

# Business Insurance

Reporting Weekly For Corporate Risk, Employee Benefit and Financial Executives / \$4

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## CNA invests \$50 million in reinsurance unit's growth

LONDON—CNA Financial Corp. has injected \$50 million of capital into CNA International of London, and could develop it into one of the world's 10 largest reinsurers within five years, says Victor Blake, chairman and CEO of both CNA International and the CNA Reinsurance Group.

The infusion gives the 18-year-old CNA unit about \$215 million in capital. If combined with CNA's U.S. reinsurance operation, it would be about the 13th-largest reinsurer in the world with 1994 net premium

*Continued on next page*

## Byrne ups bid, but Zurich still leads race for Home

By GAVIN SOUTER

NEW YORK—Zurich Insurance Group's offer to take over Home Holdings Inc. is still the best offer on the table, despite a sweetened bid from John J. Byrne and his co-investors, according to Home's board.

Home Holdings last Friday rejected Mr. Byrne's improved offer—one day after it was submitted—saying it did not beat the offer made by Zurich last month.

The investor group led by Mr. Byrne's Fund American Enterprises Holding Inc. is considering its next move, a spokesman said.

The Byrne Group's new offer is less beneficial for majority shareholder Trygg-Hansa SPP Holding A.B. than the Zurich deal.

Under the Zurich deal, Trygg-Hansa is guaranteed at least \$7 million and, at a long shot, more than \$278 million for its investment in Home (*BI*, Jan. 2). Under the Byrne group's deal, Trygg-Hansa could receive \$72 million and would hold at least 6% of a recapitalized Home Holdings, the value of which is undeterminable now. But, Trygg-Hansa would have to forgive a \$170 million loan to Home (*BI*, Dec. 12).

However, minority shareholders and bondholders as well as prior and current policyholders of The Home Insurance Co. probably

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## Rethinking risk financing

### Sophisticated risk managers again taking long-term view

By SARA MARLEY

'Tis the season for policy renewals, but some risk managers are bah-humbugging that process in favor of multiyear coverage deals.

Long-term risk financing arrangements with insurers ultimately could change the way corporations fund risks.

Although long-term risk financing is not a new idea, the movement toward higher retentions and widespread use of captives by sophisticated risk managers has revitalized it.

Very large corporations that already assume much of their risk are most likely to take the three- or five-year plunge.

Today's programs are improvements over prior attempts because it is more difficult for either party to cancel and the buyer shares in the profits at the end of the term if losses are less than anticipated.

The prolonged soft market is preventing more companies from trying the approach. Those that are financing for the long term want to be well positioned with partners before the next market turn takes place.

The programs take many forms. Most frequently, risk managers are able to guarantee coverage for three or five years, with an annual review to adjust premium. Often the rate is locked in and premium increases

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## Redefining a tolerance for risk

By DAVE LENCKUS

MINNEAPOLIS—"Risk is risk. Money is money. Does the company's ability to retain risk change based on the type of exposure?" asks K.C. Kidder, vp and risk manager of bank holding company Norwest Corp.

To the financial and risk management executives at the Minneapolis-based company, it doesn't. A company's tolerance for retaining property/casualty risks should be an aggregate figure that cuts across all lines of risk—not a stream of retentions risk by risk, they say.

Last year, Norwest's largely self-insured risk-financing program was rebuilt on that

### Norwest discards notion that risks should be separated

concept, with the help of Marsh & McLennan Cos. Inc. in Minneapolis and New York-based American International Group Inc.

Borrowing from—but improving on—an old idea that reached its short-lived height of popularity a decade ago, Ms. Kidder and her broker and insurer devised a five-year risk-financing arrangement that eliminated Norwest's many risk-by-risk retention levels.

The company now has a single, large retention that it must meet—regardless of whether its losses fall equally across all lines of risks or all in one area—before the insured portion of its program responds.

AIG subsidiary National Union Fire Insurance Co. of Pittsburgh, Pa., reinsures Norwest's captive above a large retention without any retrocessional support of its own.

The multi-layered program, which was implemented in April 1994, goes beyond satisfying Norwest's appetite for risk. It also is designed to cut costs, improve cash flow, stabilize the company's relationship with its catastrophe insurer and give Nor-

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## Family leave guidelines should ease compliance

By JERRY GEISEL

WASHINGTON—One month shy of the two-year anniversary of the Family and Medical Leave Act, the Labor Department Friday published nearly 500 pages of regulations and guidance to help employers comply with the federal law. The act requires companies with at least 50 employees to provide workers annually with up to 12 weeks of unpaid job-protected leave to meet a variety of family situations as well as their own illness.

Since the FMLA was enacted, employers have been relying on interim guidance from the Labor Department. For months, they

have been waiting for detailed regulations to deal with both the nifty and substantive questions that have arisen since the law went into effect—generally Aug. 5, 1993.

"For many employers, it is day-to-day administrative issues that provide the biggest headaches," said Carol Sladek, a consultant with Hewitt Associates L.L.C. in Lincolnshire, Ill.

The regulations cover both trivial issues—the size of the notice employers must post informing

employees of their benefits under the FMLA—and more substantive issues, like whether employers may count days injured employees spend on workers compensation toward the maximum 12-week leave allowed under the FMLA.

Some questions have not been answered. For example, the Labor Department is referring questions about the relationship of the FMLA and flexible benefit plans to the Internal Revenue Service. The department says it lacks jurisdiction in that area.

But other questions and answers provided by the Labor Department include:

**Does the FMLA apply only to em-**

**ployees working in the 50 states and the District of Columbia?**

No. In addition to the 50 states and Washington, D.C., the law applies to employees working in any territory or possession of the United States.

**How is the 50-employee threshold calculated to determine if an employer is covered by the FMLA?**

Companies that employ at least 50 workers during each working day during 20 or more calendar weeks in the current or preceding calendar year are covered.

Part-time employees are included in this 50-employee floor. In addition, employees on employ-

er-approved leaves of absence also are to be included where there is a reasonable expectation of their return to work.

However, an employer can exclude individuals who are permanently disabled as well as those who are on layoff—regardless of whether the layoff is temporary, indefinite or long-term—in determining the size of their workforce.

**In order to be eligible for benefits under FMLA, an employee must have worked at least 12 months for the employer. Must that 12-month period be consecutive?**

No, the 12 months need not be consecutive in order to qualify the

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**Updates**

**CNA reinsurance capital**

*Continued from previous page*

would already rank as about the world's 13th-largest reinsurer, with combined 1994 net premiums written of \$1 billion. The two units have operated under the same management structure since April 1994 and are expected to be combined under the same corporate structure in about two years, he said.

Separately, CNA and San Francisco-based wholesaler Sherwood Insurance Services have begun a joint property insurance venture. Sherwood, the property program administrator, is underwriting and administering policies issued by CNA.

The venture is targeting large national property accounts of Fortune 1000 companies with limits of up to \$5 million per occurrence, and projects first year premiums of \$20 million to \$30 million.

Policies are being written on a primary and an excess basis. As part of the venture, Sherwood can write all-risks policies that either include or exclude earthquakes and floods as well as difference-in-conditions policies that include quake and flood coverages.

**Tort reform bill introduced**

WASHINGTON—A bill introduced on the second day of the 104th Congress would cap punitive damages, impose a modified "loser pays" rule and otherwise overhaul tort law.

H.R. 10, the "Common Sense Legal Reforms Act," was introduced by Rep. James Ramstad, R-Minn. Part of the House Republicans' "Contract with America," the bill would cap punitive damages in civil suits at \$250,000 or three times economic damages, whichever is higher.

The measure also would require the loser in a civil suit to pay at least a portion of the winner's legal fees and require that plaintiffs seeking punitive damages prove by "clear and convincing" evidence that the defendant had engaged in "malicious" conduct. The measure also would abolish joint liability and restrict expert testimony.

The bill will be considered by the House Judiciary Committee, possibly by the end of January.

**Derivatives bills proposed**

WASHINGTON—The top federal financial regulators told the Senate Finance Committee Jan. 5 that no new legislation is needed to regulate financial derivatives. The regulators, members of the President's Working Group on Financial Markets, told the Senate committee that many of the derivative losses making headlines—most recently the Orange County, Calif., investment fund debacle (*BI*, Dec. 12, 1994)—stemmed from poor investment strategies.

The group members said their agencies already have the authority to take whatever regulatory action may be needed.

At the same time, two members of the House Banking Committee—Chairman Jim Leach, R-Iowa, and Rep. Henry Gonzalez, D-Texas—re-introduced bills Jan. 4 aimed at increasing oversight of derivatives.

**Court overturns liability verdict**

CORPUS CHRISTI, Texas—A Texas state appeals court has reversed a 1992 jury verdict that Brown-Forman Corp. was partially liable for a college student's death from overconsumption of its Pepe Lopez tequila. The appeals court found that Brown-Forman was not legally responsible for warning consumers that drinking large amounts of alcohol in short periods could be fatal.

In 1992, a district court jury found Brown-Forman 35% liable for the death of Marie Brinkmeyer in 1983 and ordered the Louisville, Ky.-based distiller to pay her mother \$535,000. In overturning the jury verdict, however, the appeals court ruled that the responsibility to control drinking rests with the drinker.

The attorney representing Ms. Brinkmeyer's family indicated he would file for a rehearing at the appellate level and would appeal to the Texas Supreme Court if the rehearing request were denied.

**Briefly noted**

Atlanta-based Allegiant Physician Services Inc., parent of the National Pain Institute Inc., is suing dozens of workers compensation insurers, claiming that their delayed payments have forced the company to stop providing medical services in California. The suit, filed Jan. 6 in Los Angeles Superior Court, seeks more than \$123 million in compensatory damages and unspecified punitive damages. . . . **A proposed agreement between Trans World Airlines and the Pension Benefit Guaranty Corp.** would temporarily reduce TWA's annual pension costs to about \$20 million from roughly \$30 million, by allowing the airline to exchange 15-year notes with a face value of \$322 million for new notes totaling \$244 million and \$50 million in common stock. Payments on the notes are used to help fund TWA's pension plans, which now have about \$1 billion in unfunded liabilities. . . . **The Northridge earthquake** caused \$10.4 billion in insured damages, the Property Claims Service estimates in its latest revised figures.

**Errors & omissions**

• A Jan. 2 story misstated the New York Stock Exchange trading volume of Home Holdings Inc. for Dec. 29. The correct volume is 232,000 shares.

• A Jan. 2 story misquoted RIMS First Vp Bill Kelly. Rather than saying that RIMS was both a trade association and a professional society, Mr. Kelly actually said that RIMS was only a professional society, not a trade association.

• Deloitte & Touche Human Resource Consulting Group should have ranked as the 10th-largest U.S. benefit consulting firm in the Dec. 19, 1994, issue. The firm reported \$76.3 million in estimated 1994 U.S. benefit consulting revenues.

**Time will tell if a deal is in cards for Health Systems**

By CHRISTINE WOOLSEY

WOODLAND HILLS, Calif.—Even if Health Systems International turns down the rival stock buyout bids it is considering, experts say other managed care firms or insurers are sure to propose deals of their own with the California HMO.

Though Health Systems directors say the company is not for sale, a special committee of directors is poring over two bids made in December: a \$1.55 billion offer from Foundation Health Corp. and a \$1.69 billion offer from FHP

International Corp.

Even if there is no sale, analysts, health care consultants—and Health Systems officials—do not rule out the possibility of other business combinations, including a possible merger, with the "right" managed care company.

"The company may not be for sale but it's clear two bids to acquire it were made and the board has a fiduciary responsibility to examine all offers," said Todd B. Richter, a health care analyst at Dean Witter Reynolds Inc. in New York.

"It would be very difficult for

Health Systems to not do a deal at this point," he said. "Both FHP and Foundation have the wherewithal to purchase Health Systems. The issue at this point may come down to the price to be paid."

Foundation offered stock worth \$31.15 a share for Health Systems; rival FHP offered stock worth \$34 a share.

Health Systems stock closed at \$33.25 a share Friday in New York Stock Exchange trading.

Either deal would be one of the largest HMO mergers in recent *Continued on page 24*

**Broker deal 'a good fit'**

By SALLY ROBERTS

INDIANAPOLIS—Acordia Inc.'s \$50 million acquisition of substantially all of Boston-based Bain Hogg Robinson Inc. is viewed as a good fit by analysts, but not as a step toward an eventual merger between parent Bain Hogg Group and Indianapolis-based Acordia.

Analysts say the acquisition, which became formal last week, makes geographic sense because both brokers are located in mid-size cities and both focus on mid-

market accounts. And Bain Hogg Robinson's predominantly property/casualty business fits well with Acordia's predominantly health care business.

However, despite a previously announced global marketing arrangement between London-based Bain Hogg Group and Acordia, and the announcement that Bain Hogg's chief executive officer plans to make a major acquisition, analysts say they don't see a merger in the offing.

Since September, Bain Hogg Group and Acordia have been working on a global strategic alliance under which the firms would provide business to each other. The two are also establishing a joint venture company where the firms would jointly develop products and services and expand services for multinational clients (*BI*, Sept. 26, 1994). Details of arrangements are still unclear.

What is clear is that Acordia is *Continued on page 27*

**Jury award negated by premiums owed**

By SALLY ROBERTS

ALBUQUERQUE, N.M.—A convenience store chain that only months ago stood to collect a \$4.5 million punitive damages award from its workers compensation insurer will lose that award and, what's more, end up owing \$916.

The original punitive damages that a state court jury awarded to Allsup's Convenience Stores Inc. were "excessive and beyond all reason," Judge Susan Conway said Dec. 27 in cutting down the award against North River Insurance Co.

Judge Conway reduced the award to \$1.1 million and maintained the \$544,792 compensatory award.

Earlier, she had ruled that the

policyholder owed North River about \$1,645,708 in back audit and retrospective premiums.

So the bottom line for Allsup's is a negative \$916.

In 1990, the Clovis, N.M.-based convenience store chain refused to pay additional premiums to North River for its incurred-loss retrospective workers comp policy because it contended the total amount billed was excessive due to inadequate claims handling and supervision.

Allsup's brought suit against: Crum & Forster, now known as Talegen Holdings Inc., and its affiliates North River and United States Fire Insurance Co.; brokerage Alexander & Alexander Inc.; and A&A's claims administration subsidiary,

Alexsis Inc.

On July 22, 1994, the jury found the defendants liable for, among other things: breach of contract; bad faith; and "unfair, deceptive and unconscionable" trade practices (*BI*, Aug. 1, 1994).

Crum & Forster was ordered to pay \$5 million, \$4.5 million of it in punitive damages; A&A was ordered to pay \$9.1 million, \$6 million of it in punitive damages; and Alexsis was ordered to pay \$4.7 million, \$2 million of it in punitive damages.

Various post-trial motions brought by A&A and Alexsis are still pending.

A spokesman for the New York-based brokerage would not comment on the case. **BI**

**Deadline near for UR, case manager directories**

The Feb. 20 issue of *Business Insurance* will contain the annual directory of utilization review providers and a directory of case managers. The issue also will feature a Spotlight report on health care innovations.

The directories are published as an editorial service; there is no charge for companies to be included. However, companies must complete a

questionnaire provided by *BI*. If your company provides utilization review services or case management services directly to employers and you have not yet received a questionnaire, please request one from Ovie Dent at 312-649-5398.

The deadline for utilization review firms to return the completed questionnaires to *Business Insurance* is Jan. 23; case managers, Feb. 6.

**Inside**

• The Risk & Insurance Management Society Inc.'s decision to make its voice heard in Congress is good news for risk managers, this week's editorial says. **PAGE 8**

• Peace declarations by terrorists in Northern Ireland are prompting Pool Re to relax payment terms. **PAGE 19**

• The British government is reviewing regulations on employers liability coverage. **PAGE 19**

• 1994 was a year of ups and downs for insurance industry stocks. **PAGE 27**

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# Mentor program to aid new risk managers

By ROBERTO CENICEROS

LOS ANGELES—Leaders of the Risk & Insurance Management Society Inc.'s Los Angeles chapter hope their new mentor program will produce archetypes of risk management quality by matching seasoned pros with newcomers to the profession.

Mentors have yet to be paired with new risk managers, but lengthy mentor applications and guidelines have been printed. They will soon be mailed to risk managers participating in the

program.

New risk managers will be asked to complete a profile form that includes such information as their level of experience, their needs and expectations. They also can request a specific mentor if they know that person is participating.

The program is expected to begin in February.

Founders hope the program will be another way of elevating their profession and serve as an example for other chapters. Nine risk managers have been selected to

serve as mentors, including John Pinner, an assistant treasurer for Mattel Inc. and a risk manager of 25 years.

"We've got to be here for some purpose other than just to stage an annual golf tournament and conference," Mr. Pinner said. "What we're really trying to do is keep people suddenly thrust into risk management from failing right off the top."

Mr. Pinner said experienced risk managers can help their new counterparts from falling into the hands of brokers who could prey

on their inexperience, help them overcome the trauma of handling a complicated claim or coach them on conversing with an underwriter.

The mentor program is the brainchild of Kemba S. Olabisi, risk manager for the Los Angeles Office of Education. She is also past president of the RIMS Los Angeles Chapter. Ms. Olabisi introduced the idea during her tenure at a fall conference in Pasadena, Calif.

Ms. Olabisi said she wants to start small to ensure the pro-

gram's success. But she expects the program will grow once senior risk managers learn there is additional help for some of their junior staff.

Risk managers with ample experience in certain aspects of their profession have also inquired about finding a mentor for those areas in which they are less experienced.

"We just introduced this, and it's just being implemented," Ms. Olabisi said. "As word gets around, I think you're going to

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## ISO criteria help gauge catastrophe fund ideas

By MARK A. HOFMANN

Any catastrophe insurance program that involves state or federal government should be evaluated in light of at least eight questions, according to a new study by the Insurance Services Office Inc.

The report—"Catastrophes: Insurance Issues Surrounding the Northridge Earthquake and Other Natural Disasters"—focuses on the southern California quake that devastated areas of Los Angeles on Jan. 17, 1994. The earthquake caused what some experts believe could ultimately be more than \$10 billion in insured property damage. In addition, the federal government responded with \$8.6 billion in various forms of disaster relief.

But, "given the increasing size of recent catastrophes, even government is feeling the financial pinch of disaster aid," the report says.

As federal, state and local authorities have all been scaling back their relief efforts, "potential victims and their insurers are going to pay more of the costs of natural disasters," ISO says. "Still, many believe that some future catastrophes will be too large for insurers to handle on their own and that government should play a role in the relief effort."

The report does not endorse any specific earthquake program. But, it does list questions for both lawmakers and insurers to consider as a government role in catastrophe relief is crafted.

Questions include:

- Does the program promote fair and equitable participation in the sense that all insurers are better off if they participate in it? Does the program significantly reduce the threat of insolvency among participants?

- Is the pricing actuarially sound?

- How large a catastrophe can the program cover?

- Are the funding sources for covering losses well-defined?

- Are there backup funds if the program cannot pay relief costs, and if the program must tap these funds, how will they be repaid?

- Is the plan too generous?

- Does the program cover multiple hazards?

- Does the program trigger payments at a level that the private

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## Maine leads comp rate turnaround

### Voluntary market's successful reforms benefit employers

By MEG FLETCHER

Many employers will pay less for their workers compensation insurance in the voluntary market this year following reforms of the systems in many states.

"For many types of employers, their workers compensation premiums should be lower in 1995," said Pamela Heard, director of actuarial information for the National Council on Compensation Insurance.

A combination of factors contributes to lower rates.

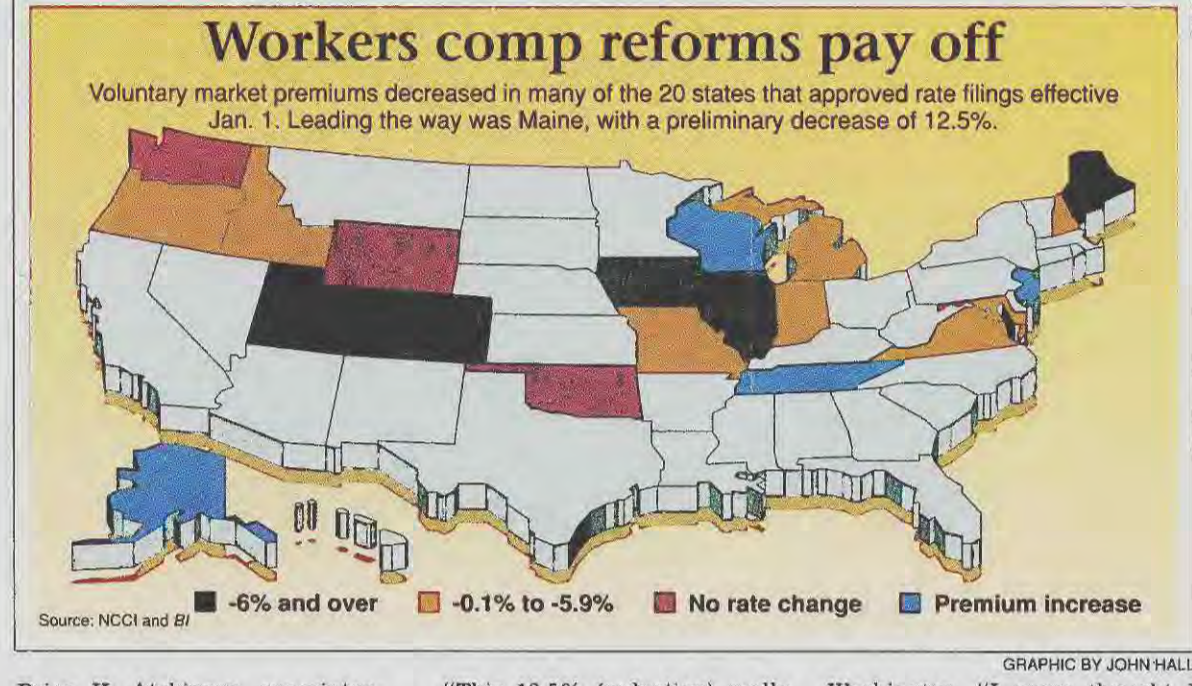
"The frequency of claims is down, wage-loss costs are flat and medical cost increases have slowed down," Ms. Heard said.

