial results.

This seminar is designed to provide attendees with an understanding of the aggregate interrelationship between claim handling and case reserving activities, and their potential influence on corporate financial results.

Issues to be discussed include:

- Actuarial reserving (and the interrelationship between actuarial and case basis reserving activity),
- Control of medical costs,
- Litigation management and hazardous waste, and
- Toxic tort and asbestos claim handling.

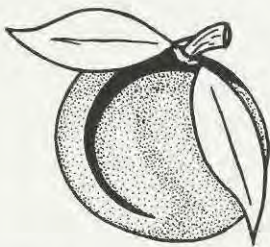
FEE: \$595.00

FOR ADDITIONAL INFORMATION: Contact the Conference Director, Tillinghast, Financial Centre, 695 East Main Street, Suite 600, Stamford, CT 06901-2138 (203) 326-5400.

SPONSORED BY

Tillinghast
a Towers Perrin company

Atlanta
April 9-14 '89



Pick a peach of a week with RIMS...the organization that specializes in you.

Gather real-life solutions for today's P/C market and employee benefits environment...hone professional skills...debate and dialogue with colleagues...establish profitable new relationships...meet leading suppliers of services you need.

- Special Sessions: *State vs. Federal Regulation Benefits Issues: The Next Four Years*
- 100-plus working seminars
- Industry Sessions and Common Interest Groups
- Basic Track Program for new RM and EB managers
- Speakers from government and industry

27th Annual Risk Management and Employee Benefits Conference
(Detailed Conference and Exhibitors' brochures (212) 286-9292)



205 East 42nd Street, New York, N.Y. 10017 • (212) 286-9292

Info

• "Practical Guide to Environmental Management" has been published by the Environmental Law Institute to offer executives guidelines for dealing with environmental regulations. The guide is written by Frank Friedman, vp of health, environment and safety at Occidental Petroleum Corp., and includes discussions about implementing a strong environmental management program; dealing with federal and state agencies as well as citizens groups and the press; and the environmental impact statement process. Copies are \$25 for ELI members and \$28 for non-members from Environmental Law Institute, 1616 P St. N.W., Suite 200, Washington, D.C. 20036; 202-328-5150.

• A guide to special risk marketing, which describes the excess/surplus lines broker's role and offers criteria to be considered when evaluating and selecting a special risk marketing firm, is available from AVRECO Inc. The 12-page "Fact Book" highlights how brokers work with non-admitted underwriters to find the right coverage for special risks. The booklet is free from William Yurek, Executive Vp, AVRECO Inc. 10 S. LaSalle St., Chicago, Ill. 60603; 312-346-6161.

• The International Foundation of Employee Benefit Plans has audiocassettes available of educational programs held to help employers comply with Section 89. The first program provides an overview of Section 89—the portion of the Internal Revenue Code mandating that employers offer benefits on a non-discriminatory basis—includes eligibility tests, definitions of a plan, compensation tests, qualification requirements, excludable employees, minimum coverage rules and integration plans. The two-tape second program deals with assessing a company's situation and

the two-tape third program includes testing examples for simple, complex and flexible benefit cases. Individual cassettes are \$8 for foundation members and \$10 for non-members. The five-tape set is \$32 for members and \$40 for non-members. Payment must accompany orders to Audiovisual Services, International Foundation, P.O. Box 69, Brookfield, Wis. 53008-0069; 414-786-6700.

• "Pension Security for the Highly Paid: Rabbi Redux," a newsletter that examines two main funding vehicles of supplemental executive retirement plans—rabbi trusts and taxable trusts—is available from Kwasha Lipton. The newsletter defines the criteria that should be used to decide which SERP funding vehicle is better in a given situation. For a free copy, write Barbara Hubert, Kwasha Lipton, P.O. Box 1400, Fort Lee, N.J. 07024.

• "Section 89: The Problems—The Solution" presents an overview of welfare plan non-discrimination tests that employers will have to run to determine if their benefit programs comply with the new Internal Revenue Code provision. The Pension Planning Co. Inc.'s free booklet is available by writing the communications department at the company, 355 Lexington Ave., New York, N.Y. 10017; 212-867-4100.

• "Self-Inspection Guidelines and Forms" has been published by The FPE Group of fire protection engineers and consultants. The 20-page manual is designed for risk managers and loss control specialists and includes six sample inspection forms covering house-keeping hazards, fire protection equipment, fire extinguishers and alarm tests. The guide is available for \$10 from The FPE Group, 1815 Diehl Road, Suite 200, Naperville, Ill. 60540; 312-961-5585.

• "Halter's Industrial Terminology for Occupational Health and Safety Professionals" is a glossary of more than 4,500 terms in more than 100 subject areas. The reference book is a guide for professionals working in insurance, consulting and public health. The book is \$30 from W-H Interscience Inc., P.O. Box 4722, Grand Junction, Colo. 81502; 303-243-5913.

• The All-Industry Research Advisory Council has published "Earthquake Losses under Workers Compensation and General Liability," a study of the possible losses from a major earthquake in the Los Angeles area. AIRAC, a public policy research organization sponsored by the property/casualty industry, estimates that general liability and workers compensation claims would add \$14.6 billion to insurance losses from a major earthquake along the Newport-Ingleswood fault. Single copies of the study are free, additional copies in the United States and Canada are \$4 each postpaid and copies to other countries are \$5 postpaid. They are available from AIRAC, 1200 Harger Road, Suite 310, Oak Brook, Ill. 60521; 312-572-1177.

• Have a new report, booklet or educational brochure you'd like to send to buyers of insurance? Business Insurance will describe material costing less than \$35 as an editorial service in the Info column. Simply send us a copy of the item to be offered and a short description of it, along with the cost and a mailing address. Address all contributions to Info, Business Insurance, 740 Rush St., Chicago, Ill. 60611-2590.

From The Reprint Department Of:

Business Insurance

Reporting weekly for
corporate risk, employee benefit
and financial executives

Reprints/Permission

If you want copies of articles appearing in BI to distribute at corporate or industry meetings, or for promotional mailings — or permission to produce your own reprints — contact the BI Reprint Dept. We've expanded to provide you with fast, low-cost service. (Minimum print order is 100 copies.) Call or write:

REPRINT DEPARTMENT
Business Insurance
220 East 42nd Street
New York, NY 10017
(212)210-0229.

Article Photocopies

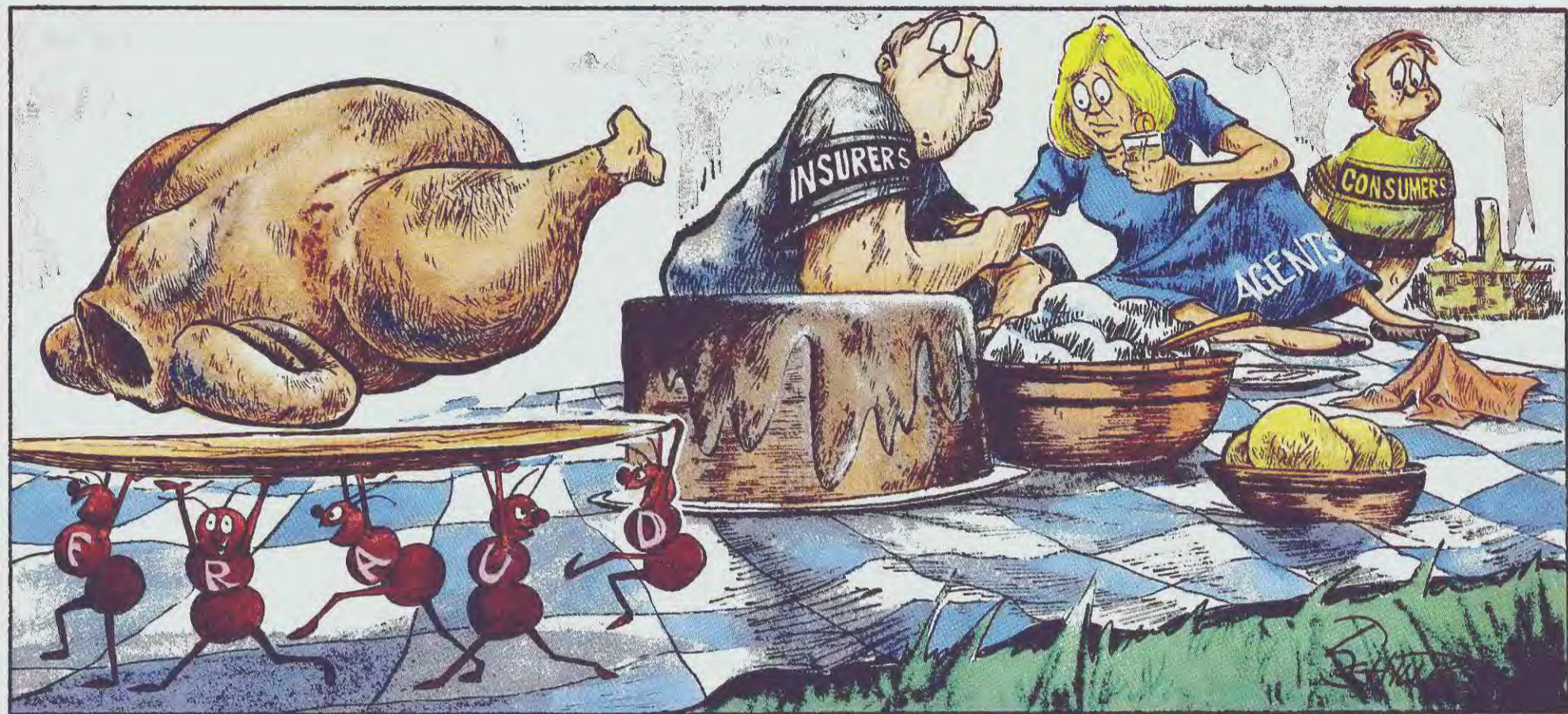
If you missed an article in BI and would like a photocopy — send your request along with \$3⁰⁰ per copy / per article and a self-addressed envelope to the BI Reprint Dept. Please specify issue date and headline of article. Only pre-paid written requests will be fulfilled.

Issue Sales

For a copy(s) of any back issue of Business Insurance, contact Single Copy Sales. Call (313)446-1609.

Agent/Broker Topics

A monthly editorial section sent exclusively to agents and brokers



'License to steal'

Dishonest insurance agents cash in on fraudulent schemes

By LAURA MAZZUCA

Insurance fraud is a multibillion-dollar enterprise that benefits not only fraudulent claimants but also some dishonest agents and brokers.

Fraudulent activities by some agents and brokers—including premium skimming, misrepresenting the coverage placed for a client and even more exotic schemes—give the entire industry a black eye.

A few case histories from insurance department fraud division files serve as illustrations:

- In an insurance agent in Sandusky, Ohio, collected and pocketed insurance premiums and acted as an insurer paying for property claims from his business/personal banking account. More than \$35,000 in premiums were misappropriated by the agent, and numerous civil lawsuits are pending against him for an estimated \$500,000 in damages resulting from this scheme.

- In Florida, drivers have paid large premiums for maximum coverage in the standard market from some unscrupulous agents, only to discover that they have been placed in the high-risk pool with absolute minimum coverage, as the agent pockets the balance.

"An unscrupulous insurance agent has an outright 'license to steal' from anyone who walks into his agency," according to a booklet that has been distributed by the Florida Department of Insurance, Fraud Division. "His crimes run from clear-cut theft when he pockets premiums rather than sending them to the insurance company, to deceptive sales practices when he sells his client something the client didn't know he was buying."

Of course, agents can be on the receiving end of insurance fraud. Fraudulent claims filed by policyholders inflate agents' loss ratios, which in turn lowers their contingent commissions, while straining the relationship between agents and insurers (see story, page 32B).

And, agents can place coverage with insurance companies they believe to be reputable, only to find the company shuttered—or that it never even existed—when a policyholder files a claim.

While the majority of agents and brokers are honest, reports of fraudulent activity by agents abound. However, such fraud is primarily measured through anecdotes rather than

hard statistics.

In New Jersey, about 10% of the insurance fraud cases investigated by the state are perpetrated by agents, said John Butchko, chief investigator for the New Jersey Insurance Department's fraud division.

About 80% of these cases relate to auto insurance, he said.

Fraudulent agents are hard to weed out because, on the surface, they appear identical to honest, hard-working agents.

"People who are con men are usually very good. The modern-day con man isn't like some 1920s guy in a pinstripe suit. He dresses and acts just like a banker does," notes David A. Bakst, an attorney with Morrison, Mahoney & Miller in Boston.

Some observe that many incidents of fraud are committed by the same agents, who are likely to strike again after they are caught and punished.

The worst thing about fraudulent agents and brokers is that "it's never been exposed properly because those who perform fraud come back into the business," points out Donald R. Weber, chairman and chief executive officer of Financial Guardian Group Inc. in Kansas City, Mo., the nation's 17th-largest brokerage.

In fact, sometimes even fraudulent agents and brokers who have been imprisoned on fraud charges "hang out the shingle" and get back into the market, Mr. Weber said.

"Whether it's through greed or ineptness, many in the industry are not doing due diligence of checking out the people they do business with," he noted. Even employees who have been fired by FG for fraudulent or "questionable integrity" are sometimes hired by other agencies or brokerages, observed Mr. Weber.

In these cases, FG never receives reference requests from the new employers.

Many observers agree that most cases of agent-perpetrated insurance fraud is tied to auto insurance.

"Almost every state that has compulsory insurance and financial responsibility laws has problems with agent fraud. It's easy to overcharge customers, and the state regulation process (to detect such fraud) is cumbersome," said Jon Crosby, director of the Florida Insurance Department's fraud division in Tallahassee.

The problem with agent-perpetrated fraud is particularly

pronounced in Massachusetts because of the state's compulsory auto insurance requirement, said Mr. Bakst. Because coverage is mandatory, there are a lot of "unsophisticated insurance buyers" ripe for fleecing by unscrupulous agents, he said.

As an example, Mr. Bakst pointed to foreign students attending the state's well-known universities like Harvard, "particularly rich ones—girls buying a Mercedes."

Under state law, a new car buyer can't drive an auto off the dealer's showroom floor without auto insurance, Mr. Bakst said. So frequently a car dealer will send the victim to a fraudulent agent—for a percentage of the take.

In turn, this agent will sell the victim the required liability coverage—but also tell them other coverage is required by law, like motor club membership, personal injury coverage, etc., Mr. Bakst said.

The average \$600 premium for basic, mandatory coverage can rapidly be inflated to twice that amount by a crooked agent, he said.

Since auto coverage is mandatory in New Jersey, there is a lot of room for fraud, points out Mr. Butchko.

For example, a common scam is for a driver to obtain an application for coverage with a minimum premium payment, said Mr. Butchko. After the driver receives the mandatory ID card—which by law must be shown along with drivers license if stopped by police—the driver either cancels the policy or simply stops making premium payments.

If such a driver is involved in a collision, some agents will register the driver as covered "the morning of the accident" for a fee of \$150 to \$500, he explained.

These agents make out twice: the kickback fee and the commission for producing a new policy, Mr. Butchko said.

"Some Florida drivers, after paying a large premium for maximum coverage in the standard market, have been surprised to discover they have been placed in the high-risk pool with absolute minimum coverage," Mr. Crosby said.

But agent fraud is not limited to auto insurance. Agents can make money illegally when selling almost every type of coverage.

Fraud among agents selling health insurance is a big problem, especially when they are selling unnecessary or exorbitantly priced coverage to the elderly, said Mr. Bakst.

Continued on page 32C

Agent/broker topics

Claim fraud costs agents money, too

By LAURA MAZUCA

While insurance companies often are left holding the bag when a policyholder files a fraudulent claim, policyholder fraud also hurts agents and brokers.

Insurance fraud perpetrated by clients is a big problem for agents because it can hurt the agent's contingency commissions, or profit-sharing plan, with an insurer, explained Carol A. Hammes, a consultant with The Middleton Group in Lisle, Ill.

Since contingent commissions are determined by the loss ratio on the agent's book of business, fraudulent claims that are paid by an insurer could represent a "significant" loss for the agent, she said.

"Sometimes it could be just one large loss that costs the agent \$25,000 in bonuses they get from the company," Ms. Hammes pointed out.

And, because an insurer looks at three years of business to determine profit-sharing payouts, one large fraudulent claim could hurt an agent for a long time, she said.

Also, an agent could lose face with the insurers he represents if he passes along many fraudulent claims, said Courtney Wood, president of Moore, Loggren & Wood in Edmond, Okla., and a member of the executive committee of the Independent Insurance Agents of America.

If the insurer is suspicious of a claim filed, "there's a perception there, a little gray cloud that follows the agent around whenever he deals with that company," he said.

Also, fraudulent claims are a time-consuming nightmare for agents who must help investigate the claims, he said.

Additionally, if an agents' clients file too many fraudulent claims, the insurance company may cancel its contract with the agent, Ms. Hammes said. "The agency is on the front line on trying to sift through information to determine if things are correct or not."

Producers, too, must be more careful in what business they accept, and "with salespersons it's difficult, because you send them out to produce business, then tell them to use more caution. It could cause friction," said Ms. Hammes.

"Fraud impacts us all negatively. . . the agent buys insurance, too, and it drives up his own premiums," Mr. Wood said.

Overall, insurance fraud is the "No. 2 economic crime" committed in the United States, second only to income tax evasion, according to Wendall C. Harness, director of the Insurance Crime Prevention Institute in Westport, Conn.

Although an exact dollar amount cannot be assigned to fraudulent transactions, the ICPI estimates that more than \$16 billion was "picked from the pockets of the insurance-buying public" in 1988. ICPI statistics indicate that one of every 10 claims filed is fraudulent or partially fraudulent.

"The insurance product does lend itself to consumer fraud," said Don Eve, president of Eve Insurance Agency Inc. in Flint, Mich.

