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Update

Supreme Court refuses to review three punitive damages cases

WASHINGTON—The U.S. Supreme Court last week refused to review three cases challenging the constitutionality of punitive damages under the 14th Amendment's due process clause, but legal experts say the court still may take up the issue within 18 months.

In ruling on June 26 that punitive damages are not unconstitutional under the 8th Amendment's excessive fines clause, all nine high court justices indicated that they were concerned with the

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Midyear renewals

Reductions less but price cutting continues strong

By LINDA J. COLLINS and MICHAEL SCHACHNER

The magnitude of commercial property/casualty insurance rate reductions at midyear is lessening after more than two years of insurer rate cutting, but price competition remains strong in most lines, insurance brokers agree.

Brokers say

A few insurance brokers, however, are beginning to see some signs that property/casualty insurance rates for very large commercial risks are stabilizing.

Among the exceptions to lower or at least stable insurance pricing for all sizes of policyholders are workers compensation insurance and surety bonds, whose costs continue to increase, brokers say.

In recently difficult to place lines, like directors and officers liability and municipal risks, capacity continues to increase, brokers also note.

Any difference in pricing for small to medium-sized commercial accounts and large accounts is related to the predictability of underwriting results, brokers explain.

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Broader coverage terms available for the asking

By MICHAEL BRADFORD

Risk managers who snared price breaks during last year's summer renewals are finding underwriters just as eager to trim coverage costs during 1989's midyear renewal season.

And some risk managers say now is a good time to negotiate policy changes because insurers are willing to broaden coverage and drop some exclusions at this point in the competitive market cycle.

Risk managers report seeing the greatest competition among excess and umbrella liability insurers.

Insurers also are still competing for liability insurance, including directors and officers liability insurance, risk managers say.

Despite reports from insurers and brokers that property insurance is more competitive than casualty insurance, risk managers interviewed for this report generally said their property insurance costs are holding steady or are only slightly below last year's renewal charges. However, some of these risk managers report they also landed property insurance rate reductions last year.

"It appears to me the market is continuing to stay soft," reported Doug Williams, associate director-corporate insurance and risk management at pharmaceutical manufacturer Boehringer

Risk managers say

Ingelheim Corp. in Ridgefield, Conn., referring to liability insurance.

"Not only can a risk manager get more favorable pricing, but I would impress upon any risk manager to focus on improving policy forms," Mr. Williams said. "Underwriters are willing to make policy form changes."

"We've had no problems getting reductions in cost and broader liability coverage" noted a risk

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Insurers mapping cycle strategies; Hartford pricing up

By MARK A. HOFMANN

Hartford Insurance Co. is telling its underwriters to raise property/casualty insurance prices.

As many other property/casualty insurers continue to cut commercial rates, the fourth largest U.S. property/casualty insurer with substantial commercial lines business is the first to publicly say that its underwriters are under orders to raise prices.

Insurers say

Several other insurers, however, are repeating their earlier assertions that they are holding the line on price reductions.

Hartford allowed its branches some leeway on pricing until early this year, said John F. Donahue, senior vp and director-commercial lines division for the property/casualty companies of Hartford, Conn.-based Hartford Group Inc.

"Now we're saying there is no more room—you must begin to

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Offering attractive deals fails to increase business

By JUDY GREENWALD

Reinsurers' business continues to shrink, despite their offers of rates that a few years ago would have encouraged primary companies to buy more reinsurance and a willingness to reinsure risks they previously refused.

The July 1 renewal season has been among the

Reinsurers say

quietest reinsurers have ever experienced, attributable to many factors, including that primary insurers continue to keep high retentions.

In addition, with the last hard market still fresh in their minds, primary insurers are placing greater emphasis on security than on price, making them reluctant to switch reinsurers for the reduced prices or improved terms offered as the competition heats up.

With added capacity, reinsurers—particularly direct writers—are competing on price more vigorously for the business that is out there and are writing business they previously avoided, such as professional liability and environmental impairment liability coverages.

However, rate cutting is seen more on the property side than on the casualty side. Reinsurers are divided over whether treaty reinsurance is more competitive than facultative.

But, while the competition is spirited, it is not out of hand, given the limited business for which reinsurers are vying, reinsurers and intermediaries say.

"There is just not a lot of new business to write out there," observed Charles E. Erickson, executive vp at the Signet Reinsurance Co. of Morristown, N.J.

"From a business opportunity standpoint, there's just very little business out there" for a reinsurer to look at, Mr. Erickson said, adding that there are only a few instances in which insurers have increased the limits of reinsurance they buy.

Noting that he has been in the reinsurance business 15 years, Mr. Erickson said: "This is the quietest I've ever seen it."

"Part of the problem is available volume has shrunk by way of higher retentions" by ceding insurers, explained Michael Fitt, chairman and chief executive officer of Employers Reinsurance Corp. of Kan-

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COBRA proposal expands former employees' coverage
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Weavers assessing liability as Transit Casualty reinsurer
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Update

Punitive damage review denied

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current system of unrestrained punitive damages and wanted to consider the issue applying the 14th Amendment (*BI*, July 3).

Nonetheless, the court last week passed up three chances to consider the constitutionality of punitive damages.

"I am disappointed," said Martin Connor, president of the American Tort Reform Assn. "I would have liked to have seen the Supreme Court get right to the issue."

But, Mr. Connor explained that the Supreme Court's "preference is always to let an issue kick around for a while in the lower courts." He predicted that the Supreme Court may not be willing to look at the issue for one to two years.

Jan Amundson, general counsel for the National Assn. of Manufacturers, said: "There are a couple of cases now going through the district courts that may bring the issue to the Supreme Court in a year or a year and a half."

"The court wanted to take a breather for a while," suggested attorney Victor Schwartz of Crowell & Moring in Washington, D.C.

Mr. Schwartz also said that the three cases the Supreme Court refused to review last week failed to raise arguments over the constitutionality of punitive damages when they were first litigated.

But, he predicted that there will be cases that are better developed within 18 months.

Older worker benefits ruling hit

WASHINGTON—The House Aging Committee chairman plans to introduce legislation to overturn a Supreme Court decision allowing employers to reduce benefits for older workers without providing cost justifications.

Rep. Edward Roybal, D-Calif., said he will introduce legislation to amend the Age Discrimination in Employment Act to make clear that ADEA prohibits arbitrary age discrimination in all aspects of employment, including employee benefit programs.

The action follows last month's Supreme Court ruling overturning Equal Employment Opportunity Commission regulations that prohibited age-based benefit distinctions except when justified by the higher costs of benefits for older workers. Those regulations were issued to help employers comply with ADEA.

The court said that employee benefit plans were exempt from ADEA "except to the extent plans were used as a subterfuge for age discrimination in other aspects of the employment relation."

With the EEOC regulations out of the way, employers no longer are required to provide cost-based actuarial justifications for age-based benefit plan reductions, noted consultants Towers, Perrin, Forster & Crosby Inc. in New York.

Accutane maker owes $925,000

NUTLEY, N.J.—Pharmaceutical manufacturer Hoffmann-La Roche Inc. is self-insured for the $925,000 award a jury ordered it to pay in the first Accutane-related judgment against the company.

A jury in U.S. District Court in Aberdeen, Miss., late last month ordered the Nutley, N.J.-based subsidiary of Switzerland-based Hoffmann-La Roche Inc. Ltd. to pay the compensatory damages to a former Columbus, Miss., woman. Her physician previously agreed to pay $75,000 to settle his portion of the case.

The 54-year-old woman became ill after her physician prescribed Accutane in 1984 to treat acne rosacea, an inflammatory skin disease resembling acne, said John Owens, a plaintiff's attorney with Phelps, Owens, Jenkins Gibson & Fowler in Tuscaloosa, Ala.

The product caused her three cycles of headaches, confusion, disorientation, mutism, seizures and coma, Mr. Owens said. In addition, she was forced to sell her Tupperware distributorship and she is now susceptible to seizures, he said.

Inadequate warnings about the drug's side effects contributed to the problem, Mr. Owens alleged.

However, Hoffmann-La Roche denies that the drug caused the plaintiff's condition, a spokeswoman said. Product information has always been "state of the art," and the company is continuing its aggressive efforts to educate patients about its proper use, she said.

Federal authorities approved the drug for use in 1982 to treat "severe, recalcitrant, cystic acne," which has not responded to other types of treatment, the company spokeswoman said.

However, use of Accutane by pregnant women has caused at least 73 documented cases of birth defects, she said.

The manufacturer has won, settled or received dismissals in previous lawsuits. Currently, between 30 and 35 Accutane-related cases are pending against the company, the spokeswoman said.

Lockheed agrees to OSHA fines

BURBANK, Calif.—Lockheed Aeronautical Systems Co. will pay $1.5 million in fines for 440 violations of federal workplace safety and health regulations at its Burbank aircraft manufacturing plant, but the company has denied any wrongdoing.

The Occupational Safety and Health Administration cited Lockheed Aeronautical Systems, a unit of Lockheed Corp., for the violations in March after a four-month inspection of the plant (*BI*, April 3).

The citation included 251 violations of recordkeeping requirements and 88 violations of OSHA's hazardous communications standard, which requires employers to inform workers about the potential dangers of chemicals used in the workplace.

As part of the settlement, OSHA downgraded the 341 violations that previously had been listed as "willful," an OSHA designation

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Errors and omissions

• Due to a typographical error on its questionnaire, The Simkiss Cos. of St. Davids, Pa., incorrectly reported its number of employees for the "18th Annual Directory of Agents, Brokers" (*BI*, June 26). The brokerage had 53 employees in 1988 and 49 employees in 1987.

House panel considers broader COBRA cover

By JERRY GEISEL

WASHINGTON—A proposal to expand COBRA—tentatively cleared by a congressional panel—could further increase employers' health care costs.

The proposal would allow employees to keep their COBRA health care continuation coverage to pay for pre-existing medical conditions for which their new employer denies coverage.

The proposal, suggested by Rep. Willis Gradison, R-Ohio, would strip a provision in the Consolidated Omnibus Budget Reconciliation Act of 1985 that allows employers to automatically cancel COBRA coverage for former employees when an employee is covered under his or her new employer's health care plan.

Benefit experts agree that the proposal could sock employers with additional health care costs if former employees are allowed to buy expanded COBRA coverage for pre-existing conditions at the same rate they can buy existing COBRA coverage.

However, the Gradison proposal does not yet specify the premium that employers would be allowed to charge former employees who opt for the expanded COBRA coverage.

The proposal is attached to budget reconciliation legislation tentatively approved by the House Ways and Means Committee. Committee staffers are now drawing up a final draft of the legislation, which the committee must vote on.

The latest proposal is a scaled-backed version of a COBRA amendment adopted last year by the Ways and Means Committee that failed to win approval by the full House or Senate.

Under last year's amendment, former employees would have been able to keep COBRA for all group health care benefits—not just for pre-existing medical conditions—while receiving coverage from a new employer's health care plan (*BI*, April 11, 1988).

In effect, last year's proposed COBRA amendment would have allowed employees to receive "double coverage" and sock their former employers with big medical bills, outraged business lobbying groups said.

For example, under one scenario, an employee who needed dental work could have paid a COBRA premium to his or her former employer for only one

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Weavers, Transit to work together to figure losses

By STACY SHAPIRO

LONDON—Transit Casualty Co.'s receivers and H.S. Weavers (Underwriting) Agencies Ltd. are working together to determine Weavers' liabilities as a reinsurer of the failed Los Angeles-based insurer.

The decision to cooperate followed a meeting last Thursday in Los Angeles that was prompted by an article in London-based The Sunday Times, which reported that Weavers faces $300 million in losses from reinsurance ceded by Transit Casualty through Chicago-based managing general agent National Underwriting Agency Inc.

During the meeting, Weavers—which estimates the losses on business ceded to its line slip from NUA to be no more than $60 million—had asked Transit Casualty to deny that the losses totaled $300 million, according to Paul E. Dissenko, director of insurance operations for Transit Casualty.

However, Transit Casualty receivers said they had not yet analyzed enough information to determine the size of Weavers' liabilities as one of Transit Casualty's leading reinsurers from 1978 to 1985, Mr. Dissenko said.

"We cannot say what the total is, and we cannot say that it's not $300 million" as stated by The Sunday Times, Mr. Dissenko said. In the next six to eight months "we might know what the loss picture is. . .and will accelerate the process of figuring out what the losses are (for the reinsurers) on NUA business," he said.

"We had a positive meeting," said Weavers Managing Director Peter Wilson.

Weavers, which has a complete list of the primary business NUA wrote for Transit Casualty, will work with the receivers to establish a clearer picture of total losses, he said.

Weavers' information and cooperation "could be very useful to the receiver," he said. "It's like all companies in liquidation. The staff are starting from scratch. . . .We

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Louisiana liquidates insurer

By DOUGLAS McLEOD

BATON ROUGE, La.—Louisiana Insurance Department officials are sorting through the records of American Lloyd's of Metairie, La., after a state judge ordered the insolvent insurer into liquidation last month.

Nineteenth Judicial District Judge Carl Guidry placed American Lloyd's, a Louisiana-licensed Lloyd's plan insurer, into liquidation June 21.

Insurance department examiners found American Lloyd's insolvent by $11 million as of June 30, 1988, after disallowing $13.7 million in assets reported in the insurer's financial statement.

Policyholders of the failed company include several purchasing groups formed under the federal Risk Retention Act.

In their May 16 report recommending liquidation, Louisiana department examiners

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Mr. Compton

Mr. Countryman

Mr. Doetzer

Mr. Finley

Mr. Lindquist

Mr. Mather

Mr. Mortimer

Mr. Pettegrew

Mr. Quern

Ms. Thrower

Award judges

BI accepting 1990 Risk Manager of the Year nominations

Ten judges, representing a broad spectrum of risk management and property/casualty insurance experts, will select the 1990 *Business Insurance* Risk Manager of the Year and Risk Management Honor Roll recipients from nominations submitted by the public.

Business Insurance's annual recognition of excellence in risk management is based on the judges' independent analysis of nominations describing risk managers' accomplishments in 10 established areas. The candidate whose nomination receives the highest collective score from the 10 judges will be named the 1990 *Business Insurance* Risk Manager of the Year.

In addition, as many as five other nominees may be named to the Risk Management Honor Roll, at the judges' discretion.

"This is an opportunity for risk managers, brokers, insurers and consultants to honor a risk manager by nominating him or her for the Risk Manager of the Year award," said *Business Insurance* Associate Publisher and Editor Kathryn J. McIntyre.

"But, anyone with plans to nominate a candidate should quickly request a nominating form and soon begin gathering the information for the nominating statement. Although nominations are not due until Nov. 28, the best presented nominations take considerable time to assemble. And since the judges base their decisions solely on the information in the nominating statement, its contents are vital to a candidate winning an award."

Two previous winners of the Risk Manager of the Year award and two past members of the *Business Insurance* Risk Management Honor Roll are among the judges. (See pages 12-13 for other recent recipients of awards.)

Other judges include two insurance company executives, an executive of a national insurance broker and an executive of a regional insurance broker, a risk management consultant and an insurance academician.

Judging the 1990 nominations for the 13th annual *Business Insurance* risk management awards will be:

- Ronald E. Compton, president and director of Aetna Life & Casualty Co. in Hartford, Conn. Mr. Compton is serving on the panel for the first time, representing a stock insurance company.
- Gary L. Countryman, president and chief executive officer of Liberty Mutual Insurance Co. in Boston. Mr. Countryman is serving for the second time on the panel, representing a mutual insurance company.
- John F. Doetzer, president of Consolidated Insurance Center Inc. in Baltimore. This is Mr. Doetzer's first year as a judge, representing a regional broker's viewpoint.
- Stephen Finley, risk manager for the City of Lakewood,

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N.Y. high court upholds CGL pollution exclusion

By STACY ADLER

ALBANY, N.Y.—The pollution exclusion bars coverage when a policyholder intentionally releases hazardous wastes but does not intend to pollute, according to the highest court in New York state.