Reflecting that, 16 states on Jan. 1 either reduced average rates in the voluntary market or held rates constant (see chart).

Approved rate changes in 1994 produced a 1.9% decrease in average premium countrywide, the best result in 13 years, the NCCI reports.

Leading the list of those reducing rates is Maine with an average 12.5% drop in advisory loss costs, which the state's insurance regulators have tentatively approved. Loss cost information is the fundamental component of workers comp rates in all states.

"It is very significant," said



GRAPHIC BY JOHN HALL

Brian K. Atchinson, superintendent of Maine's Bureau of Insurance.

The NCCI filed for the 12.5% drop. The filing "reflects our annual review of the State of Maine's most recent experience, trend, benefits and loss adjustment expense," an NCCI spokesman said in a Nov. 17, 1994, letter to Mr. Atchinson.

"We were very pleasantly surprised by the -12.5%," Mr. Atchinson said, especially since the system was collapsing two years ago until a comprehensive reform law helped re-create it (BI, Oct. 26, 1992).

"This 12.5% (reduction) really does signal that Maine has turned its workers compensation system and climate around," added Mr. Atchinson, who is also vp of the National Assn. of Insurance Commissioners.

The 3.8% reduction he approved last year was a prelude and the first "legitimate" workers compensation rate reduction in the state in more than 30 years, he said.

The speed of Maine's rate-related turnaround is surprising many, including Eric J. Oxfeld, assistant general counsel of the American Insurance Assn. in

Washington. "I never thought I would live long enough to see an actuarial indication supporting a double-digit rate reduction in Maine," he said.

"What was notable about the NCCI's filing was all classes received a reduction," said Anthony M. Payne, vp of strategic planning and communication for Maine Employers' Mutual Insurance Co. of Portland, Maine. The 2-year-old mutual established by the reform law now insures about 70% of all employers and writes about 50% of the state's premium volume, he said.

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## States allege insurers' funds misused

By JOANNE WOJCIK

DENVER—Insurance regulators in Kansas and Montana are suing a Denver consultant for allegedly improperly investing more than \$4.7 million of assets of two insolvent insurance companies he assisted in liquidating.

Two separate lawsuits, filed last month in U.S. District Courts in Kansas and Colorado, assert that Hugh Alexander and his firm, Hugh Alexander & Associates Ltd. of Denver, engaged in a series of "improper, unauthorized and unsuitable transactions" while serving in the liquidations of National Colonial Insurance Co. and Glacier General Assurance Co.

The suit filed in Kansas seeks \$4 million; the Colorado action seeks \$750,000.

National Colonial, which was domiciled in Kansas and based in Ridgefield, N.J., wrote non-standard auto liability and physical damage insurance. It was placed in liquidation in 1993.

Glacier General Assurance Co. of Missoula, Mont., which wrote financial guaranty bonds, was placed in liquidation in 1985.

Both companies operated primarily in California.

After filing suit Dec. 6, Montana State Auditor Mark O'Keefe dis-

missed Mr. Alexander as deputy liquidator and appointed instead Helena, Mont., attorney Stan Kalczyk.

### Two separate lawsuits assert that Hugh Alexander and his firm engaged in improper transactions while serving as liquidator of two insurance companies.

missed Mr. Alexander as deputy liquidator and appointed instead Helena, Mont., attorney Stan Kalczyk.

Mr. Alexander calls the lawsuits "ridiculous" and says Glacier actually posted a 24% net gain during the time his company handled its investments.

allegedly under investigation by the Securities and Exchange Commission at the time of the investment.

Aimco Guaranty Corp. was a Denver-based company founded by Mr. Pittock to invest in mortgage-backed securities, court papers say. It is not related to Apart-

ment Investment & Management Co., a publicly traded real estate investment trust based in Denver, that is known as AIMCO.

Prior to investing in Aimco in January 1994, Mr. Alexander and his company had received from Mr. Pittock an October 1993 private placement memorandum; a June 1993 balance sheet showing Aimco had \$2,000 in assets; a pamphlet describing Aimco Demand Certificates; and what is described as a subscription agreement for the certificates.

On Jan. 27 and 28, 1994, Mr. Alexander authorized two transfers of \$2 million each of National Colonial's funds to Aimco Guaranty to buy demand certificates, a form of debt.

The private placement memorandum said that Aimco would leverage its investments 10 times and would maintain a 10% capital reserve.

Instead, "AGC's investments in (mortgage-based securities) were

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## For the Record

### New reporting rules for pension plans

NORWALK, Conn.—Three new Governmental Accounting Standards Board standards will govern pension accounting and reporting for state and local pension plans.

Standard 25 requires defined benefit pension funds to publish financial statements, which would include plan assets, employer contributions, liabilities, net assets as well as annual changes in net assets.

Defined contribution plans would need to include a plan description, a summary of accounting policies and contribution and investment information.

Standard 26 requires defined benefit pension plans that offer retiree health benefits to disclose the plan's net assets and annual changes in the net assets.

Standard 27 requires single- and multiemployer defined benefit plan sponsors to measure and disclose annual pension costs on an accrual basis.

Standards 25 and 26 will take effect for plan years beginning after June 15. Standard 27 will take effect for periods beginning after June 15, 1997.

### Benefit plans require cash contributions

WASHINGTON—Employers cannot contribute property in lieu

of cash to their defined contribution pension or welfare plans, the Labor Department announced last week.

Such contributions are considered prohibited transactions under the Employee Retirement Income Security Act and would require specific departmental approval.

The Labor Department announcement—which came in the form of an interpretative bulletin—follows a 1993 U.S. Supreme Court decision that barred employers from transferring property to their defined benefit pension plans (*BI*, May 31, 1993).

The Supreme Court decision and the Labor Department ruling extending the prohibition to defined contribution plans and welfare plans has only limited impact since few employers contribute property to their employee benefit programs.

### Massachusetts delays play-or-play

BOSTON—Massachusetts Gov. William Weld last month signed legislation delaying by one year to Jan. 1, 1996, the state's play-or-pay health care law.

The Massachusetts law—passed in 1988, but previously delayed until Jan. 1, 1995—requires employers to pay a tax of up to \$1,680 per worker.

However, employers are allowed to offset the tax with each dollar spent per worker on health care benefits.

The legislation, H. 5525, to delay the health care mandate also establishes a state commission charged with analyzing ways to improve access to health care coverage.

The commission report is due in September.

### Job-related injuries drop 4% in 1993: Study

WASHINGTON—The rate of job-related injuries and illnesses dropped by about 4% in 1993, the Bureau of Labor Statistics said in a report released late last month.

A year earlier, the bureau found the highest rate—8.9 cases of work-related illness or injury per 100 workers—since it began compiling data in 1973.

The 1993 rate of 8.5 cases per 100 workers, however, reflected wide variations of illness and injury among industries. At the high end were durable goods manufacturers, with a rate of 13.1%, and at the low end were finance, insurance and real estate companies, with an illness or injury rate of 2.9%.

Safety improvements were especially pronounced in the construction and manufacturing fields, said Joseph A. Dear, administrator of the Occupational Safety & Health Administration.

Separately, Mr. Dear outlined four specific areas in which he believes business and government can develop a "truly constructive partnership."

In a letter to the National Assn. of Manufacturers, he said that OSHA and NAM could cooperate in a study of practices that promote motor vehicle safety, improving access to information needed to develop OSHA standards, drafting "easy-to-understand" standards and improving the rulemaking process.

Mr. Dear's letter responded to an earlier letter from NAM that analyzed OSHA's approach to regulation. NAM criticized OSHA for what it considered to be overreliance on rulemaking and insufficient examination of alternatives that deal with safety issues.

### California suspends license of agent

SAN FRANCISCO—An agent who allegedly helped drive an offshore insurer he controlled into insolvency will have his license suspended, rather than revoked, under a California Insurance Department order.

State regulators had summarily revoked the licenses of Richard W. Peterson and his San Francisco agency, AAMB Insurance Agency Inc., charging that they failed to file a report on unpaid claims of Mr. Peterson's now-defunct Cayman Islands insurer, American Emerald Insurance Co. Ltd. (*BI*, Dec. 12, 1994).

The department vacated the revocation order after Mr. Peterson filed the report, though, and instead has suspended his agent licenses for 15 days, said Patricia Staggs, a department lawyer.

Regulators are still reviewing other information regarding Mr. Peterson's agency, she added, including allegations by American Emerald's Cayman liquidator that Mr. Peterson may have misappropriated premiums and used American Emerald to cover personal expenses.

### IRS announces maximum benefits

The maximum annual pension benefit that an employer can fund through a defined benefit plan this year will rise to \$120,000, up from \$118,800 in 1994.

In addition, the maximum salary deferral to a 401(k) plan this year will be \$9,240, unchanged from 1994, while the maximum contribution to a defined contribution plan will remain at \$30,000 per employee, the Internal Revenue Service said last month. **BI**

WE DON'T PERFORM SURGERY.  
BUT WE DO HELP  
HOSPITALS OPERATE.



We don't manage hospitals or practice medicine.

We don't provide the advanced medical technology that begins the road to recovery.

But without us, running a hospital or performing surgery would be a little tougher.

Willis Corroon manages risk for health care businesses, from hospitals and nursing homes to biotech and medical device manufacturers. We help our health care partners negotiate and implement the best possible insurance and risk management programs —

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# 74% of dependent plans cover elder care

Most employers see a need to offer elder care or other dependent-adult assistance programs as part of dependent care plans, according to a recent survey.

The survey by the International Foundation of Employee Benefit Plans in Brookfield, Wis., of 146 companies that have dependent care assistance programs found that nearly three-quarters of the companies included elder care in the programs.

Among the 219 companies in the IFEBP's corporate research panel survey, 68% said that they provided their employees with some type of a dependent care assistance program; 32% did not.

On average, 7.9% of the companies' employees participate in the programs.

## Benefit Beat

Flexible spending accounts appear to be the method of choice for providing dependent care benefits, with 97% of the respondents' benefit programs offering FSAs.

The average annual salary reduction contribution to a dependent care FSA is \$2,977, according to the survey.

Other types of assistance offered by respondents include: negotiated employee discounts with dependent care providers, 9%; vouchers to purchase dependent care services, 5%; near- or onsite dependent care centers, 5%; direct payments to dependent care pro-

viders, 1%.

Fifty-four percent of the companies said they administered their dependent care programs internally.

"Because employers do not pay Social Security and unemployment taxes on salary reduction contributions, these tax savings may offset the plan's administrative costs," said Lisa Richardson, an IFEBP research associate.

Over one-third—34%—of respondents said the tax savings frequently or always outweigh the cost of administering their dependent care FSA.

Despite the advantages, some

employees choose not to participate in dependent care FSAs for a variety of reasons.

The most common reason, cited by 62% of the respondents, is that contributions remaining in the account at year end are forfeited.

Other reasons that the surveyed companies cited for why employees do not participate in dependent care flexible spending accounts include: Employees are unable or unwilling to commit to contributions to their account in advance, 59%; employees are unable or unwilling to give the care provider's name, address and tax identification number, 54%; and the federal dependent care tax credit is more desirable, 39%.

Other findings of the IFEBP survey include:

- Ninety-four percent of the organizations with dependent care programs did not contribute some specified amount to dependent care FSAs (excluding matching contributions).

- Sixty-seven percent provide employees information comparing tax consequences of participating in a dependent care FSA with using the federal dependent care credit.

- Half of the respondents said their dependent care FSA had a minimum claim amount before a claim would be processed during the year, with the average minimum claim being \$37.

- Three-quarters incorporated their dependent care FSA into a broader flexible benefits plan.

- Over one-quarter—27%—conducted a needs assessment study before implementing their program.

—By Stacy Ashley

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## Domestic partners

WASHINGTON—Seven large Washington, D.C., law firms that formed a health care purchasing coalition in 1993 are now extending various health benefits to the domestic partners of lawyers and staff.

About a year in the works, benefit plans for domestic partners—whether the same or opposite sex as the employee—were implemented Jan. 1.

The firms' plans each include health, dental and vision care, mirroring the benefits that each firm offers to legal dependents of employees.

The firms saved 17% to 35% off their health costs in the coalition's first year, and at renewal, premium increases for all of the firms were in the single digits, said Bill Stanton, a consultant with W.F. Corroon in Baltimore, who worked with the firms in forming the coalition.

Seven law firms currently belong to the group: Steptoe & Johnson; Arent Fox Kintner Plotkin & Kahn; Dow, Lohnes & Albertson; Finnegan, Henderson, Farabow, Garrett & Dunner; Howrey & Simon; Shaw, Pittman, Potts & Trowbridge; and Wiley, Rein & Fielding.

Each is based in Washington and has at least 150 lawyers, which is a requirement for joining the coalition, said Phyllis Gardner, chairwoman of the consortium and an executive director with Steptoe & Johnson.

"We believe we are the first group of law firms to put something like this (coalition) together," said Ms. Gardner. "Something like it in New York, and possibly in Los Angeles, is in the works."

The insured health care programs for the seven firms are written by Massachusetts Mutual Insurance Co. in Springfield, Mass.

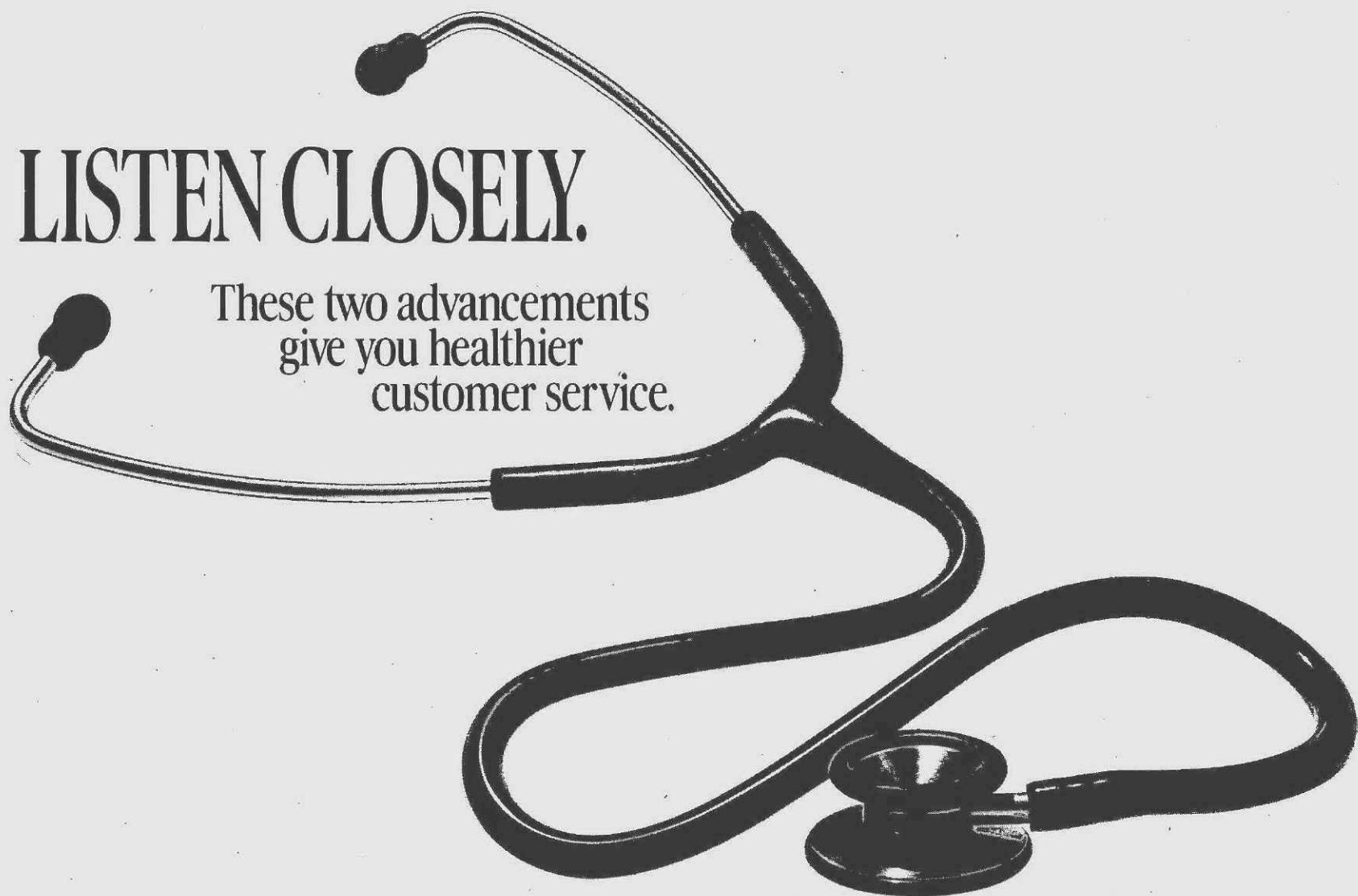
To have a domestic partner insured under the plan, firm employees must fill out an affidavit which says they have been involved in serious relationships with their partners for at least six months.

"The affidavit is really like an enrollment form. It does show that there's a commitment, but we're somewhat flexible. It's really up to the employers to set their own rules on who can participate," said James Viola, a lawyer with Mass Mutual in Springfield, Mass.

—By Michael Schachner

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## Opinions

## Into the arena, at last

The Risk & Insurance Management Society Inc.'s renewed push to make its voice heard on Capitol Hill and in the statehouses is the right move at the best of times.

The new Congress appears more receptive to many risk managers' concerns, including product liability reform, other federal tort reforms and changes to the Superfund liability scheme, than any other in recent memory.

In addition, the Nov. 8 elections swept pro-business governors and lawmakers into power from coast to coast. Risk management concerns on issues ranging from tort reform to workers compensation are sure to find a more sympathetic reception in many states than they would have only a few months earlier.

The opportunities for legislative progress on risk management issues are among the best in decades. RIMS has responded by hiring a state legislative counsel and stepping up its activities in Washington.

But, as it goes about preparing for its new role, the group needs to bear in mind a recent admonition from its president. RIMS "needs to be leading and not hanging onto the tail" when it comes to legislative matters that have an impact on how risk managers do their jobs, said Lucille A. "Lucky" Gallagher, RIMS president and vp-risk management for Con-Agra Red Meat Cos./Monfort Inc. in Greeley, Colo. And Ms. Gallagher's lament that she is "sick and tired of RIMS sitting on the sidelines" is a point well taken.

For example, although RIMS emerged as a player in the 103rd Congress' Superfund debate, it did so relatively late in the game. On other issues, such as federal product liability reform, RIMS played only a minor role.

There are many reasons for RIMS' low visibility. It views itself as a professional society rather than a trade association and, as such, represents a wide range of sometimes divergent interests. The diverse membership also means that RIMS cannot take a unified position on every aspect of every piece of legislation that affects risk managers.

In addition, positions on critical issues are crafted by committees and sent to individual chapters for review, a sometimes time-consuming process. The level of political sophistication among chapters varies.



"LET ME INTRODUCE MYSELF..."

And the corporations and governments that make up RIMS' membership often belong to other groups, such as the National Assn. of Manufacturers, that pursue their own legislative agendas.

Although these factors present obstacles to RIMS acting as an effective legislative force, the group's leadership has wisely chosen to attempt to overcome them.

Fortunately, there is a road map for doing so—RIMS' legislative efforts of the 1980s.

It was RIMS, after all, that worked closely with Vermont officials to develop that state's highly regarded captive insurance law in 1981, a law that has made Vermont the leading domestic captive domicile. And it was RIMS that played a crucial role in persuading Congress to pass the 1986 amendments to the Risk Retention Act, amendments that considerably broadened risk financing choices.

Those two issues brought out the best in RIMS' efforts and stand as a tradition that should help bolster the group's new efforts. RIMS has picked a good time to get off the sidelines and assume its role as a real player in the legislative arena. If it can build upon the tradition it began to build for itself in the 1980s, RIMS should prove to be a very effective player as well.

## Letters

## No self-control, no regulation, lots of problems

To the editor: The article Myron Picoult wrote in the Sept. 12, 1994, issue on insurer underpricing is right on the mark. Why would any investor put any money at all into an industry that has so little self-control?

Companies that are mismanaged almost beyond belief continue to do business from the same old stand with almost no downside. Transamerica flogged its P/C company for two years before it gave the unit to the stockholders. Xerox can't give away remnants of Crum & Forster, and Continental and The Home are clearly in big trouble. There are more insurers with very similar problems that have not fessed up.

*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. 60611-2590.*

In my opinion, two factors contribute to this. A.M. Best Co. will not downgrade a major insurer below 'A'—unless it is put in liquidation, the Confederation Life debacle being a case in point.

In the case of Continental, Best put it under further review but kept the A- rating, which means "excellent." A reduction to B or B+ would clearly be the death knell for a company like Continental, but if the rating is deserved it should be awarded. Not doing so just prolongs the untenable rate situation Mr. Picoult so accurately described in his article. A company that fires the top staff for the second or third time, passes its dividend and is out seeking capital is not "excellent" in any way I understand.

The other factor is that the excess capital going into the industry just lets managers continue to mismanage. From firsthand knowledge, I can say that in the middle-market commercial lines area—those generating premiums of \$25,000 to \$250,000—prices today for most classes are 20% to 25% of what they were 10 years ago, adjusted for inflation. The exceptions are the very difficult, loss-intensive risks:

workers compensation, windstorm in Florida and Texas, and California earthquake.

Unfortunately, as an insurance broker, there is very little I can do other than try to be as competitive as possible.

The real failure is one of regulation. State insurance departments are political and see themselves as consumer advocates and revenue sources, not regulators responsible for maintaining the financial integrity of licensed insurers. No one can say what will happen when one or two major insurers actually fail and the state guaranty funds are inadequate.

In my opinion, no major insurer is doing significantly better than the ones discussed here; they all play in the same schoolyard and are all pricing their products in a similar way.

I believe that policyholders, brokers and agents, the various states and the insurers themselves will have to pay the piper. Let's hope there won't be a total collapse that brings on a more onerous and possibly less efficient form of federal regulation.