To minimize fraud opportunities, Mr. Eve's agency is careful to substantiate items to be insured, requesting photos of houses and cars. "But in the final analysis, there are some things you can't protect yourself against," he said.

One of the common frauds perpetrated by customers is the filing of inflated claims after a burglary or car theft.

For example, Mr. Eve said one of his agency's clients had his car stolen "every year for two to three years," and reported his house burglarized several times. Such reports most often cannot be disproven, and an agent can't legally drop the client unless the insurer finds something amiss, he said.

"Our biggest problem from the customer standpoint is not fraud, but that the (customer's) business goes broke," said Paul Dobinsky, president of Dobinsky Insurance Agency Inc., a St. Louis agency with a \$2.5 million premium volume, adding that failing businessmen are tempted to file false claims to supplement their income.

Bill Calhoun, president of Texas Casualty & Surety Insurance in Houston, says that agents have to develop a "sixth sense in underwriting the moral character of a customer." New agents "are going to go through a period of evolving to get to the point where they're sensitive to when something's not right."

Earlier in his career, Mr. Calhoun admits to being "scammed" by a recently divorced client who, shortly after purchasing homeowners coverage, claimed his house was burglarized, "down to the potted plants and coat hangers."

Today Mr. Calhoun believes that the customer arranged the fraud to cover divorce expenses or that the customer's ex-wife took the items.

Mr. Calhoun's agency was also "taken" on several arsons, as well as pre-arranged car thefts. "But it's difficult to prove any of these things," he remarked.

Subsequent investigation and prosecution of a suspicious or fraudulent claim is up to the insurer, which is sometimes reluctant to investigate a suspicious claim because of the legal expenses, time consumption and threat of bad faith suits from those being investigated, said Mr. Calhoun. Because of this, it's usually easier and cheaper to pay the claim

Policyholder background key to protect agency from fraud

By LAURA MAZUCA

The best way for an agent or broker to protect against fraudulent customers can be summed up in three words: "Know your policyholder."

"If this advice was followed, it would greatly reduce the risk of fraud on the part of both the agency and the carrier," said John Barracato, director of the fire and fraud section, commercial insurance division of Aetna Life & Casualty Co. of Hartford, Conn.

According to Aetna statistics, the insurer sustained \$223.4 million in fraudulent losses and investigated 2,683 suspicious or fraudulent life and property/casualty claims in 1988 alone, said Mr. Barracato. This represents an 18% increase in arson and fraud over 1987 figures. And compared with Aetna's fraud loss figure of \$156.3 million in 1983, it's evident that insurance fraud is a "growth" industry, he added.

And Mr. Barracato predicts this figure will continue to escalate unless more is done to prevent fraud. "It's like the little boy stealing penny candy: The first time he's scared he'll get caught, but it's easy to get away with after that," he said. "People who defraud don't stop, they continue to defraud."

To "know the policyholder," several agents and brokers noted that they compile information on a new customer's financial, business and personal background.

"All new policies come to my desk first," said Paul Dobinsky, president of Dobinsky Insurance Agency Inc., a St. Louis agency with \$2.5 million in premium volume.

"If it's a company I've never heard of, we check into it," he said. This means that Mr. Dobinsky's agency routinely does valuations on buildings to be insured, and the insurer underwriting the business does a follow-up check behind them.

"What we tend to look for is if someone comes in that we don't feel good about," he said. In this case, they check the client out by talking to his previous insurers, and investigating old claims information, he said. "Most of those people looking for trouble have had trouble before," he added.

However, agents must be careful to always notify the client that they are going to perform a standard credit check, or else agents run the risk of violating state law, he noted.

For example, in Missouri agents are prohibited from asking personal lines clients if they have had their last policy canceled, particularly for auto coverage, said Mr. Dobinsky.

But standard questions about a customer's previous insurance and whether the client had any problems with his coverage are acceptable, although customers "don't always tell the truth," he added.

Most in-depth background investigation on a potential client—such as credit reports—are done by the insurer, said Patricia A. Borowski, vp of government and industry affairs for the National Assn. of Professional Insurance Agents based in Alexandria, Va. But agents should perform at least a cursory investigation of the client, especially commercial lines clients, by assembling all public information on the corporation.

In personal lines, the agent should be responsible for

than to go to the trouble and expense of prosecution.

Not all insurers take fraudulent claims lying down, however. Many pass along suspicious claims to state fraud divisions to investigate, either before or after the claim is paid.

To aid prosecution, many states have adopted elements of 1980 model legislation developed by the National Assn. of Insurance Commissioners, which makes intentional fraud against an insurer a felony, with the perpetrator subject to a five-year prison term and/or a maximum fine of \$5,000.

According to the ICPI, the insurance departments of seven states—New York, Florida, California, Idaho, Ohio, Illinois and New Jersey—have established fraud divisions specifically to investigate and prosecute insurance fraud cases (see story, page 32D). In addition, Nevada has a fraud division through the attorney general's office. The sizes of these divisions vary depending on the state, but most report a steadily increasing number of fraud cases per year.

Experts agree that the best way to investigate and prosecute insurance fraud is for the insurance industry—including agents and brokers—to work more closely with law enforcement agencies. But some add this is not an easy goal.

Several agents complain that police are reluctant to get involved in the investigation of insurance-related larceny. For example, Mr. Eve cited an instance in which he was aware that a client planned to have his car stolen so he could file a claim. Although the agent contacted the police about his suspicions, the officials informed him that they could do nothing until the auto was actually stolen.

The involvement of law enforcement agencies would be an important "deterrent factor" in eliminating both large and small fraud cases, agreed Aaron Mazen, director of the New

York State Insurance Fraud Bureau and president of the International Assn. of Insurance Fraud Agencies Inc., a not-for-profit organization founded in 1986 (BI, Nov. 9, 1987).

However, law enforcement agencies and the insurance industry are frequently reluctant to collaborate in investigations because "they (insurers) may not be familiar with (law enforcement) techniques" and the amount of manpower and time involved in a stakeout for a stolen auto, etc., said Mr. Mazen, who is a former New York City detective.

Even if police nail a case of insurance fraud, prosecution can remain a problem, added Mr. Mazen.

"The reason we (IAIFA) were formed was that in the New York Insurance Department, they came across all sorts of criminal activity," he said. "Some were so outrageous—and yet when they tried to get a prosecutor interested, they couldn't do it," mainly because such cases are not as "sexy" politically as a murder or other violent crime.

Many observers believe that policyholder fraud is on the increase.

"The insurance-consuming public is not enamored of the industry right now," said Mr. Calhoun. "Any chance they have to take advantage of the industry, they will."

Unfortunately, this atmosphere makes it more difficult for insurers and agents to protect themselves against fraudulent employees or clients, added Mr. Eve.

"We're very concerned about consumer activist groups," remarked Mr. Eve. "Everybody seems to be lining up to prevent you from doing anything to protect yourself."

To change the situation, "the laws are seriously going to have to be overhauled," said Mr. Calhoun. "Everybody thinks it's OK to steal from the insurance company."



Mr. Barracato

States scrutinize agent license applicants

By LAURA MAZZUCA

One way for state regulators to keep insurance agents and brokers honest is by more closely scrutinizing license applicants.

Although procedures vary from state to state, agent screening begins with the pre-licensing investigation.

For example, in Ohio, if a would-be agent has been convicted of a fraud-related crime, either in Ohio or another state, he simply will not be granted a license, said Marcia Hartley, assistant director of the Ohio Department of Insurance fraud division.

Although the state does not have enough manpower to perform background checks on every applicant, "red flags," such as an unexplained revocation in another state, will prompt an investigation.

And, in the actual licensing procedure,

most states routinely ask applicants standard questions referring to prior felony convictions, bankruptcy history, arrest record or if they have had a license revoked in another state, said Ron Hartsock, assistant deputy director, licensing division, of the Illinois Department of Insurance in Springfield.

In New York, pre-licensing requirements include a clearance check on the applicant by asking him if he's been licensed before in another state or in New York, said Aaron Mazen of the New York Insurance Department's fraud division. If there are any outstanding actions pending against the applicant, these must be cleared up before licensing—and they still might be turned down, he added.

Additionally, New York keeps a close eye on actual testing procedures to ensure that "the person getting the license is the person

taking the test," said Mr. Mazen.

However, other than this, there are frequently no safeguards built into the procedure, so states are forced to pursue license revocation after an agent is proven guilty.

Under Illinois statutes, reasons for license revocation can include misappropriation of funds, untrustworthiness and incompetence, misrepresentation, lying during the licensing process, felony convictions and giving false policy information, said Mr. Hartsock.

If a revocation order is issued, the agent has 30 days to reply and a right to a hearing. If the agent does not reply, the license is automatically surrendered.

As of January 1988, an Illinois license can be revoked for three years, after which an agent must reapply. A suspension lasts two years but does not require a reapplication.

There are no national aggregate statistics

available on the number of licenses revoked annually; however, individual states keep such records, and the numbers vary.

For instance, in New York, where the number of licenses issued holds constant at about 100,000, revocations dropped dramatically in 1987 (the last complete year) to only 66 from 109 in 1986, 101 in 1985, 72 in 1984, and 121 in 1983, said Mr. Mazen.

A similar pattern was visible in California, where license revocations reported through October 1988 were only 82, compared with 149 in 1987, 132 in 1986 and 147 in 1985.

In Illinois, the figures are broken down into revocations and surrenders, said Mr. Hartsock. Through Oct. 31, 1988, there were 46 revocations and five surrenders. For 1987, there were 73 revocations and 10 surrenders; 1986, 67 revocations and 9 surrenders; and 1985, 71 revocations and 10 surrenders. ■

Agent fraud

Continued from page 32A

This is a "high visibility problem with state insurance commissioners," he noted.

Life insurance also is an area often tapped by fraudulent agents.

One major area of life insurance fraud is the policy rollover scam, which is perpetrated by agents on the elderly, explained Marcia Hartley, assistant director of the fraud and enforcement division of the Ohio Insurance Department in Columbus.

In such a scam, agents tell elderly clients with paid-up life insurance policies that they can take the dividends on the policy and get up to three times the benefits if they roll the policy over, she said.

The agent then persuades the policyholder to sign a form, which is really a loan application or a cash value withdrawal form.

Then, the agent takes this money and buys five or six insurance policies in the policyholder's name for one year. Since most life insurance commissions pay 125% to 300% of the first-year premium on the policy, the agent pockets huge profits—then lets the coverage lapse after the first year.

The customer is then left without any coverage after the policies lapse, Ms. Hartley points out.

"The customers are so concerned with providing for their families that they fall prey to this," said Ms. Hartley.

A variation on this scheme is perpetrated by young male agents, who befriend elderly female clients, "sometimes even to the point of having romantic affairs with them," and persuade them to let the agent handle their money "for investment purposes," according to Ms. Hartley.

Collusion between a policyholder or insurer and an agent is another way agents can profit fraudulently, according to Ms. Hartley.

In a case still under investigation in Ohio involving a major life insurance company, an agent was writing life insurance policies for uninsurable people, such as those with terminal cancer. When the insurer requested the policyholder take a physical examination, the agent would send a healthy person.

The agent was able to get away with the scam because he was in collusion with one of the insurer's underwriters, Ms. Hartley said.

While agent-induced fraud is not confined to personal lines coverage, observers note that an agent has the most difficult time devising fraudulent commercial lines schemes.

Mr. Bakst noted that risk managers and even small business owners who purchase insurance are more sophisticated buyers than the average consumer. ■

SEE EYE TO EYE WITH A GYMNASTIC SCHOOL OWNER

While Gymnastic school owners may often assume peculiar physical positions, they rely on you to help keep them out of very awkward situations. Especially those arising from stiff liability claims.

For you, that's a heavy responsibility. Particularly when an injury to a student gymnast can be catastrophic and the resulting settlement astronomical.

That's why Rhulen, North America's largest administrator of specialty insurance programs, designed a comprehensive and uniquely flexible Gymnastic School Liability Insurance Program.

A program that provides your clients with the protection they need. And gives you the satisfaction of knowing you've served their interests well.

Rhulen currently offers custom designed programs for everything from Horse Farms and Horses to Martial Arts Schools and Children's Summer Camps. And from College Accident/Health Coverage for Students to Dance/Fitness Studios and Health Clubs. In addition to others.

And naturally, Rhulen's primary insurers are A+ rated, admitted, and licensed in the states where your business is written.

So, to accommodate a current account's special needs better. Attract new customers. And generate more commissions. Look your client squarely in the eye and call Toll Free 1-800-431-1270, Ext. 8080 for Rhulen...Something Special In Insurance.

Or write: Rhulen Agency, Inc., Department D, 217 Broadway, Monticello, New York 12701.

Rhulen *Something Special In Insurance*

Serving America's
Independent Agents with
Excess/Surplus Markets
for virtually every
class of Property and
Casualty risk



**Insurance
Brokers Service, Inc.**

230 West Monroe Street
Chicago, IL 60606
Telephone (312) 621-1770
Telex 25-6231
Fax (312) 621-0262

Agent/broker topics

States track insurance fraud as the crime is on the rise

By LAURA MAZZUCA

Only a few states separately track insurance fraud perpetrated by agents and consumers.

But while it is difficult to compare statistics, some investigators say the insurance fraud by agents and brokers is on the rise.

As a result, several states have beefed up their investigation staffs in an all-out attempt to pursue and prosecute cases of insurance fraud by both agents and consumers.

So far, seven states—California, Florida, Idaho, Illinois, New Jersey, New York and Ohio—have fraud divisions in their insurance departments, according to the Insurance Crime Prevention Institute in Westport, Conn.

Pennsylvania is considering establishing a fraud division, and Nevada maintains a fraud division through its attorney general's office.

Of those states with active fraud divisions, only California, Illinois and Ohio compile separate statistics for insurance fraud perpetrated by agents vs. fraudulent acts committed by consumers.

As with other state insurance department operations, the cost of

maintaining a state insurance fraud division is more than supported by the insurance industry through premium taxes and licensing fees.

To stress the seriousness of the crime, some states have adopted the Model Insurance Fraud Statute introduced by the National Assn. of Insurance Commissioners in 1980, which makes intentional fraud against an insurer a felony, with perpetrators subject to a five-year prison term and/or a maximum fine of \$5,000.

The following state divisions work closely with local law enforcement agencies in investigation and prosecution of insurance fraud:

• **California.** Because of the large insurance fraud caseload in California, the 1988 state fiscal budget provided increased funding for the insurance fraud division, where operating costs were estimated at more than \$1.7 million, according to the Professional Insurance Agents of California & Nevada.

The division is broken into two sections: the Investigations Bureau, which tracks fraud perpetrated by agents and brokers alone; and the Bureau of Fraudulent Claims, which investigates fraud by consumers against licensed insurers.

Through September 1988, the Investigations Bureau received 415 insurance fraud or negligence cases, which represented a monetary loss of more than \$4.4 million. While most victims of the agent/broker scams—881—were consumers, 20 producers and 103 insurers were burned by such schemes.

Producers were named as the most common perpetrators at 141; 12 of these were unlicensed. Of the 10 insurers named as insurance fraud perpetrators, four were unlicensed.

Premium theft was the favored form of agent-perpetrated fraud, with 281 cases reported.

In the Fraudulent Claims Bureau, more than 200 people were arrested for insurance fraud in 1988 alone, with an average of 400 new suspects under investigation monthly, said Ron Warthen, chief investigator for

the bureau.

Through November 1988, the bureau investigated 4,800 cases of suspected insurance fraud representing \$85 million.

In the 10 years the bureau has been in operation, it has investigated 28,384 suspected fraudulent claims, representing \$376.7 million in fraud against the industry, said Mr. Warthen. The conviction rate of the bureau is generally high, at around 90%, he added.

• **Florida.** With a state fraud division created in 1976, Florida's statistics on fraud trends are more comprehensive than those maintained by states with newer fraud divisions.

However, the division does not differentiate between fraud cases perpetrated by agents and brokers vs. those by committed by consumers.

Rather, the statistics are broken down into the total number of cases open for investigation at the end of each fiscal year, as well as the number of cases presented to a prosecutor for consideration, arrests made and convictions achieved for each year.

For the 1987-88 reporting period, cases reported rose 12.7% to 1,615 from 1,433 the previous year; arrests increased 9.7% to 1,543 from 1,407; and convictions rose 11.6% to 1,202 from 1,077. At the end of the 1987-88 reporting period, there were 6,264 cases open for investigation, an increase of 8.7% from the 5,762 open for the previous year.

These figures are on the increase because the division has recently hired 15 more investigators, said Jon E. Crosby, the division's director. In addition, the number of cases has increased because the department has particularly targeted more small-dollar cases, which also accounts for the increase in cases.

• **Idaho.** The division is now investigating 15 cases of fraud, predominantly medical and workers compensation claims, said Rob Lemke, Idaho fraud investigator. The division works closely with the sheriff's departments in counties where the suspected fraud took place.

Continued on next page

Reaching a top level audience of 44,551*, Agent/Broker Topics provides specialized information for agents and brokers who sell insurance, reinsurance and related services.

Publishing the first Monday of every month as an integral part of Business Insurance — A/B Topics gives readers and advertisers a quality environment they can rely on. Our increased publishing cycle affords advertisers additional frequency discounts, more flexibility with our combination rate structure, and the availability of new ad sizes.

To reach agents and brokers there is no better media buy in the industry than BI's Agent/Broker Topics Demographic Section — ensuring the greatest impact for your advertising dollars. Call today to reserve space in upcoming issues:

JANUARY 2, 1989

Preventing fraud
Ad close: December 19

FEBRUARY 6, 1989

Automation
Ad close: January 25

MARCH 6, 1989

Agency-Insurer Relations
Ad close: February 22

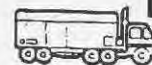
Agent/Broker Topics

**Business
Insurance**

New York: 212/210-0228 Chicago: 312/649-5276 Los Angeles: 213/651-3710

GET
ENHANCED RATES

**PHYSICAL
DAMAGE**



Private passenger and commercial vehicles: low and high values.
All makes, models, standard and substandard drivers.
INSTANT QUOTES AND BINDING.