The June 30 decision marks the first time the state's high court has addressed the pollution exclusion in the comprehensive general liability policy.

The ruling could have influence nationwide and could resolve a split among New York intermediate appellate courts interpreting the pollution exclusion, some attorneys say.

The pollution exclusion bars coverage for all types of pollution that are not sudden or accidental.

However, other attorneys say the decision is unlikely to have a far-reaching effect because it stems from a case with unusual facts.

The ruling stemmed from lawsuits alleging mercury contamination of the Frontera Creek in Humacao, Puerto Rico.

The policyholder, Technicon Electronics Corp. of Tarrytown, N.Y., admitted that it intentionally discharged production wastes from its plant in Humacao where it manufactured blood sample testing machines.

In February 1985, several residents of a community adjacent to the Technicon plant sued the company in Superior Court in Puerto Rico for bodily injuries allegedly resulting from mercury contamination.

A month later, the U.S. Environmental Protection Agency notified Technicon that it was a potentially responsible party for the cleanup of the Frontera Creek pursuant to the Comprehensive Environmental Response, Compensation & Liability Act, better known as the Superfund Act.

Technicon turned to its primary liability insurers—Centennial Insurance Co. and its parent, Atlantic Mutual Insurance Co. of New York—for defense of the Puerto Rican claim and the EPA claim.

The insurers wrote coverage for Technicon from 1972 to 1980 with annual per-occurrence limits of $300,000 for bodily injury and $100,000 for property damage. In addition, Technicon had an undetermined amount of excess coverage.

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Korean Re says covers invalid

By DOUGLAS McLEOD

NEW YORK—Korean Reinsurance Co. is warning reinsurance buyers against obtaining coverage from three firms that claim to have binding authority for the Seoul, South Korea-based reinsurer.

Tokyo-based Nippon Kei Ei Consultant purportedly delegated binding authority for Korean Re earlier this year to McDonald Management LBS Forum and McDonald Financial Management (U.K.) Ltd. LBS Forum, both of London, according to Korean Re.

However, neither Nippon Kei Ei nor the two McDonald companies has any authority for Korean Re, the reinsurer announced.

Before Korean Re made its announcement late last month, reinsurance cover notes had already been issued under the purported binding authorities to at least two U.S. insurance companies through Simon Few & Co. Ltd., a London brokerage.

The U.S. insurers are:

- American Interfidelity Exchange, an Indiana-licensed risk retention group writing trucking risks.

Coverage was arranged through Corporate Risk Consultants Inc. of Cincinnati, and premiums of roughly $300,000 were turned over to Nippon Kei Ei, according to Gary Bennett, president of Corpo-

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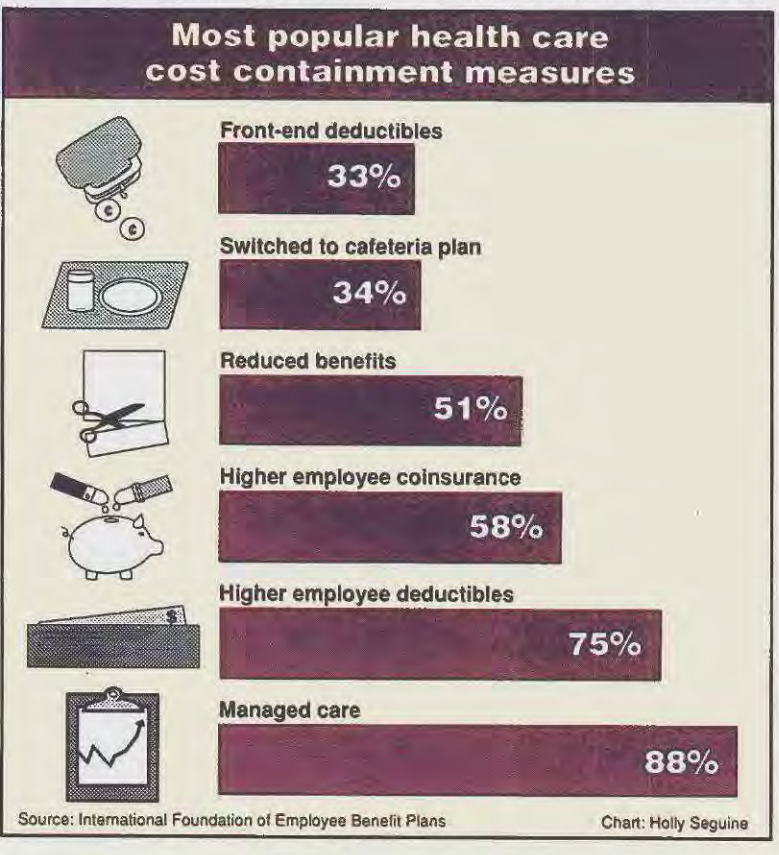

Managed care controls could backfire: Survey

By DAVE LENCKUS

Managed care—the most popular health care cost containment measure among employers—could backfire and lead to higher costs, according to a recent survey.

Many employers to date have seen managed care programs effectively control their health care costs. And, companies increasingly are applying managed care to outpatient treatment and mental health and substance abuse benefits, which are "recognized as one of the fastest growing contributors to the nation's annual health care expense," the survey reports.

But, many employers now are finding that physicians are passing on to patients and health care payers the costs of administrative efforts to comply with managed care programs, which could eventually minimize the programs' cost-effectiveness, according to "Issues in Managed Health Care," a study conducted by the International Foundation of Employee Benefit Plans of Brookfield, Wis.

Managed care is designed with the best intentions, but "whether or not it's a practicality is not known at this point," said survey author Melody A. Carlsen, an associate director of research with the IFEBP.

Meanwhile, employers continue to turn to numerous other cost-containment measures besides managed care—such as increasing deductibles, increasing employees' share of coinsurance and reducing employee benefits—to help stem rising health care costs, the survey found.

The survey drew on responses from 245 members of the International Society of Certified Employee Benefit Specialists, a non-profit educational association of CEBS designees. The CEBS program is co-sponsored by the IFEBP and the Wharton School of the University of Pennsylvania.

Of the IFEBP survey respondents, who included benefit managers and employee benefit consultants:

- 33% reported that the largest employer they are associated with offers only a traditional fee-for-service plan.
- 32% report that both a traditional fee-for-service plan and a health maintenance organization are offered.
- 16% report that a fee-for-service plan and a preferred provider organization are offered.

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COBRA proposal

Continued from page 2

month. After the employee received the dental work and exhausted the dental plan limit, he or she would stop paying the COBRA premium. Then, the employee could have tapped the entire dental plan limit offered by his or her new employer.

Essentially, through this double coverage, former employees opting for COBRA could have ended up with better benefits than other employees.

But the more sharply-focused Gradison proposal avoids the double coverage problem. Under the latest proposal, employees could keep COBRA coverage after they become covered under another employer's health care plan only if they retained the coverage for pre-existing medical conditions excluded by the new employer's health care plan.

"This is a much better proposal than last year's amendment. It is specifically aimed at people who are slipping through the cracks in the health care delivery system," said Mark Ugoretz, executive director of the ERISA Industry Committee, a Washington, D.C.-based benefits lobbying organization representing large employers.

Indeed, benefit experts recognize that the way COBRA now is written can leave some employees exposed to big medical bills.

For example, employees with pre-existing medical conditions may not get the coverage they need from their new employers. But the COBRA benefits from their former employers, which would have covered those medical conditions, are canceled as soon as employees join another firm's health care plan.

While the Gradison proposal may be better thought out than last year's proposed COBRA amendment, benefit experts still have many concerns about it.

For example, it has not been decided how high a premium employers could charge former employees who opt for COBRA coverage that would be limited to pre-existing medical conditions denied by their new employers. Currently, employers may charge beneficiaries up to 102% of the group rate for regular COBRA coverage.

'This is a much better proposal than last year's amendment. It is specifically aimed at people who are slipping through the cracks in the health care delivery system,' says Mark Ugoretz, executive director of the ERISA Industry Committee.

For example, if an employer's health care plan costs $100 a month for individual coverage, COBRA beneficiaries can be asked to pay $102 a month for coverage.

Some experts say that employers should be allowed to charge more than 102% of the group rate for this special kind of COBRA coverage because the former employees with pre-existing medical conditions selecting the coverage will almost certainly use the benefits.

"In a situation where someone has a pre-existing condition, you are virtually guaranteed that claims will exceed premiums," said Henry Saveth, a principal with A. Foster Higgins & Co. Inc. in New York.

"If the premium is 102%, it will not even begin to cover the employer's cost of coverage," said Howard Weizmann, executive director of the Assn. of Private Pension & Welfare Plans in Washington, D.C.

Mr. Weizmann also questions why employers should be the group targeted to provide additional COBRA coverage.

"This is another social burden that employers are being asked to assume. Your heart goes out to these people—those with pre-existing conditions—but is it fair to ask employers to extend a special kind of COBRA coverage to those who voluntarily change jobs?" Mr. Weizmann asked.

Others point out that the proposal would further complicate the administration of COBRA health care claims.

For example, it might not be clear in some situations whether a claim from a former employee results from a pre-existing medical condition, which would be covered, or if it is a new medical condition, noted Gerry May, a consultant with Hewitt Associates in Lincolnshire, Ill.

Another unanswered question is the effective date of the proposed COBRA coverage; an aide of Rep. Gradison last week said he was not sure.

While premiums that could be charged and the proposal's effective date would seem to be basic issues that would be decided when a proposal is unveiled, little is certain in the murky world of budget reconciliation legislation.

Often a congressman or a staffer will present a proposal to the Ways and Means Committee, which, along with the Senate Finance Committee, has jurisdiction over budget reconciliation legislation. These proposals are usually considered in closed door sessions; Ways and Means Committee Chairman Daniel Rostenkowski, D-Ill., rarely opens up the discussion and drafting of tax-related legislation to the public.

If the Ways and Means Committee accepts the proposal, then committee staffers will begin to draft statutory language.

Later, the Ways and Means Committee will take a final and binding vote on the budget reconciliation proposals. That is not expected to occur until at least at the end of this month.

The Senate Finance Committee has not begun to draft its version of budget reconciliation legislation.

Meanwhile, some benefit experts say other efforts may be made to tack additional COBRA expansion measures onto the Ways and Means Committee budget reconciliation legislation.

For example, congressional staffers have been discussing a proposal that would allow early retirees to keep COBRA coverage until they become eligible for Medicare at age 65. Currently, former employees can keep COBRA coverage for a maximum of 18 months.

It also is possible that the Ways and Means Committee will consider, as part of the budget reconciliation legislation, a proposal introduced last year by Rep. Nancy Pelosi, D-Calif., that would require employers to extend COBRA coverage for up to 29 months to former employees with acquired immune deficiency syndrome.

Under last year's proposal, former employees with AIDS would have paid the regular COBRA premium for the first 18 months of coverage. However, employers would have been allowed to charge these former employees a premium equal to 152% of the group rate for the additional 11 months.

"Increasingly, COBRA is seen on Capitol Hill as a vehicle for requiring employers to extend coverage in additional ways," said Frank McArdle, a consultant in the Washington, D.C., office of Hewitt Associates. ■

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By Lee Weinberger
President and CEO
Wausau Insurance Companies

I was delighted to attend a banquet recently that honored Tad Bretting as America's Small Business Person of the Year.

The award was presented by President Bush and Susan Engeleiter, head of the Small Business Administration. When you consider that there are 19 million small businesses in the country, Tad's was no small accomplishment.

Tad is president of C.G. Bretting Manufacturing Co., a maker of paper-folding and printing equipment in Ashland, Wisconsin. Under his direction, the firm has grown from 11 employees with sales of $120 thousand, to 260 employees and sales of $30 million.

This hardly makes Bretting a "small" business to my way of thinking. In fact, Bretting typifies many of Wausau's policyholders — medium to large in size, preferring long term relationships (Bretting's been a Wausau policyholder for 53 years), and committed to their employees' safety and well being.

At Wausau Insurance, we may have a good many larger policyholder companies in our book of business, but none that we are prouder of than Tad Bretting's company.

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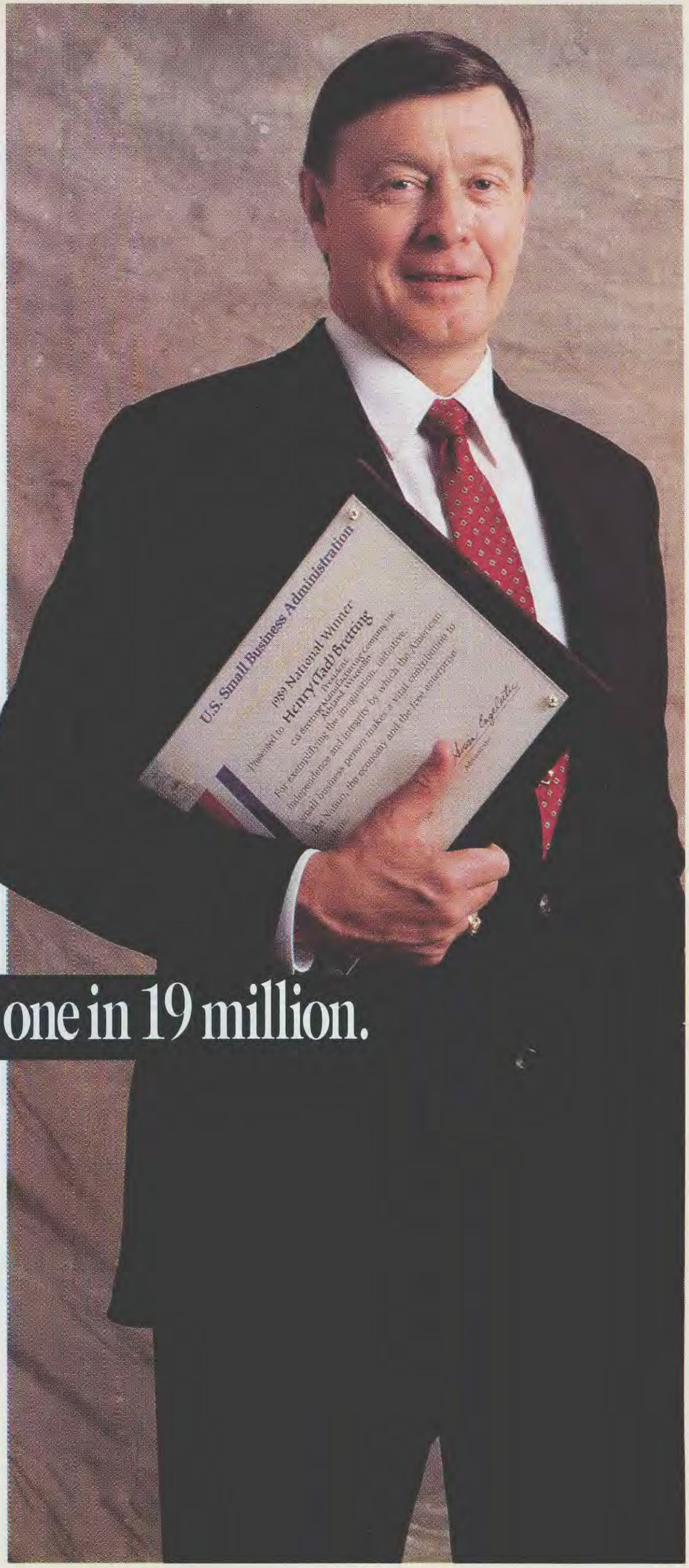

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Bell Atlantic offers long-term care plan

By MICHAEL SCHACHNER

Bell Atlantic Corp. will offer a new group long-term care program to its salaried employees and retirees beginning next year.