Charles J. Weisblum  
MLW Services Inc.  
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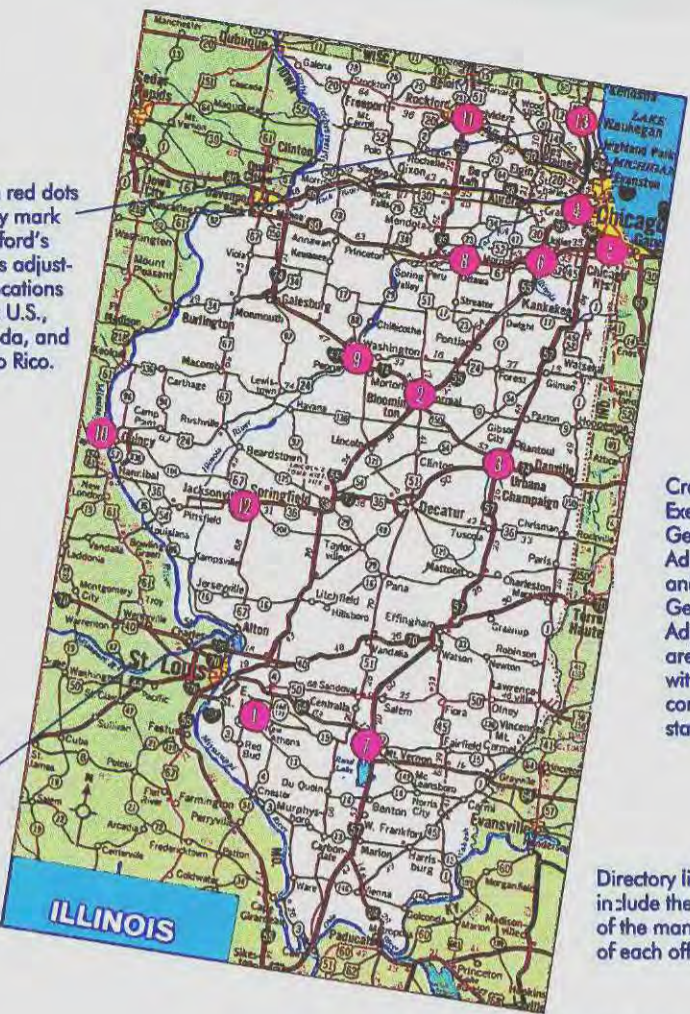
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■ A pamphlet from Reliance National describes **excess medical stop-loss coverage**. Request item 508.

■ Tips for a **healthy lifestyle** are featured in a magazine and newsletter offered by Health Ink Publishing Group. Request item 509.

■ A Kwasha Lipton summary of **IRS Notice 94-96** comments on reasonable good faith compliance, withholding and determination of taxable benefits. Request item 510.

■ The Alexander Consulting Group Inc. supplies a research brief exploring **long-term care insurance**. Request item 511.

■ A quarterly newsletter from Medco Review Inc. presents issues regarding **health care claims** and includes conference schedules. Request item 512.

*Continued on next page*



As we begin a new year, it seems an appropriate time to pause and say thanks to the organizations who have placed their confidence in CODA for managed care administration services.

- AM International, Inc
- AVNET, Inc.
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- Clark Refining & Marketing Corporation
- ESCO Corporation
- The Federal Reserve Bank of St. Louis
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Continued from previous page

■ The professional services management program of Pharmaceutical Care Network is explained in a manual. Request item 513.

■ A bulletin from Hay/Huggins Co. Inc. analyzes breaking developments in benefits management. Request item 514.

■ BNA Books offers a fact sheet designed to help employees understand health care and dependent care accounts. Request item 515.

■ Employer managed care liability is defined in a research brief from The Alexander Consulting Group Inc. Request item 516.

■ Several fliers supplied by Pharmaceutical Care Network explain pharmacy benefit management. Request item 517.

■ A Kwasha Lipton bulletin advises on the postponement of the requirements to report data to the Medicare/Medicaid Data Bank. Request item 518.

■ A summary from VISTA Administrators Inc. gives an overview and reasons for implementing a Section 125 plan. Request item 519.

■ A reference guide for quick answers to questions on benefit areas such as reporting and disclosure rules is available from Hay/Huggins Co. Inc. Request item 520.

■ BCS Insurance Co. provides a brochure on how employer participation can reduce large transplant claims. Request item 521.

■ A Duncanson & Holt Group manual overviews long-term disability, underwriting and claims administration. Request item 522.

■ A booklet on how the Omnibus Budget Reconciliation Act of 1993 changed Medicare secondary payer laws is offered by Alsup Inc. Request item 523.

■ Self-insured health care benefits management is the focus of a newsletter from Millennium Healthcare. Request item 524.

■ Associates for Health Care Inc. provides a newsletter on utilization management trends and health reform issues. Request item 525.

■ Kwasha Lipton's fall 1994 employer newsletter features articles on cash balance plans, early retirement incentives and personalized benefits. Request item 526.

■ A summary exploring 1995 market forces, state initiatives and legislation in health care reform is available from The Alexander Consulting Group Inc. Request item 527.

■ Hay/Huggins Co. Inc. provides a report covering legislation, trends, benefit events and announcements. Request item 528.

■ A booklet outlining the new rules for minimum funding and PBGC premiums is supplied by William M. Mercer Inc. Request item 529.

■ A brochure offered by California Dental Associates helps consumers make decisions about dental coverage. Request item 530.

■ Newsletters from Clausen Miller Gorman Caffrey & Witous P.C. focus on employment law and related employment issues. Request item 531.

■ Information on an electronic benefits and payroll reference system is

available on floppy disk from Information Learning Systems. Request item 532.

■ The Alexander Consulting Group Inc. offers a booklet on successful retirement planning. Request item 533.

■ A Kwasha Lipton bulletin provides guidance for employers seeking secondary payer status for Medicare-eligible disabled individuals. Request item 534.

■ A comprehensive booklet on PPO health care options is provided by the Mutual Group Employee Benefits. Request item 536.

■ Buck Consultants Inc. has published information describing the expanded IRS Voluntary Compliance Resolution (VCR) program. Request item 537.

Continued on next page

# Business Insurance

## Information Resource

NOTE: THIS COUPON WILL NOT BE SERVICED AFTER APRIL 14, 1995

All questions must be answered in order to have your inquiry processed.

Please check one item for each category:

1. My organization is best described as:
- |   |   |   |
|---|---|---|
| A <input type="checkbox"/> Mfg/Svcs         | F <input type="checkbox"/> Ins Agent    | K <input type="checkbox"/> Adj/Apprs        |
| B <input type="checkbox"/> Association      | G <input type="checkbox"/> Ins Broker   | L <input type="checkbox"/> TPA              |
| C <input type="checkbox"/> Union            | H <input type="checkbox"/> Ins/Reins Co | M <input type="checkbox"/> Health Care Inst |
| D <input type="checkbox"/> Government       | I <input type="checkbox"/> Actry/Consit | N <input type="checkbox"/> Other            |
| E <input type="checkbox"/> Educational Inst | J <input type="checkbox"/> Attorney     |   |

2. Number of employees:
- |   |  |                                    |
|---|--|------------------------------------|
| 1 <input type="checkbox"/> 150 or fewer | 2 <input type="checkbox"/> 151-499       | 3 <input type="checkbox"/> 500-999 |
| 4 <input type="checkbox"/> 1,000-4,999  | 5 <input type="checkbox"/> 5,000 or more | 6 <input type="checkbox"/> Unknown |

3. My title is best defined as:
- |   |  |
|---|--|
| A <input type="checkbox"/> Administrative Mgt | D <input type="checkbox"/> Benefits Mgt        |
| B <input type="checkbox"/> Financial Mgt      | E <input type="checkbox"/> Loss Prevention Mgt |
| C <input type="checkbox"/> Risk Mgt           | F <input type="checkbox"/> Other               |

4. My purchasing involvement for the requested products is to:
- 1  recommend only 2  specify 3  approve

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*Continued from previous page*

■ A guide to current **health care legislation** at the state level is presented by Coopers & Lybrand L.L.P. Request item 538.

■ The Alexander Consulting Group Inc. offers a **managed disability research brief** examining current views on disability plans. Request item 539.

■ An article examining how **benefits provisions of OBRA '93** will impact health and pension plans is available from Godwins Booke & Dickenson. Request item 540.

■ 1994 survey results on **employee retirement planning and investment education** is provided by The Alexander Consulting Group Inc. Request item 541.

■ **Separate lines of business regulations** and their practical significance

are covered in a Kwasha Lipton bulletin. Request item 542.

■ A booklet outlining **group dental coverage** for employers with fewer than 35 employees is presented by the Mutual Group Employee Benefits. Request item 543.

■ An Aetna/Generali manual provides a broad overview of the **common benefits in more than 40 countries**. Request item 544.

■ A booklet outlining **cost management services** is offered by American Health Holding Inc. Request item 545.

■ Northwestern National Life supplies an analysis of the **healthiness of each state's population** based on factors such as lifestyle and occupational safety. Request item 546.

■ Five case studies from Godwins Booke & Dickenson explore strategies for **benefit administration** in the '90s. Request item 547.

■ Buck Consultants Inc. presents a brochure on how strategic benefit planning allows organizations to review the **link between plan structure and corporate objectives**. Request item 548.

■ The summer 1994 Kwasha Lipton employer newsletter covers **unit and share accounting** for company stock, a child care survey and more. Request item 549.

■ An International Foundation of Employee Benefit Plans survey covers **multiemployer fund involvement with health care coalitions**. Request item 550.

■ How case management can save employers money on **catastrophic care** is detailed in this Anthem Health brochure. Request item 551.

■ Securing **non-qualified executive retirement benefits** is discussed in this Buck Consultants Inc. report. Request item 552.

■ **Group term life and voluntary term life** packages available from TMG Life Insurance Co. are described in this pamphlet. Request item 553.

■ A quarterly newsletter from Coopers & Lybrand L.L.P. analyzes **health care reform from a business perspective**. Request item 554.

■ Fact sheets on ADMAR Corp.'s **maternity management program** describe prenatal development and pregnancy tests. Request item 555.

■ Kwasha Lipton summarizes how to **reduce retiree medical costs** through employee pay-all VEBAs and dual purpose profit-sharing plans. Request item 556.

■ A bulletin from Godwins Booke & Dickenson announces HCFA's delay of the **Medicare and Medicaid reporting requirements**. Request item 557.

■ A **COBRA Audit Checklist** from Applied Benefits Research Inc. is available for employers that are evaluating COBRA compliance systems. Request item 558.

■ A **social security and Medicare** fact sheet is provided by BNA Books. Request item 559.

■ Duncanson & Holt Group offers a manual on **individual and group long-term care insurance**. Request item 560.

■ ADMAR Corp.'s **partnership be-**  
*Continued on next page*



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Continued from previous page  
between medical providers, patients and payers is described in this fact sheet. Request item 561.

■ A brochure from Reliance National outlines its **high limit disability program**. Request item 562.

■ A summary sheet of innovative approaches to applying **non-discrimination rules** is supplied by Kwasha Lipton. Request item 563.

■ Occupational Health Service supplies an article explaining a **quality improvement system** that integrates psychotherapy research into its EAP and managed behavioral health program. Request item 564.

■ A yearly summary of current **social security rules and regulations** is published by Hay/Huggins Co. Inc. Request item 565.

■ A catalog from the International Foundation of Employee Benefit Plans provides a **listing of employee benefit books**, research reports and reference materials. Request item 566.

■ The benefit and financial shortfalls of **group long-term disability** are examined in a fact sheet presented by the Disability Services Group. Request item 567.

■ Articles on **PBGC variable premiums**, QDRO administration and retirement policies are found in a newsletter from Kwasha Lipton. Request item 568.

■ Godwins Booke & Dickenson offers a newsletter describing how **life cycle benefits** can boost employees' productivity. Request item 569.

■ A flier presented by Buck Consultants Inc. offers an overview of one major employer's redesigned **retirement benefit delivery system**. Request item 570.

■ **Preparing a health benefits program** in anticipation of a managed care system is the focus of an article from ENCOMPASS Health Management Systems. Request item 571.

■ Disability Services Group provides a manuscript identifying the most important **long-term disability contractual features**. Request item 572.

■ A leaflet supplied by Kwasha Lipton summarizes a method of providing **tax-free retiree health benefits** through a profit-sharing plan. Request item 573.

■ The requirements for **Qualified Domestic Relations Orders (QDROs)** and the **Qualified Medical Child Support Orders (QMCSOs)** are reviewed in a report from the International Foundation of Employee Benefit Plans. Request item 574.

■ StayWell Health Management Systems Inc. offers a **health assessment questionnaire** designed to provide instant feedback. Request item 575.

■ A newsletter from Coopers & Lybrand L.L.P. discusses **business issues impacted by health reform**. Request item 576.

■ An in-depth look at **managed care, employer liability** and methods of decreasing potential liability is supplied by Kwasha Lipton. Request item 577.

■ A **flexible benefits plan** is detailed in a booklet from The Mutual Group Life Insurance Co. Request item 578.

■ Kwasha Lipton provides a bulletin with a compliance process for the **Clean Air Act** using work/family initiatives. Request item 579.

■ Topics covered in a newsletter from HealthNetwork Inc. include **managed care trends**, cost management issues and provider developments. Request item 581.

■ Buck Consultants Inc. offers a case study describing the design and implementation of a **direct contracted hospital network**. Request item 582.

■ A booklet presented by The Mutual Group Life Insurance Co. explains a **multiple employer trust** designed for employers with two to 100 employees. Request item 583.

■ A manual containing guidelines on **ERISA Reporting and disclosure**  
*Continued on next page*

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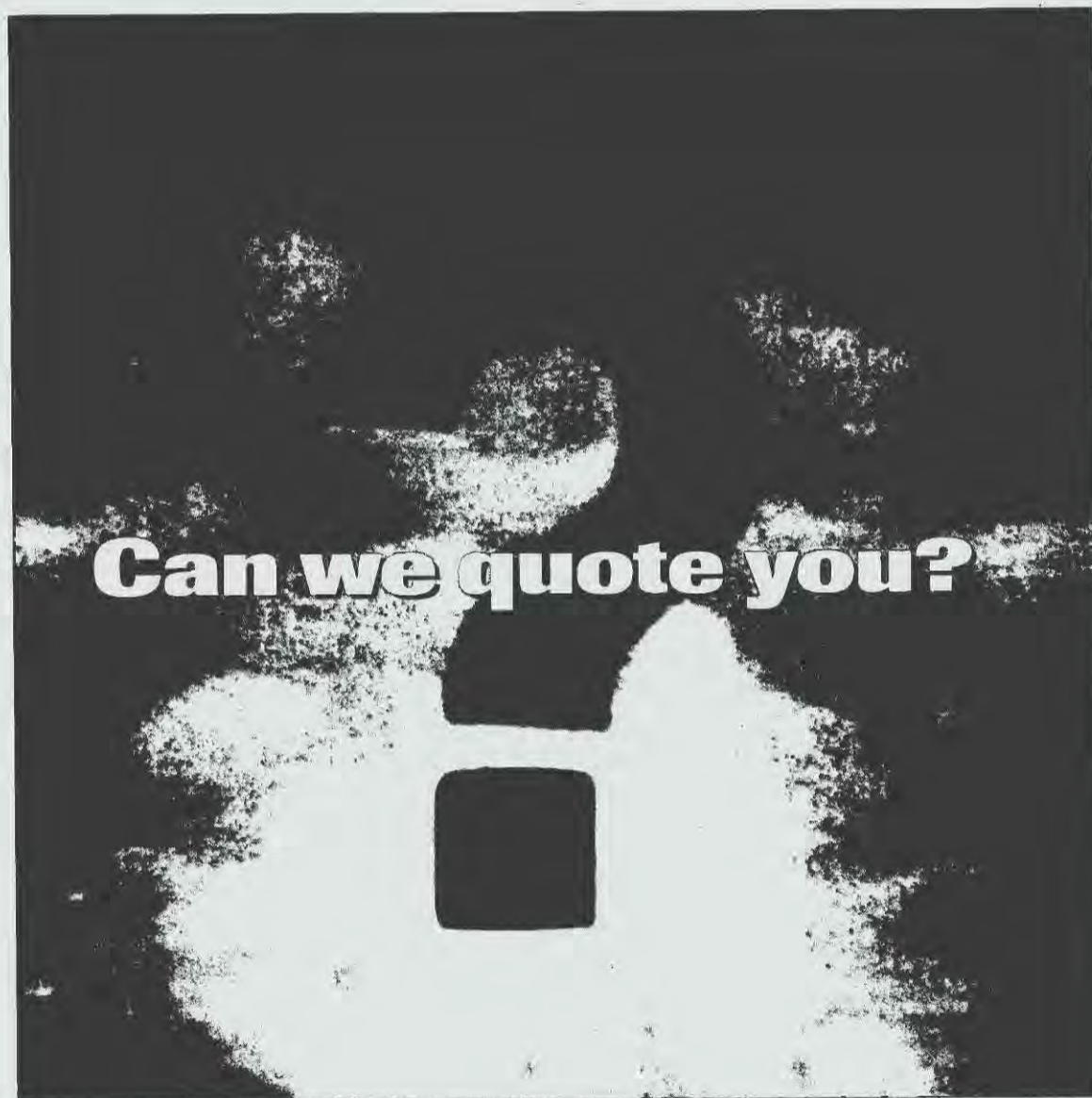
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## Information Resource

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- B  Association      G  Ins Broker      L  TPA
- C  Union      H  Ins/Reins Co      M  Health Care
- D  Government      I  Actry/Conslt      Inst
- E  Educational Inst      J  Attorney      N  Other

2. Number of employees:

- 1  150 or fewer      2  151-499      3  500-999
- 4  1,000-4,999      5  5,000 or more      6  Unknown

3. My title is best defined as:

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- B  Financial Mgt      E  Loss Prevention Mgt
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Continued from previous page requirements is supplied by Coopers & Lybrand L.L.P. Request item 584.

■ The Pharmaceutical Care Network client newsletter reviews how recent health care trends affect **pharmacy benefit management companies**. Request item 585.

■ The impact of **managed behavioral services** on health care costs is examined in a flier from Meridian Resource Corp. Request item 586.

■ A catalog for the **Certified Employee Benefit Specialist Program** is provided by the International Foundation of Employee Benefit Plans. Request item 587.

■ A booklet from The Mutual Group Life Insurance Co. details **managed dental care plans** designed for employers with three to 500 employees. Request item 588.

■ Northwestern National Life features a book evaluating differences in **health care reform preparedness** in 16 U.S. cities. Request item 589.

■ **Drug therapy protocols** are recommended in a newsletter from Pharmaceutical Care Network. Request item 590.

■ An outline of **case management in the point-of-service environment** is supplied by Meridian Resource Corp. Request item 591.

■ A bulletin from Kwasha Lipton offers a chronology of legislative changes in **Medicare's secondary payer rules**. Request item 592.

■ ENCOMPASS Health Management Systems presents an article that examines the **rural health care network** it designed for a clothing manufacturer. Request item 593.

■ Suggestions for **managing rising pharmaceutical costs** are discussed in a research brief from The Alexander Consulting Group Inc. Request item 594.

■ A booklet provided by CIGNA Group Insurance outlines the **group life products** in its benefits package. Request item 595.

■ The Disability Services Group supplies a leaflet with information regarding recent changes in the **individual disability business**. Request item 596.

■ An article from Godwins Booke & Dickenson covers the pros and cons of using **non-qualified deferred compensation plans**. Request item 597.

■ A paper offered by Buck Consultants Inc. stresses **employee input** as the key to a successful benefits program. Request item 598.

■ The role of consumers in controlling their **health care benefits** is reviewed in an editorial from ENCOMPASS Health Management Systems. Request item 599.

■ The International Foundation of Employee Benefit Plans offers a **1995 catalog of educational programs**. Request item 5600.

■ **Group health care packages** available to employed individuals and their families are detailed in two booklets from The Mutual Group Life Insurance Co. Request item 5601.

■ **The Retirement Protection Act of 1994** is examined in a flier presented by Godwins Booke & Dickenson. Request item 5602.

■ An article from the Disability Services Group addresses the key differences between **group and individual disability programs**. Request item 5603.

■ ENCOMPASS Health Management Systems supplies a **corporate profile** of the company and its relationship with Fortune 500 employers. Request item 5604.

■ **The intern program** of the International Foundation of Employee Benefit Plans is described in a booklet. Request item 5605.

■ An employer newsletter from Kwasha Lipton features **PBGC legislation, employee communications, early retirement programs** and more. Request item 5606.

■ Godwins Booke & Dickenson provides an overview of the **report-**  
*Continued on next page*



# Terra Nova.

## New Horizons, New Strength.

*As our name suggests, Terra Nova is committed to seeking new horizons – particularly in terms of the service we can offer clients and their intermediaries. We are pleased to be able to announce some significant changes which are fully compatible with that commitment...*

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The enlarged Terra Nova Group now has a strong presence in two of the world's largest reinsurance centres in addition to growing operations in continental Europe and Canada.

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Continued from previous page  
ing and disclosure issues related to health and welfare benefit plans. Request item 5607.

■ An **employee benefits thesaurus** is offered by the International Foundation of Employee Benefit Plans. Request item 5608.

■ Child Care Insights Inc. presents a booklet with suggestions for implementing **dependent care assistance programs** as part of an Employee Assistance Program. Request item 5610.

#### EMPLOYEE BENEFIT INFORMATION SYSTEMS

■ A semi-annual newsletter on current **trends, services and software** for employee benefits professionals is available from Corbel. Request item 601.

■ SBPA Systems Inc. provides a booklet with an overview of a **group benefit administration system**. Request item 602.

■ An employee benefits survey supplied by The Alexander Consulting Group Inc. offers suggestions for **using technology to reduce administrative work and cost**. Request item 603.

■ **Client/server computing** is explained in an article from SPECTRUM Human Resource Systems Corp. Request item 604.

■ **Client/server human resource management** is outlined in a booklet by Cyborg Systems Inc. Request item 605.

■ **DOS, Windows, client/server** and the future is the subject of an article from SPECTRUM Human Resource Systems Corp. Request item 606.

#### FINANCIAL SERVICES

■ The Insurance Institute of America's **Associate in Insurance Accounting and Finance** designation program is explained in a flier. Request item 801.