AND
SMALL & LARGE BOATS

MARINE



Bass boats to ocean liners.
Full coverage — both domestic A + 15 and London Market.
Coverage on blue and brown water vessels, small and fast boats.
SMALL BOATS GET INSTANT QUOTES.

ALSO
FULL COVERAGE

AVIATION



PRIVATE AND COMMERCIAL
Pilot medical expenses, hull and liability coverage, passenger medical expenses,
hangar keepers liability and more!

(305) 751-2800 / WATS 1-800-822-2608 / FAX (305) 758-7346

**Inter-Atlantic
Insurance Services, Inc.**
7699 Biscayne Blvd., Miami, FL 33138

Continued from previous page

Idaho does not track agent and consumer insurance fraud separately.

In many cases, it takes as long as six months to investigate a scheme, so the division concentrates on organized rings or large-dollar amounts, which account for the relatively small number of fraud cases being investigated at any one time.

• **Illinois.** Illinois' insurance fraud division investigates agencies and agents separately from consumer fraud cases.

However, fraud probes are only part of the investigations the agency arm conducts. As a result, statistics do not reflect fraud per se. Rather, the agency arm reports the number of agency investigations undertaken per year, and these figures have remained relatively stable, said Ron Hartsock, assistant deputy director of the fraud division.

For example, in 1987 the department closed 449 cases, down 14.6% from the 526 cases closed in 1986. But the 1986 figure represented an increase of 9.4% from 481 cases closed in 1985.

Although there is the usual amount of consumer abuse in the areas of fraudulent medical and auto claims, Mr. Hartsock pointed out several areas in which Illinois agents have been convicted of fraud.

In personal lines sales, particular problem areas include agents who are "overloading the elderly" with unnecessary coverage, Mr. Hartsock said.

And, in commercial business, multiple policy changes to an existing account present an opportunity for agents to commit fraud. For example, in fleet coverage in which the number of vehicles insured changes frequently, an unscrupulous agent can overcharge a client, pocket premiums returned by the insurer, or charge fees in excess of premiums.

Other areas of agent abuse include split commissions. For example, if two brokers are sharing an account and one is dissatisfied with his commission split, the disgruntled broker may cancel the policy without the other's consent, said Mr. Hartsock.

The Illinois insurance fraud division employs 12 investigators in Chicago and Springfield.

Most of the division's tips come from consumer complaints and insurers, who are required by law to report suspected fraud to the department, he said.

• **New Jersey.** Like many divisions, New Jersey compiles its fraud caseload by cases under investigation. However, the division was reorganized in early 1988, so earlier statistics don't match up with the figure for 1988, which was 4,900 cases under investigation as of November, said George Sherman, division supervisor.

In addition, the division is just beginning to break out separate statistics for agent/broker fraud cases.

The large number of fraud cases currently under scrutiny by the division's 40 investigators reflects its concentration on small fraud cases rather than larger operations.

Auto theft is "extremely heavy and other auto-type cases," such as bodily injury claims. Falsification and/or exaggeration of life/health claims also is widespread, he added.

Another common practice involving both consumers and agents is the backdating of policies in the event of a loss, he said.

Conviction rates are "running quite high now" because under new civil statutes, the division has the authority to offer a consent agreement to suspected perpetrators, he said. If a suspect accepts

the offer, which does not admit or deny guilt, civil penalty is paid. For a first offense the fine is \$2,500, and for repeat offenses the fine is \$5,000.

The system works so well that the division received more than \$1 million in fines in 1988, which helps fund the state's auto joint underwriting authority, said Mr. Sherman.

• **New York.** New York estimates its insurance fraud by counting cases under investigation, and the numbers have fluctuated greatly for the past three years, said Aaron Mazen, director of the division.

For example, the number of cases under investigation fell 40.8% in 1987 to 413, from 698 in 1986. The number of cases investigated in 1988 is expected to be near the 1987 figure.

Mr. Mazen attributes the differ-

ence to a recent division concentration on fraud rings, specifically health and auto, rather than individually perpetrated insurance fraud.

For example, last year's focus was on insurance scam "stings" performed in conjunction with law enforcement agencies as they investigated the state's many health and auto fraud rings. This accounts for a decrease in the total number of cases under investigation in 1987, said Mr. Mazen.

The New York fraud division, which employs 12 full-time investigators, does not track agent/broker cases separately from consumer cases. The division is funded by premium taxes paid by insurers operating in the state.

• **Ohio.** Unlike most state fraud divisions that report a high percentage of consumer-perpetrated fraud cases involving auto or

health claims, Ohio has the dubious distinction of having a predominance of cases perpetrated by agents, said Marcia Hartley, assistant director of the fraud and enforcement division of the Ohio Insurance Department. In fact, Ms. Hartley estimated that as many as 90% of the cases investigated by her agency are agent-perpetrated.

The division was established in 1986 and employs four investigators, overseen by Ms. Hartley, who is an attorney and former police officer. Since its establishment, the division has investigated 428 cases, 252 of which are now closed. The remainder, 176, are pending investigation. There have been 24 indictments and 18 convictions.

According to the most recent statistics for all of 1987, 234—or 56%—of the 417 fraud cases investigated were perpetrated by agents.

Popular agent scams include the old favorite: pocketing premium money. Unscrupulous agents also act on behalf of insurers without being licensed by them and act as insurers themselves. Fraudulent agent schemes are mostly performed by "bottom-level agents" who are involved in everything, from the simple pocketed premium to participation in large-scale stolen auto rings.

1988 was a banner year for agent fraud in Ohio because of the economy, said Ms. Hartley. "A lot of people need insurance and are desperate. If someone offers a good deal, they take it," she said.

Most insurance fraud tips in Ohio come from insurers operating in the state and a consumer hot line, said Ms. Hartley. Other sources include local law enforcement agencies and the attorney general's office.



"I haven't found anything that's as scary as my claim problems."

Inefficient claims handling can be the cause of nightmares on Main Street—or wherever your insureds do business. So if you're an agent with a few claim service "horror stories" of your own, this message is for you. Try Bituminous. Our agents can count on claim service that's reliably fast and fair, with turnaround time kept to the minimum. Can a solution that

sounds so simple really work? Yes, but it's all in who's directing the action. Call Bituminous. We're the property/casualty companies specializing in business insurance. As a claim service sequel, we lay fears to rest.



Bituminous INSURANCE COMPANIES

Home Office: Rock Island, Illinois 61201 Phone 1-800-447-1662

Offices: Albuquerque, Atlanta, Baltimore, Birmingham, Charlotte, Chattanooga, Chicago, Dallas, Des Moines, Houston, Indianapolis, Kansas City, Knoxville, Little Rock, Louisville, Memphis, Milwaukee, Minneapolis, Mount Vernon, Nashville, New Orleans, Omaha, Peoria, Philadelphia, Pittsburgh, Richmond, Rock Island, Rockford, St. Louis, Southfield

A question of trust

Financial adviser can be helpful when considering sale of agency

By John W. Wicher

The Insurance Agent: "I've spent my entire professional career selling and negotiating the placement of insurance. I certainly don't need a financial adviser to help me sell my business. I deal man-to-man, principal-to-principal."

The Financial Adviser: "Trust me."

The reality lies somewhere in between.

Although I've spent a period of my career structuring and assisting in the placement of large public transactions, most of my working life has been spent in the insurance business. I've been a buyer and seller of insurance entities, both as an officer of public and private firms, and now I am an outside financial adviser. From this perspective, I would like to explore why it is generally important for the seller to have a financial adviser with him when he is considering the sale of his life's work—his business.

The Insurance Agent: "I'm not a seller. In fact, I might well be a buyer. Now, of course, if someone wants to give me an outrageous amount of money for my business, I might think about it."

The Financial Adviser: "Let's test the market. Trust me."

As an agent, if you're not sure whether you are a buyer, seller, or either, don't be concerned. All

A/BT perspective

businesses, particularly organizations in transition, pass through this phase. In the short term, this period of self-examination is healthy for a company.

In the long term, however, an organization's profitability depends on its ability to focus on a specific strategy for growth, thereby protecting and increasing the value of the company for the owners.

The financial adviser, teamed with a good organization and development consultant, can be of invaluable assistance in helping management focus on a business strategy.

Management might determine that a sale or merger of the company is the best avenue for future growth.

The Insurance Agent: "The best transactions are simple transactions; the fewer attorneys and advisers, the better. I know my revenues and the multiples the buyer is willing to pay."

The Financial Adviser: "I am going to maximize transaction value."

This all depends on the adviser. Let's face it; when considering the buy/sell/do-nothing decision, a major consideration for the owners is, "What can I expect to get for

my business?" This is where the financial adviser comes into the picture.

Frankly, if you are going to give up possibly as much as 5% of the sale price of your firm to some outsider, what can you reasonably expect to receive in return?

The 28-year-old business school graduate might tell you he or she will "maximize transaction value." What does all this mumbo-jumbo mean?

Plainly stated, the financial adviser can put together a deal that balances the three central components of a sale. They are:

- The purchase price of the business.
- The seller's future lifestyle.
- The business terms and conditions that protect the seller from future surprises.

The Insurance Agent: "I know what I want for my business; I know who I want to talk to. Why do I need a financial adviser's help?"

The Financial Adviser: "I know what I am doing."

The fact is, an agent needs help; the adviser should be able to demonstrate his or her value.

A financial adviser should be able to:

- Provide his client with an indication of the price—not necessarily the value—the client might reasonably expect to receive in the marketplace for his company.
- Propose a good, strong list of five to 10 candidates who have been pre-qualified as eligible buyers. The professional adviser will give good reasons for selecting each of those candidates. The potential buyers' list should reflect a clear marketing strategy and broad access to real buyers.
- Approach the market on a

discreet basis, thereby maximizing confidentiality while ensuring that the company is exposed to high-potential buyers.

- Understand, from a businessperson's perspective, the legal and tax implications of the transaction. The financial adviser working with the client's attorney and tax accountant can tightly structure this aspect of the deal.

- Negotiate for the most favorable business terms and conditions, because he or she has a knowledge of what's "do-able" in the marketplace.

As an example, within the context of a specific situation, he can help determine what can be done to mitigate the seller's future responsibility for professional errors and omissions claims; set up employment contracts; determine what terms are typical; establish cut-off dates for payables and receivables; and most importantly, determine what is achievable.

Hundreds of thousands of dollars can be left on the table if the transaction is not properly structured.

If the potential buyer is a national firm, whether public or private, you might well find that you are negotiating with the person you will be reporting to after the sale. I've heard more than one seller comment on how awkward they feel when put in this position.

A financial adviser can, however, aggressively pursue your interests, while you as the seller cultivate the personal relationship with the buyer that is going to be necessary to ensure your success after the sale.

From a negotiating standpoint, it is not an effective strategy to position the decision-maker—the seller—in the heat of the negotiations, since the buyer will challenge the seller to make final and complex decisions on the spot. The good financial adviser can

craft the final terms of a deal and then withdraw from the negotiating table to seek the ratification of the seller.

The Insurance Agent: "You're right, I need a professional on my side."

The Financial Adviser: "I'll get results."

Well, maybe. It depends on how efficient the adviser is.

The characteristics that you should look for in a financial adviser are:

- Does the person who will have day-to-day responsibility for handling the sale of your firm have strong "deal" experience? In the best of all worlds, the adviser will have experience in both large public transactions and in smaller deals.

- What do the adviser's former clients have to say? The insurance community is very small; you only need to make a few calls to get a sense of someone's standing in the industry.

- Does the person understand your business, its strengths and weaknesses, its client and market relationships? If not, you are possibly in trouble.

For example, if your organization has a strong public entity client base, a financial adviser who doesn't understand the implications of joint operating authorities on your sales effort is going to be "eaten alive" by a sophisticated buyer.

- Is the consultant "one man and a telephone," or a well-capitalized organization?

- Is the personal chemistry there? Do you feel absolutely comfortable speaking openly with the adviser? Is there any doubt in your mind that he or she will put your interest before their own?

In summary, the financial adviser can make a significant difference for a client, both in focusing on a business strategy and, in the event of a sale, implementing that sale in a manner that is tailored to the needs of the seller. The adviser can be of help because of his access to qualified buyers and specific industry expertise.

In selecting an adviser, look for an organization that has its feet in the worlds of both investment banking and insurance. If you don't feel comfortable with the adviser on a personal level, find someone else. There are a number of good financial advisers/investment banking firms with access to the national and international marketplace.

The challenge for you as an owner is not to hike your way through the forest of "tire kickers" and real buyers, but rather to identify the right pathfinder: the financial adviser who can lead you to three or four solid buyers.

John W. Wicher is manager of financial services for UniRisk Inc., a San Francisco consulting firm. Mr. Wicher is responsible for UniRisk's insurance industry financial products, including fair market valuations and merger/acquisition services.



Mr. Wicher

Staying Current — Is The — Challenge

HIAA'S Health Insurance Courses Help You To Meet That Challenge!

SEND ME YOUR FREE PROGRAM CATALOG ON HIAA SELF-STUDY COURSES!

NAME (Please Print) _____

COMPANY _____

ADDRESS _____

CITY/STATE/ZIP _____

HIAA

Return to: Insurance Education Department
Health Insurance Association of America (HIAA)
1025 Connecticut Avenue, N.W. • Washington, D.C. 20036

DRI
DRI, LTD.

71 Murray Street
New York, NY 10007

STOCK THROUGHPUT POLICY

Custom Designed for Manufacturers,
Wholesalers, Distributors, Large
Retail Accounts

MOTOR TRUCK CARGO

With Limits Up To \$1 Million*

*Higher limits upon request

ALL Risk ALL States

ALL Filings ALL Commodities

PHYSICAL DAMAGE COMPETITIVE RATES
including dump, cement, refuse haulers

SURETY

contract, license & miscellaneous
MGA

Call, Write, or Telex for Applications and Information
212-227-6160 • Telex 126364 • FAX 212-608-1704

California PIA offers Prop. 103 guidance

VAN NUYS, Calif.—Officials from the Professional Insurance Agents of California and Nevada recently concluded a tour of 15 California cities where they helped some 2,000 insurance agents and brokers sort out the effects of Proposition 103.

"The response to these meetings was even more than we expected," said James V. Swanson, PIA California president. "We were filled to capacity in every city."

Among its many provisions, Proposition 103 requires insurers to roll back for one year almost all property/casualty insurance rates to a level 20% below November 1987 rates. However, the rate rollback has been stayed by the California Supreme Court until it rules on the law's constitutionality.

"PIA has been flooded with phone calls from its members asking for this kind of direction and advice," said Mark Fukui, PIA California president-elect.

The conferences were designed and moderated by Mr. Swanson; Mr. Fukui; Dean L. Fletcher, immediate past president; and Eugene H. Sanguinetti Jr., treasurer.

Highlighting the program were hints for independent agents and brokers to protect themselves and maintain business while portions of Proposition 103 are being interpreted by the courts (BI, Dec. 19). These include:

- If the rate rollback provisions of Proposition 103 are upheld, many agents may be forced to return a portion of their commission earned while the initiative was on hold. Many agents are setting up an escrow account to repay a portion of their commissions if it becomes necessary. Agents can evaluate their commission by product line, as the potential commission reforms could be as high as 45% if the proposed rate rollbacks are upheld.

- Agents should contact all their customers to help reassure them and keep them up to date on the developments of Proposition 103.

- The current crisis also presents agents with opportunities, such as cross-selling clients life insurance or other products and services. Lines such as reinsurance, life, ocean marine, title, workers compensation, disability and mortgage insurance will not be affected by the Proposition 103 rollback, so agents should carefully evaluate all the agency's products to determine what the agency can sell.

- Many agents are responding to the crisis by networking with other agents to fill their clients' coverage gaps. This is a good time to explore possible brokerage arrangements with other firms.

- Written binders should be issued as soon as possible for a 30-day period or according to your agency contract. The insurer may change your binding authority, and the issuance of written binders will help protect the agent from errors and omissions exposure.

- Agents should keep in close contact with insurers. All incoming calls relating to Proposition 103 should be referred to the agency principal or manager. Make sure all contractual changes made by phone are recorded by date, time and name of the company person communicating the information.

- Frequent staff meetings should be held to discuss the situation. This will also reduce errors and omission exposure.

The California PIA maintains a Proposition 103 hot line to answer agents' questions. For information, call Ruth Brown, PIA resource director, at 800-448-0300; or 818-988-9500.

A/BT briefs

Ohio agent group sues

COLUMBUS, Ohio—The Independent Insurance Agents of Ohio has filed a lawsuit against the Ohio Department of Insurance to prevent Ohio banks and savings and loan associations from selling insurance through affiliated agencies.

The action, filed Dec. 15 in Franklin County Common Pleas Court, arose from a legal opinion issued by Ohio Attorney General Anthony J. Celebrezze Jr., who recently interpreted state law as al-

lowing banks to own and maintain certain business relationships with insurance agencies. State agencies and officials generally heed an attorney general's interpretation of the law until the matter is addressed by the courts or the legislature.

Contending that Mr. Celebrezze's opinion is invalid, the IIAO suit petitions the court to:

- Declare that state law requires the Insurance Department to deny an agent's license to applicants who plan to sell property/casualty insurance to customers of a non-

insurance affiliate, and to deny an insurance license to any affiliate or employee of a financial institution.

- Declare that state law requires the Insurance Department to refuse to continue the licenses of persons who propose, intend or actually sell property/casualty insurance to customers of a non-insurance affiliate, and to cancel the license of those who plan to sell property/casualty insurance to financial institution affiliate customers.

Mr. Celebrezze issued his opinion in August at the request of the Insurance Department, which had received complaints from state agents' associations about insurance activities by financial institu-

tions. The Insurance Department sought the attorney general's interpretation of Ohio's so-called "controlled business statute," which has historically been thought to bar insurance sales by banks and savings and loans.