The plan also will be offered to the spouses and parents of covered employees and retirees of the Arlington, Va.-based company.

Coverage will take effect April 1, 1990, after a sign-up period next February.

The program will be entirely employee-paid, although participants will benefit from lower group plan rates, according to Chuck Lamdin, director-benefits planning for Bell Atlantic.

The program, recently introduced by the Mutual of Omaha Cos., pays 80% of skilled and intermediate nursing home care and in-

Benefit beat

patient hospice care charges up to a $100-per-day maximum, for up to five years. Prior hospitalization is not a condition for coverage.

Custodial care, home hospice care, home health care and adult day care also are covered at 80% up to a $50 per-day/five year limit.

The plan also covers respite care, or temporary care services that allow family members saddled with the responsibility of caring for relatives an opportunity to break away for an unspecified amount of time. This coverage is paid at 80% and falls under the $50 per-day/five year limit.

The program also includes:

- A non-cancellation provision that will not permit the policy to be canceled as long as premiums are paid on time.
- An option for covered individuals age 65 or younger to purchase a $20 daily benefit increase every five years, regardless of health status.
- A provision for a percentage of premiums to be returned, less benefits paid, if the covered individual dies or coverage is terminated after at least one year.
- Coverage for mental disorders, including Alzheimer's disease.

Premiums for the long-term care coverage are based solely on age and remain steady during the policy period. For example, the monthly premium for a person age 30 would be $12, while a 50-year-old would pay $32 and a 65-year-old would pay $100.

All employees, retirees, spouses and parents under 80 years of age are eligible for the LTC program.

Bell Atlantic decided to sponsor the program because "employees and retirees often fail to realize that Medicare and their regular medical plan do not cover custodial care expenses," explained Mr. Lamdin.

"They frequently overlook this coverage gap until they need the services, and then it's usually too late to obtain long-term care coverage," he added.

At least 27,000 salaried employees and about 38,000 retirees will be eligible for the program, Mr. Lamdin estimated. However, he could not predict the number of spouses and parents that would be eligible for coverage.

Travelers ESOP

Travelers Corp. is adding a new leveraged employee stock ownership plan to its existing 401(k) savings plan.

The ESOP will borrow $200 million from Chase Manhattan Bank over the next eight years to purchase nearly 3.8 million shares of a new issue of convertible preference stock, the Hartford, Conn.-based insurance company said last month.

Preference shares, also known as prior-preferred stock, have a higher claim than other issues of preferred stock on dividends and assets in liquidation.

The stock purchase will give Travelers employees approximately 3.7% ownership in the company, a Travelers spokesman said. The ESOP will use the dividends from the new stock issue to pay back the loan.

Travelers, which has used common stock to match employee contributions to the company's 401(k) plan, will now use the preference stock held in the ESOP trust to match employees' contributions.

Travelers matches employee contributions to the 401(k) at 50 cents on the dollar up to 5% of salary.

The company administers its own 401(k) plan.

Refined DRGs

Diagnostic related groups should be further broken down to make health care payments by self-insured employers and insurers more accurate, a group of Yale University researchers says.

The suggestion to develop refined DRGs comes after a three-year research project funded by the Health Care Financing Administration.

HCFA, which oversees federal Medicare payments, has already committed to implementing refined DRGs no later than 1990, according to Karen C. Schneider, the project's coordinator.

DRGs, a method of determining hospital reimbursements based strictly on diagnosis, rather than lengths of stay or other factors, have been used by Medicare since 1983, and have been adopted by health care payers in Maryland, New Jersey, New York and Connecticut since 1977 (*BI,* March 6).

"DRGs have had one shortcoming," said Ms. Schneider. "They have not fully considered the severity of a patient's illness. This has meant that hospital managers could not use them to accurately measure departmental profitability or physicians' productivity."

But refined DRGs could have an impact on reimbursement in several different ways, according to Ms. Schneider. For example, state health departments grappling with skyrocketing health care costs could use refined DRGs as an improved reimbursement tool and as a severity adjustment and quality assessment tool, she said.

In addition, hospitals could use refined DRGs to manage internal operations and evaluate doctor performances, while insurance companies and health maintenance organizations could use them to rate hospitals and negotiate rates, according to Ms. Schneider.

Refined DRGs would create new subcategories of illnesses. Currently, a patient with pneumonia is grouped into Medicare DRG 79, 80 or 81.

With refined DRGs, a person who contracted pneumonia as the result of a stroke would be placed into a subset of one of the three DRGs. If the pneumonia patient contracted the sickness in a less severe manner, the person would be placed into a different subset of one of the DRGs. ■

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*Employee Benefit Plan Review, April 1988.

Opinions

Leave benefits alone

AS SOON AS CONGRESS enacts pending reforms to clean up an earlier legislative disaster—Section 89 non-discrimination rules—legislators should declare a one-year moratorium on benefits-related legislation.

The most compelling reason for a reprieve is that employers and regulators alike need time to catch up after being inundated with one new benefits law after another.

Indeed, in four of the last five years, Congress has put at least one major new law on the books that has forced employers to make significant changes to their benefit programs.

And, in some cases, such as 1986, when Congress approved the Tax Reform Act and the health care continuation provisions of the Consolidated Omnibus Budget Reconciliation Act, employers have had to digest and try to comply with several very complicated pieces of benefits legislation.

The compliance burden is taking its toll.

Time that employers could be using to deal with the No. 1 problem in the employee benefits arena—how to stem the soaring cost of health care—is being eaten up in an often vain attempt to understand the latest benefits edicts handed down from Capitol Hill.

Meanwhile, regulators have gotten so far behind that in some cases they haven't issued rules for laws put on the books years ago.

For example, while Congress set new restrictions —as part of the 1986 tax law—on the extent to which employers could integrate or reduce pension benefits by the Social Security benefits retirees receive, the Internal Revenue Service has yet to issue all the rules employers need to properly amend their pension plans.

This absence of official guidance has left employers in the dark about how they can modify their plans, while participants do not know how their benefits will change.

The IRS, in fact, is so snowed under by the plethora of new benefits laws that Congress is likely to pass the latest round of Section 89 changes before the service even finishes issuing rules on the current Section 89 statute.

While a moratorium on benefits legislation is in everyone's interest, that doesn't mean that Congress should be idle during this period.

One of the most useful things Congress could do would be to launch studies on the effects of benefits laws already in effect.

For example, while legislators seem poised to make a new round of changes to expand COBRA (see story, page 2), no objective research has been conducted to determine what effect COBRA itself has had on increasing access to health care coverage.

Above all, Congress could use a moratorium on benefits legislation to regain something vital and precious that has been lost over the last several years: control over the legislative process.

It is astounding, but true, that congressional and administration staffers have conceived and drafted many of the most disastrous pieces of benefits legislation, such as Section 89, while Congress has merely rubber-stamped the decisions of this unelected, but increasingly powerful, elite.

Congress has to find ways to reopen the legislative process so that employers and others get the opportunity, now often denied by staffers, to make their views known and help shape the course of benefits legislation.

Letters

Article on EAPs blasted

To the editor: The employee assistance program models described by Dr. Walter E. Afield in the May 29 Perspective article, "Running Amok," strike me as sufficiently bizarre as to create doubt that the author has comprehensive experience on the subject. Counselors "running amok" would appear to reflect a serious shortcoming in management's control of staff functions, not a defect in the conventional EAP systems.

Where EAP counselors are placed within an organization has no relationship to their experience in business or politics, and lack of experience has little to do with accepting bribes. Bribery cannot be concealed by changing the words. In any well-managed company, acceptance of a bounty or other disguised outside remuneration to influence the actions of an employee results in immediate termination.

The use of the word "recovered" to describe alcoholics and drug addicts suggests Dr. Afield's lack of familiarity with addictions.

And the interpretation of the history of EAPs is idiosyncratic: Of course brewery workers are in favor of free beer. What does this have to do with EAPs? And police departments and the armed services do have an obligation to exclude psychologically unstable officers. But their EAPs were not designed to accomplish this purpose.

EAPs are used by management to maintain and improve the function of employees and thereby further the objectives of the organization. Responsible management examines the worth of this activity —and of every other staff activity: personnel, advertising, medical, legal, security.

In any well-managed company, EAP counselors will clearly understand their dual obligation to serve the "troubled" employee and to provide added value to the organization. This means the utilization of cost-effective treatment alternatives and close monitoring of outside services; follow-up with supervisors, clients and therapists; and continuing assessment of worth and effectiveness of community resources.

It is not unusual for a counselor to be faced with competing objectives, but that is the norm for most positions of responsibility.

A well-managed EAP with adequate resources should be able to do far more to obtain competent, appropriate care at fair market prices than can an external managed care provider that is not well-positioned to understand the work environment, the accommodation options and the potentials to be achieved by the interaction of client, EAP, line supervisor and therapist.

Dr. Lloyd B. Tepper
Corporate Medical Director
Air Products & Chemicals Inc.
Allentown, Pa.

* * *

To the editor: I was surprised and dismayed with your May 29 Perspective article, "Running Amok." The article, seemingly directed at the hidden health benefit costs of employee assistance programs, is statistically ill-founded and histrionic in approach. The value of a Perspective article should be to evoke reader questions and offer clarification. Walter E. Afield's article is little more than an advertisement for his managed care services.

Yes, Dr. Afield is correct that there have been abuses in the EAP field. The field is changing and maturing rapidly. We now understand that an EAP is most effective when separate from treatment facilities. Dr. Afield's suggestion that "standard ploys" exist between EAPs and treatment facilities is simply not true.

Readers would be better served by nonbiased information that helps them understand the difference between EAPs and managed care services. EAPs are typically designed for assessment, referral, follow-up and training. Managed care typically involves benefit design, preferred provider development, preauthorization, referral, utilization review and reporting.

A more appropriate article would explain the impact of EAPs and managed care services on employees and benefit programs. Readers should then have a clear criteria to follow in support of an informed decision about what will be of most value to their organization.

William Barr
Vp
Maschhoff, Barr & Associates
Tacoma, Wash.

* * *

To the editor: In response to the perspective article "Running Amok" by Dr. Walter E. Afield (*BI*, May 29), I must conclude that he had developed a very big

Continued on page 10

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.

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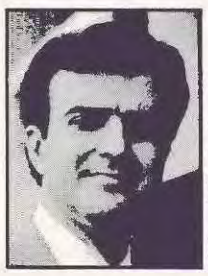
At issue

What will cause the commercial P/C market to turn?

Margaret P. Layne
risk manager
California & Hawaiian Sugar Co.,
Concord, Calif.

The ramifications of the Tax Reform Act have not been felt by underwriters because of prior year tax credits. Insurers will be paying higher taxes, which will affect surplus capacity and pricing. Until there is a national catastrophe, premiums will remain soft. Statutes similar to Proposition 103 also could restrict markets.



Richard Inserra
vp-risk management
Triangle Industries Inc.,
New York

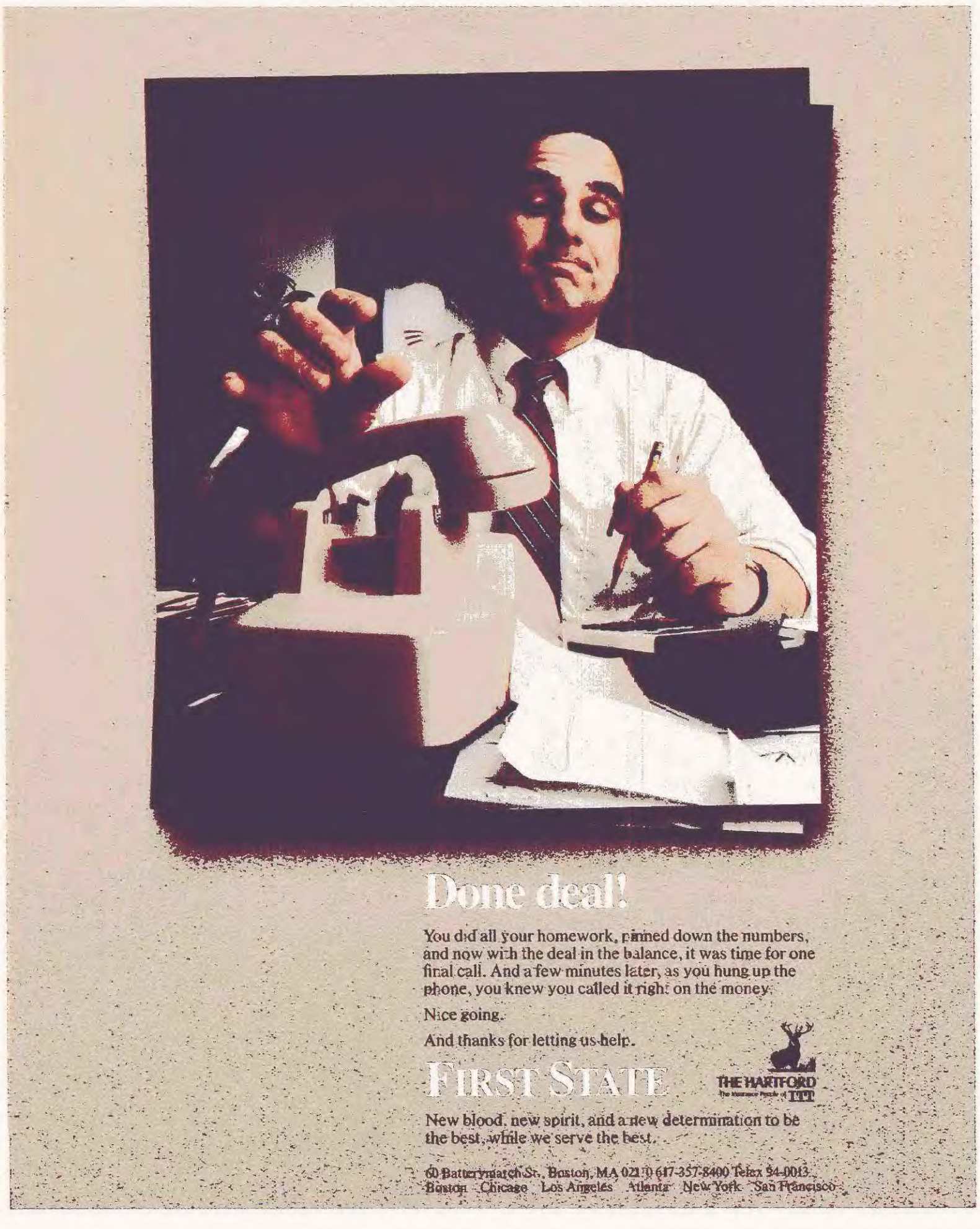
Negative earnings will cause the turn. Underwriters will again realize, as they did five years ago, that their pricing has been inappropriate for the risks entertained. . .all in the interest of maintaining market share. I foresee the market turning harder toward the end of 1990 with full impact in 1991.

Norman Chanzis
risk manager
American Standard Inc.,
New York

The property market should remain stable barring catastrophes, and casualty underwriters will be very cautious in creating another hard market since many of us will continue to look to alternative funding mechanisms. Another such cycle will only drive away more premium dollars from traditional insurance markets.