■ A recent interpretation of Section 15 of the **National Assn. of Securities Dealers Code of Arbitration Procedure** is offered by Clausen Miller Gorman Caffrey & Witous P.C. Request item 803.

#### INTERNATIONAL

■ Eagle International Associates presents a directory of **attorneys and claims adjusters** in the United States, Canada and Europe. Request item 902.

■ International Medical Group Inc. supplies a brochure and newsletter on **international medical insurance**. Request item 904.

■ Reasons for increased interest in **global employee stock plans** are discussed in a journal from Buck Consultants Inc. Request item 906.

■ Chubb Services Corp. offers a brochure explaining the **ISO 9000 series of quality standards**. Request item 907.

#### SELF-INSURANCE SERVICES

■ How self-insuring can be a **practical solution to rising health care costs** is described by VISTA Administrators Inc. Request item 1601.

■ A Duncanson & Holt Group manual addresses **stop-loss** from

an underwriter's point of view. Request item 1602.

■ An outline of WLT Software of Florida's **Cheklaims claims editing system** for employee benefits and workers compensation summarizes the system's features. Request item 1603.

■ **Current legislation and trends affecting third-party administrators** are covered in Corbel's quarterly newsletter. Request item 1604.

■ The Technology Notes newsletter from Genelco highlights **employee benefit administration trends and technology**. Request item 1605.

■ The Self-Insurance Exchange's **vendor locator service** identifies prescreened independent experts. For a flier on the service, request

item 1606.

■ In Q&A format, Pharmacy Data Management explains the organization, system and structure of its **online prescription claim processor**. Request item 1607.

■ Corbel's third annual survey identifies **TPA industry trends and makes predictions**. Request item 1609.

■ A glossary listing **medical cost containment and prevention services** for the non-clinical manager is available from Eckman/Freeman & Associates. Request item 1610.

■ FACTS Services Inc. offers a packet of information sheets on its **automated solutions for integrated managed care**—from HMO processing to claims editing. Request item 1612.

■ A **flexible benefits software system**, including compliance and plan reporting, is explained in WLT Software's summary manual. Request item 1613.

■ Information on **managed care systems and services** for TPAs, HMOs and physician hospital organizations (PHOs) in the self-funded industry can be found in TXEN's quarterly newsletter. Request item 1614.

■ An article describing **how to reach the self-insurance market** is available from Self-Insurance Marketing Service. Request item 1616.

■ A paper from the Self-Insurance Exchange details the importance of **strategic alliances** in case management and medical cost containment services for reaching

the self-insurance market. Request item 1617.

■ WLT Software of Florida's **Mediclaims system** processes medical, dental, vision, workers compensation and more. For a summary outline, request item 1618.

■ TMG Life Insurance Co.'s **stop-loss program**, designed for employer groups of 30 or more lives and featuring a cash advance provision, is described in this pamphlet. Request item 1619.

■ Nine different **guides related to self-funding issues** such as claims examining and medical terminology are described by Self-Funding Enterprises. Request item 1621.

■ A nine-step program for **choosing a new TPA** is presented in an article from ARM Tech. Request item 1622. E

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# Long-term

Continued from page 1

are capped, provided there are no significant changes in sales, payroll or any other specified measurement.

Other companies are doing away with annual renewals altogether by entering into true multiyear policies with giant deductibles that may cover all exposures in the aggregate rather than the traditional line-by-line distribution.

Whatever form or moniker it may take—strategic risk financing, blended programs or concentric risk integration—this new approach requires a fundamental change in philosophy.

Rather than viewing insurance as a built-in cost of doing business, these companies are looking at insurable risks in the same context as their other business risks, whether they be interest rate fluctuations or investments in product introductions.

"It's a conceptual leap relating to risk and the ability to withstand losses," said Jenny P. Emery, a principal with Towers Perrin in Weatogue, Conn. "You don't plan to be in business for one year, you plan to be in business forever."

"A year is very short," agreed Mike Cancelliere, president and CEO of Acordia of Ohio in Cleveland. "It can be months before a policy is done and out, and you're already into rewrite and renewal."

## Advantages extend beyond renewals

By SARA MARLEY

Even when annual renewals have not been eliminated, risk managers see advantages in formalizing long-term relationships with insurers.

Nova Corp. put a five-year property program in place in October, although it still requires an annual renewal.

"There is a provision for adjustment of premium," said Brad Silver, risk manager for the pipeline operation.

Nova's "substantial" self-insured retention is reinstated during every year of the policy.

"Our objective was to develop a long-term relationship with insurers," Mr. Silver said. "We wanted a full five-year commitment with the ability to renew."

Nova invited 11 insurance companies to its Calgary headquarters to discuss the program. All of the insurers have participated on Nova's insurance program for at least five years, some for nearly 40 years.

"We were selective about who we wanted," Mr. Silver said. "We wanted to pick large net-line, financially secure insurers who underwrite on a technically sound basis. We wanted to identify insurers who would be around to pay claims."

The insurers participate in the coverage on a quota-share basis.

"The players had to be ones that are able to underwrite unique risks like chemical and pipelines," Mr. Silver said. "They knew what they were getting into. They had the expertise and were very able to pull in resources."

"We wanted insurers to meet together as a group," Mr. Silver said. "We want them as long-term business partners and not to think us of as an adversary. We asked insurers to sit with their competition, but it is not a competitive situation. We need all of them to participate. None of them can take it on individually."

Insurers also agreed to meet in future years.

"We wanted to reconfirm our commitment," Mr. Silver said. "It was not intended to be a one-year deal."

Nova's message to the insurers was, "We're going to be around, and we want you to be too," Mr. Silver said. "Don't give us jumps. If there is a loss, (insurers) have the opportunity to recover it in future years."

Nova's program grew out of a "cradle-to-grave assessment of risks within the corporation," Mr. Silver said.

Rather than "tweak" the property risk management program, Nova "tore it up and looked at what we can afford to take within and who we want to work with," Mr. Silver said. This year, Nova will conduct a similar assessment on liability risks and put a long-term program together for those exposures.

Loss prevention has long been a focus at Nova.

"We pay a lot of attention and a lot of dollars to that part of the business," Mr. Silver said. That emphasis led Nova to "look at a more acceptable level of retention."

The program resulted in a 40% premium savings.

"We prepriced the risk and established guidelines," Nova's Mr. Silver said. "There was some negotiation and discussion, but we weren't that far apart. We looked at what the exposure was and analyzed the loss history to come up with a fair and equitable arrangement with the insurers."

Risk-financing strategy should be driven by what the corporation needs, not what the insurance market offers in a given year.

"The industry is captive to some of its conventions," said Terry Van Gilder, chief underwriting officer for the Chubb & Son Inc. in Warren, N.J. "We have to find ways to do business that transcend those."

More risk managers now realize that they will pay for their losses over time, just as insurers take a long-term view, he said.

"The industry knows it has multiyear obligations that cannot be reduced to year-by-year, quarter-to-quarter or month-to-month," Mr. Van Gilder said.

Chubb writes multiyear policies but also tries to take a broad view to work with customers and solve their problems, even if it means rewriting a policy mid-term to make sure the coverage matches the customer's expectations.

In any business, "the best customers will always take you further than you feel comfortable going. They extend your capabilities," Mr. Van Gilder said. "We need customers like that because they extract the highest level of performance."

In the near term, he expects most policyholders will be meeting with and paying their insurers annually. "Paying is one thing, but (developing) relationships that transcend accounting periods is another."

Corporations "risk hundreds of

millions in the course of daily business, but they don't want to risk above \$100,000 in a liability lawsuit," said Jerry Miccolis, vp and risk management consulting practice leader for Towers Perrin in St. Louis. "No matter what industry, if they take a look, any Fortune 500 company would find out that their retention could measure \$25 million plus."

Multimillion-dollar losses often don't cause even "a blip on the radar in the impact on earnings or reaction of markets," Ms. Emery said.

Corporations that are taking a long-term view are trying to make their relationships with insurers similar to their traditionally longer-term ties with banks.

"As a treasury department, we are very relationship-driven," said Michael J. Walsh, vp and treasurer of Saint-Gobain Corp. in Valley Forge, Pa. "We ask someone to assume a risk on our behalf. It is our challenge to make them comfortable with the risk."

Mr. Walsh travels each year to Saint-Gobain's Bermuda-based insurer to extend the three-year evergreen casualty program for the diversified global manufacturer's North American operations, CertainTeed Corp. and Norton Co.

"The coverage is locked in, but we have the opportunity to negotiate a reduced premium for the new third year," he noted.

"I believe it's critical for me to meet with the underwriters and explain the changes in the organization," Mr. Walsh said. "We want to keep the insurance company on their toes. We don't want them to sit back and not worry about us for three years."

Senior managers and board members must also be educated to become comfortable with the concept of not buying insurance for predictable risks.

Too often, when losses occur, risk managers are asked, "Are we insured?"

"The question should be 'Did we anticipate and plan for this?'" Mr. Miccolis said. "A typical Fortune 500 company is in a better position to withstand (losses) than a typical insurer."

Comprehensive long-term risk financing requires companies to set up some form of reserve to fund the risk they have decided to retain over the term of the policy. When a loss does come, it doesn't hit earnings per share in a single quarter.

That approach "is appropriate for financially strong, large risk-takers," said John F. Navin, senior vp with Marsh & McLennan Cos. Inc. in Minneapolis, who developed a five-year program for Northwest Corp. (see related story).

Companies whose insurance needs aren't being met by the traditional insurance market should consider a program that combines risk transfer with finite risk-financing. Exposures previously considered uninsurable often can be included.

"I believe this may be the way insurance looks in the next century for large corporations," Mr. Navin said. "They have been utilizing captives and heading toward this type of approach."

While premium savings can result, the programs are more about introducing flexibility, predictability and stability to the risk management program than about saving money.

"Our policy form is a blank piece of paper," said Robert E. Omahne, senior vp in the management liability division of National Union Fire Insurance Co. of Pittsburgh, Pa., in New York.

"We structure our program to

meet what the client's needs are. Because they are further away from first-dollar coverage, underwriters might be more liberal with terms and pricing" when a long-term policy is in effect.

"The benefits are relatively small in annual savings," Mr. Miccolis said. Rather, the advantages come in saving money over the longer term and handling risks more effectively, he said.

"The gross cost looks more expensive than typical soft-market prices," Mr. Omahne said. "But, with good loss experience and profit sharing, the net cost of insurance could be much less."

To keep insurers in the long run, risk managers must focus on fairness, not necessarily getting the best price.

When purchasing the stop-loss catastrophic coverage above the large deductible, "we definitely want to deal with net capacity," M&M's Mr. Navin said. "It's important for the underwriters to put their own assets on the line."

## Companies whose insurance needs aren't being met by the traditional market should consider a program that combines risk transfer with finite risk-financing.

"It's a formalized, stable relationship," said Pam Rogers, director of corporate risk management for Nestle U.S.A. Inc. in Glendale, Calif. "You have to pay a fair price. Everyone should make a fair operating profit."

Companies with good loss history that are already taking large deductibles will likely not see much additional break in premium for raising the deductible even higher, several risk managers pointed out.

"There's just no credit to give," said Brec Woodbridge, risk and real estate manager for Advanced Micro Devices Inc., a Sunnyvale, Calif., integrated circuit manufacturer.

The annual renewal is still a line of demarcation between multiyear, renewable programs like AMD's and Saint-Gobain's and non-cancelable five-year policies like Northwest's.

Eliminating the annual renewal can give risk managers more time to focus on other strategic issues.

"It frees risk managers from the drudgery of policy renewals and associated administrative duties," M&M's Mr. Navin said.

"In many cases, you can avoid the annual renewal," Acordia's Mr. Cancelliere said of multiyear programs. "It's not a renewal, it's a re-evaluation of exposures. A review is a long way away from a full-blown, complete renewal."

Haggling over rates, terms and conditions every year is not the best way to build up long-term relationships.

"Renewals potentially can be fairly adversarial," said W. Thomas Henderson, corporate risk manager for Texas Instruments Inc. in Dallas. "We try hard not to make it us vs. them, but occasionally it comes out that way."

Texas Instruments has found few multiyear agreements in the marketplace that offer freedom from renewals.

"The administrative burden is wasteful and needs to be eliminated, but we cannot overlook the importance of exposure analysis," Mr. Henderson said. "There are very few that have one renewal and you don't come back for three years."

He said he is willing to leave room for rate adjustments as long he does not have to fill out an application.

"An annual application process has little value added for risk managers," Mr. Henderson said. Renewals "are horrendous, a virtual waste of time unless you're going into the marketplace. In most cases, very little changes."

Other risk managers find the renewal process highly beneficial.

"Even if I had a three-year policy and rate, I would still want to go through the same thing: putting together insurable values," AMD's Mr. Woodbridge said. "It's easier to forecast where you think the exposure is going, and budgeting is easier."

AMD is in the last year of a three-year worldwide property program, a strategy it has pursued for the past decade. An annual premium review is necessary due to the volatility of insurable values in AMD's high-tech business.

"We renegotiate dollars every

year," Mr. Woodbridge said. "So far, it works to our benefit. We get the long-term stability of coverage."

Nestle's risk managers find the application process so valuable, they even complete them for coverages the corporation does not intend to buy.

"We go through much of the insurance process, particularly where we don't buy coverage," Ms. Rogers said. "It brings to light risky areas. It's a good tool to use."

Nestle has found success in placing multiyear programs for ancillary coverages such as crime, business travel accident and non-owned aviation.

"Multiyear works better for specialty coverages," Ms. Rogers said. "It's a more unusual risk. (Insurers) get to know your company."

For sensitive coverages such as fiduciary liability, "a lot of information is passed to the insurance company," she added. "You don't want to pass it to too many."

Also, "for specialty coverages, I don't think the market is very soft."

The soft market is preventing some companies from considering long-term risk-financing arrangements.

"Some buyers still don't believe the market is as competitive as it might be next year," Mr. Cancelliere said. "Reinsurance contracts are typically annual agreements. In the soft market, (many insurers) are heavily reinsured. They are not in a position to commit for more than a year."

More long-term programs are being put together, but they are still not common, Mr. Cancelliere said.

In general, two conditions must be met: "when carriers decide they want to lock up longer-term clients and clients decide there is not room for further price declines in the market," he said. "The lines don't cross that often."

Buyers should also take a close look at cancellation clauses, Mr. Cancelliere cautioned. "The terms of the contract are dictated by the terms of cancellation," he said. "Unless you have a 36-month notice of cancellation, never say it is non-cancelable." **BI**



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**Business  
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# Norwest

Continued from page 1

west's risk management department a flexibility it never had before.

Reflecting on Norwest's approach to financing risk, Ms. Kidder and M&M and AIG executives talk about "paradigm shifts" in thinking.

Indeed, when Ms. Kidder began working with M&M to restructure Norwest's program, she asked them to read "Discovering the Future" by futurist Joel Barker, a book on paradigm shifts and understanding and accepting such changes in long-standing business practices.

M&M and AIG executives as well as Ms. Kidder believe that similar programs will emerge as risk financing undergoes a facelift in the next five years (see related story).

The genesis of Norwest's program was a two-paragraph reference in a September 1992 British business journal story to British Petroleum P.L.C.'s decision to self-fund a large portion of its property/casualty risks to reduce its insurance costs.

Norwest already was self-funding a large portion of its risks. But, due to the principle of diminishing returns, the company's captive—because of a lack of pricing support from its excess insurers and reinsurers—could not reward Norwest for the company's even greater appetite for risk with significantly lower premiums, explained Ms. Kidder and John Thornton, executive vp and chief financial officer at Norwest.

After reading the article, Mr. Thornton asked Ms. Kidder how much Norwest and its captive had paid in premiums in recent years and how much insurance Norwest had recovered for losses.

The discussion led Norwest to re-evaluate the amount of risk it retained and to investigate the potential advantages of purchasing only catastrophe coverage.

Ms. Kidder observes that retentions are driven by one or two factors: insurance market forces and statistical loss data. "Here's where the big paradigm shift comes in," she said. "Why should the insurance markets dictate what we can afford to retain, and why should past losses dictate what we can afford to retain?"

That figure should be derived through Norwest's own financial analysis, Ms. Kidder said. And, the retention level should not be fragmented into separate retentions for each line of risk, she said.

Under that approach, insurance may respond to some losses when the company has exhausted its retentions in those areas but not to losses in areas where retentions have not been exhausted. The net effect is that insurance is responding to losses even though the company still may be millions of dollars shy

of its aggregate tolerance for risk.

Under Norwest's new risk-financing program, the company can "approach risk retention as a financial decision rather than an insurance decision," she said.

John F. Navin, an M&M senior vp, had long been interested in tackling such a project and led the broker's team in developing the program. M&M calls the approach "Concentric Risk Integration."

The program covers Norwest's general liability, workers compensation, property, directors and officers liability, professional liability, automobile, fidelity, fiduciary liability and non-owned aircraft risks.

The new program meant that Norwest dropped some D&O coverage it had purchased from group captive Bankers Insurance Co. Ltd. But, Norwest still buys D&O coverage from BICL for losses for which the company's banking operations cannot by law reimburse its executives from company coffers.

A diagram of the layered program depicts a black circle, or black hole, in the middle of three concentric circles, with three multiple-section wings emanating from the outermost circle (see diagram).

The black hole represents where 95% of all of Norwest's normal, expected losses on a per occurrence basis fall: Those losses do not exhaust Norwest's retention level.

Only the losses exceeding the first aggregate level begin exhausting the retention level. That actuarially derived retention figure, represented by the next circle in the diagram, "will be and should be significantly above what's expected in five years," Mr. Navin said.

Norwest's Vermont captive, Superior Guaranty Insurance Co., managed by American Risk Management Corp., covers those losses and some losses that fall into the black hole.

Ms. Kidder pointed out, though, that the aggregate retention level is somewhat smaller than the worst-case scenario Norwest previously faced: the sum of all of its separate retentions.

"So, essentially, it's a better bet for the insured and a better bet for the insurer," she said.

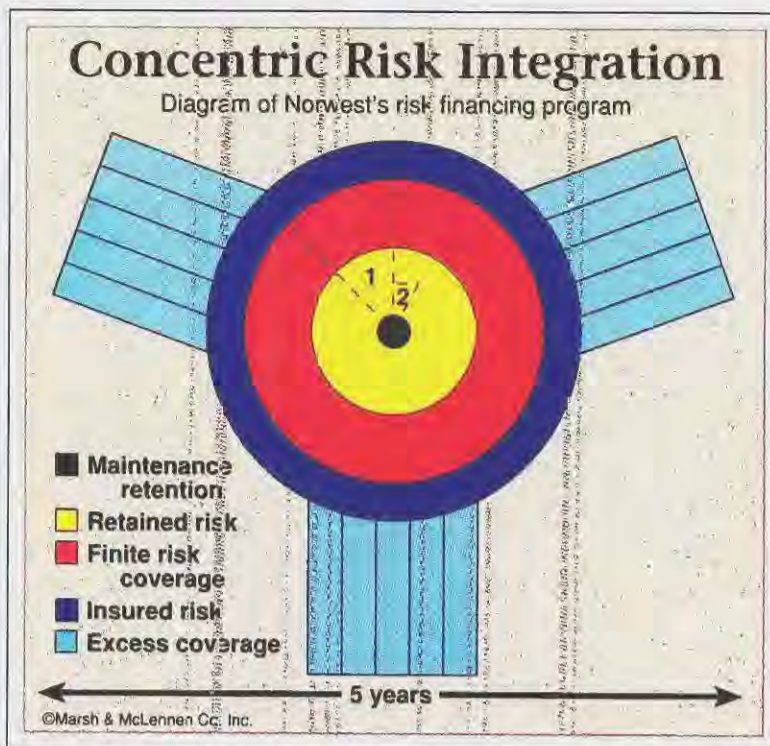
Ms. Kidder would not reveal how much risk Norwest retains over the five-year program. But, she said it is a small fraction of the company's \$613.1 million of restated net income for 1993.

She noted that the company's risk tolerance may exceed the retention it took. But, taking a larger retention would not have resulted in any additional discounts on rates for Norwest's finite risk and catastrophe coverage, she said.

In the early 1980s, similar programs—called cap, basket or rainbow programs—often failed because the risk-financing entities' retentions were insufficient to hold the

## Concentric Risk Integration

Diagram of Norwest's risk financing program



program together, Mr. Navin noted.

Broken-line triangles in the retention circle in the diagram represent the fronting programs Norwest is required to arrange for its workers comp and auto coverages. Those programs are fully reinsured by the captive.

The next circle in the diagram represents a finite risk-sharing arrangement between Superior Guaranty and National Union.

Norwest, AIG and M&M officials would not provide details about the arrangement, but they offered some glimpses at how it works.

"It's almost like a quota-share program in some ways," said Robert E. Omahne, senior vp in National Union's management liability division. Under a quota-share reinsurance arrangement, the reinsurer's and cedant's share of a loss remains constant from risk to risk.

There also is a profit-sharing agreement between National Union and Norwest as part of the arrangement, in the event Norwest's losses do not pierce this level, according to Mr. Omahne.

In addition, the finite risk component gives Norwest what Ms. Kidder calls "chronological stabilization," or the luxury of paying National Union each year of the five-year program "20 cents for every dollar we need when we need it."

National Union is "taking a real risk," Mr. Omahne said.

But, Ms. Kidder said, the insurer can be confident, based on Norwest's loss history, "that a loss won't happen tomorrow."

The outermost circle represents the pure catastrophe coverage that National Union writes for Norwest on a claims-made basis.

Ms. Kidder would not reveal the

limits National Union is underwriting over the five-year policy period. However, she said they are several times larger than the amount of risk Norwest retains through its captive.

AIG does not retrocede any of this risk, which is a crucial factor in holding the program together for five years.

The cap programs of the early 1980s often failed when reinsurers pulled out after having second thoughts or losing their retrocessional support. "The problem with the older programs was that too many people were involved," explained M&M Senior Vp Barry R. Jefferson. "If one fell out, the program fell apart."

AIG's participation in the program over the five-year period is guaranteed: It has signed a non-cancellation agreement with Norwest. The company also has signed a non-cancellation agreement.

Norwest has a one-time limits reinstatement option with AIG. But, Norwest's loss history shows that it will not suffer a loss of that magnitude with any frequency.