The IIAO lawsuit states that "the 'controlled business' statute is designed to prevent a non-insurance business from gaining an unfair advantage in the sale of insurance by soliciting and selling primarily to its non-insurance customers. That statutory purpose would be frustrated if, for example, a bank could empower a wholly owned subsidiary to solicit insurance business from the bank's customers."



SEVEN OUT OF TEN AGENTS ARE GUILTY OF NOT TAKING THEIR OWN ADVICE.

How often have you recommended a client go for the policy that offers the best coverage? Cautioned against sacrificing important protection to get the cheapest price? Or stressed the importance of comparing apples to apples when it comes to comparison shopping? Odds are, frequently. Yet all too often, agents are so wrapped up in advising their clients, they fail to apply this same good sense when it comes to purchasing their own errors & omissions coverage.

Are you guilty? If you're not insured through PIA's Errors & Omissions Insurance Program, chances are, the answer is yes. PIA's E&O Insurance Program is one of the most comprehensive policies available to independent agents. It offers you a combination of coverages you won't find else-

where . . . First dollar defense coverage with no deductible . . . Prior acts coverage . . . And much more. Most important, PIA's E&O Insurance Program has been a consistent force in the marketplace for over 25 years.

So compare PIA's E&O Insurance Program with your present program. Dollar for dollar, you'll be hard pressed to find a program that offers you better protection. But don't take our word for it. Call or complete the attached coupon and compare for yourself. Then take your own advice.

Underwritten by the Utica Mutual Insurance Company.

I WANT TO COMPARE FOR MYSELF.

Send me more information on PIA's E&O Insurance Program.

Name _____

Agency Name _____

Address _____

_____ Zip _____

Phone () _____

Policy Expiration Date _____

Clip and return to: PIA's Errors & Omissions Dept., Professional Insurance Agents, 400 N. Washington St., Alexandria, VA 22314*

1-388BI



400 N. WASHINGTON ST.
ALEXANDRIA, VA 22314 703/836-9350

*In Wyoming contact: Nelson Insurance Agency, P.O. Box 311, Powell, Wyoming 82435

If your ad message is set
adrift with the tides...



your sales may get all washed up!

When the bottom line is your top priority,
share of market is a critical issue. And when
your market spans the diverse universe of
commercial insurance,
the best way
to get your ad
message across

is in Business Insurance. That's because
everyone who's anyone in the world of
business insurance reads Business Insurance.

First with the news.
First in readership.
And, first among
advertisers.

**Business
Insurance**

For reach, readership, response and results.

Brokers

Continued from page 1

The world's major marine insurance market is still reeling from the \$1.3 billion loss of the Piper Alpha platform in the North Sea last July (see story, page 1).

But, there is little indication of a deceleration in property insurance rate cuts.

"The real question we have is how low rates can go," said Charles Ruoff, a senior vp with Fred S. James & Co. Inc. of New York. "The absence of catastrophic losses is one of the reasons the market is still soft. That could change overnight," he said.

"The property market is almost in a feeding frenzy where there doesn't seem to be any bottom," agreed Richard A. Maxwell, senior vp and director of marketing for New York-based Corroon & Black Corp.

Property rates are stretched "as thin as they can be," said Robert H. Hilb, president of Hilb, Rogal & Hamilton Co. in Richmond, Va.

"How carriers can continue to slash is beyond us—but they do," he said.

The general rule is the larger the account, the larger the property rate reduction, many brokers said. Insurers have cut property rates as much as 40% for large accounts compared with a year ago, Mr. Maxwell said.

Patrick R. Hylant, president of Hylant MacLean of Toledo, Ohio, has seen similar rate cuts.

"Property rates, particularly HPR rates, are really slashed to the bone," he said, referring to rates for highly protected risks.

McDonough Caperton's Mr. Ludwig estimated that overall property rates had dropped by 25%, comparable to property rate reductions he saw last year.

RBH's Mr. Sorensen held out the possibility that property rates had entered a period of moderation. The potential for a 50% rate reduction on an account that had a similar reduction last year is "very unlikely," he said.

For example, boiler and machinery rates have dropped by about 20% to 25% during year-end renewals, estimated BMF's Mr. Alcorn.

Boiler and machinery rates have dropped by about 18%, estimated Richard A. Archer, chairman of San Francisco-based Jardine Emett & Chandler Inc.

Capacity is not a problem for most general liability insurance buyers either, brokers report.

"If anything, the world has too much capacity," said Charles E. Keller, president and chief executive officer of Republic Hogg Robinson Inc.

Estimates of how large a program could be put together varied. "We feel we could put together a \$200 million liability program with alternatives," said Corroon & Black's Mr. Maxwell, referring to such policyholder-owned insurers as A.C.E. Insurance Co. Ltd. and X.L. Insurance Co. Ltd.

Excess liability insurance programs of \$50 million to \$100 million were "easy" to arrange with the conventional market, Mr. Alcorn said.

And, depending on the risk, insurers in the conventional market will write up to \$200 million in excess liability insurance, brokers say.

Both Mr. Alcorn and Thomas J. Rodell, deputy managing vp of Alexander & Alexander Services Inc.'s Chicago office, said that sufficient capacity exists to put together a \$50 million directors and officers liability insurance program.

Insurers also generally slashed general liability insurance rates.

Insurers have cut liability insurance rates between 15% and 20%, said RHR's Mr. Keller.

Primary liability insurance rates are about 23% lower than they were last year, Mr. Alcorn estimated.

However, he noted that the market is softening at a slower rate than last year.

The market "is not as soft as it

was three or four months ago," said James E. Goulard, president of the Hall Services Division of Frank B. Hall & Co. of Briarcliff Manor, N.Y. "There are still reductions, but the percentages are not as large as they were."

However, M. Renwick Severance, vp-special services for RHR, noted that insurers in some cases cut renewal liability insurance rates as much as 70%.

"There's no telling when or where that lightning will strike," he said.

No insurer appears to be leading the competition, the brokers agreed.

"It's very hard to say at this time that we're seeing any one insurer acting irresponsibly," Mr. Sorensen of RBH said.

Instead, an insurer more likely will battle for a particular type of business in a specific region but otherwise adhere to a "walkaway price" for the same piece of business in another region, according to brokers.

In Alaska, for example, liability insurance rates have dropped the least—15%—while they have dropped by as much as 40% statewide in Minnesota, said Mr. Alcorn.

Elsewhere, liability insurance rate cuts have fluctuated between 10% and 33% in Boston, while liability rates in Los Angeles and Houston have decreased between 20% and 25%, he said.

Florida has become "a hefty competitive market," according to Mr. Hilb of Hilb, Rogal & Hamilton.

And, competition also has heated up in West Virginia, said McDonough Caperton's Mr. Ludwig.

In some cases, the degree of competition in neighboring regions varies widely, Jardine's Mr. Archer said.

For example, insurers are noticeably more competitive in Orange County, Calif., than they are in Los Angeles County, he said.

"It's an inconsistent phenomenon—there's tremendous rate-cutting on specific accounts," said RHR's Mr. Severance.

The degree of competition varies by line as well as by region.

For example, brokers estimate that rates for the first few layers of excess liability insurance above primary coverage have dropped between 24% and 30%.

However, it is difficult to make rate comparisons for high layers of excess coverage because there is much more capacity for higher layers of excess coverage this year than there was last year, pointed out James' Mr. Ruoff.

Rates for long-tail liability risks also have dropped by double-digit percentages, according to Mr. Archer of Jardine. For example, he estimated that insurers have cut directors and officers liability rates by 18%, legal malpractice rates by 12% and medical malpractice rates by 10%.

Rates for D&O liability and professional liability insurance are softening more now than they were a year ago, said A&A's Mr. Rodell.

He said D&O liability rates have dropped about 10% to 15%, as have rates for lawyers' professional liability insurance.

But, no similar softening has occurred in the market for architects and engineers' professional liability insurance, he said.

Municipalities also have seen their liability insurance rates cut, noted BMF's Mr. Alcorn, who estimated rate cuts of between 15% and 25%.

But some insurers have slashed municipal liability insurance rates in some cases by as much as 30%, pointed out Mr. Hylant of Hylant MacLean.

Even rates for some insurance buyers with high-hazard liability risks—such as chemical and petrochemical companies—have decreased.

Mr. Alcorn of BMF said that rates for some of those insurance buyers have dropped by as much as 20%.

Other brokers have seen somewhat more moderate liability insurance rate cuts for high-hazard risks: Both Jardine's Mr. Archer and Corroon & Black's Mr. Maxwell estimated 12%

cuts, while Mr. Hylant estimated that rates for high-hazard risks had decreased by about 10%.

High-hazard liability insurance rates have dropped "a little bit," said Norman Barham, deputy managing director of the New York office of Johnson & Higgins and a senior vp. But, he was unable to say by how much.

The only line of property/casualty coverage for which rates remained stable or increased is surety, brokers report.

Mr. Archer reported no change in surety rates from last year.

However, Mr. Maxwell said that surety is the only line with "an upward trend."

And, BMF's Mr. Alcorn said surety rates increased 15% to 20% for some accounts. Insurers that write nationwide are "limiting themselves to the cream" of the surety business, he said.

And, fewer insurers appear willing to write surety bonds, observed Michael Segal, president of Chicago's Near North Insurance Agency Inc.

Major insurers are reconsidering whether to remain in the surety business, although some regional insurers have entered the market to fill the void, Mr. Segal said.

Insurers' high loss ratio on surety business during the past few years "has soured reinsurers' appetite" for getting involved with surety bond writers, he explained.

Many insurers also are offering better terms as well as more attractive prices to increase business, several brokers said.

For example, D&O insurers in some cases are waiving the insured vs. insured exclusion, which forbids one policyholder from making a claim against another party covered by the same D&O policy, said Mr. Alcorn of BMF.

Also, some utilities have been able to obtain occurrence-based liability

insurance, he said.

In addition, some insurers have eased deductibles, said J&H's Mr. Barham.

And as some insurers improve terms and conditions of coverage, they are trying to sell insurance buyers higher limits of coverage, according to RHR's Mr. Severance. "It's only common sense if you see the price going down, you try to soak up some of that savings by selling more insurance," he said.

Among the insurers that at least two brokers most often cited as being competitive were: The Home Insurance Co. of New York; the property/casualty insurance units of Chicago-based CNA Financial Corp., which is owned by Loews Corp.; New York-based American International Group Inc.; and the property/casualty units of Continental Corp. of New York.

A spokesman for The Home said his company believes in reasonable competition but tells its branch offices "walk away if it doesn't make sense."

"CNA looks at each individual risk as we renew it," said Philip L. Engel, vp-marketing for CNA. "Based on each risk experience, we price the business accordingly."

An AIG spokeswoman declined to comment.

Officials of Continental Corp. were unavailable for comment.

Insurers most often cited as holding the line on prices were Fireman's Fund Insurance Co. of Novato, Calif.; Morristown, N.J.-based Crum & Forster Inc., a unit of Xerox Corp.; and Chubb Corp. of Warren, N.J.

There are almost as many factors feeding competition in the conventional market as there are possible events that could turn the market hard, according to brokers.

There was little disagreement among brokers that insurers' home office executives were sincere in their oft-stated promise to hold the line on

pricing, but some brokers were skeptical over how well insurers can realistically deliver on that promise.

In part, "fear of losing business" is driving competition, said J&H's Mr. Barham. He added that insurers do not want to be seen as being uncreative in meeting customer desires.

Jardine's Mr. Archer said that insurers are seeking to hold onto "what they have and what they know." To do that, "they'll go down to as low a level as they can."

Patrick Gallagher, vp-operations for Arthur J. Gallagher & Co. in Rolling Meadows, Ill., said that insurers cannot expect their branch office personnel to sit at their desks and not write business, despite home-office directives to avoid competing for business based on price alone, he said.

"I believe there's a tremendous distance between top management and their underwriting staff," Mr. Gallagher said.

Corroon & Black's Mr. Maxwell said that while "some insurers are making valiant efforts to hold the line" on pricing, he thinks that some branch offices have definite quotas to fill.

For example, Mr. Barham pointed to inconsistent pricing policies among branch offices of the same insurer.

The current soft market differs from the soft market of the early 1980s in one critical aspect, several brokers said.

"There's still some discipline," said BMF's Mr. Alcorn. "We have price competition, but we still have pretty good underwriting."

Brokers cited several factors that could turn the market around.

"As soon as the Dec. 31 earnings statements come out, that should precipitate some change in the market," said Near North's Mr. Segal.

Continued on next page

WORDS VS WISDOM

Talk, talk, talk. That's just hot air. But talking. Listening. Probing. Analyzing. Solving. That's good business. And that's how RLI works with clients. We stick to our strength: specialty insurance lines such as Directors and Officers Insurance for hard to place risks and Professional Liability for miscellaneous classes. We deliver quality in all of our services. In underwriting, pricing, claims handling and customer service. When you're good, the word spreads. So ask your colleagues about RLI. If you are a wholesaler, call direct at (201) 288-8620. Either is a wise move.

RLI

Reliability • Leadership • Innovation

© 1988 RLI Corp.

Brokers

Continued from previous page

predicting a reduction in earnings. In addition, Mr. Segal said, he thinks insurers learned from the last soft market and the current market "is not a runaway situation."

A spate of insurer insolvencies could halt competition, said RHR's Mr. Keller. State guaranty funds are "stretched very thin," he said.

Deteriorating combined ratios also could slam the brakes on competition, brokers said.

However, combined ratios have not yet reached a critical point, according to J. Marston Becker, president of McDonough Caperton.

The industry reported a 102.9% combined ratio in the first nine months of 1988, compared with a 104.1% combined ratio for the same period the year before, according to data compiled by the Insurance Services Office Inc. and the National Assn. of Independent Insurers (BI, Dec. 5, 1988).

Most of the brokers said the Tax Reform Act of 1986, which subjects property/casualty insurers to increased taxes, will have an impact on the industry's performance.

Long term, "The Tax Reform Act has to affect the market. Obviously, the government is draining surplus through that act," Fall's Mr. Goulard said.

James' Mr. Ruoff said the possible disruption caused by unrecoverable reinsurance should not be discounted. "There's a tendency to think about it as a stable or diminishing problem," because reinsurance recoverables as a percentage of surplus have remained steady at about 70% for the past three years,

he said.

Mr. Ruoff also pointed to the passage of California's Proposition 103 as a possible harbinger of bad times. Among other things, the law would mandate a 20% rollback of insurance "charges" for most lines of insurance if it survives legal challenges (BI, Nov. 14, 1988; Nov. 7, 1988).

"If rate levels are determined by popular vote or legislative edict, that could have some disastrous results for the industry," he said.

Despite competition in the conventional insurance marketplace, brokers said they have not detected any sign of defections from the mammoth policyholder-owned facilities.

In addition, some brokers expect that the number of risk retention groups will continue to grow.

"We feel that market is likely to double in terms of premium in the next five years," said Mr. Gallagher.

He said that "risk retention groups are going to be significant competition for the major insurers."

Mr. Gallagher said that buyers are not turning to alternative mechanisms just because of price. "A large part is rancor" toward the conventional property/casualty insurance marketplace stemming from the last hard market, he said.

Mr. Sorensen, of RBH said he thinks the time is right for buyers to examine the feasibility of forming a captive insurer.

"There's an absence of panic," giving buyers time to weigh carefully the merits of possibly becoming involved in non-traditional risk financing mechanisms he said. ■

Risk managers

Continued from page 1

"We're hoping for some premium relief, but at this point we just don't know," Mr. Hugdahl said.

Ms. Swain of Old Kent said she expects insurers to be "fairly competitive" in their quotes for her casualty business that renews this month. "Our agent is taking our program out into the market and indications are that it will be competitive," she remarked.

Dorothy Hentzen, risk manager at The Coleman Co. in Wichita, Kan., said the recreational products manufacturer hopes to gain broader terms on its \$30 million in excess liability coverage.

"We don't expect the rate to change, but we may be able to get a few enhancements" on the coverage that is currently written in the London market, Ms. Hentzen said.

She said the coverage, which is written above a \$6 million self-insured retention, currently features a \$250,000 per-occurrence deductible. "We're hoping to eliminate or reduce that deductible."

"We're a little concerned" about the amount of capacity available for Coleman's excess liability exposure, she added. "We don't look just in London, we also look domestically."

"From what our brokers tell us, we haven't created much interest this year. We may have to get it all in London. I have no doubt that we can get it all in London, it's just a matter of what we'll have to pay for it," she continued.

Arthur Bostwick, risk manager at Stone Container Corp. in Chicago, is more optimistic. He said he is expecting his company's excess

liability coverage of \$100 million above \$2 million in primary insurance to be significantly cheaper this year.

"We're seeing some interesting things. It's very soft, very competitive," said Mr. Bostwick, adding that he anticipates rates for the coverage to be 20% to 40% lower when the renewal is completed.

Casualty renewals at Bausch & Lomb Inc. in Rochester, N.Y., are going "better than in the past," said James Harrington, manager of risk management and pension investments.

The optical and health-related products manufacturer is renewing its primary casualty, workers compensation, commercial automobile, general liability and umbrella coverages. "We've got indications at this point that everything will renew as it is expiring," Mr. Harrington said late last month.

Rates have "been steady since 1987. 1987 was a big increase over 1986. We've seen the pricing cluster around 1987."

Bausch & Lomb expects coverage terms to be slightly broader but "nothing of real significance," said Mr. Harrington. "I've worked hard to maintain appropriate terms and conditions, and I expect to maintain those" without much difficulty during the current renewal, he added.

Turtle Wax Inc. in Chicago was able to improve its umbrella coverage for 1989, according to Nancy Hartz, corporate insurance manager.

"We were able to increase our umbrella coverage to the level it was at prior to the market crunch" of the mid-1980s, she said. The coverage was renewed with the same insurers, Ms. Hartz noted.

Turtle Wax did realize a price break on the coverage, but it was "nothing to write home about," said Ms. Hartz.