M. Adelle Spradley
director-risk management/assurance
K. Hovnanian Enterprises Inc.,
Red Bank, N.J.

Decreases in investment income will affect the marketplace. Legal fees, medical fees, and the costs of goods and services are steadily increasing. Therefore, the low premiums being charged may not be enough to support the settlement of claims, especially in light of the reduced investment income the insurance carriers are experiencing



Letters

Continued from page 8

grudge. The misleading and heinous accusations made in his commentary must be based upon his misguided assumption, since I know of no facts that would support his claims.

However, he has also done our field a great service. It is this type of misrepresentation that employee assistance program professionals must expect from people who have a limited understanding of our field or who may be motivated by self-serving goals. I believe benefits professionals and EAP professionals have operated at arm's length for too long. EAPs are not ignorant of the need to effectively manage benefit dollars, nor are we adversaries to managed care concepts, as Dr. Afield asserts. I can personally speak to the significant benefits that are possible by creating a positive working relationship between benefits departments and EAPs.

Dr. Afield's view of EAPs serves to remind us of the potential misunderstanding that can result from poor communication. It is my sincere hope that readers will use this article as a reason to meet with the company EAP and begin a dialogue that may be long overdue.

I can assure you that the EAP field today is composed of well-trained professionals who are a far cry from the naive do-gooders on the take as depicted in Dr. Afield's commentary.

Paul M. Heck
Director
Employee Assistance Program
J.C. Penney Co. Inc.
Dallas

* * *

To the editor: A recent article, "Running Amok," by Dr. Walter E. Afield has as one of its major themes the allegation that employee assistance program professionals engage in practices that he feels are "unethical and immoral" (*BI*, May 29). Dr. Afield states that EAP counselors commonly accept "bounties" from treatment providers for every admission they secure and that "EAP procedures frequently border on the unethical."

He states that a "standard ploy" is offering a "consultancy" to an EAP counselor. He elaborates by saying "the implication, however, is that they don't have to show up or produce anything other than a consistent stream of referrals to fill hospital beds."

I certainly believe that there is a need for honest and constructive debate regarding the merits of EAPs, managed care and other types of programs and benefits in providing cost effective mental health/chemical dependency treatment for employees. However, I am outraged that *Business Insurance* printed an article that disparages the honesty and ethics of an entire group of professionals without demanding substantiation.

I can only hope that Dr. Afield is not representative of the "top notch professionals" he cites in his article. In my view, responsible professionals do not make unsubstantiated, broad allegations about the honesty and ethics of other professional groups. They do not present anecdotal information in place of fact. Professionals that I am aware of in EAPs, managed care and employee benefit management are working together on the complex issues of balancing cost concerns with the need for effective, humane treatment and the need to maintain and improve productivity of employees.

If Dr. Afield has factual knowledge of individuals or organizations involved in payment of "bounties" or other ethical violations, he should make it known. In my view, he is ethically bound to report his knowledge of these violations to affected companies or appropriate professional organizations.

William G. Durkin
President
Employee Assistance Roundtable

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Award judges

Continued from page 3

Colo. Mr. Finely was a member of the 1988 Risk Management Honor Roll, representing government entities, and also served as a judge last year.

- John A. Lindquist, risk manager for Browning-Ferris Industries Inc. in Houston. Mr. Lindquist was a member of the 1989 Risk Management Honor Roll, representing large corporations. This is his first year as a judge.
- William L. Mather, administrator of risk management for The Gillette Co. in Boston. Mr. Mather was the 1988 Risk Manager of the Year and also served as a judge last year.
- William S. Mortimer, president of his own risk management consulting firm in Laguna Beach, Calif. Mr. Mortimer is serving on the panel for the second year, representing the viewpoint of risk management consultants.
- Jeffrey W. Pettegrew, risk manager and chief administrative officer for the Contra Costa County Municipal Risk Management Insurance Authority in California. Mr. Pettegrew was the 1989 Risk Manager of the Year. This is his first year as a judge.
- Arthur F. Quern, chairman, president and chief executive officer of Rollins Burdick Hunter Co. in Chicago. Mr. Quern is serving on the panel for the first time, representing national insurance brokers.
- Ellen Thrower, president of The College of Insurance in New York. Ms. Thrower is serving on the panel for the second year, representing the academic community.

"We are fortunate to have such a distinguished panel judging the 1990 nominations," commented Ms. McIntyre.

The judges will use 10 criteria to score the nominations. A candidate receives one to 10 points according to how well he or she:

- Established and implemented an effective risk management program within the organization.
- Tackled and solved one or more major problems for his or her organization.
- Innovatively applies the diverse tools of risk management and insurance.
- Creatively and effectively uses the insurance markets to structure an insurance program that serves the needs of the organization (specifically addressing the types of policies purchased and manuscripted policies, if any, developed).
- Established a workable intelligence system inside and outside the organization, culminating in a flow of information about events and activities that affect the organization's risk management and insurance. (How the risk manager secures information on risks from other departments and the use of risk management information systems are addressed in this criterion.)
- Skillfully performs the functions of management in the overall organization and within the risk management/insurance department. (The functions include planning, organizing, directing and controlling.)
- Achieves the most effective program at the optimum cost over the long term.
- Developed technical expertise in any or all of the broad categories included within risk management, leading to a better managerial grasp of the operations aspects of the job.
- Exhibits an attitude and performs activities fostering the advancement of the risk management profession (such as professional activities, speaking engagements, teaching and related activities).
- Develops in his or her career (as exhibited by job history, including current job description, education, honors and memberships).

The 1990 Risk Manager of the Year and members of the Risk Management Honor Roll will be announced in the April 30, 1990, issue of *Business Insurance*, which will coincide with the annual Risk & Insurance Management Society conference to be held in Boston.

Continued on next page

Risk Managers of the Year

1989

Jeffrey W. Pettegrew
Risk Manager and Chief Administrative Officer
Contra Costa County Municipal Risk Management Insurance Authority

1988

William L. Mather
Administrator of Risk Management
The Gillette Co.

1987

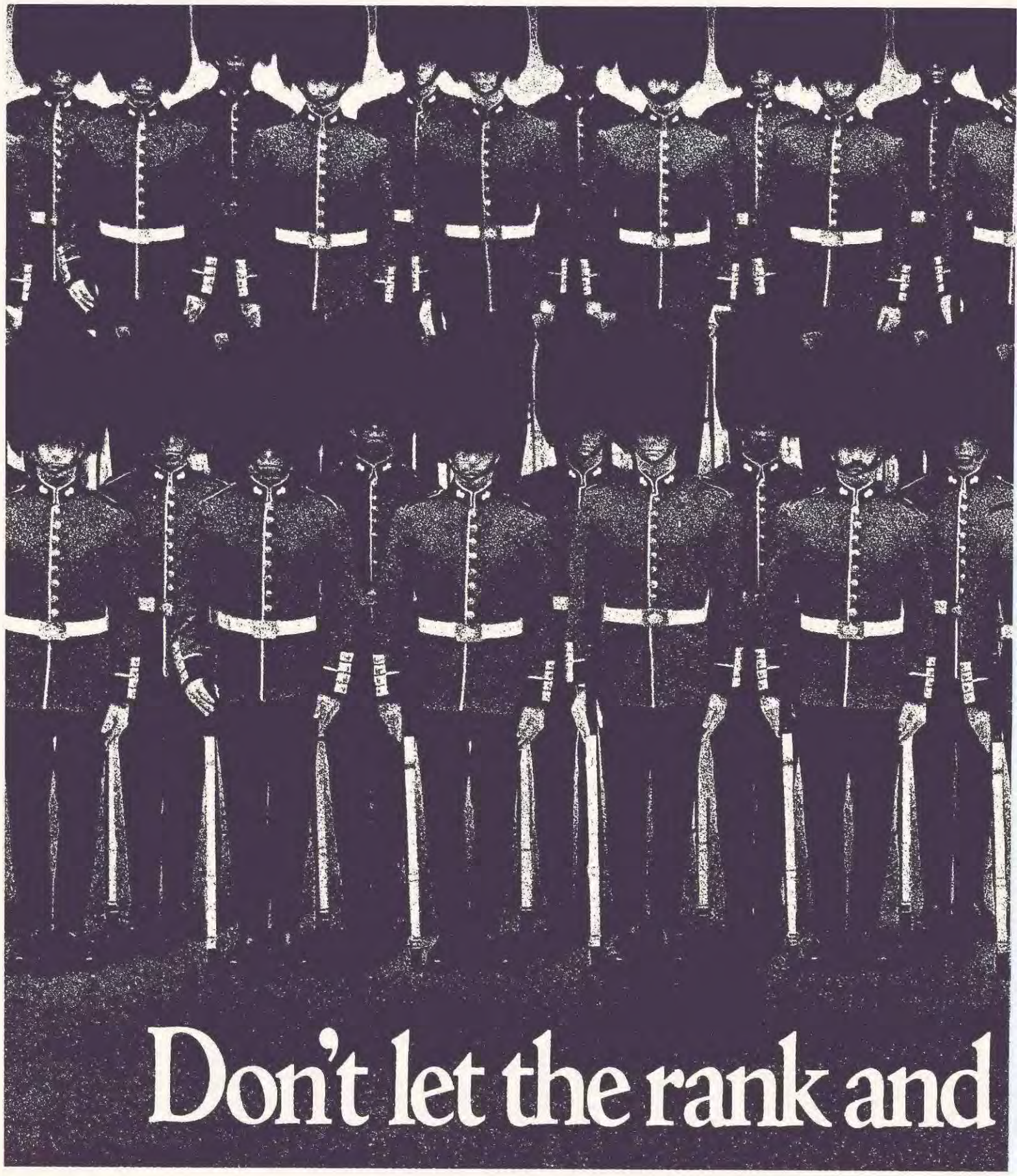
Edith F. Lichota
Senior Vp
Irving Trust Co.

1986

Donald Nelson
Director of Risk Management
ARA Services Inc.

1985

Harold C. Lang
Director of Insurance and Risk Management
Leaseway Transportation Corp.



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Continued from previous page

Business Insurance created the Risk Manager of the Year award in 1977 on the 10th anniversary of its publication to recognize outstanding achievement in the field of risk management.

Anyone responsible for the risk management function for any corporation, government entity, financial or not-for-profit institution or self-insurance fund or pool is eligible for nomination for the Risk Manager of the Year award.

The Risk Management Honor Roll was established in 1980 to recognize the achievements of risk managers in different types of employment settings.

In naming the Risk Management Honor Roll, the employment category represented by the Risk Manager of the Year is eliminated. Then, at the discretion of the judges, the highest-scoring candidate in each of the remaining categories can be named to the 1990 Risk Management Honor Roll.

The employment categories are:

- Corporations with sales exceeding $300 million.
- Corporations with sales less than $300 million.
- Government entities.
- Tax-exempt or not-for-profit institutions.
- Financial institutions.
- Self-insurance funds and pools.

A candidate need not spend full time handling risk management, but must be a full-time employee of the organization for which he or she directs the risk management program.

Previous winners of the Risk Manager of the Year award are not eligible to be renominated, even if they have changed employers since winning the award. However, previous members of the Risk Management Honor Roll are eligible to be nominated for Risk Manager of the Year five years after they were named to the Risk Management Honor Roll.

A candidate can be nominated by anyone familiar with the risk management professional's work. For example, any employee or group of employees can nominate the organization's risk manager; a broker, consultant or other service supplier can nominate a client; and a risk manager can nominate a colleague.

To nominate a candidate for the 1990 Risk Manager of the Year award, request a nominating form by writing Karen Brown, Assistant to the Editor, *Business Insurance*, 740 N. Rush St., Chicago, Ill. 60611-2590. The deadline for nominations to be received by *Business Insurance* is Nov. 28.

Nomination statements, which must be endorsed as accurate by the candidate's superior, will be kept in strictest confidence; only the names of the winners will be announced. ■

Risk Management Honor Rolls

1989

John A. Lindquist
Risk Manager
Browning-Ferris Industries Inc.
Large Corporation

J. Douglas Higley
Director of the Office of Risk Management
State of Louisiana
Government Entity

1988

Gregory L. Daniels
Director-Risk Management Division
American National Red Cross
Not-for-Profit Entity

Stephen A. Finley
Risk Manager
City of Lakewood, Colo.
Government Entity

Timothy G. Galarnyk
Corporate Safety Engineer and Risk Manager
Lunda Construction Co./Phoenix Steel Inc.
Small Corporation

Edward G. Weiss
Director of Risk Management and Security
First of America Bank Corp.
Financial Institution

1987

Susan M. Werner
Director of Risk Management
Hardee's Food Systems Inc.
Large Corporation

Mark F. Wilson
Corporate Risk Manager
First Mississippi Corp.
Small Corp

1986

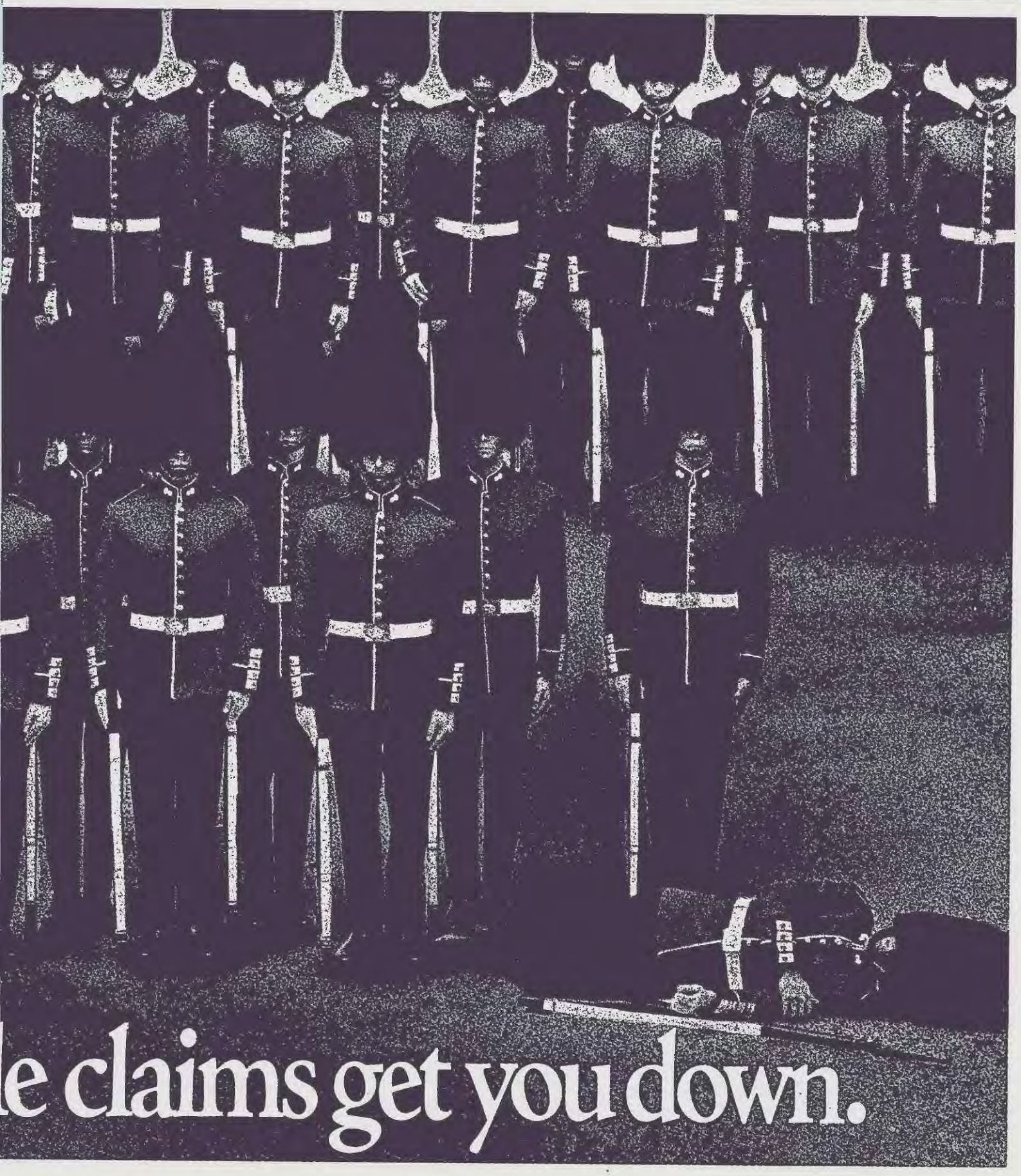
Delmer Ison
Director of Risk Management
Washington Metropolitan Area Transit Authority
Government Entity

William E. Rogers
Director of Community Health Services and Risk Management
Conemaugh Valley Memorial Hospital
Not-for-Profit Entity

1985

Susan N. Weiner
Executive Director-Division of Risk Management
Dade County Public Schools
Government Entity

Eva F. Goodrich
Manager of Insurance and Risk Management
Cincinnati Electronics Corp.
Small Corporation



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Bill would delay Medicare expansion

By JERRY GEISEL and ADRIENNE LOCKE

Washington

WASHINGTON—Implementation of certain benefits under the newly expanded Medicare program as well as the hefty new taxes that many beneficiaries must pay would be delayed under legislation introduced by Rep. Harris Fawell, R-Ill.