Indeed, Norwest has suffered only one catastrophic loss in its nearly 66-year history: the 1982 Thanksgiving Day fire that destroyed its Minneapolis headquarters. The fire, which consumed most of Norwest's records and equipment, was believed at that time to be the nation's worst-ever office fire.

Above the catastrophe coverage are the excess coverages—represented in the diagram by the three wings—bought from other insurers. Norwest buys one-year excess policies to cover its property and liability risks and the value of securities its banking operations hold for its customers and itself.

The risk-financing program is still evolving, though. For example, there is no reason it cannot be further molded to cover potential financial losses involving interest rates and loan losses, Ms. Kidder said.

"That's clearly my long-term vision," she said. "I will go beyond fortuitous risks and look at other types of risks" that the program potentially could cover.

Mr. Navin said M&M also is looking into whether the program can effectively cover employee benefits.

Over the long term, Ms. Kidder expects that the program will generate significant risk-financing cost savings, though Norwest is not expecting any savings during the first year or so as it builds up reserves.

Norwest gets a maximum amount of rate compression because the risk National Union assumes is at the catastrophe level, Mr. Omahne said.

The program, though, immediately cleared some administrative underbrush for Norwest's risk management department, which gave the department more room to maneuver in various areas.

For example, it facilitates long-range planning by letting Norwest know what a significant portion of its risk-financing costs will be for five years, Mr. Omahne said.

And, whereas Norwest previously was compelled to obtain various risk management services from its fronting and excess insurers, its new risk-financing program unshackled Norwest from that commitment.

"So we were free to go out and buy all of our services on a truly unbundled basis," based on how well the services meshed with Norwest's needs, Ms. Kidder said.

The competition for Norwest's business increased the quality of service that Norwest obtained, Ms. Kidder said. "And, in virtually every case, it reduced the cost."

But Norwest did not change vendors for all of its risk management services. For example, Norwest retained American Risk Management as its captive manager and property loss control engineering firm even though the company's captive pulled out of Bermuda-based property reinsurance pool Hopewell International Insurance Ltd. when Norwest implemented its program.

Norwest's new risk-financing program does not free up much time for Ms. Kidder, who never was heavily involved in marketing its risks. But, the near elimination of renewals does give her staff to turn their attention elsewhere.

For example, the staff's duties now include underwriting for Norwest's captive, working with Norwest's fronting insurers and streamlining claims resolution with the bank's claims administrators.

Like Norwest's risk-financing program, "their focus is different," Ms. Kidder said. **EB**

## Norwest directs insurers, brokers to develop a stable plan that's 'staple-free'

MINNEAPOLIS—Norwest Corp. Vp and Risk Manager K.C. Kidder spent 18 months pulling together the bank holding company's new risk-financing program that, after 15 drafts, amounts to a meager 15 pages.

Few rules were imposed on Norwest's broker and insurer in their efforts with Norwest to create the program, but Ms. Kidder insisted on one: "You can't bring a stapler to the table."

She did not want anyone just stapling together policies for Norwest's 20 to 30 risk exposures.

Under the new program, implemented last April, Norwest has a single, large retention that it must meet—regardless of where its losses fall—before the insured portion of its program responds (see story, page 1).

Ms. Kidder approached several brokers for help, but she selected M&M when the others continued to measure Norwest's risk toler-

ance on a risk-by-risk basis.

She and M&M officials also approached several insurers about writing the company's catastrophe coverage net of reinsurance, all of which expressed interest. But, American International Group Inc. already had made a commitment to begin seeking out such opportunities.

Since then, AIG has developed programs that incorporate many, though not all, of the elements of Norwest's program for several dozen companies, according to Robert E. Omahne, a senior vp in the Management Liability Division of AIG subsidiary National Union Fire Insurance Co. of Pittsburgh, Pa., which reinsures Norwest's captive.

Norwest's submission to AIG was a critical step in persuading the insurer not only to participate as a reinsurer over Norwest's captive but also to reinsure the facility without obtaining any support from its retroces-

sionaires.

Norwest and M&M believed that arrangement was critical.

Working with a single reinsurer, which also is bound by a non-cancellation agreement, guarantees the program will be sturdier than a house of cards.

As might be expected, the submission contained Norwest's exposure and loss data and a detailed outline of its loss-control program. In addition, an analysis showed that the company's growth was not creating any abnormal loss frequency or severity problems.

All of the loss data that Norwest provided AIG "was very critical for underwriting," Mr. Omahne said.

The submission also included qualitative information, like background information on key executives, Norwest's risk management approach and stock analysts' reports, to provide AIG a clearer picture of Norwest, Ms.

Kidder said.

Norwest's new approach to risk financing is not for everyone, though, said Barry B. Jefferson, a senior vp with M&M. "It takes a buyer that wants to take a risk."

For those buyers, the program can be one-tenth the size or 10 times larger than Norwest's, he said.

The approach also requires senior management approval.

Norwest had no trouble, since the idea originated with Executive Vp and Chief Financial Officer John T. Thornton. And, while Norwest's board did not have to sign off on the plan, Ms. Kidder explained it to the board.

Likewise, while the program did not require formal board approval at AIG, senior management was kept apprised of the program's development, Mr. Omahne said.

—By Dave Lenckus

## INTERNATIONAL

## U.K. risk managers seek peace dividend

## Pool Re revising premium structure

By ADRIAN LADBURY

LONDON—Christmas shoppers packed the streets of Belfast this year, giving Northern Ireland's retailers record sales. And on New Year's Eve, Catholics and Protestants celebrated there together for the first time in 25 years.

Property insurance buyers on the U.K. mainland, though, are not fully sharing the holiday optimism and hope of the bomb-weary people of Northern Ireland.

Pool Reinsurance Co. Ltd., the U.K. government-backed reinsurer of terrorist risks on the U.K. mainland, is showing signs of relaxing its tough stance on rates. But buyers of its property and business interruption coverage are still not happy with what they see as a sluggish response to the new conditions.

The Irish Republican Army's September announcement that it would cease hostilities was followed in October by a similar announcement from loyalist terrorists, raising hopes among many U.K. insurance buyers that terrorism premium reductions would swiftly follow.

Some even hoped to scrap completely the mutual terrorism pool, which was created in late 1992 af-

ter the Assn. of British Insurers introduced a terrorism exclusion in most commercial property policies for losses in Britain (BI, May 17, 1993; Dec. 28, 1992).

Initially, though, Pool Re said it would not reduce rates. Then, last month it offered some hope that life may become easier for buyers of the coverage if peace continues to hold in Northern Ireland and on the U.K. mainland.

The pool, funded by more than 130 U.K. insurers and about 90 Lloyd's of London syndicates, and backed by the government Department of Trade & Industry, introduced a deposit premium system for the Dec. 31, 1994, renewals.

The system allows buyers to pay on renewal only 60% of the total premium required for the year. If total estimated claims made on the pool during 1995 do not exceed £50 million (\$78.2 million), buyers can keep the 40% balance.

During the pool's last reported year, the period from March 8, 1993, to Dec. 31, 1993, claims paid totaled £48 million (\$71.0 million) against £222 million (\$328.4 million) in premiums. But, the pool uses a three year accounting system and these figures do not in-

*Continued on next page*



AP/WIDE WORLD

The Irish Republican Army's vow to keep the peace allowed shoppers to roam freely in Belfast before Christmas.

## French fund will pay majority of hijack claims

By DIGBY LARNER

PARIS—Hull and liability insurance claims should be minimal from the fatal Christmas Day hijacking of an Air France Airbus in Algeria, experts said last week.

Aviation underwriters should avoid the full weight of any liability claims thanks to a state-backed terrorist compensation fund which will pick up most of the tab. Air France's broker also said it believes damage to the \$18.6 million Airbus is minimal.

Three of the 173 passengers were killed by four gunmen at the Algiers airport before the Airbus was allowed to fly to Marseille. There it was stormed by French anti-terrorist police, who killed the gunmen (BI, Jan. 2). Several passengers were injured in the rescue.

Compensation to most of the victims is governed under the Terrorism Act of 1986, which established the Fond de Garantie to pay for acts of criminal violence—including terrorism—against French nationals worldwide and all people harmed on French soil.

All those injured when the Air France plane was finally wrested from the hands of the Algerian gunmen will be able to file a claim.

Alain Bourdelat, the fund's director in Paris, said most of the passengers on board the plane when it was freed were Algerian.

"At the moment, we know the fund will pay compensation to all the victims hurt in Marseille, but it is too early to say how much it will be," said Mr. Bourdelat. "All we can say at this stage is that any French people injured while the plane was in Algiers and all those hurt after the plane flew to Marseille will be covered by the fund."

The only question remaining is whether the fund will compensate families of the three hostages shot dead by the hijackers while the plane was still in Algiers if they are not French. "As yet, I have not received confirmation of which, if any, of these were French nationals," said Mr. Bourdelat. "Only these will be covered by the French fund. The others will have to be dealt with by (the airline's) insurers."

Each case will be dealt with individually, Mr. Bourdelat added. There is no limit on the amount the fund will pay out to each individual or in total. However, since it was created eight years ago, the fund has dealt with over 1,500 cases paying out an average 100,000 French francs (\$18,000) for each case. Most of these were paid to families and victims of

murders and rapes.

Cash for the fund is raised by an annual levy on every non-life insurance policy in France. The levy can be increased or decreased annually depending on the level of claims in any one year.

The levy now stands at 9 francs (\$1.67) per policy but is set to increase to 10 francs (\$1.86) Feb. 1.

"In principle, it is just like a sales tax," said Mr. Bourdelat. "French insurers collect the money and give it to the government which then distributes it as it sees fit."

Where possible, the fund also seeks reimbursement for claims from those responsible.

Air France's broker, Societe Intercontinentale d'Assurances pour la Commerce et l'Industrie, said intervention by the fund will make the eventual call on the airline's insurers relatively light.

The airline's hull and liability coverage, including war risk, is led by La Reunion Aeri-

enne in Paris. As for the hull, "the full extent of the structural damage to the aircraft is still being assessed, but we believe there is very little," said Dominique Rollin, head of claims for Siaci in Paris. "We are not expecting a major claim." **BI**

## AMB plans to increase stake in AGF

AACHEN, Germany—German multiline insurer AMB Aachener & Muenchener Beteiligungs A.G. plans to increase its stake in Paris-based Assurances Generales de France, its largest shareholder.

Aachen, Germany-based AMB has agreed to boost its holding in AGF to 5% from 2.57% by June 30.

In turn, the state-owned French company will freeze its 33.55% AMB stake until 2000.

One reason for the move is that the two insurers want stronger operational ties. A joint working group has been established to define and develop areas of cooperation.

A closer working relationship would benefit both companies, said an AMB spokeswoman. Initially, AMB and AGF plan an information and technology transfer in both personal lines and working methods.

AGF is France's second-largest industrial risk insurer. It posted gross written premiums of 65.3 billion French francs (\$11.05 billion) in 1993. AMB had gross written premiums of 13.16 billion DM (\$8.13 billion) in 1992, the latest year for which information was available.

With AGF's help, AMB hopes to expand its own German industrial business. In addition, AGF and AMB plan to work together in international markets.

Cooperation has been spurred by changes in the companies' respective markets.

Deregulation has opened new possibilities in personal lines business in Germany and AGF is poised for privatization sometime this year.

—By Don Lewis Kir...

## Employers liability law reviewed

## Rules help British firms comply despite caps on coverage

By CAROLYN ALDRED

LONDON—The British government is reviewing employers liability legislation following a recent insurance industry cap on policy limits.

Temporary regulations, which took effect Jan. 1, are designed to ensure that all employers can comply with the law under the new, limited EL policies that insurers are issuing this year.

Meanwhile, a comprehensive review of the 1969 Employers' Liability (Compulsory Insurance) Act

was announced by Employment Minister Phillip Oppenheim on Dec. 22, 1994.

British insurers announced last year that they would stop issuing unlimited EL protection as of Jan. 1, 1995, following earlier moves by the reinsurance industry to cap the coverage, which is similar to workers compensation coverage. Years of EL business losses and record claims following the 1988 Piper Alpha explosion spurred the industry caps.

After months of negotiations between the insurance industry

and risk managers, a standard policy limit of £10 million (\$15.5 million) coverage has been adopted by most insurers, with additional coverage available as excess insurance (BI, Sept. 12, 1994).

However, the massive contraction in cover has raised serious concerns among risk managers and forced the government to address the issue.

Under the 1969 act, all employers are obliged to carry a minimum EL coverage of £2 million (\$3.1 million). But, the word "em-

ployer" applies to each subsidiary of a company. So, for example, a holding company with five or more subsidiaries might not be adequately covered by the £10 million in limits that insurers are offering.

Several weeks of negotiations between the government, the Assn. of British Insurers and the Assn. of Insurance & Risk Managers in Industry & Commerce prompted the Department of Employment's plans to review the existing legislation, as well as the new regulations allowing group employers to comply with the law

*Continued on page 21*

## INTERNATIONAL

## Pool Re

Continued from previous page

clude the April 1993 Bishopsgate bombing, which the Assn. of British Insurers estimates will result in claims costing up to £600 million (\$887.7 million) (BI, May 3, 1993).

Mike Watson, Pool Re secretary, said last week that the new system is not a direct response to the IRA's decision to lay down its arms. Instead, the decision was made as a result of the far lower level of claims made in 1994 leading up to and following the IRA and loyalist announcements, he said.

Jonathan Evans, DTI minister responsible for the pool, explained the new system cautiously in a speech to the House of Commons.

"I have agreed to an adjustment of the payment arrangements which will benefit policyholders if there are no large losses next year. Arrangements for 1996 will be determined in the light of experience," he said.

Mr. Watson also confirmed last week that the pool is looking at ways to improve its much maligned risk management discount system. The system, introduced June 1, 1994, was designed to reduce premiums for companies that take positive action against terrorist attack.

Risk managers welcomed the system but subsequently criticized it as ineffective.

Many companies have been unable to get a discount because of the way Pool Re's questionnaire was compiled, said Chris Brett, a property technician and terror coverage specialist at Willis Corroon Ltd., where he advises big U.K. clients on property programs.

"Most of our clients have found the questionnaire impossible to answer faithfully and obtain a discount. It's far too broad and onerous. We have been pressing for change. The honest insureds have found it all a bit annoying. We are hoping for change in the new year," said Mr. Brett.

Brokers and clients are pushing the pool's managers and the DTI

to introduce a simpler and more effective system and welcomed Pool Re's decision to review the system, said Mr. Brett.

Mr. Watson conceded that very few buyers had qualified for the discounts. But he said the pool had listened to risk managers' complaints about the system and is currently investigating a "more sensible approach."

But risk managers say that Pool Re and the DTI have reacted slowly and tentatively to the good news in Northern Ireland so far and do not expect big things fast.

Risk managers complain that the terrorism rates were set too high to begin with and unnecessarily penalized companies with London operations.

Many express doubts about the pool's commitment to the premium discount system and those spoken to were loathe to welcome an improved system until the changes are made fully public and the practical impact is felt.

"I have heard the gossip but have not been notified of anything concrete by Pool Re yet and so it is difficult to comment" on the new

premium discount system, said Tony Griffin, senior risk management adviser with London Transport.

"I would hope for changes following the ceasefire. I would like to see an attempt to underwrite the risk from a group perspective rather than by region, and an attempt to recognize risk management and efforts to mitigate losses if they do occur. But on past experience, I am not optimistic. Is it a real improvement or just tinkering with the edges?"

"I'm still not sure that the pool is truly a risk-sharing mechanism or whether it really is simply a means of raising revenue," said Mr. Griffin.

One risk manager involved in the commercial aviation industry, who did not wish to be named because of his company's vulnerability to terrorist attack, said that he is "extremely skeptical" of any news to emerge from Pool Re, which he described as "amateurish and ill-conceived."

"All we need is the truce to end and the premiums will go sky high again. I do not want to predict

what will happen because my renewal is not until April and Pool Re seems to change the rules every month. The premiums were always too high anyway," he said.

Willis Corroon's Mr. Brett said that most buyers had hoped for changes immediately following the announcement of the ceasefire.

"When the ceasefire was signed in September, many clients asked if this meant they could cancel their terrorism coverage. But we cannot forget that the IRA is only one group and there are plenty of other terrorists out there. It is early days yet."

Mr. Brett said that buyers he had spoken to were pleased that the new deposit system had been introduced, but said that they are still unhappy that the pool and government had felt unable to cut rates directly and further following the IRA announcement.

The availability of normal commercial property and business interruption insurance, which includes the terrorism risk, will only return if commercial reinsurance

Continued on next page

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## Commercial Consumers

## Administrative:

CEO's, Presidents, and Owners, ..... 2,528  
Vice Presidents, General Managers and Other Administrative Personnel ..... 4,118

## Financial:

Chief Financial Officers and Vice Presidents of Finance ..... 2,171  
Secretaries, Treasurers, controllers and other Financial Personnel ..... 3,335

## 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 ..... 16,157

## Sub-total ..... 28,309

Associations ..... 369  
Government, Unions and Educational Institutions ..... 974

## Commercial Consumers

## Sub-total ..... 29,652

Insurance Agents and Brokers ..... 8,408  
Insurance Companies ..... 8,181  
Accountants, Actuaries, Attorneys & Consultants ..... 3,611  
Managers & Health Care Providers ..... 1,903  
Others Allied to the Field ..... 849

## TOTAL ..... 52,604

★ Source Business/Occupational breakdown of qualified circulation, May 30, 1994 Issue, as submitted to BPA for June 1994 BPA Publisher's Statement

# EL caps

Continued from page 19  
under limited policies.

The insurance industry "is unable to guarantee that each employer under a group policy will be covered for £2 million in current market conditions," said Mr. Oppenheim. "The industry is also unlikely to be able to provide individual policies for employers within a group that will provide each of them with a realistic level of cover," he said.

Pending the outcome of the review, the new regulations will allow "a holding company... to take out a policy covering itself and all its subsidiaries, provided that policy provides a minimum cover of £2 million," said Mr. Oppenheim. He added, though, that "in practice, it is expected that most (groups) will insure for higher amounts."

Meanwhile, Mr. Oppenheim plans to review the current EL legislation early this year to make sure it:

- Provides an acceptable level of protection for injured employees in the event of a foreseeable accident.
  - Requires protection consistent with what the insurance market can deliver.
  - Does not require employers to take out unnecessarily expensive coverage.
  - Sets clear, understandable requirements.
  - Avoids unnecessary bureaucracy.
- "All aspects of the existing legislation will be examined in the most effective way," said Mr. Oppenheim, who is expected to make a

further announcement after discussing the matter with the Health and Safety Executive, the government body responsible for enforcing the EL legislation.

The Assn. of British Insurers, which will play a leading part in the consultation process, announced its support of the EL legislation review, pointing out that the legislation has not changed significantly since the act came into force on Jan. 1, 1972.

"In the last 25 years, there have been significant changes in business practice and employment which could usefully be reflected

## Risk managers and insurers welcome the Department of Employment's planned review of the current EL legislation.

in new regulations or an amended act. The insurance industry welcomes the general review," said the ABI's director, Mark Boleat.

AIRMIC also welcomed the new regulations and the proposed review.

"It will now enable industry to concentrate on securing the level of cover it wishes to purchase, having assessed its own level of exposure, with the knowledge that the law will not be contravened," said AIRMIC Chairman Peter Lerwill, adding that "it's a pity that we've had to wait until the 11th hour for this to be resolved."

Alan Fleming, AIRMIC's executive director, cited several problem

areas he feels should be addressed. These include: how much coverage employers will be required to buy; how "employer" is defined; whether claims-made policies are permitted under the 1969 law or should be under any new law; and problems associated with industrial disease and other long-tail claims.

"We are hoping that it will be a very broad-based review," Mr. Fleming said, noting that a long time has passed since the existing act was drawn up.

One of the main issues will be how much coverage employers should have to carry, said David Thomas, technical director of liability for Willis Corroon Ltd.

"The reason the act is there is to protect employees. One of the main issues is whether the current legal limit is sufficient," said Mr. Thomas, who is chairman of the liability committee of the British Insurance & Investment Brokers' Assn. "I find it difficult to believe that £2 million is providing sufficient protection" for many companies.

Claims-made policies will be another point of contention.

"It's not clear whether the (existing) act permits claims-made policies. The claims-made approach is something that should be raised," said Mr. Thomas. "Legislators would want to see a guarantee of protection for employees, which might make it necessary to set up some form of fund to find protection for policies" when they are not renewed under a claims-made system, he said.

The government may decide that claims-made policies do not provide adequate coverage for employers under the employers liability

statute, said David Howie, assistant U.K. liability manager for Eagle Star Insurance Co. Ltd., one of Britain's largest EL insurers.

"My personal view is that claims-made wordings are not unlawful under the terms of the EL act," said Mr. Howie, who works in the Cheltenham, England, office.

Other issues he expects to be discussed during the review include the issue of causation wording—which defines when and how an injury or disease is caused during employment—and whether employers' high self-retentions should be included in the minimum cover specified by the act.

Meanwhile, Mr. Howie stressed that although risk managers have complained that the problem of the group minimum cover was only resolved by last-minute government intervention, insurers had negotiated for months to resolve the situation.

He also pointed out that the insurers "made it clear to everyone that we were introducing a £10 million limit" some time ago.

"The limit wasn't sufficient to meet the technical requirements of the act (for all groups), but it was all that was available as (standard)

capacity in the market," said Mr. Howie.

However, excess limits of up to £25 million are readily available in the market for companies that need more coverage, said Mr. Howie. "Indeed, one or two companies have managed to purchase £75 million and £100 million of cover."

Companies that need more than the standard £10 million of cover will probably be paying more than last year because of the need to go to the excess insurance market, he said.

But, most programs that show a good loss record and require only the standard cover could expect to pay about the same for their insurance this year, subject to small increases to reflect inflation, he added.

However, while the market is not hardening as much as predicted last fall, "we have not reduced prices to reflect the reduction in limits," Mr. Howie said.