Oil companies probably won't be writing home about price breaks this year either, as they watch insurance costs creep up after the billion-dollar loss of the North Sea Piper Alpha oil platform (BI, July 11, 1988), the \$330 million loss of the Enchova platform owned by Petrobras S.A. in Brazil (BI, May 30, 1988) and the estimated \$200 million loss at the Shell Oil Co. refinery in Norco, La. (BI, May 9, 1988).

"The major area of concern is with prices in the offshore market, obviously because of Piper Alpha," said Dan Grogan, assistant general manager of insurance at Texaco Inc. in White Plains, N.Y.

Texaco subsidiary Texaco Britain Ltd. held a 23.5% stake in Piper Alpha.

Texaco was still negotiating its Jan. 1 renewals in late December and although Mr. Grogan could not provide specifics on expected price increases, he said he is aware that "prices in the offshore market have been aggressive and increased."

For Texaco's U.S. property/casualty coverages, the renewal market has been "pretty soft," said Mr. Grogan.

Michael McNerney, general manager of corporate insurance at Mobil Corp. in New York, said although his offshore marine coverages had not been renewed by late December, he expected a price increase, particularly for North Sea platforms.

"That's what we've heard through our brokers," he said. "We don't have a definitive program yet that would enable me to give specifics."

Mr. McNerney said not all parts of the market have hardened for oil-related risks. "I think some parts of the market that haven't had these big losses we've all heard about are pretty stable."

As far as insurance capacity is concerned, "there seems to be enough for property," said Mr. McNerney. "But I don't think you can generalize for liability," he

added, because there are so many different kinds of casualty coverages and underwriters are more selective about the casualty business they write.

For example, "some will write sudden and accidental pollution and others won't," he said.

Mr. McNerney said Mobil is "actively evaluating" whether it should participate in OIL Insurance Ltd. in 1989.

Mobil is considering purchasing its property coverage from the Bermuda captive partly because it already participates in offshore liability insurers A.C.E. Insurance Co. Ltd. and X.L. Insurance Co. Ltd., Mr. McNerney explained.

"Directionally, Mobile is utilizing mutuals more because the commercial markets are unresponsive," he said.

Greg LaSalle, risk manager in charge of property coverages at Occidental Petroleum Corp. in Los Angeles, said his company's Jan. 1 property insurance renewals will see a slight increase for the same amount of coverage with the same insurer.

"Our property coverage will be finalized by Jan. 1," he said in late December. "We'll have no problem completing it."

Occidental held a 36.5% stake in Piper Alpha. Its property coverage on that loss included a \$10 million self-insured retention for the platform and non-employee liabilities, with \$300 million in excess coverage written by OIL.

Outside the oil business, property insurance rates continue to please risk managers.

Joseph Rinaldi, assistant director of risk management at American Standard Inc. in New York, said the cost of renewing its worldwide property coverage for around 60 locations was about 10% cheaper for 1989.

"We feel very happy," he said, adding that CIGNA Worldwide also broadened some of the \$100 million in worldwide coverage by raising most sublimits.

"We got \$100 million on just about everything," he remarked. For example, flood and earthquake sublimits were raised from \$75 million to \$100 million, said Mr. Rinaldi.

Mr. Bostwick of Stone Container said, "We had a very pleasant result there," referring to his property renewals.

Property rates for Stone Container fell between 20% and 25% at this year's renewal, after an equal decrease the year before.

Anthony J. McGuane, corporate director of insurance for General Cinema Corp. in Chestnut Hill, Mass., said the theater chain saw "a small decline—less than 10%" when it renewed coverage on property valued at around \$300 million.

The Coleman Co.'s Ms. Hentzen said her property insurance cost the same at this year's renewal as during the 1987 period.


Risk managers are aware that soft insurance market cycles in the past have inevitably led to dramatic swings in the other direction. But they say if the market does firm up again, they don't expect the tightening to be as dramatic as in past years.

"I think the soft market is a positive factor," said Ms. Swain. "The market was too hard," she said of conditions in the mid-1980s. "If it turns again, I don't think there will be such drastic conditions."

Besides, Ms. Swain remarked, her insurance costs are still higher than they were before the last hard market cycle. "I enjoy the price breaks."

"There's always that concern," said Mr. McGuane, referring to the possibility that the market could harden quickly and drive prices up and capacity down. "But we haven't seen the competition as bad as before the last hard market."

Continued on next page



RECON

In Military operations the Reconnaissance patrol gathers intelligence so that Risk can be accessed. Then appropriate action is taken in order to avoid/control/eliminate the Risk. — In Industry, several highly effective Risk Managers use MLC consultants in a similar manner.

Please contact us to discuss our approach to Property Loss Control.

Mead LossControl

Specializing in HPR Engineering, Insurance Services, Fire Brigades, Thermographics

Courthouse Plaza N.E. Dayton, Ohio 45463 513-436-7200

Contact: Wall Laker, Sr. VP & Manager

Reinsurers reporting 'mild' competition

By JUDY GREENWALD

NEW YORK—Competition among property/casualty reinsurers is heating up, but not to an alarming degree, most U.S. reinsurers say.

With primary property/casualty insurers maintaining—or even increasing—their large retentions, there is some fighting among reinsurers for remaining business, say observers.

But reinsurers stress it is nowhere near the degree of competition reached in the early '80s, nor do most expect it to reach that point. Price competition at the primary level, they say, remains the major driving force in this competitive property/casualty insurance market.

Risk managers

Continued from previous page

"I see no evidence of hardening at all," Ms. Sirota of Elixir said.

She said if a hardening does occur, it probably would not be as severe as the previous cycle that drove many insurance buyers to alternative markets such as captives and risk retention groups.

Eben Jones, director of insurance and risk management at Rollins Inc. in Atlanta, said his company is considering moving its risk funding to captives and increased self-insured retentions as a way to avoid the cyclical nature of insurance rates.

"Major corporations are getting to the point where they are questioning the need for insurance," he said, at a time when "probability analysis can tell them what their losses should and probably will be."

He said more companies will likely begin purchasing only catastrophe coverage as the art of predicting losses becomes more exact.

'Oh, it's a hassle and a half,' Stone Container Corp.'s Mr. Bostwick says of year-end renewals.

Rollins switched the renewal date for its casualty coverages from Jan. 1 to April 1 in 1988 and Mr. Jones sees that move as the continuation of a trend by risk managers to avoid some of the year-end renewal rush.

"Everybody that I talk to in the southeast seems to think 1/1 is no longer a desirable date," said Mr. Jones.

Reinsurance treaties are usually not completed by Jan. 1 and underwriters can be hard to pin down during the holidays, he noted. "It's probably the worst time to have renewals."

"Traditionally, insurance companies give a lot of time off to their employees during the holidays," Mr. Jones said. "It can be frustrating to try and get a quote on a Friday afternoon and all the employees are at a Christmas party."

Judith Tornese, vp of risk management and administration at TransAmerica Corp. in San Francisco, said many risk managers made the decision long ago to change renewal dates.

"Over a number of years, risk managers have tended to shy away from 1/1 renewals because that is a very difficult time," she said. "Over the last 10 years, people have been trying to spread their renewals over the course of the year."

"Some reinsurance treaties are not placed by then, so there can be confusion over the status of those treaties. . . . And of course, you have the holidays. It can be a very busy time," she noted.

Mr. Bostwick, who renews practically all his company's coverage Jan. 1, summed up year-end renewals: "Oh, it's a hassle and a half." ■

Reinsurance market says

Meanwhile, several reinsurers note that, at least until recently, renewals were being completed somewhat later than expected.

"I don't think there's any rampant rate reductions in the reinsurance area," said Michael Fitt, chairman and chief executive officer of Employers Reinsurance Corp. in Kansas City, Mo.

"It's not like it is the first time around," he said, referring to the last soft market. Mr. Fitt added, however, that "cer-

tainly, competition is getting a little hotter because there is less business out there" as primary companies continue to maintain high retentions.

By type of reinsurance, "the facultative market is the softest of all, there's no question of that at all," said Mr. Fitt, adding that this is because there is less facultative business being placed.

And, pro rata business "is a better deal for ceding companies this year than it was last year, no doubt," commented Jeremy R. Wallis, president and chief executive officer of the New Zealand Reinsurance Co. of America, based in Chatham, N.J.

Continued on next page

1988 Results **RLI** Even Stronger

Consolidated Statutory Financial Information

RLI Insurance Company and Mt. Hawley Insurance Company

STATUTORY SURPLUS (000 Omitted)

| | |
|-------|------------|
| 1983 | — \$12,238 |
| 1984 | — \$16,739 |
| 1985 | — \$37,037 |
| 1986 | — \$53,003 |
| 1987 | — \$57,243 |
| *1988 | — \$64,951 |

COMBINED RATIO

| | |
|-------|--------|
| 1983 | — 94.9 |
| 1984 | — 97.0 |
| 1985 | — 99.7 |
| 1986 | — 84.1 |
| 1987 | — 84.2 |
| *1988 | — 93.9 |

5 YEAR
COMBINED RATIO: 89.8
(1983-1987)

ASSETS (000 Omitted)

| | |
|-------|-------------|
| 1983 | — \$ 35,156 |
| 1984 | — \$ 48,719 |
| 1985 | — \$105,993 |
| 1986 | — \$159,568 |
| 1987 | — \$168,859 |
| *1988 | — \$173,861 |

LOSS RESERVES (000 Omitted)

| | |
|-------|------------|
| 1983 | — \$ 4,985 |
| 1984 | — \$ 9,150 |
| 1985 | — \$22,784 |
| 1986 | — \$46,243 |
| 1987 | — \$59,712 |
| *1988 | — \$63,544 |

*Six months results ended June 30, 1988

SOLID.

To Protect Policyholders • To Honor Obligations

RLI Corp.

9025 North Lindbergh Drive
Peoria, IL 61615

Underwriting Branch Offices

Atlanta • Chicago • Hartford • Kansas City • Los Angeles
San Francisco • St. Paul

RLI Insurance Co. — Mt. Hawley Insurance Co. — American Capacity Insurance Co.
For Specialty Insurance Coverages

Reinsurance renewals

Continued from previous page

"There is pressure for pro rata business across all classes," agreed George Roberts, president of Reliance Reinsurance Management in Philadelphia. There have also been increases of 1% to 3% on ceding commissions in this area, he noted.

Property pro rata business is marked by higher commissions, agreed Willem K. Dikland, president and chief executive officer of Philadelphia Reinsurance Corp. in Philadelphia. And property per risk business has seen some rate decreases, he said.

Meanwhile, excess-of-loss rates are down 5% to 10% overall and more in some selected situations, noted Jack Legener, president of American Union Reinsurance Co., an Indianapolis-based property/casualty reinsurer.

"Rate relief" on property business has ranged up to 20%, though reinsurers are granting these rate reductions on a case-by-case basis rather than across the board, according to Philip W. Mitchell, senior vp of TPF&C Reinsurance, a division of Towers, Perrin, Forster & Crosby in Philadelphia.

"All reinsurers seem to want to increase their property book," noted Mr. Mitchell, who will take over as chief executive officer of TPF&C Re in April.

For the first time, hard-to-place treaty business is becoming competitive, noted Paul Ingrey, president of F&G Re in Morristown, N.J., a USF&G Corp. subsidiary. Property catastrophe rates in particular, he noted, are off 15% what they were a year ago.

"Everyone in the world wants to write U.S. property business right now," observed Willis T. King Jr., chairman and chief executive officer of Willcox Inc. Reinsurance Intermediaries in New York. There is "ample capacity for anything that is reasonable" on the property side, he added.

Increasing the appeal of writing property treaty reinsurance, said Mr. Fitt, is good experience due to no recent severe storms.

Property treaty business is particularly competitive because it attracts foreign reinsurers who are still unwilling to reinsure third-party liability business but want to maintain a presence in the U.S. market.

Property facultative business has experienced across-the-board rate reductions, said Mr. Dikland. As for the property catastrophe business, "in general, we see the same rates on a reduced premium base," although there is a "bit of a rate reduction" on the lower layers.

Direct writers in particular are "very aggressive" on property per risk and general working layer property covers, commented Paul Hawksworth, executive vp of the Mercantile & General Reinsurance Co. of America in Morristown, N.J.

In several instances, he noted, "they're selling the product for less than what the products cost," said Mr. Hawksworth.

Few reinsurers are trying to fatten their casualty books, though.

"No one is giving away anything in the casualty market," observed Mr. King of Willcox.

Even without casualty reinsurance price reductions, "rapidly diminishing primary rates" by themselves are putting pressure on reinsurers' premium volume, Mr. King observed.

"Simply holding the line represents a dramatic concession" by reinsurers, he said.

Unlike the last soft market, reinsurers this time around are wary of expanding ceding insurers' capacity for casualty risks, he pointed out.

"That is being staunchly resisted," Mr. King said.

The situation for casualty clash business depends on the premium base, said Mr. Dikland. When the premium base is up, there is some rate deterioration. But if it is down, the

reinsurance rates stay the same.

Casualty, in general, is "holding fairly stable," and there have been only a "few notable exceptions" where prices are at unacceptable levels, Mr. Hawksworth of M&G Re said.

But, F&G's Mr. Ingrey said, "We are seeing reinsurance competition for the first time on some tough casualty business."

Capacity has also improved, Mr. Ingrey noted. "It's much easier to fill programs out," especially for casualty clash business.

However, "I'd say the primary market is probably more significant in terms of overall effect," Mr. Ingrey said.

"Overall, we see a return to normalcy rather than a swing the other way" toward an extremely soft market, observed James Snedeker, senior vp with broker Gill & Roeser Inc. in New York.

The market "is orderly. There is more pressure on pricing than we would want, but it's neither cause for great rejoicing, nor cause for pulling our hair out," said Robert M. Huggins, chairman, president and chief executive officer of Belvedere America Reinsurance Co. in New York, discussing the reinsurance renewal market.

While competition is not cutthroat, "I think everyone is attempting to retain their business and to that extent they're working to improve their pricing," said Mr. Legener of American Union Re.

There are "many, many, many instances where the customer merits price reductions and he's getting it," he added. Few reinsurers, though, he said, are introducing "outrageous" price cuts.

There is "normal and expected" competition in the marketplace, said William G. Clark, president and chief executive officer of Stamford, Conn.-based Transamerica Reinsurance Co. Reinsurers are holding the line, "which pleases me," he said.

"There still seems to be a fair amount of sanity in the marketplace," particularly for casualty business, commented Mike Pinter, vp-treaty at Kemper Reinsurance Co. of Long Grove, Ill.

"I've seen some slippage here and there but, overall, they're holding the line," he said.

Reinsurers are more "open to looking at new business," said Jacques Bonneau, senior vp at Trenwick America Reinsurance Corp. in Stamford, Conn., but they are exercising a "healthy control" in their price reductions as well, he said.

Generally speaking, he added, there has been more consistency in reinsurance pricing and terms and conditions than there is on the primary level.

"There is a little more competition among reinsurers, but in general, the market is holding the line. We are not yet giving the shop away," said Mr. Dikland of Philadelphia Re.

"There is not all that much pressure on the reinsurance side, generally speaking," said Jared Cummins, president and chief executive officer of MONY Reinsurance Corp. in New York. "We don't really see any silly competition out there, still. I don't see any severe pressure on rates during this renewal season yet."

Paul Inderbitzen, executive vp for American Re-Insurance Co. in Princeton, N.J., said, "There is obviously more property capacity, and there's better terms and conditions, but we're not seeing dramatic changes."

The biggest impact on the market, he said, is the softening in the primary market, which has caused decreases in subject premiums.

"I think it's been pretty stable, pretty rational price competition in general, especially for the solid, long-term accounts," which are interested in security and in solid, long-term reinsurance relationships, Mr. Inderbitzen said.

"The level of price reductions in the market still is not as significant as on the primary side, but there's a weakening, and it's not 20% or 30% or 40% necessarily, in my opinion, across the board," said John Smithson, president and chief operating officer of PMA Reinsurance Corp. in Philadelphia. The weakening, he said, is "more gradual than drastic," he added.

Some reinsurers said they are concerned about the increasing competition. James Dwane, president of Prudential Reinsurance Corp. in Newark, N.J., said the more predictable the risk, the more competitive rates are, "to the point of offering rates and terms that are inadequate."

"In higher hazard, and more unpredictable areas, they seem to be willing to discount less," said Mr. Dwane.

From an insurance as well as a reinsurance perspective, if the industry continues the present trend the soft market that existed in 1984 will re-emerge, warned Mr. Dwane.

"I think there's a danger of that, if we continue for another year or two," he said. "If we show some restraint now, it won't." More optimistic observers, added Mr. Dwane, apparently believe the market will begin to exercise some discipline. "I question that."

Roger J. Cunningham, senior vp at Skandia America Reinsurance Corp. in New York, commented, "Things are continuing, as they have been all year, going down, and there are no signs of improvement."

Reinsurers are "much more willing to write business they would not have given any consideration to 12-24 months ago," he said.

"I'd say it's serious," said Gerald L. Radke, president and chief executive officer of Phoenix Reinsurance Co. in Hartford, Conn. "We're seriously concerned about the level of competition." Reinsurance rates are "definitely worse than they were a year ago," depending on the class of business, he added.

Mark Mosca, vp and manager of the treaty department at NAC Re Corp. in Greenwich, Conn., said he is also concerned. "It's our perception that the line is not being held as firmly as it was up until this point," he said.

"We're very pessimistic," he added. "We believe '89 and possibly '90 both will be very difficult years. We don't see any early end to the downward trend."

Willcox's Mr. King echoed these sentiments, noting that reinsurers are less optimistic than they were even six months ago that the downward trend in the market can be slowed.

"I think they are more worried about it now," he said.

Some expected the market to firm in the wake of losses from the Piper Alpha oil platform explosion and the 1987 windstorm that hit the United Kingdom, Mr. King noted.