Under the bill, H.R. 2770, which has 24 co-sponsors, Medicare benefits that were expanded by a 1988 law, but which have not yet taken effect, would be delayed by one year.

For example, the expansion of Medicare Part B, which is supposed to take effect Jan. 1, 1990, and which would place a $1,300 cap on beneficiaries' physician bills, would be delayed for one year.

But, benefits already in effect this year, including a $560 annual ceiling on beneficiaries' out-of-pocket hospital expenses, would remain.

In addition, the new Medicare surtax, which retirees are scheduled to pay on their 1989 tax returns, would be delayed until the 1990 tax year. That surtax, if left in place, could increase the 1989 tax bite of middle and upper-income retirees by as much as $800.

Rep. Fawell also has introduced a so-called discharge petition that would allow his proposal to bypass the Ways and Means Committee, which has jurisdiction over Medicare, and be considered by the full House.

Rep. Fawell describes the expanded Medicare law as a "hoax and a rip-off."

Others, though, say that the law has given retirees important new benefits that provide them with better protection from catastrophic health care expenses.

Advisory panel

Five new representatives have been named to the Labor Department's ERISA Advisory Council.

Nancy J. Altman, a faculty member at the John F. Kennedy School of Government in Cambridge, Mass., will represent the general public; Joseph Deacon, director of employee benefits at Beatrice Hunt Wesson Inc. in Fullerton, Calif., will represent employers that participate in multiemployer plans; Dennis Kass, a vp with Pension Services Group at Goldman Sachs & Co. in New York, will represent the investment consulting field; Robert D. Lebenson, president of Lebenson Actuarial Services Inc. in White Plains, N.Y., will represent the actuarial profession; and James Ray, a partner in the Washington, D.C., law firm of Connerton, Ray & Simon, will represent employee organizations.

The 15-member Advisory Council on Employee Benefit Welfare and Pension Benefit Plans was established by the Employee Retirement Income Security Act of 1974 to advise the secretary of labor on various ERISA and retirement issues.

The council meets at least four times a year in Washington, D.C., with all member expenses paid by the federal government.

PBGC director

The new executive director of the Pension Benefit Guaranty Corp. is pledging to hold the line on termination insurance premiums employers pay to the agency.

James B. Lockhart III says he will work to assure that there are no further premium increases.

Currently, PBGC premiums are based on the financial condition of employers' pension plans. The annual premium per plan participant ranges from $16 to $50.

Mr. Lockhart says the agency must work to reduce its deficit, which—depending on the outcome of a legal battle with LTV Corp.—could be as much as $4 billion, through effective financial, legal and investment management.

He also plans to work to curb potential abuses in the agency's termination insurance program.

Mr. Lockhart, 43, comes to the PBGC from New York-based Alexander & Alexander Services Inc., where he was vp and treasurer, overseeing treasury activities in more than 70 countries while serving as chairman of A&A's finance company and its pension investment committee.

Mr. Lockhart also has worked with Gulf Oil Corp. as assistant treasurer dealing with cash management, capital structure and investments, and as chief financial officer for several of Gulf's European offices.

He received his bachelor of arts degree from Yale University and earned a master of business administration degree from Harvard University's School of Business Administration in Cambridge, Mass.

Mr. Lockhart succeeds Kathleen P. Utgoff, who will temporarily continue with the agency in an advisory capacity (*BI*, May 8).

Ms. Utgoff has not announced her future plans.

Senate ESOP bill

Senate Minority Leader Robert Dole, R-Kan., has introduced legislation that would remove tax breaks for banks that lend funds to employee stock ownership plans.

The measure, S. 1171, would remove a provision in the Deficit Reduction Act of 1984 that allows banks and other qualified lenders to exclude from their federal taxes 50% of interest income received from an ESOP when an ESOP takes a loan to buy employer stock.

Generally, the legislation would apply to loans made on or after June 7. However, the 50% exclusion would be allowed on loans made on or after June 7 if, among other things, there was written confirmation of a loan between an ESOP and the lender that described the principal amount, interest rate and maturity of the loan before that date.

A similar bill, H.R. 2572, was introduced in the House of Representatives by Ways and Means Committee Chairman Daniel Rostenkowski, D-Ill. (*BI*, June 12).

Dependent care

Employees who receive federal tax breaks to fund dependent health care expenses will be required to provide on their federal income tax returns the name, address and taxpayer identification number of their dependent care providers, the Internal Revenue Service says.

In Notice 89-71, the IRS said employees must include the information about their dependent care providers on Form 2441, Credit for Child and Dependent Care Expenses. In the case of employees filing the short tax form—known as 1040A—this information must be included on Part I of Schedule

Continued on page 16

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Continued from page 14

Schedule 1, Credit for Child and Dependent Care Expenses.

Employees who do not furnish correct or complete information will not be allowed to use the dependent care tax breaks unless, at the request of the Internal Revenue Service, they can prove that they exercised due diligence in attempting to obtain the necessary information.

Employers with dependent care assistance programs should advise employees of the new requirements, suggests Buck Consultants Inc. of New York.

The dependent care reporting requirements, tucked into welfare overhaul legislation passed by Congress last year, applies to 1989 tax returns that will be filed next year.

Two tax breaks are available to help fund dependent care expenses.

Taxpayers can take tax credits of between 20% and 30%—depending on their income—for up to $2,400 of annual dependent care expenses for one child and $4,800 of expenses for two or more children.

In addition, employees can finance up to $5,000 in expenses through pretax contributions to a dependent care flexible spending accounts.

However, under the welfare legislation, an employee's child-care expenses eligible for federal tax credits will be directly offset by the amount the employee contributes to a dependent care FSA.

For example, if an employee made a $600 pretax contribution to an FSA, the employee would only be able to receive a tax credit on $1,800 worth of child care expenses.

Tanker safety bill

A Senate committee has passed legislation to improve oil tanker safety and reduce the risk of future oil spills.

The goal of the legislation, approved last month by the Senate Commerce, Science and Transportation Committee, is to limit the risk of oil spills through increased tanker safety and tighter personnel controls. The bill also calls for swift action in the event of an accident.

Under the legislation:

- Oil tankers would be required to maintain three people on the bridge when the tanker requires human navigation unless a state-licensed pilot is on board. At least two people on board every ship would be required to have federal pilot endorsements to their licenses.
- Current law would be amended to require state-licensed pilots in Prince William Sound, Alaska, to remain on board all tankers to a point beyond the site of the Exxon Valdez grounding (*BI*, April 3).
- All owners and operators of oil tankers that transfer oil in bulk at U.S. ports or terminals would be required to prepare contingency plans for the prevention, containment and cleanup of oil spills.
- The secretary of transportation would receive access to the National Driver Registry to ensure that all persons with drunk driving violations would be identified and that their merchant marine licenses could be denied, suspended or revoked.
- Mandatory periodic, random, reasonable cause and post-accident testing for alcohol use would be instituted for all persons determined by the transportation secretary to occupy safety sensitive positions on board oil tankers. The testing requirements would be analogous to those the Department of Transportation uses to control drug abuse in segments of the transportation industry.
- All newly constructed tankers operating in the navigable waters of the United States would have to be constructed with double-hulls or double-bottoms unless the secretary of transportation, through rule making, determined that such a requirement could be better met by other structural changes, or would not enhance public health, safety or environmental protection.

Washington

OSHA nomination

Gerard F. Scannell is awaiting Senate confirmation to become assistant secretary of labor for the Occupational Safety and Health Administration.

If confirmed, Mr. Scannell would succeed John A. Pendergrass, a Reagan administration appointee who held the position from May 1986 to March 1989.

"Mr. Scannell has had a long, distinguished and successful career in protecting the safety and health of workers, both in government and in the private sector, and his selection to head OSHA is a major step in carrying out our commitment to improve the conditions in America's workplaces," said Labor Secretary Elizabeth Dole.

Since 1979, Mr. Scannell has been director of corporate safety/fire/environmental affairs with worldwide responsibility at Johnson & Johnson Products Inc. in New Brunswick, N.J.

Previously, Mr. Scannell had worked with the Washington, D.C., office of OSHA in various positions, including director of the Office of Federal Agency Safety and Health Program in 1974; director of the Office of Standards in 1972; and special assistant to the assistant secretary of labor for OSHA in 1971.

Mr. Scannell's other current positions include vice chairman of the board of directors of the National Safety Council; a director of the Inter-American Safety Council; and a member the New Jersey State Industrial Safety Committee.

He received a bachelor of science degree from Massachusetts Maritime Academy in Buzzards Bay, Mass.

Retiree health care

If Congress considers retiree health care legislation, several elements should be part of that legislation, according to the ERISA Industry Committee, a Washington, D.C., based benefits lobbying organization.

Those elements, according to testimony presented last month by the group to a House Ways and Means Subcommittee, include:

- Medicare should continue to serve as the primary payer of health care benefits for retirees over 65, with employers who choose to do so providing access to group plans for early retirees.
- Employers should have tax incentives to fund retiree health care benefits.
- Employers should be allowed to use excess pension assets to fund retiree health care benefits without any adverse tax consequences. ■

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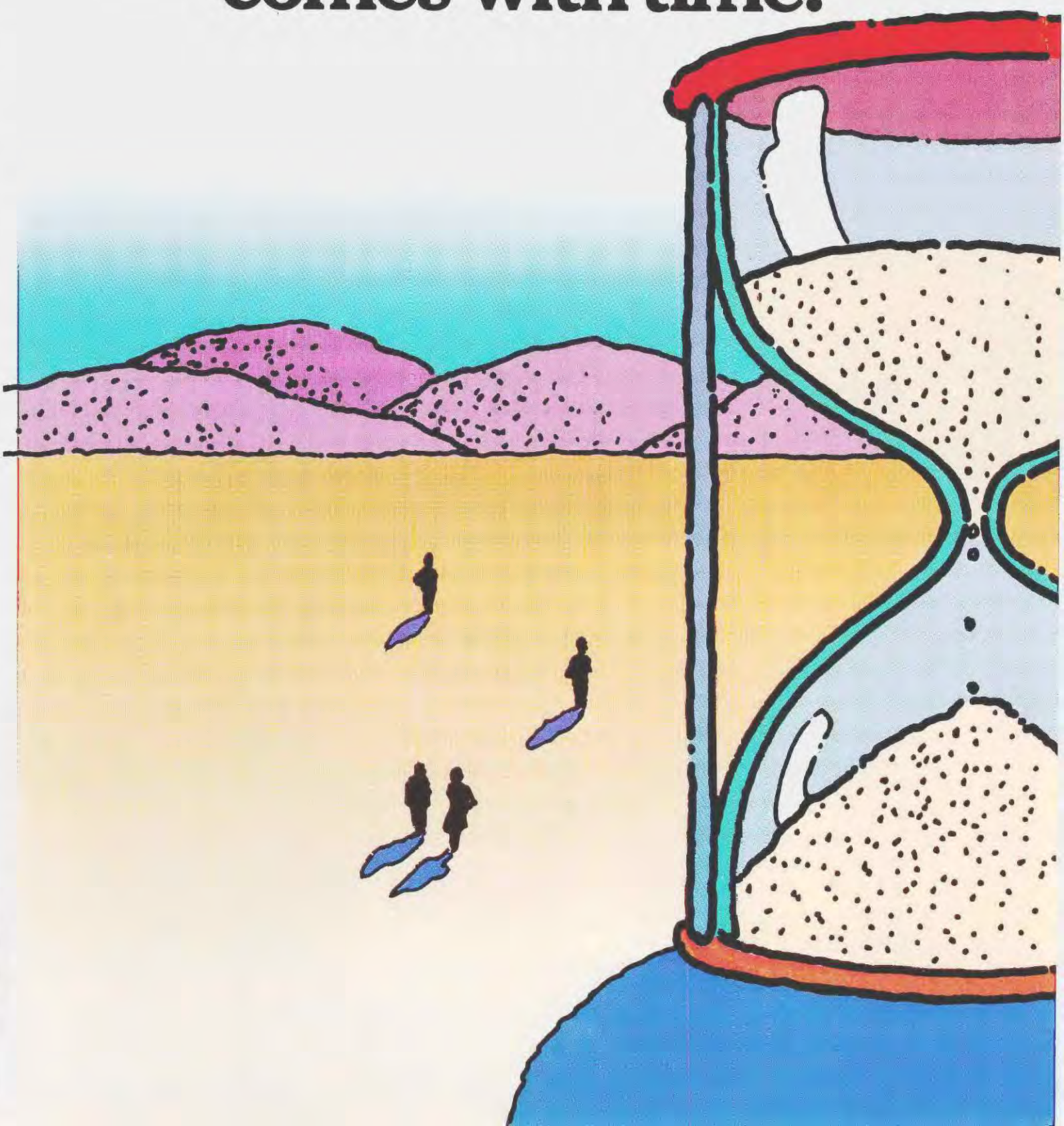

Technicon case

Continued from page 3

After the insurers denied Technicon's claim for coverage, Technicon sued Centennial and Atlantic Mutual and 15 of its excess insurers-including American Home Assurance Co.—in state court in New York.

The trial court agreed with Technicon and concluded that the pollution exclusion was not an operative bar to coverage.

However, the appellate division reversed and declared "that the pollution exclusion. . .operates to relieve (the insurers) of any obligation to defend or indemnify Technicon" (*BI*, Dec. 5, 1988).

The New York Court of Appeals, the state's highest court, affirmed the appellate division ruling, saying that when a policyholder knowingly releases chemicals into the environment the resulting damage cannot be considered "accidental" even if the policyholder did not intend to pollute.

The seven-judge panel said it is not the intentions of the policyholder that are at issue, but the policyholder's actions.

"The pollution exclusion clause, by its own terms, does not distinguish between intended or unintended consequences of intentional discharges. Rather, it excludes from coverage liability based on all intentional discharges of waste, whether consequential damages were intended or unintended," the court ruled unanimously.

Technicon had argued that it lawfully discharged its production wastes into a creek that flowed into Frontera Creek, but did not intend to cause environmental harm. Therefore, the company argued the pollution was "accidental" and within the exception to the pollution exclusion.