Willis Corroon's Mr. Thomas agreed that policyholders cannot expect price reductions as a result of reduced limits. But, "while the primary EL market is not soft, there are indications of more competition among insurers." **BI**

## Deal with Berner strengthens Allianz in Switzerland

MUNICH, Germany—Allianz A.G. Holding has strengthened its position in the Swiss market with a wide-reaching agreement calling for joint support of underwriting and investment initiatives with Berner Allgemeine Holdinggesellschaft A.G.

The agreement will "substantially" improve Munich-based Allianz's market position, according to a company spokesman. The Swiss group had a 1993 premium volume of 1.1 billion Swiss francs (\$838.42 million).

Allianz met with Berner Holding resistance after Allianz's Italian subsidiary, Riunione Adriatica di Sicurtà S.p.A., acquired a 31.5% share of the Swiss insurer in June 1994.

But, a Berner spokesman said the Swiss company now sees the benefit of Allianz's cooperation in building its own market presence. Under the agreement, Berner Holding will receive financial backing and technical support for its international business.

Meanwhile, Allianz will soon

complete its takeover of the ELVIA Group from Switzerland's largest reinsurer, Swiss Reinsurance Co.

Overall, Allianz will increase its presence in the Swiss market from its current premium level of 270 million Swiss francs (\$205.79 million) to more than 4 billion Swiss francs (\$3.05 billion), or about 8% to 9% of market share, with its planned takeover of ELVIA and its cooperation with Berner Holding.

—By Don Lewis Kirk

# ISO study

Continued from page 3  
insurance market could easily absorb?

The report pointed out that population growth is leading to an increasing concentration of risks in earthquake-prone areas.

"Much of the country's projected population increase from 1988 to 2010 will take place in coastal counties. Take the Massachusetts coast, for example. The area, subject to quakes, is already densely populated with about 4.5 million people. This figure is expected to grow by another half-million by 2010.

"Of the top 15 coastal counties with increasing population size, 12 are in California. Not surprisingly, Los Angeles and Orange counties top the list, with Los Angeles expecting an increase of 1.3 million people. These two counties are near the southern end of the dangerous San Andreas fault. Counties in the San Francisco Bay metropolitan area at the northern end of the San Andreas Fault and Washington's King and Pierce counties around Puget Sound are

also on the top 15 list."

The cost of recent catastrophes is leading both insurers and governments to seek new ways to spread risks, according to the report. These range from using reinsurance mechanisms to trading catastrophe insurance options on the Chicago Board of Trade. But, according to ISO, while "studying these mechanisms can be instructive," most observers think they fall short of providing a comprehensive solution to the catastrophe problem because they lack capacity and adequate geographic diversity.

Simply having more businesses and individuals buy earthquake insurance does not appear to be the answer, either. State requirements that insurers offer earthquake insurance to homeowners, such as that imposed by California after the Northridge earthquake, prevent insurers from having a geographic spread of risk and increase the chances of financial harm, according to the report.

The report also notes that recent catastrophes have increased demand for reinsurance to record levels. But reinsurance rates have risen and coverage has been more

difficult to obtain, the report said, due to greater concentration in reinsurance markets and a recent Financial Accounting Standards Board rule on funded covers. That 1992 rule, FAS 113, places restrictions on the types of contract will be considered reinsurance for accounting purposes.

Insurers are also concerned about the capitalization of the Bermuda reinsurance market and the immediate future of Lloyd's of London, the report states.

Even without government intervention, "if demand for earthquake insurance increased substantially, the available catastrophe insurance might not be sufficient to meet it, given concerns about the Bermuda and London reinsurance markets," the report notes.

Single copies of "Catastrophes: Insurance Issues Surrounding the Northridge Earthquake and Other Natural Disasters" are available free of charge by contacting the Insurance Services Office Inc., Industry Relations-Customer Service, 7 World Trade Center, 14th Floor, New York, N.Y. 10048-1199; 800-888-4476.

# Pool Re

Continued from previous page  
becomes widely available. Few believe that will occur soon.

Plenty of U.K. insurers are willing and able to offer buyers coverage which includes the terror risk, said Mr. Watson at Pool Re, but there is little sign of a return of commercial reinsurers willing to back them. Pool Re will therefore be needed for some time yet, he said.

"Obviously, if there were a lasting and complete ceasefire then other players would come back. It's really a question of when the reinsurance capacity comes in because while insurers may wish to write the business, they are wholly dependent on their reinsurers. And nothing we have heard yet indicates that reinsurers will return.

"Reinsurers are worried about aggregate exposures and even if

the risk of terrorist attack has reduced, the exposure for the underwriters is still exactly the same. Obviously the longer the ceasefire lasts, the more the scenario will change," Mr. Watson said.

Mr. Brett at Willis said that he suspects reinsurance could gradually enter the market if the ceasefire survives, but does not think it likely that sufficient reinsurance capacity will return to the market to make the pool redundant.

"I do not expect there to be an enormous amount of capacity. I suspect (some) companies... may come in at higher levels and there is capacity available in Lloyd's as an alternative to the pool. But no one can provide full blanket coverage," said Mr. Brett.

London Transport's Mr. Griffin was equally doubtful of a return to normality in the short term. "You have got to remember that the IRA is but one threat," he said. **BI**

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# Low-cost care need not be low quality

By CHRISTINE WOOLSEY

A recent study by public health researchers at Johns Hopkins University in Baltimore lends further support to the theory that low-cost care does not necessarily lead to low-quality care.

The study, published in the Dec. 28, 1994, issue of the *Journal of the American Medical Assn.*, may give employers further evidence that managed care and other cost containment programs are legitimate ways to balance cost control and quality.

"This is just one more in a series of studies that show high cost doesn't guarantee high quality," said Dr. Barbara Starfield, lead author of the study and a researcher in the School of Hygiene and Public

Health at Johns Hopkins. "This means you can go with low-cost care, but you have to measure the quality of that care consistently over time."

The researchers reviewed outpatient medical records at physician offices, community health centers and hospital outpatient facilities, including emergency departments, for 2,024 Medicaid beneficiaries in Maryland. Altogether, records of 135 providers' 1988 Medicaid claims data were studied, focusing on patients seeking treatment for diabetes, hypertension, asthma, well-child care or ear infections.

The researchers conducted the study "to assess the extent to which differences in costs of care, when adjusted for case mix, are associated with differences in the quality of

care provided to both adult and child patients with various common conditions" in different settings.

"We found few consistent variations in quality of care across different types of providers and across providers who differ in the amount of resources they consume in caring for patients," the researchers said.

In other words, they said, they found no evidence that patients treated by low-cost providers for a variety of common conditions received lower-quality care.

Based on the study, the researchers concluded that state Medicaid programs can both improve quality and lower costs when they are monitored for quality over time.

While that conclusion could be applied to other populations, like members of health maintenance or-

ganizations, the researchers noted the findings may not necessarily be generalized to other groups.

But, they noted, the "lack of relationship between quality and costs has important implications for health system reform and managed

**The study found no evidence that patients treated by low-cost providers received lower-quality care.**

care organizations."

Managed care plans are often criticized for trying to control costs at the expense of quality care. Other studies have looked at the issue but with mixed results.

The latest Johns Hopkins study,

though, supports the argument that health care facilities that provide services at lower costs can achieve adequate quality as often as higher-cost facilities.

The researchers trained professional nurse reviewers to conduct outpatient chart reviews, using standardized quality measures, in providers' offices. Quality-of-care indicators were originally derived from published literature and then reviewed by a panel of national experts in quality-of-care assessment.

A portion of the quality-of-care indicators consisted of generic aspects of care, which would be applicable to all patients regardless of medical condition.

Condition-specific quality indicators also were applied and divided into four categories: access to primary care; appropriateness of care; outcomes of care; and technical quality—including current standards for procedures designed to achieve an accurate medical diagnosis, treatment and monitoring of a particular diagnosis.

The study found that variations in quality did exist among different types of health care providers, but the differences were not based on the cost of the care provided.

For example, patients of office-based providers had poorer technical quality scores than patients in hospitals for three conditions: diabetes, hypertension and ear infections. In contrast, patients of community health centers had better technical quality scores than hospitals for well-child care.

However, "there was no consistent relationship between technical quality and provider cost level," the researchers reported.

Meanwhile, some patients of hospital clinics had poorer scores for access and for appropriateness of care than patients of community health centers. "There were not marked differences in these indicators by the cost level of the provider for any of the conditions," the researchers reported.

In general, the study found, patients of hospital clinics had worse overall quality scores than patients of community health centers or office-based practices for asthma in children and adults.

But, "there was no relationship between the cost level of the provider and the overall quality score. That is, low-cost providers performed as well as both medium-cost and high-cost providers."

Based on the study, "periodic assessments of quality of care may be feasible under health system reform." Such assessments could help consumers evaluate the performance of different health plans, the researchers said. ■



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# Rates

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NCCI's proposed reductions by specific industry groups were: manufacturing, 17.4%; contracting, 15.8%; goods and services, 10.7%; miscellaneous, 10.2% and office and clerical, 3.7%.

The NCCI's actuarially derived 12.5% reduction "can only be the result of effective reform," Mr. Oxfeld said.

In Maine's case, those reforms included deregulating the marketplace, creating the employers mutual, establishing a joint labor/management Workers Compensation Board and reducing and restricting benefits.

Recent estimates indicate that the reforms are making progress in reducing lost time injuries, which were roughly 15,000 last year, down from about 17,000 in 1993 and 18,400 in 1992, Mr. Payne said. That improvement stems from changing the state's workers compensation culture by modifying employers' and employees' attitudes, he said.

"What we are trying to instill in employers is that if they send home workers as healthy as when they arrived at work, employers have accomplished a major social good," Mr. Payne said.

Under the new "social contract," Maine Employers' wants "employers to provide a safe place of employment in exchange for a day's work, while employees provide a safe

day's work in exchange for a wage."

Employers' response to this message has been "nothing but good," he said. In addition, "employers see improved attitude, better communication and better productivity" on the part of workers, Mr. Payne said.

A few problems linger, though, including litigation over a residual market deficit variously estimated from \$98 million by a state public advocate to \$431 million by the NCCI (BI, June 13, 1994).

Maine Employers' is also concerned about two recent workers comp board decisions that essentially overturned a reform provision requiring a recuperated workers comp claimant to conduct a state-wide search for a replacement job if none is available with the previous employer before the duration of benefits would be extended. If allowed to stand, those decisions may increase the duration of claims and require insurers to set up larger reserves, Mr. Payne said.

In addition, a state health care study group is considering the feasibility of universal health care, among other options, he added.

While Maine reported the largest tentative decrease of any state, effective Jan. 1, 12 other states also saw decreases.

New Hampshire's voluntary market rates decreased 2.6%.

"Since 1990, we've been putting in a series of reforms, and we are beginning to see the results of those reforms," said David Nichols, New Hampshire's assistant commissioner.

Reforms include greater use of managed care in the voluntary market and requiring employers with 10 or more workers to file safety plans with the state.

In addition, Ohio expects a 3% to 4% decrease in average rates, effective July 1, for employers buying from its exclusive state fund.

Other good news for employers includes a decision by Boston-based Liberty Mutual Insurance Co., the nation's largest writer of workers compensation insurance, to resume writing in Rhode Island on Dec. 1, 1994.

The insurer discontinued writing workers comp coverage in that state

## Insurers hope the trend toward lower workers comp rates in states that have adopted system changes will encourage other states to mend their systems.

In addition, insurers maintained average rates effective Jan. 1 in three states: Oklahoma, Washington and Wyoming.

In Wyoming, "there were great changes within some employer classifications, but overall the rate change was zero," said Betty Dunagan, underwriting manager for the Division of Workers' Safety and Compensation, which operates Wyoming's exclusive state fund.

For example, an employer classification that includes home health care services and laboratories experienced a 75% increase, to \$2.89 per \$100 of payroll from \$1.65, she said. That increase was partially offset by a drop in rates for oil and gas producers, to \$1.28 per \$100 of payroll from \$1.62.

nearly three years ago after losing more than \$106 million from workers comp business, after investment income.

The only negative news came from four states that reported increases at the beginning of this year: Alaska, 2.6%; New Jersey, 5.8%; Tennessee, 8%; and Wisconsin, 0.83%.

Two other states may join that group on July 1. North Dakota expects rates to increase by an unspecified amount, and the NCCI is seeking a voluntary market rate increase of 11.7% in Alabama.

"The encouraging developments on rates are concentrated in those states that took action to get rates under control," Mr. Oxfeld said.

"It's been aggressive, courageous

actions by regulators and legislators to address system inefficiencies over the last three or four years that has created a more positive environment," said Peter Burton, the NCCI's senior vp for its Northern region in Wayne, Pa.

Those actions include needed reforms, necessary rate approvals and greater consciousness about fraud, he said.

Another component was residual market changes, such as the establishment of state-sponsored alternative entities like those in Maine and Rhode Island and one anticipated in Kentucky as of Sept. 1.

Insurer spokesmen say they hope that changes made in states that are enjoying lower rate levels can be maintained in the current climate of lower rates.

"As an industry, we have to be eternally vigilant that the gains we made will remain," Mr. Burton said. He is wary because, for example, labor interests in Connecticut have already announced plans to try to reinstate higher benefits.

The trend toward lower rates for many employers in states that have adopted system changes should encourage other states to mend their systems, too, insurers hope.

States needing attention include Alabama, Georgia, Hawaii and Tennessee, Mr. Oxfeld said.

In addition, Illinois, Maryland and Virginia all need further improvements in the way they handle the rising costs of medical care, Mr. Burton said. EJ

# FMLA

Continued from page 1

employee for FMLA leave.

Some employers had suggested that the determination of whether the 12-month floor is met for employees who earlier quit and then rejoined a company exclude time spent on the job prior to resignation. Others suggested that only the 12-month period immediately preceding the leave be counted.

The Labor Department noted, though: "There is no basis under the statute or its legislative history to adopt these suggestions."

**An employee must work at least 1,250 hours during the 12-month period preceding leave in order to be eligible for FMLA. How are these hours of work determined?**

Hours of work are defined as time actually spent on the job. For example, neither paid time off, like vacations or holidays, or unpaid time off, count toward the 1,250-hour floor.

On the other hand, overtime hours are counted. "Whether the hours are compensated or uncompensated is not determinative for purposes of FMLA's 1,250-hour test," the Labor Department says.

**What happens in the case of an employee, who, for example, originally requests 12 weeks of maternity leave, but is later well enough to return six weeks after the baby is born? Can the employer compel the employee to return to work sooner?**

No. "With respect to leave for the birth of a child, the statute entitles an employee to FMLA leave for a period of up to 12 weeks for the birth and care of a child," the Labor Department says.

**Can employees voluntarily return to work before the requested period of leave expires?**

Yes, an employer is obligated to "restore" the employee to active status.

"If circumstances change and the employee no longer has a need

for FMLA leave (which could include a parent's decision not to stay with a newborn child as long as originally planned), the employee's leave is concluded and the employee has an absolute right under the law to be promptly restored," the Labor Department said.

On the other hand, in situations where the employee wants to return to work earlier than anticipated, the employee should give the employer reasonable advance notice, which the department says generally would be two working days.

While this two-day advance notice requirement doesn't give employers a lot of time to prepare, many employers, nonetheless, will be glad to have employees on leave return earlier than expected, said Hewitt Associates' Ms. Sladek.

**Can FMLA leave be taken for the time necessary to ensure "bonding" between adoptive parents and the child?**

Yes. "The intent of the FMLA's leave entitlement in the case of leave for placement of a child with the employee for adoption or foster care includes 'bonding' time with the newly placed child during the 12 months following the date of employment," the Labor Department says.

**Is FMLA leave available for parents who are adopting children 18 years and older?**

In the case of adoptive children 18 years and older, leave only has to be made available in situations where the child is incapable of self-care because of a mental or physical disability.

**How much FMLA leave are married employees entitled to who work for the same company?**

It depends. The 12-week maximum is combined between the two spouses if leave is taken for the birth of a child, the placement of a child for adoption or foster care or to care for a sick parent.

The 12-week leave period is not

combined in other situations, such as the married couple's own illnesses.

**Under the FMLA, an employee can take leave for his or her own serious health care condition or that of an immediate family member. A serious health care condition includes one that involves continuing treatment by a health care provider. How is health care provider defined?**

The definition of health care provider is very broad and includes physicians, podiatrists, psychologists, dentists, certain chiropractors, nurse midwives and nurse practitioners. It would generally not include unlicensed professionals.

The definition of a health care provider was broadened from the interim regulations through the addition of clinical social workers.

**Does the FMLA require employers to offer leave for employees who want to take care of a domestic partner, in a "committed relationship"?**

No. Under the FMLA, an employee can take leave to care for an ill spouse. The law itself defines the term spouse to mean a husband or a wife.

That means "an employer would be required to give an eligible female employee unpaid leave to care for her husband and an eligible male employee unpaid leave to care for his wife.

No employer would be required to grant an eligible employee unpaid leave to care for an unmarried domestic partner," the Labor Department said, in quoting from the legislative history.

**Can an employer cap the number of employees who can take FMLA at any one time?**

The statute does not permit an employer to impose such a cap.

**How are holidays taken into account for determining the amount of FMLA leave taken.**

A holiday occurring during a

week of FMLA leave has no effect, i.e., the week with a holiday is still counted as a week of FMLA leave.

However, if the employer's activities cease for at least one week and employees are not expected to report to work, such as a school closing for summer vacation, the days on which the employer's activities have stopped do not count against FMLA entitlement.

**Can an employer require an employee to take paid leave, such as paid vacation leave, before an employee goes on unpaid leave?**

Yes. "An employee may elect, or the employer may require the employee to substitute any of the employee's accrued paid" leave.

**Can an employer count the period of time an employee is receiving workers compensation benefits against the amount of FMLA available to the employee?**

Yes. "Neither the statute nor its legislative history suggests that time absent from work for work-related accidents should not run concurrently for purposes of the FMLA and state workers compensation laws," the Labor Department said.

**Can an employer require a temporarily disabled employee on leave to return to work in a "light-duty" assignment instead of taking FMLA leave if the employee is unable to perform at least one of the essential functions of his or her original position?**

Generally not. An employer, the Labor Department notes, cannot modify a job to eliminate essential job functions as part of an effort to deny employees their FMLA leave rights.

**Can employers impose health care plan-related changes, like deductible increases, for employees on leave?**

Employers can change requirements for those on leave to the same extent they are making changes for other employees.

For example, if an employer in-

creases the indemnity plan deductible to \$200 from \$100 for active employees, the same change would apply to those on leave.

**Can employers drop health care plan coverage for those employees on leave who do not pay premiums on time.**

Yes, employers can terminate coverage for employees, but only after a 30-day grace period.

In a new requirement, employers must send out a notice 15 days before the grace period expires that coverage will be terminated unless the employee on leave pays the premium.

"It is an additional obligation on employers," said Gerald Uslander, a principal with William M. Mercer Inc. in Washington.

In addition, even if the employee on FMLA stops paying health care premiums, the employer must allow the employee to resume coverage—without any waiting periods—when the employee returns to work.

**Are employers barred from laying off employees while they are on FMLA leave?**

Employers can lay off employees on leave as long as, among other reasons, the employee would have been laid off even if not on leave.

**Are employees on leave eligible for the same kind of bonuses available to working employees?**

It depends on the kind of bonus. Employees on leave may not be disqualified for a bonus provided for perfect attendance just because they went on leave.

On the other hand, in the case of monthly production bonuses, employers can treat employees on FMLA leave in the same way as employees on other types of leave.

**Does the notice an employer must post informing employees of their rights under the FMLA have to be of a certain size?**

The only requirement is that the poster be large enough to be read from a reasonable distance. EJ

# HMOs

Continued from page 2

years and would create one of the nation's largest general service HMOs.

Analysts expect the price may get even higher for the financially strong managed care firm, which is widely respected for its successes in the California market.

Health Systems was itself formed by the January 1994 merger of Health Net and Qual Med. Since then, its revenues have grown an impressive 19% and its membership 15%, said Mr. Richter.

"The company is doing exceptionally well. It has a strong position in a number of markets and offers a broad product line," commented Mr. Richter.

At least one outside analyst, though, faults Health Systems. Weiss Ratings Inc. recently gave Health Net a D rating based in part on what it concluded was inadequate capital to cover its risks, and high debt levels.

But many others say the com-

pany is so desirable that other bidders are likely to emerge if the FHP and Foundation offers fall on deaf ears.

Mr. Richter said several other managed care companies, including PacifiCare Health Systems, United HealthCare Corp. and Wellpoint might be interested in acquiring Health Systems. Officials at all three firms refused to comment.

Industry observers say they are not surprised by the bids made by FHP and Foundation.

"Consolidation in the HMO industry has been under way for several years. California, which has been leading the nation in (HMO) membership and consolidation, needs to consolidate further" to meet employers' and other purchasers' demands for lower prices, Mr. Richter said.

In the long term, health plan consolidation could lead to lower costs. But in the short term, consolidation could cause problems for employers that have contracts with the merging firms, said Mark W. Agnew, a principal in the San Francisco office of Buck Consultants

Inc. "This can only mean a few extra headaches for benefit managers," he said. "When account executives and program identities change, you'll have many more phone calls coming into benefits departments asking, 'What does this mean to me?'" he said.

If completed, a merger of Health Systems with either FHP or Foundation would create California's largest managed care company with annual revenue of more than \$4.5 billion. With at least 2.4 million members, the new entity would be the nation's fifth-largest general service HMO.

Both potential acquiring companies are still digesting recent acquisitions. FHP acquired TakeCare in June 1994. And, Foundation acquired four companies in 1994: Intergroup, CareFlorida, Community Medical and Southern Colorado.

Mr. Agnew said too much HMO consolidation could lead to decreased competition. "Before, there were three strong companies in California. If this goes through, they will only be two." ■

# Both New York, Texas get new top regulators

By SARA MARLEY and GAVIN SOUTER

A seasoned regulator and a state legislator with little insurance experience are the new top insurance regulators in New York and Texas.

Edward J. Muhl, the former insurance commissioner for Maryland and a former president of the National Assn. of Insurance Commissioners, will become the next insurance superintendent of New York.

In Texas, Gov.-elect George W. Bush nominated Elton Bomer to serve as insurance commissioner. In addition to being an elected representative in the state Legislature, Mr. Bomer is senior vp of business development for the East Texas National Bank in Palestine, Texas.