"Instead, everything is just beginning to slip."

In addition to rates, there has been some relaxation in terms and conditions, say reinsurers.

While terms remain tight, "there is an occasional softening of some of the excesses prevalent in the reinsurance market when it turned," said Transamerica's Mr. Clark.

Reinsurers are doubling or tripling the terms of sunset provisions, which phase out coverage of casualty losses after a defined period has elapsed, Willcox's Mr. King noted.

London reinsurers are also offering "sunrise" clauses, designed to restore coverage that has been phased out under sunset provisions, he added.

However, since most ceding insurers that were hit with sunset clauses in the hard market have not yet reached the point where their reinsurance protection is being phased out, strong interest in sunrise provisions has not yet developed, he noted.

TPF&C's Mr. Mitchell said that reinsurers on many pro-

Continued on next page

The professional marketplace

RATES AND CLOSING TIME:

Rates: Display classified is \$101.50 per column inch, minimum of one inch. Straight classified is \$8.25 per line, minimum of 5 lines. Count 34 characters per line (include each space and punctuation as a character). Additional \$17.50 charge for blind box ads. Only those responses which fit into a business size envelope will be forwarded. Responses are forwarded daily.

Closing: Published every Monday. Copy must in typewritten form by noon Tuesday, 6 days preceding publishing date. No verbal phone copy accepted. Prepayment required for straight advertisements. Mail ads to Margaret Hikido, Classified Advertising, 740 N. Rush St. Chicago, IL 60611. For more information call 312-649-5340.

INSURE YOUR CAREER WITH INDUSTRY EXPERTS

National Broker has executive level opportunity for indiv. with 10+ years experience. Post grad. education a real plus. Candidates with a specialization i.e. Health Care, Construction, Heavy Casualty or Financial Institutions are highly desirable.

Midwest & New York Brokers seek candidate with heavy Casualty/Construction background. Will relocate. Sign on bonus and compensation package unsurpassed.

Bill LaMorte, President
DUNHILL OF BOCA RATON
7777 Glades Rd., Suite 201
Boca Raton, FL 33434
1-800-422-6306
FLA. call 407-488-6306

Dunhill
A CONFIDENTIAL SOURCE FOR NATIONAL PLACEMENTS

D.I. VENTURE

Unique opportunity available for financial expert/actuary specializing in non-cancellable disability income insurance. This start-up insurance organization is looking to create a cash value based D.I. product to compete with the best. You should have 5+ years of directly related work experience and be willing to accept a marketing oriented strategic plan. Equity position available for suitable candidate in the Northeast. Reply to: Business Insurance Box 2483, 740 Rush Street, Chicago, IL 60611

Book of Business seeks Carrier

\$7,000,000. (And Growing!) Book of Controlled Main Street Package Business Seeks An A-Rated, (B+ OK) Stable Home. States: NY, NJ, PA, CT (+ Any Other Eastern States). Very Profitable - Carrier Statistics Available. Please Respond to:
Box 2485, Business Insurance
740 Rush St., Chicago, IL 60611-2590

SURETY BOND MANAGER

Old large Southern Ohio contractor oriented independent agency seeks person w/management, underwriting & sales skills. Salary, fringes, bonus, car, move included, plus ownership potential. Need degree, at least 5 yrs. surety exper. Send resume, references & salary history to:
Box 2486
Business Insurance
740 Rush St.
Chicago, IL 60611-2590

POSITIONS WANTED

PROPERTY & CASUALTY CFO AVAILABLE
CPA. Strong expertise in all areas of management for companies and agencies. NO Relocation Expenses required & Available immediately. Call: (303) 779-0080 or Fax (303) 220-1320.

HELP WANTED

EXECUTIVE DIRECTOR-ADMINISTRATOR
A well established Taft-Hartley Health and Welfare Trust Fund located in Milwaukee, Wisconsin, serving approximately 5,000 active participants and their families, is seeking an Executive Director-Administrator. The Fund provides self-insured benefits as well as on site medical, dental, vision and pharmacy services. The position requires experience in service provider relations; subscriber relations; contract administration; claims review; financial analysis; supervision of professional and clerical staff. Applicants must be prepared to assume responsibility for the overall management of Fund operations. The position reports directly to the Trustees. Please send resume, references and salary requirements to: Ms. Harriet Zahorek, c/o Milwaukee Area Truck Drivers Health & Welfare Fund, P.O. Box 2073, Milwaukee, Wisconsin 53201. An equal opportunity employer.

Business Insurance Circulation Breakdown* Commercial Consumers

| | |
|--|--------|
| Administrative: | |
| CEO's Presidents and Owners | 2,621 |
| Vice-Presidents, General Managers and Other Administrative Personnel | 3,657 |
| Financial: | |
| Chief Financial Officers and Vice-presidents of Finance | 2,993 |
| Secretaries, Treasurers, controllers and other Financial Personnel | 4,454 |
| Risk/Employee Benefits: | |
| Vice-presidents, directors, managers, and other related department personnel of insurance, risk, employee benefits, personnel, compensation, pension, safety, security, industrial relations, human resources and employee/labor relations | 10,994 |
| Sub-total | 24,719 |
| Associations | 477 |
| Government, Unions and Educational Institutions | 979 |
| Commercial Consumers | |
| Sub-total | 26,175 |
| Insurance Agents and Brokers | 10,557 |
| Insurance Companies | 7,300 |
| Actuaries, Attorneys, Adjusters, Appraisers and Consultants | 3,843 |
| Others Allied to the Field | 2,991 |
| TOTAL | 50,946 |

* Source: Business/Occupational breakdown of qualified circulation, May 30, 1988 issue, as submitted to BPA for June 1988 BPA Publisher's Statement.

* * * * *

Happy
New Year
from
Business
Insurance

* * * * *

Continued from previous page
grams are simply eliminating sunset provisions and other hard market restrictions. For example, loss ratio caps—which cut off reinsurance coverage after the loss ratio on business reaches a given point—are being eliminated or liberalized, he said.

Reinsurers are also agreeing to restore—at extra charge—coverage for extra contractual obligations, which was largely eliminated during the 1986 hard market, Mr. Mitchell said.

In addition, reinsurers are making allowances for the time value of money by allowing ceding companies to pay deposit premiums quarterly rather than semi-annually, or by allowing the ceding insurer to retain 50% of the deposit premium, out of which the ceding insurer can pay losses, according to Gill & Roeser's Mr. Snedeker.

"They're easing, but most of them probably eased over the last year or two years," said American Re's Mr. Inderbitzen. There is not much change from January 1988, he added.

"It's not a wholesale abandoning, if you will, of some of those terms and conditions, but they are being reviewed and modified in certain situations, the terms being more liberalized," said Pru Re's Mr. Dwane. "The trend is definitely that way."

"I think there's probably some give in things like sunset clauses, where they're stretching out the period," said A. Edward Gschwind, president and chief executive officer of American Royal Reinsurance Co. in New York, formerly known as American Overseas Reinsurance Co.

There has been a "significant deterioration" in terms and conditions, said F&G Re's Mr. Ingrey. There has been a "fair amount of pressure" to widen coverage for perils such as windstorms. And, while sunset clauses and caps still appear in reinsurance contracts, "they're under a lot of continuing pressure."

Some reinsurers and brokers say the pace of renewals this year has, at least initially, been slow.

"The renewal season is running surprisingly late," Mr. King observed, explaining that it's been harder to convince ceding companies to agree to the pricing offered by lead reinsurers.

Ceding insurers' own rates have been "way down, and they didn't have the money to pay" reinsurers, he explained, noting that "the ceding companies are dragging the reinsurance market down."

"Compared to our expectations, it's late, because we thought it would be relatively straightforward, without a lot of people pushing for a lot of change," agreed Skandia's Mr. Cunningham. However, in the last week or two, there has been a flood of business, he said.

While the market renewal pace was slow in November, as soon as Dec. 1 hit "it was like the bell rang, and the pace quickened tremendously," Kemper Re's Mr. Pinter said.

"Orders are very late this year, because we believe there is a great deal of repricing going on," said American Union's Mr. Legener.

The brokers, as well as the ceding companies, are aware more favorable pricing is available, and so are going back into the market and repricing business, he said.

"It's not a tremendous change, but they are later than normal," he said.

"It looks like we've got a later renewal season than we had last year," agreed Pru Re's Mr. Dwane.

The pace of renewals is "a little bit slower than normal, not bad, though. We seem to be fairly well up-to-date," said MONY Re's Mr. Cummins.

But Belvedere's Mr. Huggins said he would describe the pace of re-

newals as "average, neither super fast, and certainly not as slow as a few years ago, in the depths of the hard market." Renewals are coming along "fairly well," he added.

Reinsurers made repeated references to their crystal ball being out of whack when asked just how long they predicted the soft market will continue.

"Lord knows," said Transamerica Re's Mr. Clark. He added that there were enough reasons, including taxes and reinsurance recoverables, why it should not have become competitive in the first place. "Still, you have people out there being competitive," he said.

"I just flat out don't understand it," he said. "Everything about the business is lousy, and yet these guys are out there trying to make it worse."

New York Bureau Chief Douglas McLeod also contributed to this story.

Insurers view renewals

Continued from page 1

pricing policies, agreed Larry K. Rand, vp-standard products for Aetna Life & Casualty Co. in Hartford, Conn.

Like most insurers, Lawrenceville, N.J.-based American Reliance Insurance Co. is attempting to hold the line on prices during the January renewals, according to Paul Fenn, vp-underwriting and Northeastern branch manager.

"Renewal pricing is holding steady," he said. "There may be some drop, but not much under last year."

Overall, Mr. Fenn said renewal rates for both property and liability risks are about 5% below last year's rates.

"We're talking about a continuation of the soft market, but we are at, or very near, the bottom of the pricing cycle," said James S. Kemper III, senior vp-commercial lines underwriting for Long Grove, Ill.-based Kemper Group.

"Rates are down about 8%" overall, said Klaus G. Dorfi, executive vp-insurance operations for the New York-based Atlantic Mutual Cos. "We look for another 5% to 10% drop in rates during 1989. The earliest hope for a change would be if '88 results are less than expected."

"No red ink equals no turnaround in pricing," con-

cluded Mr. Dorfi.

Many insurers say they will sacrifice market share if prices drop too low.

"We have to move with the marketplace or else we'll go out of business," said Kemper's Mr. Kemper. "But we won't stop adhering to underwriting standards to accommodate a soft market."

"We always perceived ourselves as aggressive marketers, but at an adequate price," said Dennis E. Hoffmann, president of John Deere Insurance Co. in Moline, Ill.

He said John Deere plans to increase its market share by at least 10% in 1989 in constant dollars.

"We'll be aggressive on business showing good management interests," said Mike McIntyre, senior vp-marketing for the Johnston, R.I.-based Allendale Mutual Insurance Co.

"Companies, such as ourselves, are looking for good controlled growth," said American Reliance's Mr. Fenn. "We know some of our counterparts are getting more aggressive. . . and the big guys are still out there and they want their premium dollars."

Mr. Fenn said his company, which writes insurance in six Eastern states, has set a goal of 8% to 10% growth in 1989, but he's quick to point out: "All the market share in the world doesn't do any good when you're losing money."

Continued on next page

GOOD MORNING

When the Sun Came Up This Morning, you expected your facilities to be in one piece, operating and productive. And sure enough, they were. If you are an IRI insured, you know the odds are in your favor each dawn and each year. Consider this. In the last three years, the number of losses by IRI insureds has declined. While there are many factors affecting this favorable trend, the most compelling reason is the determination of IRI insureds to reduce the probability of a significant loss to a minimum. Here are some ways we help support this commitment.

- **Training.** IRI loss prevention representatives, who serve our accounts and average 11 years experience with IRI, have taken basic and advanced studies at our Training Center. During the past 43 years, more than 15,000 men and women have graduated from this facility. These 15,000 alumni include insurance agents and brokers, representatives of insureds (risk or insurance managers, plant engineers and others), municipal firefighters, members of rating organizations and government agencies, employees of our Member Companies, and every IRI loss prevention representative since 1945. Programs conducted at the Training Center provide IRI personnel with better knowledge of various fire protective equipment and loss prevention techniques. Today, the Training Center is an industrywide and internationally known teaching facility, attracting students from nearly every state and many foreign countries. The graduates come away from the Training Center with a greater awareness of the benefits of loss prevention and the role it plays in preserving the jobs and property of business and industry worldwide.

- **Technology.** IRI computers help us help you. Our Plan Department, using the latest computer-assisted drafting technology, prepares detailed diagrams of your facilities. These diagrams contain a variety of different computer-generated symbols that identify loss prevention and construction features as well as the overall site layout. The diagrams help provide a clear analysis of risk for our personnel and for your insurance and risk management staff. Our Total Information System, which contains 1.5 billion bytes of information, helps us analyze losses and plot loss trends which assist us in preparing loss prevention and control programs, such as OVERVIEW, for you and your staff. Also, IRI loss prevention surveys of your facilities are produced on computer to provide you with prompt confirmation of each survey. Keeping up with technology, however, means more than just hooking up more computers. It means keeping up with advancements and developments. That's why our loss prevention representatives participate in numerous professional organizations and work on some 50 technical committees of the National Fire Protection Association with impact on 120 standards. To serve you properly, we are not satisfied with what we know today. We are looking for the answers to tomorrow.

Since We Want Your Next Tomorrow to be as worry-free as yesterday, we invite you to become familiar with our library of loss prevention information. For a complimentary copy of "The IRI Index," which lists our publications, sound-slide presentations, videotapes and films, contact Mrs. P. A. Sasso, IRI, 85 Woodland Street, Hartford, CT 06102 (203) 520-7412.

**Industrial
Risk
Insurers**

**66,000 properties
insured worldwide**

Insurers

Continued from previous page

Atlantic Mutual's Mr. Dorfi said his company is not looking to grow at this time.

"When prices are soft is not the time to increase the portfolio with more units. It's better to carry a portfolio of properly priced business," he said.

Mr. Freund of Shelby agreed: "There is no pressure on maintaining market share at the cost of getting crazy. We are concerned with maintaining price adequacy and service standards."

In fact, Transamerica Insurance Co. in Woodland Hills, Calif., has lost 25% of its renewal business because it is trying to hold the line on prices, said Richard Wratten, president of the commercial insurance division.

Brian O'Hara, president of policyholder-owned X.L. Insurance Co. Ltd. in Barbados, also advocated holding the line on prices rather than expanding market share in the current soft market.

"As with the Magi, many insurers are providing gifts this season. One could question their wisdom," he said.

Insurers say that generally competition is more intense for property risks than for casualty accounts.

Insurers say most property risks are renewing at rates 5% to 20% below last year, depending on the size of the risk and its geographic location.

"Property coverage is the one line that throughout the up and down cycle is competitive," said Mr. Rabenstine of Liberty Mutual. He said property insurance renewal rates are down an average of 10% to 15%, though rates for some risks have been cut as much as 35%.

Mr. Kemper said "just about anything involving property"—including highly protected risks and package policies of all sizes—entices hot competition.

Even earthquake coverage is seeing price cuts, according to Mr. Kemper. Larger accounts generating at least \$100,000 in premium and highly protected risks have seen up to 20% cuts in earthquake rates, Mr. Kemper said.

Brad Wallace, vp-commercial lines for United States Fidelity & Guaranty Co. in Baltimore, said property rates are dropping about 15% upon renewal.

However, Carl Santillo, executive vp for Wausau Insurance Cos. in Wausau, Wis., said property rates are "creeping down about 5%."

And, Mr. Wratten of Transamerica said that property rates for small to mid-sized accounts have not dropped at all in the last six months.

However, both Mr. Wratten and Mr. Santillo said the market for large property risks is more competitive.

Mr. Wratten said large property risks are

seeing price cuts of about 10%.

Competition is "very active" for higher-priced accounts, agreed Mr. Santillo.

Mr. McIntyre of Allendale, which writes only property coverage, said that while rates for all property insurance are coming down an average of 10% to 20%, competition is hottest on the medium-sized accounts.

"The larger ones got their price concessions some time ago," he said.

Property risks in the Northeast and Midwest are the subject of the hottest competition, said Mr. Rabenstine of Liberty Mutual.

Insurers also report a vast abundance of capacity in the property market.

"Only marginal to poor risks have capacity problems," said John F. Donahue, vp-commercial lines for Hartford Insurance Group in Hartford, Conn. "There's plenty of capacity for good risks."

Other observers note that reinsurers are offering more capacity for property risks.

"Property capacity is up," according to Joe Bostrum, secretary and commercial lines product management for the Hartford, Conn.-based Travelers Corp. "In fact, reinsurers have too much facultative property capacity."

Generally, primary insurers are offering larger property insurance limits without purchasing additional reinsurance.

Capacity for earthquake risks has sharply increased, according to Mr. Kemper. Some insurers have increased their earthquake capacity by 100% or more since 1986, he said.

Unlike property pricing, liability insurance pricing has leveled, according to most insurers, primarily because of an increased frequency of severe claims.

Dale Lauer, casualty manager for SAFECO Insurance Cos. in Seattle, said that while the casualty insurance market is still soft, rates did not fall any farther during year-end renewals.

Liability prices have been level during the January renewals, agreed Mr. Wratten of Transamerica. "Prices are at a very low level, but they haven't moved in six months," he said, predicting continued stabilization in the liability insurance market in 1989.

"Liability risks are not as price-sensitive as property risks," explained Shelby's Mr. Freund.

USF&G's Mr. Wallace predicted at most a 5% to 10% drop in liability insurance rates in 1989.

Mr. Rabenstine of Liberty Mutual said liability insurance renewal rates are dipping 10% to 15% for small to medium-sized risks, but that rates for Fortune 500 accounts are stable.

Much of the competition in the liability insurance market is due to new players that do not fully understand the risks they are insuring, said Mr. Hoffmann of John Deere.

And, the insurers cutting liability insurance rates often are not small companies, but large national insurers that are expanding

into new lines of insurance, he said.