The Court of Appeals did not agree: "The waste discharges cannot be viewed as 'accidental' within the meaning of the exception to the pollution exclusion clause in this case where the gravamen of the underlying complaint against Technicon, the insured, in the personal injury action is that it knowingly discharged the pollutants in the waterway."

"Inasmuch as the underlying complaint alleges and Technicon's answer concedes that its dumping of waste was deliberate, the occurrence cannot be 'accidental' within the meaning of the policy," according to the court.

Technicon has not decided whether it will ask the court to reconsider its decision. The U.S. Supreme Court is unlikely to grant review of the case because it does not involve a federal question.

The decision is noteworthy because it marks the first time the highest court in New York has reviewed the pollution exclusion and could help resolve a split among New York intermediate appellate courts, according to attorneys.

"This determines New York law," explained insurer attorney Thomas Brunner of Wiley, Rein & Fielding in Washington, D.C.

There are four intermediate appellate courts in New York. To date, the 3rd Judicial Department and the 4th Judicial Department have issued pro-policyholder interpretations of the pollution exclusion, while the 2nd Judicial Department has issued pro-insurer rulings. The 1st Judicial Department has not addressed the issue.

The Technicon decision "clearly" resolves the current split among intermediate New York appellate courts, said attorney Thomas R. Newman of Bower & Gardner in New York. "From now on, New York appellate courts will be guided by this decision," said Mr. Newman, who represented Centennial and Atlantic Mutual in the case.

Among the cases now pending in New York that could be influenced by the Technicon decision is litigation surrounding the pollution at Love Canal in Niagara Falls, N.Y., according to attorneys.

A trial court in New York is now sifting through 140 insurance policies covering Hooker Chemical & Plastics Corp. and its parent, Occidental Petroleum Co., to decide who will defend and finally pay claims remaining from the pollution at the site, according to attorneys (*BI*, Jan. 14, 1980).

The Technicon decision also could have an influence on courts nationwide hearing pollution coverage litigation, attorneys say.

The Technicon decision will be influential because it marks "only the second or third time the highest court of a state has ruled on the pollution exclusion," said insurer attorney Robert Bates of Phelan, Pope & John in Chicago.

The Georgia Supreme Court recently ruled that the pollution exclusion does not bar coverage for pollution cleanup costs (*BI*, July 3).

"It is a very significant decision that will be cited to and relied on by other courts," said Mr. Bates.

"It will have a substantial impact nationwide," agreed insurer attorney Mr. Brunner, who called the decision "a significant victory for insurers."

Technicon attorney Jerold Oshinsky, however, said the New York Court of Appeals decision is "very narrow" and will not have a widespread impact.

"I don't think the opinion will have any impact on the majority of cases which involve unintentional pollution," said Mr. Oshinsky of Anderson Kill Olick & Oshinsky in Washington, D.C.

Policyholder attorney Robert Sayler of Covington & Burling in Washington, D.C., agreed: "The Technicon decision does not have significant precedential force."

The decision is limited in its influence because the case involved unusual facts, explained Mr. Sayler, who represented the Chemical Manufacturers Assn. in the litigation.

Many other policyholders seeking coverage for pollution cleanup costs did not intentionally release wastes.

Mr. Oshinsky faulted the court for ignoring the fact that the EPA has found no pollution at the site in Puerto Rico. "The EPA has said that the only mercury it could find could be explained as a naturally occurring phenomenon," he said.

"My client (Technicon) could not have intended what does not exist."

In addition, Mr. Oshinsky said the court erred by not looking at the drafting history of the comprehensive general liability form. He says the drafting history documents clearly show that the insurance industry only intended to exclude from coverage the intentional polluter.

"There has been no determination that Technicon was an intentional polluter," he said.

•

Technicon Electronics Corp. vs. American Home Assurance Co. et al. and Atlantic Mutual Insurance Co. et al.; State of New York Court of Appeals, No. 155.

IFEBP survey

Continued from page 3

• 8% report that only a managed fee-for-service plan—a traditional fee-for-service plan that imposes some utilization controls—is offered.

• 1% report that only an HMO is offered.

• 10% report that some other combination of health care coverage is offered.

The survey found that the most popular health care cost management strategy is utilization review, the essence of a managed care plan. UR is used by 88% of the employers with which survey respondents were associated.

The most popular UR programs were preadmission review, used by 92% of the employers; precertification of length of stay, 85%; concurrent review, 76%; and retrospective review, 47%. Some employers used more than one form of UR.

"Utilization review has come to be an almost 'standard' component of health care cost management," Ms. Carlsen observed.

A sizable number of the employers with which the respondents were associated—71%—also use case management services, the survey found.

The survey also asked respondents how many of the employers with which they were associated monitored the cost effectiveness of their managed care plans.

Sixty-one percent of the employers with vendor-provided managed care plans monitor the cost-effectiveness of the plans, the survey found. Of these employers, three quarters—75%—found a lower rate of increase in their health care expenditures. And some employers were even more fortunate, with 7% reporting a decrease in costs and 14% reporting that their costs were unchanged.

Indeed, the survey found that 66% of the respondents believe that implementing managed care reduced the necessity of instituting more drastic cost cutting measures in employer-sponsored benefits.

However, 1% of the respondents reported that the health care costs of managed care plans they are associated with have increased.

"While only two respondents indicated that managed care had resulted in an increase in health care costs, their comments raise the proverbial 'red flag.' " Ms. Carlsen noted.

For example, nearly half of the respondents—45%—report that they believe that physicians are already passing on additional fees to cover the administrative costs of complying with managed care requirements.

And, 72% of the respondents expect more physicians will pass these costs on to patients and health care payers in the future, the survey found.

Futhermore, the rising cost of outpatient care also is driving up the cost of managed care, which emphasizes outpatient treatment, Ms. Carlsen said, referring to written comments from survey respondents.

Survey results show that 34% of employers apply managed care to outpatient care, but that 68% of respondents believe that managed care eventually will be applied to all medical care, including routine outpatient services.

However, outpatient costs are increasing rapidly, and some outpatient treatment is now more expensive than comparable inpatient treatment, she said.

Referring to a comment from a survey respondent, Ms. Carlsen said: "The quoted remark that 'outpatient incentives drove up costs of plan' underscores a disturbing concern in the industry that the current demand for outpatient services is causing their costs to outpace those associated with inpatient care."

In addition, 70% of employers apply managed care to increasingly expensive mental health and substance abuse cases, the survey reports. And, of those employers, 41% apply managed care to outpatient treatment of those cases.

Calling the cost-effectiveness of managed care "still an open issue," Ms. Carlsen said: "As I see it, the effects of managed care are just beginning to be seen. I don't know if employers' plans have felt the full effect of these costs being passed on."

And, employee benefit consultants say that employers should not consider managed care programs a panacea for runaway health care costs.

"The truth is that health care cost containment is a moving target. In the end, plan design is what is going to determine your costs," said Michael Baker, a senior consultant in the group practice of The Wyatt Co. in San Diego.

Citing a claims audit conducted by Wyatt for an employer whose costs increased significantly despite implementing a physician preferred provider network, he noted that while the cost of a physician office visit went down, "the number of visits or occurrences increased 35%."

Mr. Baker's advice is: "Stick to ways that you know are effective ways to control costs. You will either have to increase deductibles and copayments or require premium cost-sharing" to achieve the best cost management results.

"There certainly are new costs created by adding managed care, such as the administrative costs," because these are expenses an employer may never have faced before, said Dr. Thomas Mayer, director of managed care systems for the medical audit unit of William M. Mercer Meidinger Hansen Inc. in Los Angeles.

But, employers should remember that the health care system "is a dynamic system," he said. "What contributes to the costs of the system is always changing."

And, because the factors contributing to health care cost increases are constantly changing, "managed care programs and systems have to adjust constantly to compensate for the changes in costs. There will always be new areas where costs will increase, such as the current cost increases in the area of outpatient health care services," he said.

"And, there will always be a lag time during which new ways to manage these costs must be developed," Dr. Mayer explained.

But, while the experts debate the effectiveness of managed care, employers also are turning to many other measures to help contain health care costs, including increased employee cost sharing, the survey found.

For example, 75% of the employers have increased deductibles, 58% have increased employees' portion of coinsurance, 33% have implemented a front-end deductible—in which the employee pays a specific amount each time he or she receives a particular service before coverage kicks in—and 27% implemented employee coinsurance.

Employers also are making other plan design changes in an effort to keep a tight rein on health care costs, the survey found.

For example, 51% of the employers have reduced certain benefit levels, 27% have eliminated certain benefits, 34% have switched to flexible benefit plans from traditional indemnity plans and 23% have imposed stricter eligibility requirements.

Thirty percent of survey respondents also report recent health care cost containment efforts have involved changing from a fully insured plan to a fully or partially self-insured plan, and 26% report that recent cost containment efforts have involved changing their insurers.

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Free copies of the study "Issues in Managed Health Care" are available from the International Foundation of Employee Benefit Plans, Public Relations Department, 18700 W. Bluemound Road, P.O. Box 69, Brookfield, Wis. 53008-0069.

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Korean Re

Continued from page 3

rate Risk.

• First Benefit Insurance Co. of Mineola, N.Y., an accident and health insurer recently incorporated but not yet licensed by the New York Insurance Department.

No premium changed hands under this cover note, and First Benefit has since arranged replacement reinsurance for business it will write after being licensed, said Marc Tract, a lawyer with Kroll & Tract in New York, who represents the insurer.

Mr. Bennett said he initially discussed American Interfidelity's reinsurance placement with Colin Youell, who described himself as president and chief executive officer of McDonald Management.

Mr. Youell formerly was director of MGM Underwriting & Reinsurance of Wareham, England, a major producer of business for the now-defunct St. Eustatius Insurance Co. of the Netherlands Antilles (*BI*, May 5, 1986).

Mr. Youell told Mr. Bennett he had authority to accept business on behalf of several Far East insurers, including Korean Re, according to Mr. Bennett. After receiving a proposal for the American Interfidelity placement, Mr. Youell told Mr. Bennett that Korean Re would accept the risk, Mr. Bennett said.

Mr. Bennett said he then attempted—with some difficulty—to confirm with Mr. Youell that McDonald Management had binding authority for Korean Re.

Mr. Youell first sent Mr. Bennett a copy of a document he had received from Nippon Kei Ei purportedly granting McDonald Management binding authority as a subagent, according to Mr. Bennett, who said he told Mr. Youell that this was not adequate documentation.

Mr. Youell later provided two other documents, according to Mr. Bennett:

• A letter on what appeared to be Korean Re letterhead granting the authority to Nippon Kei Ei.

• A letter in which a lawyer for Nippon Kei Ei confirmed he had reviewed a contract granting Nippon Kei Ei binding authority for Korean Re.

After receiving these documents, Mr. Bennett said he pursued the deal, believing the binding authority to be legitimate. He added, however, that he had had second thoughts about dealing with Mr. Youell, and told David Cohen—whom he described as Mr. Youell's partner in McDonald Management—that he would no longer deal with Mr. Youell.

Mr. Cohen responded that his partnership with Mr. Youell had broken up and that Mr. Cohen would now serve as Mr. Bennett's contact with Nippon Kei Ei, Mr. Bennett said.

Mr. Bennett said he became aware of the problems with the binding authority during a May visit to Tokyo. There, Korean Re officials denied they had granted binding authority to Nippon Kei Ei, and denied that any Korean Re official had written or signed the letter supplied by Mr. Youell, according to Mr. Bennett.

He added that the Korean Re letterhead used for this document was not actually the reinsurer's.

By this time, however, Corporate Risk had already wired roughly $200,000 in premiums to a bank account controlled by Nippon Kei Ei, and had turned over an additional $100,000 in certified checks, Mr. Bennett said.

Gary Bennett became aware of the problems with the binding authority while visiting Tokyo.

Mr. Bennett said he has since asked Nippon Kei Ei to return the balance of the premiums, but that Nippon Kei Ei says it no longer has the money and that it will reimburse Corporate Risk only through discounts on future reinsurance business.

Nippon Kei Ei said it had forwarded the money to a Mr. Chung, who was identified as a prominent South Korean businessman from whom Nippon Kei Ei originally received its binding authority for Korean Re, according to Mr. Bennett.

However, Mr. Bennett said he has been unable to obtain any more information on Mr. Chung from Nippon Kei Ei and does not know if Mr. Chung was even a Korean Re employee.

"I do not know, quite frankly, if Mr. Chung exists," Mr. Bennett said.

Korean Re never received any of the premium paid to Nippon Kei Ei, according to Neal Glazer, a lawyer with D'Amato & Lynch in New York representing Korean Re.

Officials of Nippon Kei Ei could not be reached for comment.

Mr. Youell, reached at Consortium of '89 Ltd., a London firm he now runs, denied involvement with McDonald, saying that he has never done business with the company and has never been a partner with Mr. Cohen in the firm.

Mr. Cohen formed McDonald and invited Mr. Youell to become a partner, but Mr. Youell said he declined the offer.

Mr. Cohen also denied that Mr. Youell was a partner or officer of McDonald and said that the firm never claimed to have binding authority for Korean Re, explaining that it was only authorized to submit business to Nippon Kei Ei. McDonald was misled by Nippon Kei Ei about its authority, he added. ■

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Insurance analysts' advice

M&M Cos. leads favored industry stocks

By JUDY GREENWALD

NEW YORK—Marsh & McLennan Cos. Inc. is a favorite among a group of stock analysts because the insurance broker and financial services company is immune to soft property/casualty insurance market conditions.

Three of 10 insurance industry stock analysts speaking at the Assn. of Insurance & Financial Analysts' 14th annual insurance symposium in New York last month picked M&M as their favorite stock.

However, each of the other analysts favored insurance company stocks, although there was no consensus on a favorite insurance company. The top insurance company stocks favored included: American International Group Inc. of New York; Travelers Corp. of Hartford, Conn.; Continental Corp. of New York; Hartford Steam Boiler Inspection & Insurance Co. of Hartford, Conn., and W.R. Berkeley Corp. of Greenwich, Conn.

M&M stock "gives you the leading-edge player without having the underwriting risk" that an insurer engenders, said Michael A. Lewis, first vp at Dean Witter Reynolds in New York, explaining why he recommends M&M stock.

"In essence, we don't see a turn in the cycle quickly, so we're not looking for underwriting exposure," he said.

And, when the market hardens, brokerage stocks will benefit first because rate increases will be reflected immediately in brokers' results, said

Jeffrey Cohen of Goldman Sachs & Co. selected AIG as his top pick for several reasons.

Charles B. Gates, vp at the First Boston Corp.

M&M was Mr. Gates' top stock pick as well.

Mr. Gates said he also likes M&M because subsidiary Putnam Cos., an investment management unit, has benefited from the recent surge in the stock market.

Gloria Vogel, associate director at Bear Stearns & Co. in New York, said she likes insurance brokerages overall because of their historically good cash flow and growth.

Among the reasons for her selection of M&M as a top stock pick is its balanced revenue stream, Ms. Vogel explained.

In addition to income from commissions, it generates non-commission income and income from its employee benefits operations, she said.

However, other insurance industry analysts selected insurer stocks as their top picks.

Jeffrey Cohen, vp with Goldman Sachs & Co., said he selected AIG as his top pick for several reasons:

- The large amount of business AIG has overseas. He noted that the insurer is entrenched in many foreign markets, where its distribution system is "unmatched."
- AIG's concentration on U.S. specialty risks, which should partially insulate it from the soft U.S. property/casualty insurance market.
- Its product innovations.
- The large management ownership of its stock, which pushes a sense of accountability further down in the organization than is the case for other insurers.