Mr. Muhl replaces Salvatore Curiale, who resigned last month after Republican George E. Pataki was elected governor of New York.

The new superintendent has held positions with commercial insurers as well as state insurance departments. Mr. Muhl's latest position was as senior vp of Reliance Insurance Co. in Philadelphia. He also worked for Royal Insurance Co. in Charlotte, N.C. But prior to that, he spent much of his career in state positions.

From 1982 to 1988, he was both insurance commissioner of Maryland and president of NAIC.

Prior to serving as commissioner, Mr. Muhl was director of claims for the Maryland Automobile Insurance Fund, the state's largest writer of private passenger auto insurance.

He is also chairman of the board of directors of the Motor Vehicle Accident Indemnification Corp. of New York, and a member of the board of directors of the Insurance Federation of the states of New York and Pennsylvania.

Since Mr. Muhl's time as president, the NAIC has had occasional difficulties with the New York Insurance Department.

In 1993, the New York department's accreditation was suspended by the NAIC after the state failed to enact three model laws that the NAIC considers essential to regulate effectively (*BI*, March 15, 1993).

Mr. Curiale had been appointed in 1990 by then Gov. Mario M. Cuomo.

Risk managers contacted in New York knew little about Mr. Muhl's history.

Generally, risk managers will be sorry to see Mr. Curiale leave, said Louis Noe, director of insurance at Cablevision Systems in Woodbury, N.Y.

"He was a visionary and he made things happen," he said.

Notably, during the Mutual Benefit Life insolvency Mr. Curiale fought hard for policyholders in New York, Mr. Noe said.

When Mutual Benefit Life's rehabilitators proposed a bail out plan for the company, Mr. Curiale threatened to withhold New York guarantee fund participation in the plan and obtained a better deal for policyholders in the state.

In Texas, Mr. Bomer, a Democrat, served in the House of Representatives from 1981 to 1985 and again from 1991 through the present. From 1985 to 1989, he worked as a lobbyist in Austin.

"There seems to be a chasm of mistrust between the industry and

the consumer," Mr. Bomer said. "Hopefully, I'll be instrumental in bridging that gap."

He will not release his agenda for the office until after he is confirmed by the State Senate.

Mr. Bomer said his background which includes nine years as a sales manager for International Business Machines and owning a real estate brokerage, is a "perfect mix" for the job of insurance commissioner.

"I am well-schooled in the fundamentals of insurance," said Mr. Bomer, who was manager of data processing at Commercial & Industrial Life Insurance Co. from 1957 to 1963. "It has not changed much since the early days of this country: large numbers and spreading the risk. I have a good background in dealing with the legislature and running a business. If I had been CEO of an insurance company, I might have an agenda when I came in."

In the Legislature, Mr. Bomer most recently served on the appropriations committee, where he is chairman of both the subcommittee on health and human services and the agriculture and wildlife committee.

In 1993, Mr. Bomer was named one of the 10 best legislators by *Texas Monthly* magazine.

Insurance industry representatives in Texas praised the selection.

"He is very well respected with a reputation for being both tough and fair," said Ron Cobb, southwestern regional vp for the American Insurance Assn. in Austin. "That's all we've ever wanted from any commissioner."

"In many respects relating to insurance, he is an unknown quantity," Mr. Cobb continued. "But the qualities we know he has will fit" with the duties of the post.

Mr. Bomer's conservative record in the Legislature indicates he will bring the same "reasonable, philosophical approach to insurance regulation," said Jerry Johns, president of the Southwest Insurance Information Institute, a public relations organization funded by insurers.

He expects the new commissioner to focus on insurer solvency and fraud investigation, which was the subject of a grand jury letter to Gov.-elect Bush that was critical of the Texas Department of Insurance (*BI*, Jan. 2).

"It's significant that Bush reached out to a Democrat," Mr. Cobb said. "No doubt he realized that insurance in this state has been a political football for far too long and it's time to take a bipartisan approach."

Ironically, Gov. Ann Richards, a Democrat, turned to a Republican, J. Robert Hunter, to serve as insurance commissioner.

Despite their party affiliations, Mr. Hunter had a reputation as a strong consumer advocate while Mr. Bomer is regarded as a conservative.

Mr. Hunter resigned after a year in office for family reasons. He was replaced last month by Rebecca Lightsey, who will serve through Jan. 31 (*BI*, Dec. 19, 1994; Dec. 5, 1994).

Mr. Bomer "was not on anybody's radar screen," Mr. Cobb said. "That also speaks well of Bush. He was his own counsel on that. Bomer will come into office not beholden to anyone except the governor." ■

## Datebook

### JANUARY

**JAN. 16-18. Intro to Financial Analysis-Life/Health Insurance** seminar in New York, sponsored by A.M. Best Co. and The College of Insurance; \$950. **Also Feb. 13-15** in Chicago and **March 13-15** in San Francisco. The College of Insurance, 101 Murray St., New York, N.Y. 10007-2132; 212-962-4111.

**JAN. 16-18. Intro to Financial Analysis-Property/Casualty Insurance** seminar in New York, sponsored by A.M. Best Co. and The College of Insurance; \$950. **Also Feb. 13-15** in Chicago and **March 13-15** in San Francisco. The College of Insurance, 101 Murray St., New York, N.Y. 10007-2132; 212-962-4111.

**JAN. 18. 1995 All Industry Day** in Pittsburgh, sponsored by the Allegheny Chapter of the CPCU Society. Contact Gregory S. Barth, 412-456-3230.

**JAN. 18-20. Shared-Risk Contracting and Capitation of the Pharmacy Benefit** conference in Scottsdale, Ariz., sponsored by Global Business Research Ltd.; \$1,195. Conference Administrator, Global Business Research Ltd., 151 W. 19th St., Eighth Floor, New York, N.Y. 10011; 1-800-868-7188 or 212-645-4226.

**JAN. 19-20. Civil Rights and Government Tort Liability** seminar in San Diego, sponsored by the Defense Research Institute Inc.; \$445 for DRI members, \$495 for non-members. Defense Research Institute, Civil Rights and Governmental Tort Liability Seminar, 750 N. Lake Shore Drive, Suite 500, Chicago, Ill. 60611; 312-944-0575.

**JAN. 23-24. Behavioral Healthcare Outcomes** conference in San Francisco, sponsored by the Institute for International Research; \$1,295. Conference Administrator, Institute for International Research, 708 Third Ave., Fourth Floor, New York, N.Y. 10017-4103; 800-345-8016 or 212-661-8740.

**JAN. 23-24. Risk Management Strategies for Managed Care** conference in Dallas, sponsored by the Institute for International Research; \$1,195. Conference Coordinator, Institute for International Research, 708 Third Ave., Fourth Floor, New York, N.Y. 10017-4103; 212-661-8740.

**JAN. 23-24. Risk Contracts in Medicare Managed Care** conference in San Diego, sponsored by the Institute for International Research; \$1,195. Conference Administrator, Institute for International Research, 708 Third Ave., Fourth Floor, New York, N.Y. 10017-4103; 800-345-8016 or 212-661-8740.

**JAN. 24-26. Performance Measurements for Training** conference in At-

lanta, Ga., sponsored by the International Quality & Productivity Center; \$1,095. International Quality & Productivity Center, P.O. Box 43155, Upper Montclair, N.J. 07043-7155; 800-882-8684 or 201-783-4403.

**JAN. 24-26. Redesigning Healthcare Education and Training** conference in San Francisco, sponsored by the International Quality & Productivity Center; \$995. International Quality & Productivity Center, P.O. Box 43155, Upper Montclair, N.J. 07043-7155; 800-882-8684 or 201-783-4403.

**JAN. 25-26. Mergers and Acquisitions: From A to Z** seminar in New York, sponsored by the Practising Law Institute; \$995. Practising Law Institute, 810 Seventh Ave., New York, N.Y. 10019; 1-800-260-4754.

**JAN. 26-27. Outsourcing Employee Benefits and Human Resource Functions** conference in Orlando, Fla., sponsored by the International Quality & Productivity Center; \$795 for employee benefit or human resource managers, \$1,095 for others. International Quality & Productivity Center, P.O. Box 43155, Upper Montclair, N.J. 07043-7155; 1-800-882-8684.

**JAN. 26-27. Managed Care: The Next Generation** conference in Longboat Key, Fla., sponsored by the Florida West Coast Healthcare Coalition; \$295. Florida West Coast Healthcare Coalition, 6637 Superior Ave., Suite C, Sarasota, Fla. 34321; 813-923-1697.

**JAN. 30-FEB. 1. Financial Analysis-Life/Health Insurance** seminar in New York, sponsored by A.M. Best Co. and The College of Insurance; \$950. **Also Feb. 27-March 1** in Chicago and **March 27-29** in San Francisco. The College of Insurance, 101 Murray St., New York, N.Y. 10007-2132; 212-962-4111.

**JAN. 31-FEB. 1. Designing and Managing Specialty Niche Insurance Programs** in San Francisco, sponsored by the International Quality & Productivity Center; \$1,195. International Quality & Productivity Center, P.O. Box 43155, Upper Montclair, N.J. 07043-7155; 1-800-882-8684.

**JAN. 31-FEB. 1. Fourth Annual P&I Defined Contribution Conference** in New York, sponsored by Pensions & Investments & IBF/International Business Forum; \$695 for plan sponsors, \$1,095 for others. IBF/International Business Forum, 7 Penn Plaza, Suite 901, New York, N.Y. 10001; 212-279-2525.

### FEBRUARY

**FEB. 2. Proven Strategies for Successful Insurance Sales** seminar in Normal, Ill., sponsored by Illinois State University's Katie Insurance School; \$30. Illinois State University, Katie Insurance School, Attn: Kathy Kelly, Campus Box 5490, Normal, Ill. 61790-5490; 309-438-3021.

**FEB. 2-3. Mealey's Insurance Fraud and Bad Faith Conference** in Phoenix,

sponsored by Mealey Publications Inc.; \$595. Mealey Publications Inc., P.O. Box 446, Wayne, Pa. 19087-0446; 1-800-632-5397.

**FEB. 3-4. Joint Technology Conference** in Kansas City, Mo., sponsored by the National Assn. of Insurance Commissioners and ACORD; \$125 for regulators, \$450 for non-regulators. National Assn. of Insurance Commissioners, Meetings Department, 12 Wyandotte Plaza, 120 W. 12th St., Suite 1100, Kansas City, Mo. 64105; 816-889-4400.

**FEB. 6-8. Hazard Analysis and Risk Reduction** seminar in Dallas, sponsored by the American Society of Safety Engineers; \$650 for ASSE members, \$750 for non-members. **Also April 3-5** in Anaheim, Calif. American Society of Safety Engineers, Education Registrar, 1800 E. Oakton St., Des Plaines, Ill. 60018-2187; 708-692-4121.

**FEB. 9-10. Products Liability Seminar** in San Francisco, sponsored by Defense Research Institute; \$445 for DRI members, \$495 for non-members. Defense Research Institute: Products Liability Seminar, 750 N. Lake Shore Drive, Suite 500, Chicago, Ill. 60611; 312-944-0575.

**FEB. 9-10. Provider Network Management** conference in Santa Monica, Calif., sponsored by the Institute for International Research; \$1,295. **Also Feb. 16-17** in Washington. Conference Coordinator, Institute for International Research, 708 Third Ave., Fourth Floor, New York, N.Y. 10017-4103; 212-661-8740.

**FEB. 9-10. Lloyd's and London Insurance Market** conference in New York, sponsored by Executive Enterprises; \$1,195. Executive Enterprises, 22 W. 21st St., New York, N.Y. 10010-6990; 800-831-8333.

**FEB. 9-10. Workers Compensation Managed Care** conference in Orlando, Fla., sponsored by the Institute for International Research; \$1,295. Conference Coordinator, Institute for International Research, 708 Third Ave., Fourth Floor, New York, N.Y. 10017-4103; 212-661-8740.

**FEB. 9-10. Capitation and Risk-Sharing Contracts** conference in Orlando, Fla., sponsored by the Institute for International Research; \$1,195. Conference Coordinator, Institute for International Research, 708 Third Ave., Fourth Floor, New York, N.Y. 10017-4103; 212-661-8740.

*The Datebook is compiled from notices sent to Business Insurance. Notices should be sent at least eight weeks in advance to Datebook, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611-2590. Please include the cost, if any, to attend 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.*

# Lawsuits

Continued from page 3

high-risk investments which were particularly sensitive to increases in interest rates," the suit contends.

In addition, the suit alleges that Mr. Alexander authorized the investments even though he was aware that Mr. Pittock and several organizations with which he was associated had been the subject of actions by the SEC, and committees of the National Assn. of Securities Dealers and the Chicago Board Options Exchange.

At one time, the SEC had suspended Mr. Pittock from trading any securities at all except those in his personal account, the suit added.

Furthermore, the SEC had instituted an administrative action against Mr. Pittock and four of his organizations at the time that Mr. Alexander purchased certificates from AGC in January 1994, the suit said.

Kansas regulators also are seeking unspecified punitive damages.

Mr. Pittock could not be reached for comment.

Montana regulators contend that Mr. Alexander, who served as special deputy liquidator from October 1987 through January 1993, breached his fiduciary duty by permitting a trust firm—in which he held an interest—to invest Glacier funds in securities that "appear to be totally worthless at this time and may in fact have been worthless when made."

Mr. Alexander held 1% of the shares of Trustamerica Group Inc. of Denver, which owns Trust Co. of America, which was hired by Mr. Alexander as the custodian of Glacier's assets. Both firms are named in the Montana action.

Trust Co. of America was removed from managing Glacier's investments in January 1993.

The trust company's assets were sold off at year-end 1994 for reasons unrelated to the Montana lawsuit, according to Colorado banking authorities.

Also named in the Montana suit are: Trustamerica President Bob Woodworth and Monte House, president and treasurer of Trust Co. of America.

According to the Montana suit, Mr. Woodworth, while serving as a stockbroker on the Glacier account at TCA, wired \$100,000 to Hamilton Group Inc. in June 1992 in exchange for a note promising repayment with 12% interest by August 1993. However, no note or other security was ever received by TCA, and the investment was illiquid, the court papers say.

Then, in September 1992, Mr. Woodworth transferred another \$550,000 from Glacier's trust account to an account for Comp-U-Check Inc., a check guarantee and collection service that was then based in Southfield, Mich. Comp-U-Check, which had been losing money since 1986 and had been described by one of its directors as near bankruptcy in the summer of 1992, used the money to buy back the debt securities it issued earlier.

This investment in Comp-U-Check was illiquid, the suit alleges.

Furthermore, the Comp-U-Check investment was made even after Mr. Woodworth "knew or should have known that Comp-U-Check was on the verge of bankruptcy and was being run by a bankrupt who had been involved in a major fraud and ponzi scheme," the suit asserts. The suit does not identify the alleged "bankrupt" or the "ponzi scheme."

Mr. House is named in the suit because he "tacitly approved" of

the transaction, the suit explained.

The trust company sued Comp-U-Check in 1993 when it became apparent that the company would not repay the debenture.

The Montana suit also accuses Mr. Woodworth of mishandling another \$100,000 of Glacier's money in buying 80,000 shares of common stock of Denver-based Auxiliary Health Benefits Corp., which the regulators say is now worthless.

Mr. Alexander said he has not yet filed a response to the two lawsuits.

However, he maintains that both suits are unwarranted and has retained Topeka, Kan.-based Frieden, Haynes & Forbes to represent him.

In fact, "the portfolio for Glacier had a 24% net gain in value over the time we handled it," growing to \$27.2 million in January 1994 from \$22.8 million in January 1991, Mr. Alexander boasted.

Mark O'Keefe, Montana's insurance commissioner, said "it's irrelevant whether he had a good return on investment. And 24% isn't that great over a three-year period."

Mr. Alexander also explained that Aimco, which was liquidated last month, was "just one of the many casualties of the Kidder Peabody bond fraud."

Joseph Jett, a trader with Kidder Peabody, has been accused of orchestrating a plan to fabricate some \$350 million in bogus bond profits.

A Kidder Peabody spokesman commented that mortgage-backed securities have been very volatile, but on Friday did not have sufficient information to say whether Kidder Peabody had any involvement in Aimco's losses.

Neither Mr. Woodworth nor Mr. House could be reached for comment. **BI**

## N.J. health insurance mandate

TRENTON, N.J.—A New Jersey law effective Jan. 1 requires health insurers in the state to cover an array of wellness tests, ranging from various blood tests to annual mammograms for women.

The Health Wellness Promotion Act, signed in the final days of former Gov. James Florio's administration, calls for all insurers writing group and individual insurance to offer policies covering: multiple blood tests for all persons age 20 or older; glaucoma tests every five years for those age 35 or older; annual stool cultures for persons age 40 or older; colon exams every five years for people 45 or older; biannual pap smears for women age 20 and older; annual mammograms for women age 40 and older; and all recommended immunizations.

The law, though, limits the amount an insurer would have to pay in a given year for such examinations. For persons between the ages of 20 and 39, the annual limit is \$125. For men age 40 and older, the limit is \$145, while for women in that age group, the limit is \$235. Colon exams for persons older than 45 are excluded from the limit.

Even though health insurers generally oppose mandates, Ken Sorrentino, director of government affairs for the New Jersey Assn. of Life & Health Insurance Cos., said the group supports this law and other forms of legislation "that help consumers take better care of themselves." Any legislation that promotes wellness has been and will be supported by the association, he said. **BI**

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# The Home

Continued from page 1

would have preferred the Byrne offer, observers say.

Regulatory approval of any offer may hinge on which deal will be best for The Home's policyholders, an issue yet to be resolved.

The uncertainty that surrounds The Home already has cost it business, as some policyholders are turning to insurers in less tumultuous waters.

Home's stock price last week fell to \$9.25 on Friday from \$9.38 a week earlier in New York Stock Exchange trading.

The latest move for Home was made last week by the investment group led by Mr. Byrne.

Under the revised offer, Home's public stockholders would have been offered \$10.50 a share, topping the \$10-a-share deal offered by the Zurich-led group.

The Byrne investor group includes Fund American, Trident Partnership L.P. and Hellman & Friedman in San Francisco.

The new offer would have cost the Byrne group about \$100 million more in cash, and the group would have forfeited the \$60 million that would have been raised by the planned stock issue to existing shareholders.

The rest of the terms of the original offer, which would have brought \$420 million to Home Holdings and released it from repayment of a \$170 million loan to Trygg-Hansa, are unchanged.

The Zurich group would repurchase all the public investors' shares in Home Holdings and at least 4.8 million of Trygg-Hansa's shares, but perhaps all 22.5 million

over eight years; the \$170 million loan would be restructured; Zurich-American Insurance Group would take over a large block of The Home's business, estimated at more than \$1 billion of The Home's more than \$2 billion in written premiums; and The Home eventually would be liquidated.

The revised Byrne group offer confirmed the Fund American group's interest in Home, said Mr. Byrne, who would become Home's chairman under any successful deal by his group.

Prior to the Friday rejection of the revised bid, Mr. Byrne had said, "We are trying to get (Home) to talk to us, and we are trying to take one of the problems off the table," which was the higher Zurich bid to public shareholders.

But the plan did not succeed. Last Friday, Home's board said the Byrne group offer did not meet the three criteria it needed to start fresh talks with Mr. Byrne.

The agreement in principle with Zurich stipulated that Home could consider an unsolicited proposal only if it met the following criteria: It must represent higher value for Home than the Zurich offer; it is a proposal that Home has a fiduciary duty to consider; and it is credible.

"Based on the information currently available, the Home Holdings board of directors is unable to conclude that the Fund American Group letter meets these standards," Home said in a statement.

Additionally, the new offer from Mr. Byrne and his co-investors continues to require Trygg-Hansa to forgive its \$170 million loan to Home, the statement noted.

"This requirement conflicts with provisions of the Zurich Group's agreement in principle,

and Trygg-Hansa has advised Home Holdings that it will not agree to this requirement," the statement said.

Under the Zurich offer, the loan will be restructured with payment of \$1 million and repayment of \$109 million dependent on the adequacy of The Home's loss reserves during runoff.

Fund American disagrees that its offer fails to meet the standards for reopening negotiations.

"We would challenge the Home to explain which of the criteria it does not meet," a spokesman said.

The group of investors met last Friday to consider its options, the spokesman said.

Whatever the group does, it cannot match Zurich's offer to form a strategic alliance with Trygg-Hansa, Mr. Byrne acknowledged.

"I think the strategic alliance sounds very attractive to Trygg-Hansa. It was a very intelligent move by Zurich, as there is no way we can match that," Mr. Byrne said.

The strategic alliance is intended to allow Trygg-Hansa's Scandinavian clients access to Zurich's international network of insurers and Zurich's clients access to Trygg-Hansa professionals in Scandinavia.

But, the Zurich deal has been criticized as potentially detrimental to The Home's current and previous policyholders, Mr. Byrne noted. Mr. Byrne declined to elaborate.

There has been speculation, however, that when The Home goes into liquidation, after Zurich-American has renewed the business it wants, there may not be sufficient funds to pay claims to policyholders holding policies issued by The Home and not Zurich-American.

Zurich contends that The Home's assets are sufficient to run off its business. And, A.M. Best said earlier this month that The Home's assets in liquidation should be sufficient to maintain its B+ rating.

The new offer made by Mr. Byrne's group would have benefited Home's bondholders and its public shareholders, said Peter Wade, associate director at Standard & Poor's Corp. in New York.

Under the offer, Home would have had increased capital, stronger earnings prospects and better financial flexibility, which would lead to a rating upgrade and higher price for its bonds, he said.

Conversely, under the Zurich-led proposal, creditors and policyholders will suffer from weak capitalization, inadequate reserves, reduced financial flexibility and only minimal earnings prospects, Mr. Wade said.

The crucial question that likely will decide the victor in this contest is which offer regulators consider best for policyholders, said John L. Ward, chief executive officer of Ward Financial Group in Cincinnati.

"The fact of the matter, and everybody knows it, is that it is the policyholders that count," he said.

Robert M. Solitro, deputy insurance commissioner of New Hampshire, where The Home is domiciled, said, "We've made it clear that our primary and only obligation is to policyholders and (Zurich) will need to convince us that they will protect the policyholders" before the deal will be approved.