"The aggressive, irresponsible pricing we are seeing is coming from the national insurers that don't have market niche expertise," said Mr. Hoffmann. "They are short-term players."

The problem stems from "excess capital in the insurance industry seeking deployment," he added.

Most of the competition is coming from the "primary insurers and major brokers, as contrasted with huge increases in foreign insurance or reinsurance," agreed Mr. Rabenstine of Liberty Mutual. "The competition we see is coming from the conventional primary insurers and major brokers who are shopping risks."

These large, primary insurers "lead the parade in the downward cost spiral," said Mr. Hoffmann.

Zurich-American's Mr. Waugh also said that most of the current market competition is from traditional players that are returning to certain lines of insurance they abandoned in the hard market of the mid-1980s and from insurers that are using more producers to gain market share.

The market for excess and umbrella liability coverage is, by far, the most competitive, according to insurers.

Mr. Waugh said excess and umbrella coverages are discounted two and three times more than primary liability coverages.

"Crazy things are happening, especially with umbrellas," agreed Mr. Hoffmann of John Deere.

"First-layer excess coverage is the most competitive," said Mr. O'Hara of X.L., which writes excess liability insurance limits of \$75 million excess of \$25 million and D&O limits of \$25 million excess of \$25 million. Rates for low-level excess liability coverage are dropping an average of 15% to 20%, and up to 35% on individual risks, he said.

John R. Cox, president of A.C.E. Insurance Co. Ltd. of Bermuda, said that while his company is holding the line on prices, the rest of the market is allowing excess and umbrella liability rates to fall 15%.

USF&G's Mr. Wallace said both the Midwest and Southwest are ultra-competitive areas for excess liability coverage.

Mr. O'Hara also reported fierce competition for D&O risks. He said these risks are being renewed at rates that, on average, are 20% to 30% lower, and that he had seen rate cuts as high as 50%.

Policy terms also are improving in the D&O market, said Mr. O'Hara.

However, difficult lines like environmental impairment liability insurance and tough product liability risks are still suffering from availability and affordability problems, according to insurers.

These lines are "better than they used to be, but still very tight" said Mr. Dorfi of Atlantic Mutual.

However, "EIL risks are very under-

priced" for the risk involved, according to Mr. Hoffmann of John Deere. He said insurers "filled with unbridled optimism" are pricing EIL risks "way below cost."

For most lines of liability insurance besides EIL, though, there is an abundance of capacity, insurers report.

"The market has shown increased capacity," said Mr. Waugh of Zurich-American. "There is less of a need to spread covers around to get to a total limit."

"Capacity is not an issue," agreed Mr. Freund of Shelby. "There is plenty of capacity to write all the coverage you want."

Specifically, general liability, product liability and D&O risks have all been subject to capacity increases during year-end renewals, according to insurers.

"General liability capacity is increasing," reports Mr. Wratten of Transamerica.

In the London marine market you can get \$300 million to \$400 million on oil accounts," said Mr. O'Hara of X.L. "Regular casualty accounts can get \$225 million to \$250 million in limits."

Policyholders can easily obtain \$15 million in product liability limits from a single insurer, said Mr. Waugh of Zurich-American.

Mr. Rabenstine of Liberty Mutual agreed: "Stable products risks can get the capacity they need."

In the D&O market, "if you wanted to you could put together \$250 million in limits without trying very hard," said Mr. Cox of A.C.E.

Mr. O'Hara of X.L. said D&O capacity has expanded by \$20 million to \$25 million in the past year.

As with property limits, insurers are expanding the liability limits they will write without buying additional reinsurance.

Insurers also have noticed some defection from alternative risk financing mechanisms—like fully self-insured programs, captives and risk retention groups—since the domestic market became price-competitive. But this defection is not overwhelming.

"We're conscious of them," said Mr. Dorfi of Atlantic Mutual. "You can't let premium dollars completely escape."

In addition to rate cuts, many insurers are offering policyholders improved policy terms, credits or lower deductibles.

"We are doing everything possible," said Mr. Waugh, who said Zurich-American is offering policyholders improved deductibles and credits and is offering brokers increased commissions.

Changes in policy conditions may be a means of holding an account, said Hartford's Mr. Donahue.

Policyholders can "look for changes in conditions like smaller deductibles and higher limits," he said.

"Most thinking risk managers aren't looking for more rate cuts," said Mr. Donahue. "Generally, they know things have gone as far as they can go." ■

Exodus from non-admitted market continues

By GLENN HUNTLEY

The exodus of business from the surplus lines market to admitted insurers will continue this year, as admitted insurers continue to slash prices, many surplus lines brokers and insurers say.

Most surplus lines insurers pointed out that they continued to lose business during just completed year-end renewals.

Surplus lines experts generally say a turnaround in the market may not come until late 1990 or early 1991. Only then can surplus lines insurers hope to recapture the business they have lost the past two years, just as they recaptured in 1985 and 1986 many accounts lost to admitted insurers during the competitive market of the early 1980s.

Derek Hughes, president of Western World Insurance Co., a surplus lines insurer based in Keane, N.H., that specializes in professional liability, medical malpractice and other lines of coverage, expects times to remain tough for a while.

"We see 1989 as a much more difficult market than '88," he said. "We're just trying to hold the line."

Joseph M. Walsh, president of American Empire Surplus Lines Inc. of Cincinnati, reluctantly predicts the soft market will continue.

"I hope to God it's not true because it makes it that much harder" to ride out the cycle, he said.

Ralph J. Palmieri, president and chief operating officer of First State Insurance Co. in Boston, a Hartford Insurance Group unit, also predicts that accounts will continue to shift back to admitted insurers in 1989.

"About the most optimistic thing we can say is prices have stabilized somewhat," Mr. Palmieri said.

"Rates are diminishing, there's no doubt about it," said Martin J. Calpin, executive vp and secretary of Admiral Insurance Co. of Cherry Hill, N.J.

Mr. Calpin predicted "more of the same" in surplus lines pricing in 1989, but "a bottoming out at a fairly low level" by

year-end.

On the other hand, some say that the flow of business away from the non-admitted market could slow this year and that the bottom of the cycle is at hand, or at least near.

"We're at or near the bottom," said Thomas S. Bloom, president of Willis Faber Holdings Inc. in New York and chairman of subsidiary McAlear Associates Inc. in Grand Rapids, Mich. (see story, page 18).

"Prices should be firming because prices are coming off the high water mark of 1986," said Kevin Kelley, president of Lexington Insurance Co. in Boston, a unit of American International Group Inc. "I see prices starting to hold in some areas."

Surplus lines market says

Price stability should come first in specialty casualty lines like professional liability, medical malpractice and more difficult product liability coverages, he said.

The shift away from the surplus lines market was inevitable, observers point out.

"Two or three years ago," when the non-admitted market was riding the crest of the hard market, "we knew we would come down the other side of the mountain," said Robert P. Keul, president of Montgomery & Collins Inc., a surplus lines broker in Los Angeles.

While some surplus lines insurers are competing on price with admitted market underwriters, many are sticking to "walk-away prices," losing market share and hoping to add to their core business when the market hardens again, insurers and brokers said.

Surplus lines insurers are about evenly split between those that are willing to pursue price reductions to retain business and those that will draw the line when they expect to lose

money, said Gus Gallup, senior vp of broker Swett & Crawford Group's casualty marketing division in Los Angeles.

Insurers are particularly reluctant to follow the market price for umbrella liability coverage that they have written for years, he said.

"There are a lot of people who are not willing to follow the umbrella coverage down," Mr. Gallup said.

Surplus lines insurers are setting "walk-away prices" below which they will not try "to service the whole world," agreed John M. Griffin, president and chief executive officer of The London Agency Inc., an underwriting management unit of Crum & Forster Inc. in Atlanta.

"We won't go beyond that (walk-away price)," he said. "We have drawn a line and we won't go beyond that."

The result in 1988 was a 15% drop in premium volume to \$240 million, he said. However, that was better than the 20% decrease in volume the company had projected.

"We'd like to do better, but we're doing better than projections," Mr. Griffin said.

California Union Insurance Co., a CIGNA Corp. unit, expects its premium volume to decline again this year, said Kenneth W. Woods, president of CIGNA's Excess & Surplus Division in Los Angeles and president of California Union.

"At the very, very best it will be flat. It will probably be (down) 10% to 15%," Mr. Woods said.

However, even a 10% to 15% decline in premium volume would be an improvement over 1988, when gross premium volume fell by about 30%, he said.

California Union's business has been hard hit by the soft market because the insurer primarily writes excess and umbrella liability business, rather than more exotic specialty lines that continue to be written by non-admitted insurers, Mr. Woods said.

Likewise, American Empire, which wrote more than \$330 million in gross premiums in 1986 at the peak of the hard

Continued on next page

Surplus lines

Continued from previous page

market, projects that it will write only about \$90 million in gross premiums in 1989, Mr. Walsh said.

"We can go for a while (at those premium levels), but we don't like it much," Mr. Walsh said.

Admitted insurers that had previously turned their backs on umbrella liability coverage have recaptured that business, he said. As a result, American Empire's premium volume from umbrella business will drop from a peak of \$64 million in 1988 to an estimated \$7 million in 1989, Mr. Walsh said.

Most of American Empire's current business is "Main Street U.S.A.," including accounts from small manufacturers, plumbers and contractors, Mr. Walsh said.

While some of the risks are often deemed too small or risky by admitted insurers, many are reasonable, he said. "You have to pick your way through the raindrops. You have to be careful."

Western World's premium volume dropped to nearly \$85 million in 1988, or about 15% less than the volume in 1987, Mr. Hughes said.

Western World, like many other surplus lines insurers, is now left with "true surplus lines" risks—such as tough directors and officers liability and nursing home liability risks—rather than business that can be written by the admitted market, Mr. Hughes said.

"Right now it's whittling down to the bone," he said.

Some wholesale brokers also point out that business still is flowing away from surplus lines underwriters to the admitted market.

Crump E&S Group, the Dallas-based surplus lines brokerage subsidiary of Fred S. James & Co. Inc., still is seeing heavy competition from admitted insurers, said Orville Jones, president and chief executive officer.

"The competition we're seeing is coming from the big stock com-

panies," he said.

While Crump had previously placed first-layer umbrella insurance with surplus lines markets, that business has almost entirely been transferred to the admitted market, he said.

"We're not able to compete on the lead umbrellas," he said.

Surplus lines insurers say they are not surprised that their business is dwindling.

Surplus lines markets are "a safety valve for the industry as a whole" that steps in when other insurers cannot provide coverage and suffers when admitted insurers become more aggressive, said Admiral's Mr. Calpin.

"We predicted for the last two years that our volume would decrease and it has. It was almost on the penny to what we predicted," Mr. Calpin said.

Admiral's gross written premium volume totaled \$125 million in 1988, down 25% from 1987, which in turn was down 18% from 1986, he said.

While most surplus lines markets concede their business is disappearing, some executives say their companies are flourishing despite the competition.

Scottsdale Insurance Co., a division of Nationwide Mutual Insurance Co., has bucked the trend of falling premium volume, according to Rolland L. Wiegiers, president of the Scottsdale, Ariz., company.

"Despite the soft market we're having a very good year," Mr. Wiegiers said, referring to 1988. Direct written premiums were up about 8% to \$600 million in 1988 from \$550 million in 1987, he said.

Scottsdale has been able to avoid the pitfalls experienced by other surplus lines insurers by moving away from competitive property risks and emphasizing professional liability, municipal liability and association programs that are not as sought-after by admitted insurers, Mr. Wiegiers said.

To combat lost business, other surplus lines insurers say they are

considering new products.

"It's time to look at new products," Western World's Mr. Hughes said. The company is considering introducing a new commercial auto liability program, but has not yet made a final decision, he said.

Surplus lines brokers also say they are focusing on new lines of coverage to make up for the increased competition from the admitted market.

Umbrella policies, which formerly accounted for 75% of Montgomery & Collins' premium volume, now comprise only about 50% to 60%, Mr. Keul said. Now, the broker is directing its efforts at "traditional" surplus lines accounts such as difficult product liability and environmental exposures, he said.

In addition, "we're trying two or three times harder (to get and maintain business). We're writing more new business than ever," Mr. Keul said.

Overall, surplus lines observers say prices still headed south during year-end renewals, though in many cases the size of rate cuts was more moderate this year.

Prices in the final quarter of 1988 have provided a hopeful sign, Mr. Griffin of The London Agency said. "We've had a nice little trend (toward stable prices) so far."

However, others say that the admitted market's thirst for some lines of coverage has not diminished.

"Property and umbrellas are probably the most competitive areas out there right now," said Crump's Mr. Jones.

While surplus lines insurers are generally holding firm on prices for property risks, the premiums offered by standard insurers are "not bottoming out," Mr. Jones said.

Prices for property risks have "completely collapsed," he said.

Surplus lines insurers are typically charging 125% to 150% of rates listed by the Insurance Services Offices Inc. for property

Update

Chubb, farmers sue agent

Continued from page 2

Elger P.C. in Chicago and a lead attorney for the farmers.

Chubb later agreed to honor policies generating \$40 million in premiums.

Chubb is seeking an estimated \$68 million from Good Weather.

Chubb will pursue the action with the farmers, who are seeking unspecified damages. "Chubb will receive two-thirds of the sum and we will get one-third in addition to the previous settlement of \$48 million," Mr. Freed said.

The lawsuit will be tried early this year in U.S. District Court in Cincinnati before Judge Carl B. Rubin, who approved the \$48 million settlement between Chubb and the farmers (BI, Nov. 14, 1988).

Good Weather has \$6 million in errors and omissions insurance written by Fireman's Fund Insurance Cos., BI learned.

Spokesmen for Chubb and Good Weather could not be reached.

Briefly noted

The National Federation of Independent Business last week urged Treasury Secretary Nicholas Brady to delay enforcement of penalties for violations of Section 89 non-discrimination rules. . . The California Insurance Department Wednesday will hear Travelers Corp.'s arguments for withdrawing from the state's private auto insurance market. The department issued a notice of non-compliance Dec. 23 saying four Travelers units have violated provisions of Proposition 103 by refusing to renew policies (BI, Dec. 19, 1988).

lines, while standard insurers are writing coverage for as low as half of ISO rates, Mr. Jones said.

"It shows no sign of prices firming soon," he said.

Prices in the admitted market for monoline property insurance, like fire coverage, are at 35% to 40% below ISO rates, American Empire's Mr. Walsh said.

However, package property insurance plans are being offered at rates 50% to 80% below the ISO standards, Mr. Walsh said. "I know there are instances of 80% with regularity," he said.

Prices for property insurance continue to soften in the admitted market, Mr. Palmieri said. "Differences of 40% to 50% are not uncommon."

But surplus lines insurers, compared with several years ago, are

"exercising more discipline than the standard market," Mr. Palmieri said.

"We find ourselves walking away from more individual risks than we would have three or four years ago," he said.

Excess and umbrella coverage has been "under heavy competition" by the admitted insurers in the past two years, added California Union's Mr. Woods. "The competition is primarily from the stock companies, the so-called standard market."

To demonstrate the magnitude of competition in the admitted market, Mr. Walsh said admitted insurers are offering \$1 million of umbrella limits for a premium of \$500 or less, while American Empire is quoting a premium of \$2,500.

Some London reinsurers seek rate hikes

By STACY SHAPIRO and CAROLYN ALDRED

London market says

LONDON—The tightening London reinsurance market could signal higher direct insurance rates in a year, some London observers say.

While international reinsurance rates in London—including rates for U.S. ceding companies—still are competitive, rates for high-layer London market excess-of-loss reinsurance and other retrocessional coverages are rising substantially as a result of the large catastrophe losses to hit London in the past 15 months.

While some say tightening in the reinsurance arena will lead to higher direct insurance rates by year-end, others contend it will take longer, pointing to the fierce competition and excess capacity in U.S. and other overseas markets.

Meanwhile, London insurers are willing to cut direct property insurance rates by 10% to 15%, but are unwilling to match the up-to-40% rate cuts offered by some U.S. insurers.

London underwriters of U.S. liability risks are charging the same rates as a year ago. Also, leading London underwriters generally are adamant that U.S. excess liability insurance be written on a claims-made basis.

U.S. policyholders can find about \$50 million of excess liability capacity written on a claims-made basis, while underwriters that will write occurrence-based coverage for U.S. liability risks now can furnish about \$10 million in limits, brokers in London say.

Meanwhile, companies in energy-related businesses are paying as much as 20% more for their property/casualty insurance packages as a result of the severe losses in the London market in the last 15 months, including the \$1.3 billion loss of the Piper Alpha drilling rig in July (BI, July 11, 1988).

"It's a very interesting renewal season," summed up Dick Drain, director of Lloyd's of London broker Lloyd Thompson Ltd.

Despite more competitive terms in the U.S.

market, London property/casualty underwriters say they are retaining most of their U.S. business, either because the capacity that the London market provides is needed or the accounts want to retain long-standing relationships with the London market.

"We are holding a high percentage of our renewals on our (U.S.) liability account," said Peter Wilson, managing director of H.S. Weavers (Underwriting) Agencies Ltd., the leading underwriter of U.S. casualty insurance and reinsurance in London.

"We are not seeing much new North American business (because) there is an alternative occurrence market in the U.S. and they are quoting similar or cheaper premiums to us. But we will not compete just to keep the business," Mr. Wilson said.

"We are holding on to most of our renewals, although there is still problems with claims-made vs. losses occurring," said Brian Hibbert, chairman and chief executive officer of Bowring Non-Marine Insurance Brokers Ltd.

"On the property side, rates are as soft as they can be, but I sense it trying to harden on this side. London feels that prices are down to as low as they can be," Mr. Hibbert said.

"Lloyd's is sticking on terms, with many underwriters prepared to lose business and run their syndicates at half their capacity," said Callum Stewart, chairman of Heath North American Broking Ltd.