Allerton Cushman Jr., managing director at Morgan Stanley & Co., said he recommends Travelers because, among other reasons, the insurer's workforce is shrinking; it has turned around its employee benefits operations; and it has restructured its mortgage loan portfolio, which will lead to an increase in profits.

Mr. Cushman, who first recommended Travelers stock in March, said the risk factors in his selection include the potential for a serious recession and a prolonged period of high interest rates.

A. Michael Frinquelli, managing director with Salomon Bros. in New York, selected Continental Corp. as his top pick.

"Our view is that the pricing cycle won't turn until mid-1990" at the earliest.

Within that environment, he has adopted a "barbell" approach.

On one end, he likes companies such as Continental and Fireman's Fund Insurance Cos., which have the opportunity to improve profitability by restructuring themselves.

On the other end, he likes companies such as AIG and W.R. Berkley, which can run through a soft market relatively unscathed because of their focus on specialty lines.

Discussing Continental in particular, Mr. Frinquelli said he would like to see the insurer adopt a four-point program that could dramatically improve results:

- Exit from some—and preferably all—of its international and reinsurance operations.
- Reduce its workforce, which would narrow the gap between its expense ratio and the industry average by two points.
- Implement a modest financial reinsurance program, which could generate additional surplus.
- Implement a program to repurchase 10 million shares of its stock.

Donald G. Zerbarini, senior vp at

Continued on next page

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AAU Raising Your Expectations

Insurance stocks lag S&P 500 gain over three years

By JUDY GREENWALD

An investor that put up $10,000 in July 1986 to buy commercial property/casualty insurance industry stocks recommended by stock analysts would have made money, but he would have been far better off had he invested in the Standard & Poor's 500.

The investor would have fared worse, though, had he invested in a random selection of insurance industry stock.

Meanwhile, Marsh & McLennan Cos. Inc., an insurance brokerage and financial services company stock, is a current favorite of stock analysts (see story, page 21).

The hypothetical $10,000 invested by *Business Insurance* in the *BI* Model Portfolio, which consisted of industry stocks recommended by a group of analysts, increased to $11,160.82 as of June 28, an 11.6% increase. This reflects changes in the stocks' prices as well as dividends and interest earned on leftover cash.

The performance of the model portfolio has improved significantly from the 6.8% decline it recorded as of Oct. 26, 1988, and the 12% decline posted as of Oct. 22, 1987, three days after the stock market crash (*BI* Oct. 31, 1988).

The increase in the value of the model portfolio stock compares favorably with the 6.6% increase posted by the entire *Business Insurance* Index, which includes the stock market results of 68 insurers, reinsurers, insurance-related conglomerates and holding companies and brokers.

The *BI* Model Portfolio also did

Continued on next page

BI model portfolio

Stock	No. of shares	July 25, 1986 purchase price	Total	Oct. 26, 1988 price	Total	% change	June 28, 1989 price	Total	% change
Chubb	37	$72.13	$2,668.63	$57.50	$2,127.50	(20.3)%	$70.38	$2,604.06	(2.4)%
General Re	33	61.88	2,041.88	57.63	1,901.63	(6.9)	67.50	2,227.50	9.1
AIG	30[1]	134.25	2,013.75	67.75	2,032.50	0.9	84.88	2,546.40	26.5
Fireman's Fund	28	38.13	1,067.50	31.00	868.00	(18.7)	34.50	966.00	(9.5)
USF&G	15	40.00	600.00	30.75	461.25	(23.1)	32.13	481.95	(19.7)
Ohio Casualty	14[2]	81.00	567.00	36.50	511.00	(9.9)	45.75	640.50	13.0
American General	13	41.63	541.13	34.63	450.13	(16.8)	36.75	477.75	(11.7)
CNA	8	55.00	444.00	64.50	516.00	16.2	75.00	600.00	36.4
Cash[3]			56.11		453.97	709.1		616.66	999.0
Total			10,000.00		9,321.98	(6.8)		11,160.82	11.6
S&P 500			240.22		281.38	17.1		325.81	35.6
BI Stock Index			513.10		454.60	(11.4)		547.20	6.6

[1]Shares after 2-1 split on Nov. 17, 1986 [2]Shares after 2-1 split on Jan. 23, 1987 [3]Includes dividend payments

Industry stocks

Continued from previous page

Prescott, Ball & Turben in New York, said he recommends Hartford Steam Boiler because of its 40% share of the steam boiler insurance market.

Hartford Steam Boiler's pretax operating earnings, excluding interest expense and realized capital gains, has increased at a 29% compound rate over the last five years, he noted.

And, the insurer's return on equity improved three percentage points in 1988 to 21.9%.

In addition, Hartford Steam Boiler's underwriting profitability is far above the industry's, Mr. Zerbarini noted, referring to the insurer's 84% combined ratio in Hartford Steam Boiler's pretax operating earnings, excluding interest expense and realized capital gains, has increased at a 29% compound rate over the last five years, he noted.

And, the insurer's return on equity improved three percentage points in 1988 to 21.9%.

In addition, Hartford Steam Boiler's underwriting profitability is far above the industry's, Mr. Zerbarini noted, referring to the insurer's 84% combined ratio in 1988.

In recommending W.R. Berkley, Norman L. Rosenthal, a principal with Morgan Stanley, pointed out that because William R. Berkley, the insurer's president and chief executive officer, owns 14.5% of the company's outstanding shares, Mr. Berkley has a strong stake in the company's success.

"I think this company has an extremely high intrinsic value" should it be sold or broken up, Mr. Rosenthal added. He explained that the company is structured around autonomous units that could easily be sold off in parts, enhancing Berkley's value.

Mr. Rosenthal said he likes Berkley stock for several other reasons, including:

- The insurer's strong stock repurchase program.
- A 1.6-to-1 premium to surplus ratio, which means the insurer is overcapitalized, providing it with a lot of options and flexibility.
- The insurer's reserves are adequate.
- It has followed an intelligent acquisition policy.
- The company has focused on establishing regional insurance companies rather than national companies, reducing its vulnerability to changing property/casualty market conditions.
- The insurer will be "one of the best-positioned property/casualty insurers" when the market hardens because of its significant involvement in alternative insurance markets.

For example, in 1987 Berkley joined with Hamilton, Bermuda-based reinsurer Nobel Insurance Ltd. to launch a risk retention group management company (*BI*, Sept. 21, 1987). ■

BI random portfolio

Stock	No. of shares	July 25, 1986 purchase price	Total	Oct. 26, 1988 price	Total	% change	June 28, 1989 price	Total	% change
CIGNA	40	$62.50	$2,500.00	$51.75	$2,070.00	(17.2)%	$56.88	$2,275.20	(9.0)%
CNA	40	55.50	2,220.00	64.50	2,580.00	16.2	75.00	3,000.00	35.1
Aetna	35	60.50	2,117.50	50.88	1,780.80	(15.9)	55.63	1,947.05	(8.1)
Continental	40	46.63	1,865.00	39.63	1,585.00	(15.0)	34.63	1,385.20	(25.7)
AmBase Corp.	40	23.75	950.00	11.13	445.00	(53.2)	13.75	550.00	(42.1)
Cash			347.50		1,052.54	202.9		1,314.66	278.3
Total			10,000.00		9,513.34	(4.9)		10,472.11	4.7
S&P 500			240.22		281.38	17.1		325.81	35.6
BI Stock Index			513.10		454.60	(11.4)		547.20	6.6

Includes dividend payments

Continued from previous page
better than the Random Portfolio, which was selected by picking industry stocks from a hat.

Those stocks posted a 4.7% increase as of June 28. This compares to the 4.9% decline posted as of Oct. 26, 1988, and the 11.3% decline posted as of Oct. 22, 1987.

However, the model portfolio's performance is dismal compared with the 35.6% increase in the Standard & Poor's 500 over the same three-year period.

•

Business Insurance does not recommend stocks in the BI Model Portfolio and the BI Random Portfolio. BI reporters and editors do not invest in insurance industry stocks. Readers should contact a licensed stock broker or investment adviser before making any investment.

Meenaghan cites 3 keys to success

By JUDY GREENWALD

NEW YORK—Insurers must "set a course for success" to prepare for the next hard market and the long term, says an executive of The Home Insurance Co.

A basic question for property/casualty insurers is "what is it going to take" to succeed over the long term, said James J. Meenaghan, president and chief executive officer of New York-based Home, a subsidiary of AmBase Corp.

Mr. Meenaghan, speaking at the Assn. of Insurance & Financial Analysts' 14th annual insurance symposium in New York last month, suggested insurers should:

• Establish an "absolute clarity of purpose" about the products they wish to sell.

"There is still a lot of mixed up thinking in a lot of companies," he said.

It is important that insurers define what business they will write "and more importantly, perhaps," what business they will not, he said.

This will require some "drastic changes," Mr. Meenaghan said.

Insurers may have to reorder internally, and perhaps even get out of lines of business that produce a significant portion of their premium volume because they cannot be successful in those lines over the long term, he said.

• Make a strong commitment to underwriters and claims professionals.

The key to success is underwriting, he said. Therefore, successful companies must do everything they can to make underwriters the "kings in their companies," he asserted.

He suggested that top executives should be recruited from the underwriting ranks.

Claims personnel should be similarly valued, he said. "You've got to have the best people in those jobs."

• Communicate to agents and brokers "a feeling there is a franchise value" in staying with the company for the long term.

So far, however, insurers' results are still pretty good, he said.

"Certainly there isn't pain yet. Companies are not hurting yet," and they must before they will modify their market approach, he said.

Mr. Meenaghan cited American International Group Inc., General Reinsurance Corp. and Chubb Corp. as insurers that performed well in the last soft market of the early 1980s.

And, in the future, "there are going to be additional companies that also distinguish themselves" by their performance, Mr. Meenaghan said.

Mr. Meenaghan said that barring some cataclysmic event, he thinks "we're going to be looking at this market continuing at least six months, and quite possibly up to 18 months or more."

But, he qualified his estimate: "I really don't know, and I really don't think too many other property/casualty executives know."

And, the last hard market provides no clues about when the next hard market will appear, he said.

Robert J. Culp, president of the Averbeck Co. in Pomona, Calif., a regional brokerage, said rates are "far below" the levels of two to three years ago and "somewhat below" where they were six months ago.

However, he added that he perceives a "firming trend" now.

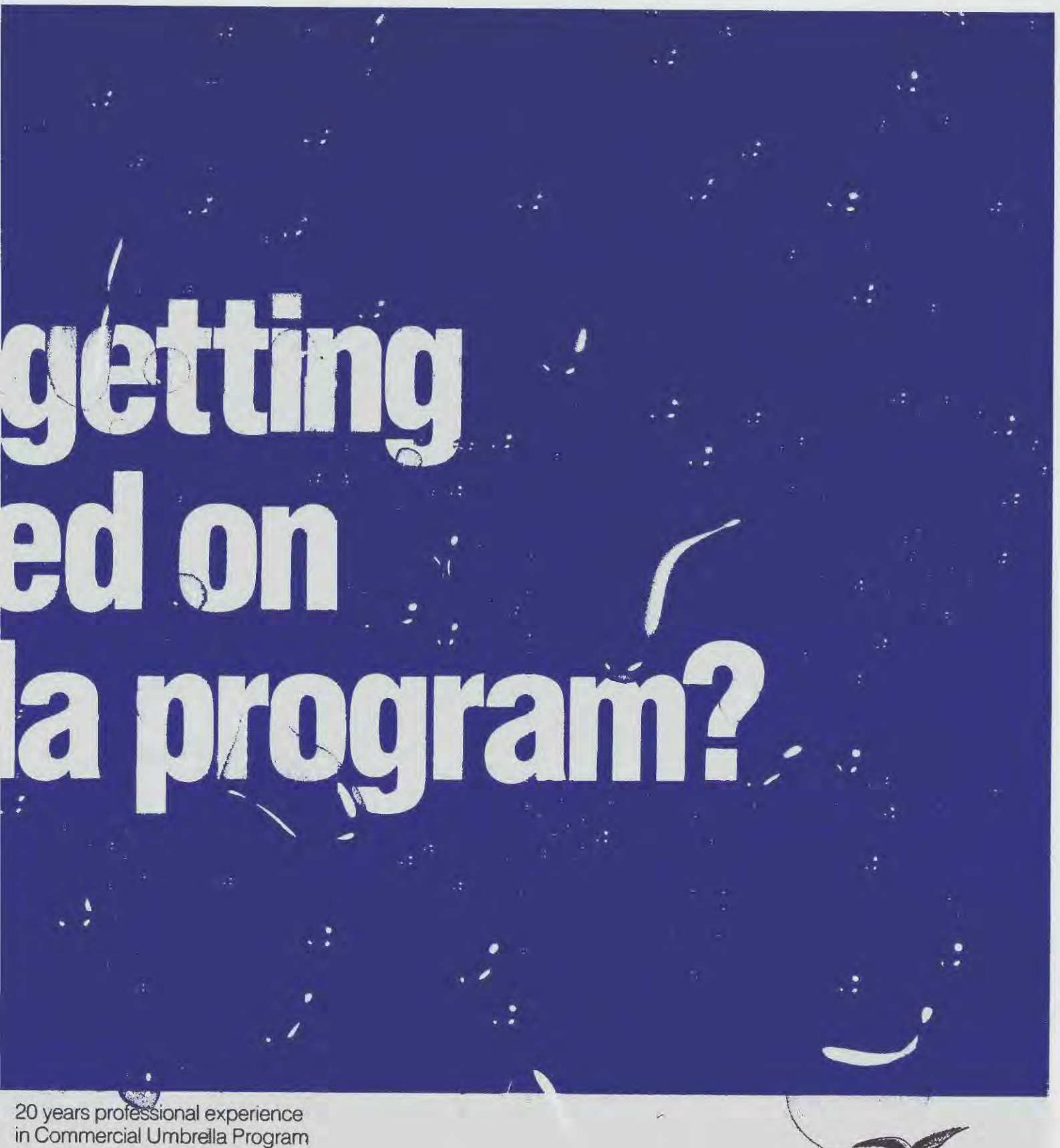
"Some things never seem to change," observed David B. Mathis, chairman and chief executive officer of Long Grove, Ill.-based Kemper Reinsurance Co., a Kemper Group unit, in discussing the market cycle.

Reviewing the problems facing the industry, Mr. Mathis said that "price adequacy is the real underpinning of financially secure capacity."

He called for a consensus on price adequacy by reinsurers and primary insurers. Unless this is achieved, the relationship between reinsurers and primary insurers will continue to suffer, even if briefly revived earnings mask the problem.

Home's Mr. Meenaghan said he does not think that reinsurers are "standing on the sidelines" as far as competition is concerned. Reinsurers have demonstrated an increasing willingness to support the competition, particularly for property insurance, he said.

The discussion was moderated by Jeffrey Cohen, vp at Goldman Sachs & Co. in New York, and Michael A. Lewis, first vp at Dean Witter Reynolds Inc., also in New York. ■



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Faulty state regs preferred: Hunter

By JUDY GREENWALD

State insurance regulation, with all of its faults, is still preferable to federal regulation, says consumer advocate J. Robert Hunter.

"State regulation is totally incompetent, inept," asserted Mr. Hunter, president of the Washington, D.C.-based National Insurance Consumer Organization. "It's hopeless," he said. State regulators are not only understaffed and underfunded, but they also cannot adequately regulate multinational insurers with one or two personal computers, he added.

However, state regulation of insurance is still better than what the federal government would do, Mr. Hunter said during a session at the 14th annual insurance symposium sponsored by the Assn. of Insurance and Financial Analysts last month.

The session touched on a variety of insurance-related topics, including tort reform, California's Proposition 103, financing guaranty funds and a life insurance applicant's risk of contracting AIDS as an underwriting consideration.