Of the two offers, the Zurich deal will likely benefit policyholders more if Zurich commits to back The Home's liabilities with Zurich's resources, Mr. Ward said.

"But if there is any gap in that commitment, that could totally

**What's best for The Home's policyholders may ultimately determine which offer is approved.**

turn the tide on how it will all work out," he said.

The Zurich offer will not likely be popular with The Home's existing policyholders, as Zurich will choose which accounts it will keep, said one brokerage executive.

"If I was a policyholder with long-tail exposures placed with The Home and the Zurich comes in and picks and chooses, the question is whether I would ever be able to collect," he said.

The uncertainty about the future of The Home already is costing the insurer business, the broker said.

"A lot of people are questioning The Home. Why stay with a sinking ship?" he said.

The Home already has lost a lawyers professional liability account for lawyers across the country worth over \$250 million in premium which was placed with The Home by Professional Liability Underwriting Managers, a unit of Willis Corroon Americas Inc. in Nashville, Tenn.

The program was placed with Zurich-American after other insurers were considered, said Ken Pinkston, chief executive officer of Willis Corroon.

"The Home helped to set up the program 11 years ago, but the customers have the final say, and we have to have a product that is ac-

ceptable to our clients," he said.

Zurich-American is rejecting some other Home renewals, said Charles Ruoff, senior vp at Sedgwick James Inc. in New York.

After Zurich announced that it would offer a cut-through to Zurich security on selected accounts that renew with The Home, three Sedgwick general liability clients had different experiences, he said.

One account was accepted by Zurich-American and renewed; one was accepted by Zurich-American but moved its coverage; and one was rejected by Zurich-American, Mr. Ruoff said.

All of the clients placed primary casualty business within the first \$2 million layer, and none of the clients had a full-time risk manager, he said.

"It was a comfort level thing for the financial people at the companies," Mr. Ruoff said.

The Home could lose more clients unless the uncertainty over its future is cleared up soon, he added.

"We are laying facts out in front of the clients, and some are saying they already have liabilities with The Home and why should they have one more policy with them," Mr. Ruoff said.

And, runoff operations are notoriously slow in handling claims, so customers would prefer The Home to remain an ongoing operation, he said.

The Home did manage to retain a significant portion of its clients, as the bidding war started after renewal negotiations had been completed, said Norman Barham, president of the New York division of Johnson & Higgins.

"We had very little dropoff because the ratings had been upgraded and the Jan. 1 renewals had been negotiated," he said.

The next deadline for The Home to sort out a deal will be the April 1 renewal season, Mr. Barham said.

"Everybody is waiting to see what happens."

Meanwhile, between Christmas and New Year's, Aon Re Inc. placed The Home's reinsurance coverage, ensuring that The Home can offer policyholders limits similar to what it has in the past.

In particular, The Home placed a \$7.5 million excess-of-\$2.5 million property excess-of-loss reinsurance program mainly in the London market with a catastrophe limit of \$30 million, according to underwriters.

"There was a lot of pressure to get the reinsurance in place so The Home can say that it is in business," noted one London underwriter.

Stacy Shapiro contributed to this report.

## Study emphasizes quality care

Health care providers and plan sponsors could get far higher returns on their depression treatment dollars—including better outcomes and greater cost-effectiveness—by thinking of the quality of care instead of cost, according to a new Rand Corp. study.

The Santa Monica, Calif.-based company's findings indicate that because the trend is to shift depression patients away from mental health specialists and into the hands of general practitioners, the care is usually less expensive but of lower quality.

The study concludes, though, that by spending the additional 20% to 30% it takes for treatment that follows established practice guidelines, a company could quadruple the effectiveness of the care as measured by patients' ability to function on the job.

The article is the latest from the

Medical Outcomes Study, or MOS, the largest and most comprehensive examination to date of the medical and functional outcomes of patients with chronic diseases. It was published in last week's Journal of the American Medical Assn.

Earlier studies showed that depression has a greater effect on patients' day-to-day functioning and on use of health care services than many other major chronic medical diseases.

The latest Rand report states that when more general practitioners are trained to provide quality care for depressed patients, it may be possible to send many patients to them and have it all—reduced or contained total treatment costs, better outcomes, and as a result, better return on depression care dollars.

—By Stacy Ashley

## Mentoring

Continued from page 3

find more people that are interested."

"It started out as a personal interest," Ms. Olabisi added. "When I entered the business, there wasn't anyone to help me on a one-on-one basis. I thought, 'I'm going to try to do something because it wasn't available for me.' Now I'm in a position to do something."

To launch the program, chapter leaders recruited some of the best of the "old pros" in the Los Angeles area. Many of the nine participating mentors are vice presidents or risk management directors of large Los Angeles companies.

"We tried to be careful about whom we selected," Ms. Olabisi

said. "We wanted to be sure it's a quality program, and we wanted to make sure the people had experience and knowledge and were qualified to help someone."

"We've got a lot of people who have 20 or more years experience," she continued. "We wanted the high profile, because we wanted people to know we're serious about it."

Mentors must be well-respected, have 15 years of risk management experience and help their counterparts create a personal development plan. Additionally, they must pledge to one year of service.

Mentor qualifications were purposefully made stringent, because the program's success is riding on mentor participation, Ms. Olabisi said.

"We make them sign a pledge

committing they will meet at least quarterly and instigate telephone conversations," she said. "We are quite clear about our guidelines and what we expect of our mentors."

For that reason, mentors will generally be assigned only one risk manager to help.

Chapter leaders are aware that mentor programs can fail if those being helped shy away from interacting with their mentors out of fear the latter may be too busy or too senior to help address simple problems.

"It's one of those things we're trying to put together in a way people can feel comfortable," Mr. Pinner said. "If they feel that is not the right person for them, they can choose another mentor. It's not like this is your mentor, you're stuck with them."

When the idea was first formally introduced during the chapter's fall conference, only risk managers were allowed to attend a discussion about the program. Vendors and reporters present at other sessions were not allowed.

In the future, similar steps will be taken to keep the new risk managers' participation confidential. That confidentiality might make it easier for a protegee to confide in someone when he or she is struggling to complete an assigned task, RIMS leaders said.

"We want the mentee to be able to talk confidentially about their boss, about politics in the office, about their brokers," Ms. Olabisi said. "We want them to be at ease."

But what do mentors gain from the experience?

"The pitch for them is they are

giving back to their career," Ms. Olabisi said.

They can help ensure the quality of their profession and ensure there will be capable risk management leaders in the future.

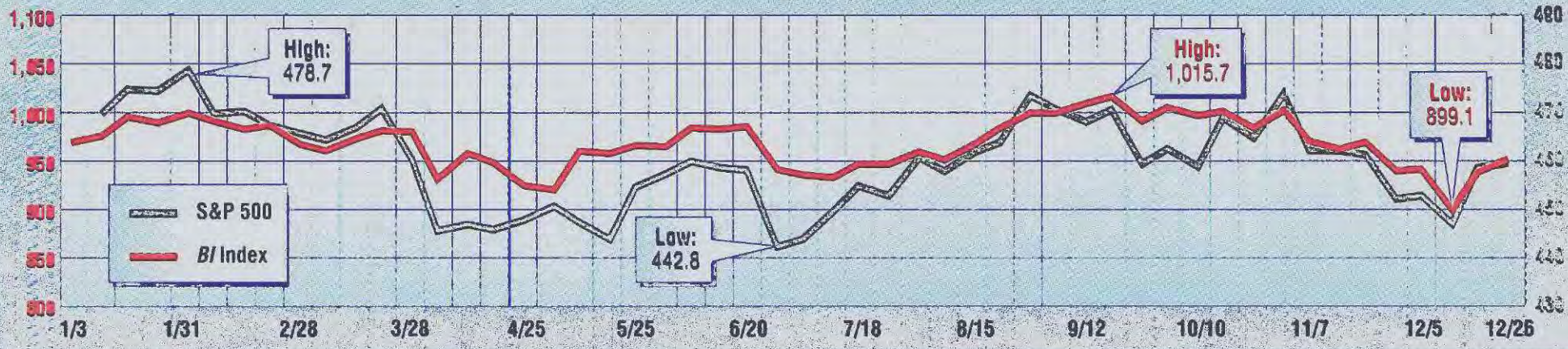
"We want to maintain a certain level in terms of our standard," Ms. Olabisi said. "We want our employers here in Los Angeles to have the cream of the crop. It is a way for us to have some standard and have groups of people ready to step in when we need them," she said.

Ms. Olabisi said she is working hard for the program's success in hopes that someday it may be used by RIMS members in other cities.

"You can think of this as a pilot," she said. "Perhaps they can use our program as a model for other chapters." ■

# 1994 in review

Business Insurance Stock Index and Standard & Poor's 500 Index



Source: Nordby International Inc.

GRAPHIC BY MIKE GARVEY

The *Business Insurance* Index finished 1994 down a bit from where it began the year, falling 18.3 points, or 1.9%, to 950.2 on Dec. 26 from 968.5 on Jan. 3.

The Standard & Poor's 500 index also ended the year down from where it started, dropping 2.2% to 459.8 on Dec. 26 from 469.9 on Jan. 10.

The *BI* Index, which tracks 81 insurance stocks, reached a high of 1,015.7 on Sept. 19 and a low for the year on Dec. 12, when the index fell to 899.1.

### Catastrophe insurance option call spreads

As of Jan. 6

Call spread	Price bid/ask	Rate on line %	Call spread	Price bid/ask	Rate on line %
Eastern-September 1995			Western Annual 1995		
45/65	5.6/6.1	28/30	20/30	0.5/3.0	5/30
50/70	5.3/5.5	26.5/27.5	30/40	0.3/1.8	3/18
50/80	4.0/5.5	20/27.5	30/50	0.5/2.5	2.5/12.5
100c	8.5/12.0	8.5/12	50/70	0.6/1.8	3/9
150c	4.0/5.5	8/11	60/80	0.3/3.5	1.5/17.5

Total volume: 0 Total open interest: 4,780  
For quotes, call the CBOT trading floor at 312-341-3342. For general information, call 312-435-3674.  
Source: Chicago Board of Trade

## Brokers

Continued from page 2  
purchasing approximately 20 Hogg Robinson retail brokerage offices, giving Acordia a presence in New York, New Hampshire and Michigan. Bain Hogg will retain four small regional brokerage operations in Minneapolis, Los Angeles, St. Louis and Milwaukee, as well as its credit and political risk division, and the medical division of Penn General Service Corp., which is Hogg's workers compensation administration and loss control unit.

Acordia will also expand its product base by entering niches in fine arts, jewelry and trucking insurance due to the acquisition. Bain Hogg Robinson, the U.S. retail arm of London-based Bain Hogg Group, produced about \$60 million in revenues in 1993. The acquisition would make Acordia, on a pro-forma basis, No. 7 in the *Business Insurance* rankings of the world's largest brokers, surpassing Bain Hogg. Currently, Acordia is No. 8, with \$346.8 million in 1993 revenues.

"I think this is a good fit for Acordia," said Mike Romanowski, an analyst with Conning &

Co. in Hartford, Conn. Hogg Robinson's predominantly property/casualty book will "diversify (Acordia's) business away from a preponderance of health care-related business."

However, "I don't think (Bain Hogg and Acordia) will merge," he said. Indianapolis-based Associated Group still owns a majority of Acordia and "I think it's unlikely they would agree to a merger," he said.

When Bain Clarkson Ltd. and Hogg Group P.L.C. completed their merger last September, Ron Forrest, Bain Hogg's chief executive officer, said Bain Hogg will seek a listing on the London Stock Exchange within two years and is aiming to be among the world's top three brokers within five years by using the proceeds of the offering to help finance a further and final major acquisition (*BI*, Sept. 5, 1994).

Neither side would comment specifically on whether the companies plan to merge. "There is no question that we see a lot of synergy between the firms. We like each other and have similar cultures. I'm not saying the conclusion is incorrect. You never know what the future will hold," said Frank C. Witthun, president and chief operating officer of Acordia.

The global alliance and the acquisition "pre-

sents opportunities for a strong U.S. player to meet up with a strong global player to create something that may not already be in the marketplace. If it leads to something else in the future... it's a possibility," said Gary R. Griffith, president and CEO of Bain Hogg Robinson.

Mr. Griffith said he plans to stay with Bain Hogg in a global initiative capacity.

"(An eventual merger) wouldn't shock me," said Jay Cohen, an analyst with Salomon Bros. Inc. in New York.

But it is not a deal for the immediate future, he added. "Acordia is strictly a U.S. company, and they believe there are still growth opportunities in the U.S." The strategic alliance between Hogg Group and Acordia "will give them a chance to test the international waters with an experienced partner."

Vanessa Wilson, a First Boston Corp. analyst in New York, said she doesn't see an eventual merger between the two firms.

What likely transpired was Bain Hogg looked at its retail U.S. business, decided it was unhappy with it and, instead of keeping a business with no critical mass in such a competitive market, it made more strategic sense to access Acordia's networks, she said. **BI**

## British Issues

Jan. 5 Companies	Price pence	P/E	Div. pence	Yield %	Week high-low
Comm/Union	498	15.9	31.0	6.2	508-498
Genl Accident	507	10.2	34.4	6.8	507-503
Gdn Royal Exch	165	10.7	9.5	5.8	169-165
Independent	274	8.9	10.4	3.8	274-266
Royal	273	11.9	9.4	3.4	282-273
Sun Alliance	287	12.8	18.4	6.4	290-287

Brokers	Price pence	P/E	Div. pence	Yield %	Week high-low
Bradstock	96	10.8	7.1	7.4	96-94
Fenchurch	162	11.3	10.0	6.2	162-161
CE Health	245	8.8	20.0	8.2	246-245
JIB Group	126	11.0	3.4	7.5	126-126
Lloyd Thompson	160	11.1	3.8	6.1	161-160
Lowndes Lombt	162	10.2	3.4	5.8	162-162
Nelson Hurst	181	17.7	7.0	3.9	181-180
PWS Holdings	35	N/M	1.9	5.4	35-35
Sedgwick Grp	150	16.7	7.5	5.0	151-150
Steel Bri Jones	119	N/M	1.3	9.5	121-119
Willis Corroon	142	13.0	9.3	5.9	142-137

Source: Philip Olsen London \* Latest actual year

# BI Industry Stock Report JAN. 2, 1995, THROUGH JAN. 6, 1995

BROKERS	Price	Weekly % change	Year to date % change	Annual		Vol.(000)	\$ Div.	% Yield	P/E	Book value	Mkt./Bk. value	Price	Weekly % change	Year to date % change	Annual		Vol.(000)	\$ Div.	% Yield	P/E	Book value	Mkt./Bk. value	
				High	Low										High	Low							
ACE Ltd.	33.00	-1.49	-1.49	33.50	23.00	22	0.60	1.82	17	13.24	2.49	32.75	-2.24	-2.24	34.00	24.00	720	0.16	0.49	16	19.75	1.66	
Alexander & Alexander	18.75	1.35	1.35	22.75	14.00	217	0.10	0.53	-144	6.08	3.08	28.50	8.57	8.57	31.75	22.25	382	0.16	0.56	12	17.31	1.65	
E. W. Birch Holdings Inc.	20.75	0.81	0.61	23.00	15.75	1	0.32	1.54	18	4.55	4.56	14.25	-1.72	-1.72	35.00	14.25	130	0.00	0.00	-4	0.21	1.40	
Ga. Lighter Arthur J. & Co.	30.63	-4.30	-4.30	37.13	28.13	36	0.88	2.87	15	6.48	4.73	8.19	-0.76	-0.76	8.75	7.63	40	0.20	2.44	4	6.84	1.20	
Hill, Rogal & Hamilton	11.88	-2.06	-2.06	13.38	11.00	12	0.56	4.72	14	4.72	2.52	29.25	0.86	0.86	34.50	27.00	120	0.90	3.08	10	24.81	1.18	
Martin & McLennan	77.75	-1.89	-1.89	88.75	71.25	407	2.90	3.73	15	19.40	4.01	29.00	2.65	2.65	33.75	26.30	82	1.46	5.03	10	24.68	1.18	
Post 3 Etc. Inc.	21.25	-2.30	-2.30	22.75	17.00	1	0.48	2.26	14	4.49	4.73	21.38	0.59	0.59	24.50	18.38	452	0.48	2.25	8	24.60	0.87	
BROKERS AVERAGE		-1.4	-1.4					2.5	-7														
INSURERS/REINSURERS																							
ACE Ltd.	22.88	-2.14	-2.14	30.00	20.75	333	0.44	1.92	-21	22.45	1.02	32.75	-2.24	-2.24	34.00	24.00	720	0.16	0.49	16	19.75	1.66	
Acceptance Insurance Cos.	15.00	0.00	0.00	18.00	11.13	39	0.00	0.00	11	9.83	1.53	28.50	8.57	8.57	31.75	22.25	382	0.16	0.56	12	17.31	1.65	
AEI Corp. N.Y.	64.63	1.77	1.77	64.63	49.38	20	2.94	4.54	11	43.84	1.47	12.75	4.68	4.08	14.75	12.30	3	0.32	2.51	10	17.63	0.72	
Affiliated Life & Casualty	47.25	0.27	0.27	55.75	42.25	630	2.76	5.84	-6	57.21	0.83	5.63	8.43	8.43	3.13	4.98	423	3.32	5.63	14	3.48	1.62	
Allied Group Inc.	24.88	0.51	0.51	31.00	22.00	52	0.60	2.41	6	23.43	0.06	20.75	1.22	1.22	27.63	19.88	5	3.60	2.89	-28	20.51	1.01	
Allmerica Prop & Casualty	18.50	9.63	9.63	21.47	14.25	158	0.16	0.86	11	19.45	0.95	43.62	-2.11	-2.11	45.50	37.99	433	1.50	3.44	9	31.88	1.37	
Allstate Corp.	24.38	2.63	2.63	29.88	22.63	789	0.72	2.95	19	19.60	1.24	50.88	-2.16	-2.16	53.75	46.75	693	1.96	3.85	11	46.94	1.08	
American General	28.38	0.44	0.44	30.50	24.88	1052	1.16	4.09	19	20.39	0.39	8.50	1.49	1.49	13.00	7.50	11	3.36	4.24	-39	13.60	0.63	
American Heritage Life Ins.	18.63	-1.97	-1.97	20.13	16.50	11	0.66	3.54	11	12.42	0.50	3.00	20.00	20.00	3.50	1.25	105	3.00	0.00	12	1.05	2.86	
American Indemnity/Fin'l	10.13	0.00	0.00	10.13	10.00	2	0.24	2.37	4	15.92	0.64	25.00	-0.59	-0.59	33.75	23.00	89	1.12	4.48	10	23.36	1.07	
American International	97.00	-1.02	-1.02	100.75	81.75	1780	0.46	0.47	15	49.75	0.95	13.75	-0.60	-0.60	13.25	10.75	57	3.16	1.16	6	13.15	1.05	
American Re Corp.	30.75	-4.65	-4.65	35.75	23.50	140	0.00	0.00	16	16.85	0.82	18.63	-0.67	-0.67	23.13	17.00	553	3.20	1.07	23	17.25	1.08	
Aon Corp.	32.25	0.78	0.78	35.75	29.25	318	1.28	3.97	10	21.96	0.47	10.13	3.65	3.85	11.38	7.75	25	2.28	2.77	8	9.31	1.09	
Argonaut Group	27.75	-1.77	-1.77	31.75	26.25	25	1.16	4.18	8	29.80	0.93	59.38	-2.26	-2.26	68.00	54.00	10	3.41	0.68	52	57.72	1.03	
AVEMCO Corp.	15.13	-1.63	-1.63	20.25	13.38	8	0.44	2.31	13	6.30	2.40	35.25	2.7	2.17	49.50	32.38	382	1.12	3.18	9	17.49	2.02	
Bacwell & Lyons Inc.	15.13	2.54	2.54	15.75	13.75	166	0.24	1.59	9	13.56	1.12	53.63	-4.03	-4.03	57.38	45.38	32	0.40	0.75	13	32.43	1.65	
Be Hays W.R. Corp.	37.63	0.33	0.33	42.00	32.50	27	0.44	1.17	23	36.47	1.03	20.75	-11.70	-11.70	26.50	17.25	163	0.00	0.00	10	N.A.	N.A.	
Be Inshre Hathaway Inc.	20550.00	0.74	0.74	20830.00	15150.00	0	0.00	0.00	26	9157.79	2.24	34.50	6.56	6.56	43.13	30.38	3970	0.60	1.74	8	24.26	1.42	
Capital RE Corporation	23.75	-13.24	-13.24	27.38	18.50	26	0.20	0.34	9	21.48	1.11	41.50	-2.06	-2.06	43.88	33.25	174	1.00	2.41	14	29.20	1.42	
Capsure Holdings Corp.	13.38	-8.55	-8.55	16.13	12.13	26	0.00	0.00	13	13.72	0.97	28.50	3.01	3.01	29.83	24.00	4	1.20	4.21	6	28.96	0.98	
Chubb Corp.	76.88	-0.65	-0.65	83.13	68.63	528	1.84	2.39	13	48.40	1.59	44.50	3.49	3.49	51.50	39.50	233	1.60	3.60	21	38.64	1.15	
CIGNA Corp.	63.00	-0.98	-0.98	74.00	57.00	707	3.04	4.33	8	80.98	0.78	40.00	5.96	5.96	58.00	35.13	761	0.96	2.40	17	27.78	1.44	
CNA Financial Corp.	64.88	0.00	0.00	32.25	60.00	46	0.00	0.00	171	73.83	0.88	10.38	3.75	3.75	14.63	8.25	101	0.00	0.00	12	11.07	0.94	
Comline Corp.	19.13	0.86	0.86	28.50	12.00	1587	0.00	0.00	-3	29.89	0.64	14.13	4.63	4.63	16.13	11.69	852	0.20	1.42	7	10.04	1.41	
Comstock Insurance Group Inc.	10.38	9.21	9.21	10.75	8.50	1	0.52	5.10	3	10.77	N.A.	20.25	0.00	0.00	24.00	15.75	52	0.24	1.19	10	24.44	0.83	
Empire Financial Gr. Inc.	32.75	3.15	N.A.	38.50	21.25	77	0.60	1.															

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