The year-end renewal season in the London market, which normally begins in early October and continues through January, is unique this year because of the huge losses facing London underwriters.

Both London's marine and non-marine insurance and reinsurance markets have been hit by major catastrophes including the \$1.3 billion Piper Alpha loss; the severe wind-

storm that swept across Europe in October 1987 costing nearly \$3 billion; and the estimated \$725 million in losses from Hurricane Gilbert, which devastated Jamaica and the resort areas of the Yucatan peninsula in Mexico.

In addition, old losses including Hurricane Alicia in 1983 are still being paid by London reinsurers and new long-latent liability claims, like asbestos property damage claims, are increasingly worrying underwriters.

This accumulation of losses is heightening fears about the instability of London underwriters' own reinsurance and retrocessional programs, placed with London market excess-of-loss reinsurers.

As the losses "spiral" through the LMX market, bouncing from one reinsurer to another, they grow from their original value to phenomenal proportions. For example, several brokers and underwriters agree that there are documented insured and LMX claims arising from the Piper Alpha loss that now total \$3 billion.

Underwriters are worrying that these losses will blow through the top of many London underwriters' retrocessional protection (BI, Oct. 31, 1988).

To counteract this "spiral," LMX underwriters are increasing prices, tightening terms and reducing capacity.

For example, some marine LMX underwriters won't write the top LMX layers at all, while non-marine LMX underwriters are writing top layers at increased rates.

Rates for high layers now are about 3% to 4% of the layer's limit, compared with about 1% or 2% last year, according to Lloyd's marine underwriter Terry Green.

And some non-marine LMX underwriters are considering whether coinsurance requirements should remain at 5% or increase

to 10%, underwriters say.

"The retrocessional and LMX market has seen a shrinkage in capacity," said Bob Slaughter, manager and chief underwriter of Royal Reinsurance Co. Ltd.

"For non-marine (retrocessional) business, there is considerably less capacity and the prices have increased quite substantially," agreed Michael Howard, a director of E.W. Payne Cos. Ltd., noting that "a lot of people have pulled out of higher-layer, non-marine LMX business and a lot of marine underwriters reduced the amount of non-marine business they write."

London brokers and underwriters are questioning how long it will be before the tightening in retrocessional coverage to the London market will force up direct insurance and reinsurance rates worldwide, just as a lack of retrocessional capacity helped trigger the hard market of the mid-1980s.

Several London market observers believe the market will see a worldwide hardening of all property/casualty insurance rates in the next 12 months.

"I think people will consider their position in the spring of this year," said Chris Burbidge, director of non-marine underwriting at Terra-Nova Insurance Co. Ltd. "The domestic insurers renewing their reinsurance programs this April or July may see a change."

"In the next nine months underwriters will realize that there is not enough premium in the kitty," added another London underwriter who did not wish to be named.

"For year-end 1989 into 1990 you will see the market fall apart," predicted Ian Waite, a deputy chairman of Lloyd's of London broker Alexander Howden Ltd.

Some in the London market, however, believe that the market will not harden for at least two years because U.S. insurers and reinsurers have not suffered the severe losses that have walloped London underwriters and too much capacity exists.

Continued on next page

London renewals

Continued from previous page
 "I don't think we will see increased reinsurance rates until the 1991 renewal season," said Tony Dodd, treaty underwriting manager for British & European Reinsurance Co. Ltd.
 "If there are no more catastrophes, rates will be the same or continue to fall next year, especially

short-tail business," predicted Leslie Lucas, chief underwriter for Norwich Winterthur Reinsurance Corp. Ltd.
 "We need some U.S. claims to change the market," added Tony Taylor, deputy chairman of English & American Group P.L.C.
 Meanwhile, direct insurance underwriters in London are holding steady and refusing to follow U.S. and European insurers in slashing

rates.
 For example, London's marine market—the market clobbered by the Piper Alpha loss—is already trying desperately to boost premiums for package policies for the big U.S. energy companies, which are being renewed during this year-end renewal season.
 The underwriters are refusing to write most large U.S. energy-related packages for prices lower than last year, and are instead settling for the same rates as last year or asking for as much as 20% increases.

Among those U.S. companies renewing their packages are three of the four companies that owned the Piper Alpha: Occidental Petroleum (Caledonia) Ltd.; Texaco Inc.; and Thomson North Sea Ltd.
 A spokesman for Willis Faber P.L.C., London broker for all three companies, said last week the renewals had been completed.

Generally, he said companies with North Sea oil risks are seeing 15% to 20% rate increases, while other oil companies are renewing at the same rate as a year ago. However, he would not comment on specific renewals.

Other sources said that Texaco, which owned 23.5% of the platform, received a 20% rate increase upon renewal, but Texaco would not comment (see story, page 1).

Some oil companies unwilling to pay higher rates and able to find sufficient capacity elsewhere have left the London market.

For example, Brazilian oil company Petrobras S.A., the owner of the Enchova oil platform that was destroyed earlier this year, producing a claim valued at more than \$330 million, has moved part of its program out of the London market, sources involved in the renewal confirm. London underwriters wanted at least a 12.5% increase in price for its facultative reinsurance coverage, but the U.S. market offered a cheaper price, the sources confirmed.

Petrobras, as required by Brazilian law, insures its risks domestically. The bulk of its coverages is reinsured with world markets.

Some underwriters add that energy-related rates are not rising as much as they should.

"It's absolutely agonizing when you know a price should go up and it doesn't," said an insurer at the Institute of London Underwriters who did not wish to be named. "We are getting about 20% increases on the big packages... and there are no reductions. Most companies are expecting to pay more" if they stay in London.

"What people thought would happen"—huge increases in rates and severe restrictions in coverage following the Piper Alpha explosion—"hasn't happened," said Mr. Waite of Howden.

London underwriters are being more flexible and settling for lower rate increases than expected in the aftermath of the Piper disaster, he explained. However, the energy insurance market is harder than it was a year ago, he said.

"Last year we said, 'Give us a major account and we will take 50% off the price.' Now we are less bullish. Underwriters generally are trying to increase rates," said Mr. Waite.

In other parts of the London market, underwriters continue to compete with U.S. and European underwriters for U.S. property/casualty business, but only as far as the London underwriters feel is justifiable in light of the tightening retrocessional market and increased worry about pollution and asbestos property damage claims.

London underwriters of U.S. property insurance, for example, are willing to cut rates by 10% to 15% from last year, but they are not willing to offer larger reductions or broaden their terms, brokers and underwriters agree.

As a result, London continues to

lose U.S. property accounts to U.S. insurers.

"There is very little new (property) business," said Terry Mann, managing director of Lloyd's broker Price Forbes Ltd., the North American brokerage unit in London of Sedgwick Group P.L.C.

"The London market doesn't have the interest to compete with the soft (U.S.) market. If the market gets its terms, the capacity is there. But the London market has no desire to follow down the competition of the U.S. market."

"The renewals that we placed in London have been profitable and easy to place, but the volume is down," added another broker, who specializes in placing small businesses' property coverage.

He says that the number of policies he places has been cut by 60% compared with two years ago "because of the competitive U.S. market. In the hard market, U.S. (primary insurers) don't write the business so it comes to London. In the soft market they gobble it up so we don't see it."

A leading Lloyd's property underwriter adds that "the lemmings are jumping off the cliff again" by cutting property insurance rates in the short term "without considering the problems in the long term—with the spiral problems and the pollution problems."

Property underwriters worldwide are underestimating the increased natural disasters that are being caused because air pollution is heating up the earth's atmosphere, the London underwriter said. The "greenhouse effect" will increase the frequency of hurricanes and the severity of floods, he said. "And the premiums being charged are not even covering the historic price of hurricanes," he added.

Leading Lloyd's underwriters are also trying to eliminate all coverage for pollution-related, first-party property damage from their 1989 property insurance policies by introducing a new "seepage and/or pollution and/or contamination exclusion" clause.

The clause, which is not mandatory and is not popular with London brokers, "is not designed to take coverage away because pollution wasn't supposed to be insured anyway," said a Lloyd's underwriter.

London's leading excess liability underwriters also are attempting to hold rates steady and maintain a claims-made market for U.S. risks despite the heavy competition from the U.S. insurers that use the occurrence form.

U.S. policyholders can place about \$50 million in limits on the Weavers claims-made excess liability insurance form that dominates that London market, up from around \$40 million last year. Policyholders also will find a \$10 million excess of \$5 million limit on an occurrence basis in London outside of Lloyd's, said a Lloyd's casualty broker.

Generally, however, liability underwriters "are holding to their pricing levels," he said.

While the huge catastrophe losses—like Piper Alpha—have not had as big an impact on London's liability insurance market as they have had on the property and reinsurance markets, liability underwriters are worried about increasing asbestos property damage claims on top of a flood of asbestos bodily injury claims.

"We expect to see competition every so often and I am not concerned," said Weaver's Mr. Wilson. "The (hard) cycle turned too soon and I wonder if our competitors have considered whether they are adequately reserved for all their losses. With all the (long-latent) claims we have seen emerging in the past few years, I wonder how our competitors can be so confident that they have resolved their problems."

ABA report

Continued from page 2
 tions, according to an ABA spokeswoman.

Supporters of repealing the McCarran-Ferguson Act have vowed to fight again in the next Congress.

About one-half of the 700,000 lawyers in the United States are members of the ABA, including both plaintiffs' attorneys and defense attorneys.

Referring to the liability insurance crisis of the mid-1980s that prompted the appointment of the panel, the commission said: "Many purchasers of commercial liability insurance experienced sudden and dramatic price increases, reduced policy limits, and new exclusions from coverage; moreover, for a time it was difficult if not impossible to obtain liability insurance for day-care centers, governmental subdivisions, long-haul truckers, some medical specialties, midwives and manufacturers of some products."

In its commentary on the insurance crisis, the commission report says: "It is unlikely that any single factor alone produced the most recent dislocations in private insurance markets or that any single solution can prevent a recurrence."

"The most plausible hypothesis suggests that the premiums paid for liability insurance and the availability of coverage are affected both by liability rules and by insurance industry practices."

Noting that "many different factors can contribute to development of hard and soft market spirals," the commission said important factors that contributed to the hard market of the mid-1980s were: the sudden drop in investment returns after a long period of unprecedented high interest rates; the dawning recognition of just how long-tailed liability exposures could be; new sources of environmental liability; and industry perceptions of changes in jury verdicts and judicial attitudes toward policy provisions.

Only two of the 12 members dissented from the finding that there is not enough existing data to attribute "the most recent hardening of liability insurance markets to flaws in the tort system" and therefore there is no current justification for wide scale tort reform.

"If the tort system is evaluated, it should be evaluated on the basis of a wide set of criteria of which the effects on the private insurance industry is but one," the majority of the commission recommended.

"Careful attention should be focused on whether dislocations in insurance markets are temporary responses to perceived uncertainties or more permanent market responses to liabilities that do not respond to the insurance principle."

The commission report does acknowledge, however, "That the availability and price of liability insurance is in some manner influenced by the extent of the liability generated by the tort system is undeniable."

"Over the long run insurance must produce income in excess of their costs in order to survive."

"But, because insurers price their product before costs materialize, current activity in the tort system has a more subtle impact on insurer decision-making. Past quantifiable loss experience sets a base on which to build predictive future judgments. But equally important is insurer perception of what is happening or likely to happen in the tort liability world. This perception will inform decisions concerning whether and at what price to write a risk as much as actual experience itself."

The commission added, "Although insurers may have been motivated to withdraw from cer-

Continued on next page

Insurance services guide

CASUALTY ACTUARIES, INC.

• Loss Reserve and Rate Evaluations for Insurance Companies and Self-Insureds.
 • Statutory letters of opinion on loss and loss expense reserves.
 12115 Lackland Road, Suite 370
 St. Louis, Missouri 63146-4012
 (314) 878-5002

The Risk Retention Reporter

Monitors growth of risk retention & purchasing groups formed under the 1986 Risk Retention Act. Covers legislative, judicial developments & more. Published monthly. Call or FAX for Brochure \$225/yr. in U.S. \$245/yr. outside U.S.
 (818) 796-4972 FAX: (818) 796-2363

Captives, Claims/Audits All Phases of Insurance Consulting.

Patricia Kathleen Rotchford, J.D.
 Counsel For Insurance Success
 4105 Terri Lyn Lane
 Northbrook, Illinois 60062
 312-498-2938 FAX 312-498-3323

ENVIRONMENTAL CLAIM AUDITS & RISK ASSESSMENTS ACTUARIAL CONSULTING

Financial Evaluation of Environmental Losses
 TILLER CONSULTING GROUP, INC.
 2833 N Geyer Road / St. Louis, MO 63131-3320 314/567-7480

Use the Insurance Services Guide to reach your best prospects.

THE KAUFMAN LAW LETTER

A respected and recognized source of concise information on significant court decisions, legal trends and recent legislative developments effecting Michigan and the nation. Published quarterly by law firm of Kaufman and Payton, this newsletter is now available to the public. Annual subscription is \$40.

To order, write:

Kaufman and Payton
 P.O. Box 37251
 Detroit, Michigan 48237
 (313) 626-5000



VALUE LEADERS IN RISK & BENEFIT MANAGEMENT SOFTWARE
 INSURANCE SOFTWARE PACKAGES, INC.

- WORKER'S COMPENSATION
- MEDICAL BILL REVIEW
- COMMERCIAL AUTO
- EMPLOYEE HEALTH BENEFITS
- MULTI-LINE LIABILITY
- COBRA

MICRO & NETWORK BASED SOFTWARE
 CALL FOR A FREE DEMO DISKETTE

5118 N. 56TH ST., TAMPA, FL 33610 (US) 800-237-8133, (FL) 813-621-6069

INSURANCE SOFTWARE PACKAGES, INC.
 INVITES YOU TO ATTEND OUR:

FLORIDA WINTER SEMINAR SERIES

Addressing the Special Needs of Self-Insureds & Third Party Administrators

- ▶ Cost Justification For Self Insurance And Claims Administration
- ▶ Staffing Needs
- ▶ Cost Containment Techniques
- ▶ Computer System Selection
- ▶ Regulatory Considerations
- ▶ Stop Loss Insurance
- ▶ Work Flow
- ▶ Management Controls

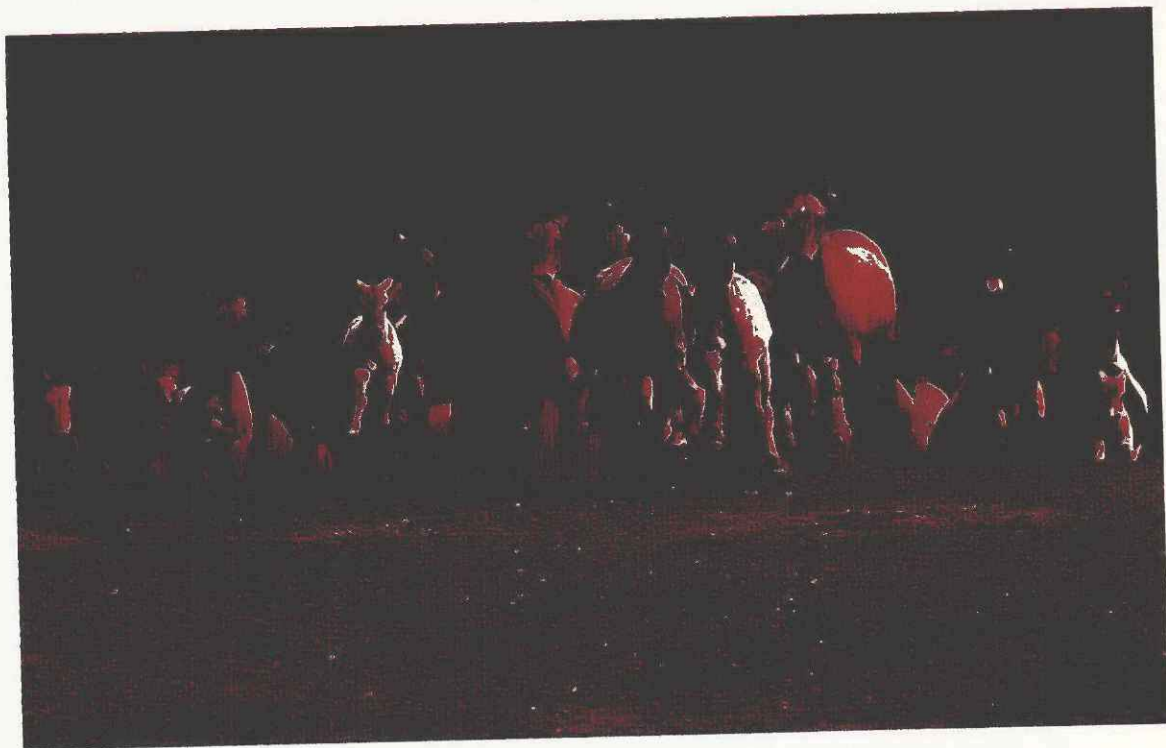
Special Family Travel Rates Available
 90 minutes from Disney World -- 30 minutes from Gulf Beaches
 10 minutes from Busch Gardens

For more information contact:

INSURANCE SOFTWARE PACKAGES, INC.

5118 N. 56th Street, Tampa, FL 33610 -- (800) 237-8133 US (813) 621-6069 FL

For advertising information in the INSURANCE SERVICES GUIDE
 Contact: Margaret Hkido, 740 Rush Street, Chicago, Illinois 60611.
 Telephone (312) 649-5340



St Paul Re stock

We reinsure it. As a matter of fact, among thousands of active treaties and facultative certificates are many of the extraordinary. The result of imagination — the kind that comes with 50 years experience around the world. Which is why we suggest you take stock of your reinsurance. Have your broker talk to us. Let us re-examine your reinsurance. Our state-of-the-art systems, our super-sophisticated underwriting, actuarial and claims expertise — and imagination — will lead to a program that can be both more efficient and less expensive. Take the risk out of your risk. **St Paul Re**