Mr. Hunter criticized the tort reform movement as an attempt to strengthen business at consumers' expense. "I detest tort reform," he said. "I think it's an outrage."

However, he said he does support no-fault insurance coverages. "I'm for good quality no-fault," he said. "I think there's a significant difference between no-fault and tort reform."

Turning to the subject of Proposition 103, Mr. Hunter said only 7% of California voters believed the insurance industry's position on the insurance reform movement.

"The people want to cut insurance costs," and that's what Proposition 103 does, he said.

As a result, the insurance industry now may be confronted with its last chance "to make sure this market stays in private hands," he warned.

With Proposition 103, California moved from a competitive market to a highly regulated market, explained Robert W. Pike, a senior vp and attorney with Allstate Insurance Co.

In fact, California's Supreme Court said that insurers are guaranteed a fair and reasonable return, a factor that is normally not guaranteed in a competitive environment, he pointed out (*BI,* May 8).

However, determining a reasonable rate of return "will by no means be a science, but clearly an art," Mr. Pike said. There will have to be a range of flexibility, and certain benchmarks should be established, he said.

And, the success of Proposition 103 in California will clearly have a "profound effect on the insurance marketplace in the U.S.," he said.

Already more than 180 Proposition 103-type bills have been introduced in state legislatures nationwide, he noted.

But, Mr. Pike said he believes the ultimate results of Proposition 103 will be the recognition that auto insurers are not excessively profitable, and that the only way to deal with costs is to address underlying causes.

Panelist also discussed financing of guaranty funds.

New York state Sen. John R. Dunne, R.-Garden City, said "serious attention" must be given to preassessment to finance guaranty funds. Currently, the New York guaranty fund is the only state fund that prefunds its liabilities.

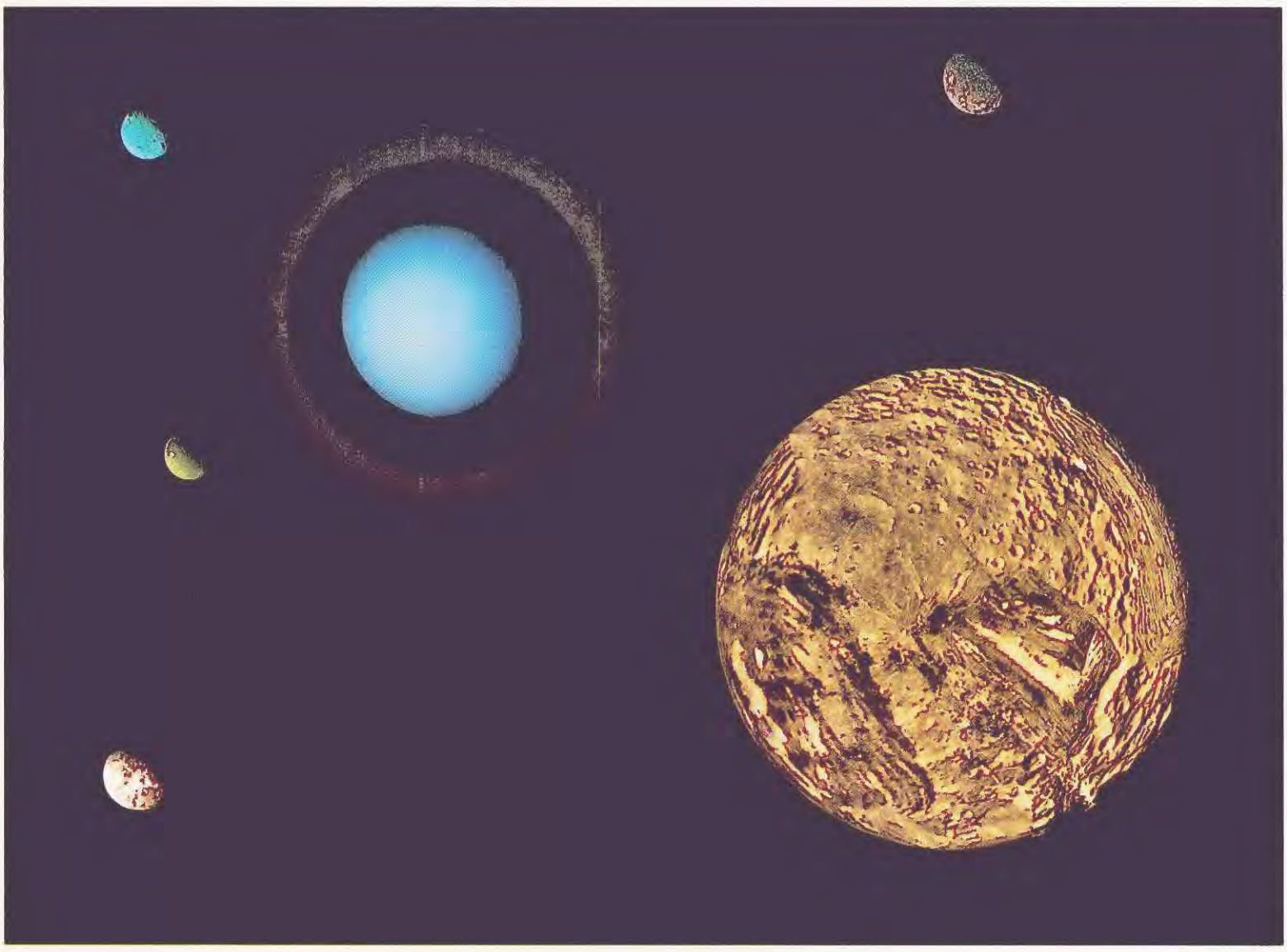
Mr. Dunne also called on regulators to take quicker action against financially troubled insurers. "The regulator has to have the guts to move in" at the first sign of trouble and either rehabilitate the insurer "or put it out of its agony," he said.

However, pointing to such guaranty fund problems as inadequate staffing, Mr. Pike suggested that the issue of solvency funds "may no longer be applicable to being treated with a 50-state approach," implying that a more centralized system may be needed.

Both Mr. Dunne and Mr. Hunter agreed that acquired immune deficiency syndrome is a legitimate underwriting consideration for life insurance.

Mr. Hunter favors underwriting that is based on "real factors," and AIDS, "is a legitimate risk factor and should be measured," he said.

The panel was moderated by Herbert E. Goodfriend, senior vp at Prudential-Bache Securities Inc. in New York, and Ira H. Malis, a securities analyst at Alex. Brown & Sons Inc. in Baltimore, Md. ■



CELESTIAL VISIONS

What an awe-inspiring view of Uranus and five of its moons shot by Voyager II in 1986. What breathtaking scientific progress, considering that Uranus was only discovered in 1781. Who accomplished this remarkable feat? It was a son of Hannover, Friedrich Wilhelm Herschel, who detected the 7th planet. Mankind's unquenchable thirst for knowledge propels us on. We endeavour to recapture his spirit of determination, ingenuity and professionalism in our worldly universe of Reinsurance. May your Reinsurance protection always be under a lucky star.

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EQUICOR widens options with Denver HMO network

National employee benefits firm EQUICOR Inc. of Nashville, Tenn., has added a health maintenance organization to its managed care options in Denver.

The addition of EQUICOR'S new HMO network gives Denver employers a third option among EQUICOR'S existing preferred provider organization and indemnity plan.

Five hospitals and 700 physicians are participating in EQUICOR'S Denver HMO network, and utilization review is included for all HMO members.

EQUICOR is a joint venture between The Equitable Life Assurance Society of the United States in New York and Nashville-based Hospital Corp. of America.

For more information contact Gary Rebabaugh, 621 17th St., Suite 2450, Denver, Colo. 80293; 303-293-3701.

Benefit broker

Garner Consulting of Pasadena, Calif., has created a new unit that will specialize in placing group insurance as well as provide consulting services.

The new division, Garner Insurance Services, will service employers interested in purchasing group medical, dental, vision and disability insurance policies.

In the past, Garner Consulting did not place insurance.

In addition to helping employers determine the type of coverage necessary, Garner Insurance Services will compile proposals from various insurers and evaluate the proposals for cost efficiency. The division also will help employers introduce new group insurance programs to employees and assist companies in the orderly implementation of their new plans.

For more information contact John C. Garner, 510 S. Marengo Ave., Pasadena, Calif., 91101; 818-440-0969.

New broker

Three former executives of Frank B. Hall & Co. in Los Angeles have formed Los Angeles-based MCM Co. Insurance Brokers Inc.

MCM will broker all property/casualty insurance lines, utilizing both foreign and domestic markets.

MCM also will provide consulting services to employers interested in implementing risk management programs. And, it will consult on life insurance, both individual and group plans.

The new firm is led by John E. Cookman Jr., a former vp in the employee benefits department of Hall's Los Angeles office; Celia McDonnell, previously a senior vp and regional marketing director at Hall; and Al Martino Jr., previously a regional controller for the Pacific region at Hall.

For more information contact Mr. Martino at 10990 Wilshire Blvd., Suite 440, Los Angeles, Calif. 90024; 213-473-1722.

Name changes

Mental Health Providers of Tampa, Fla., has changed its name to **Mental Health Programs Corp.**

CIGNA Healthplan of Baton Rouge Inc., a Baton Rouge, La.-based subsidiary of CIGNA Corp., has changed its name to **CIGNA Healthplan of Louisiana Inc.**

Miele & Associates Inc., a unit of Duncanson & Holt Group Co., is now known as **Duncanson & Holt Services Inc.** upon the retirement of its former president, R. Patrick Miele.

Mergers/acquisitions

Teichen Insurance Agency of Villa Park, Ill., has merged with **Morency, Weible & Sapa Inc.** of Hinsdale, Ill.

Atlanta-based **Crawford & Co.** has acquired **Efficient Health Systems Inc.** of Chicago.

New offices

Wood & Co. Inc., an excess and surplus lines broker in Norcross, Ga., has moved its offices to 5335 Triangle Parkway, Suite 300, Norcross, Ga. 30092; 404-448-7148.

NAC Reinsurance Corp. of Greenwich, Conn., has opened an office at 10 S. Wacker Drive, Chicago, Ill. 60606; 312-876-7200. ■

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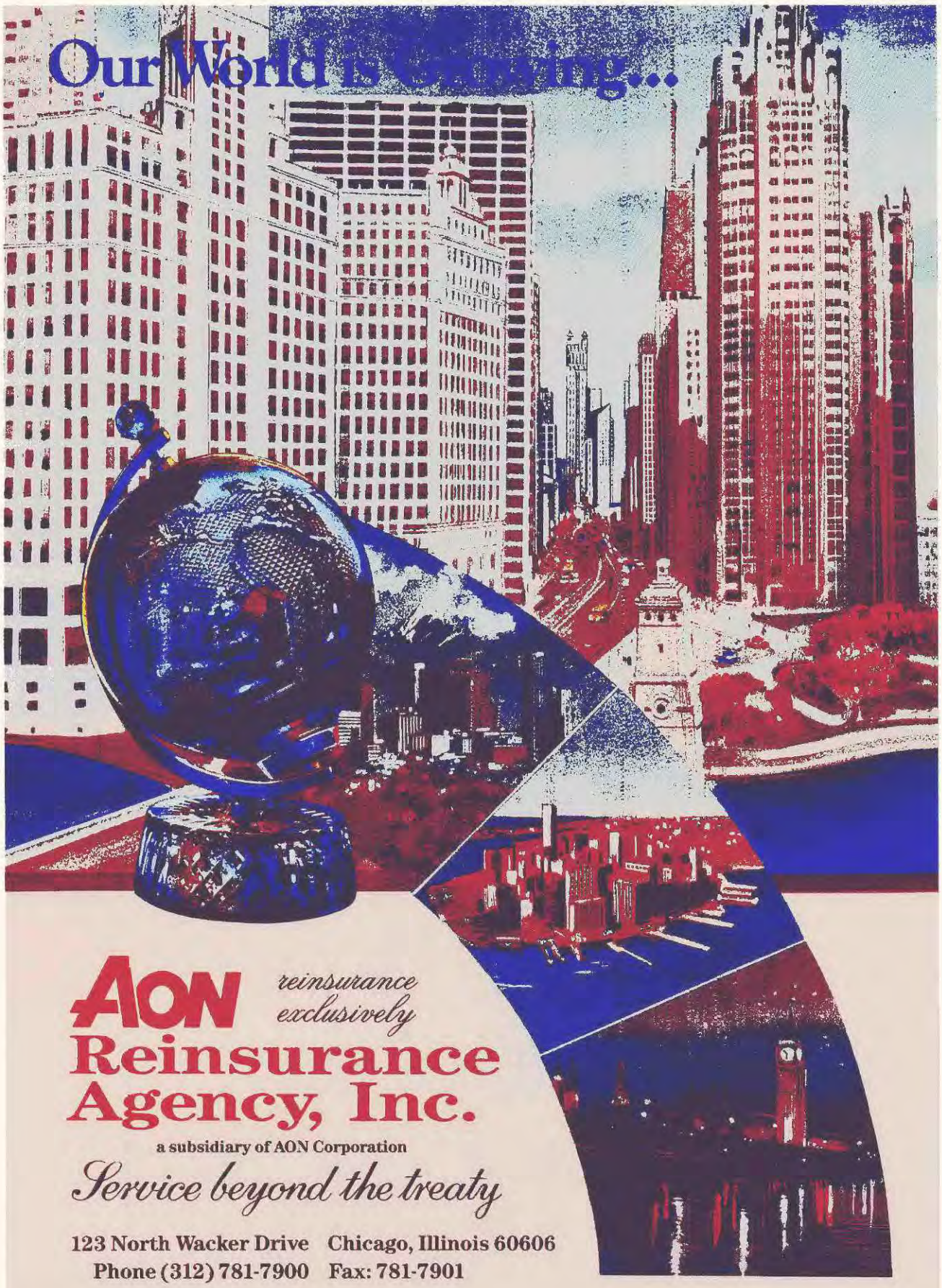

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Comings & goings: industry

Thompson named to head merged CFMC operations

David N. Thompson has been named chairman and chief executive officer of Crum & Forster Managers Corp. of Illinois and Crum & Forster Managers Corp. of New York, which have combined their operations.

Mr. Thompson will retain his position as president and chief operating officer of CFMC (Ill.), the Chicago-based underwriting management subsidiary of Morristown, N.J.-based Crum & Forster Inc.

Mr. Thompson joined Crum & Forster Inc. in 1981 as vp and assistant controller. In 1983, he was promoted to senior vp and chief financial officer of C&F Underwriters Group. He became president of CFMC (Ill.) in 1986.

Mr. Thompson

In another excess/surplus change:

D. Michael Polizzi appointed president and chief executive officer of Investors Insurance Holding Corp. of Laurence Harbor, N.J.

Agents/brokers

Thomas H. Etling joined Welsch, Flatness & Lutz Inc. of St. Louis as executive vp and chief operating officer. Mr. Etling most recently was senior vp of Marsh & McLennan Inc.

Roger Wade and **William A. Payton** joined Rollins Burdick Hunter Group Inc. of Chicago as vps.

David R. Hoskins appointed president and chief operating officer of Andreini & Co. of San Mateo, Calif.

Richard K. Kerr named executive vp of Fred S. James & Co. of Texas in Dallas.

At Fred S. James & Co. Inc. in Portland, Ore., **Douglas C. Hunter** joined as a vp and **Robert Maier** named vp. Mr. Hunter was previously a vp at Corroon & Black in Massachusetts.

Loretta Sorensen promoted to vp at Frank B. Hall & Co. Inc. of Washington in Seattle.

William J. Tvenstrup named chairman and chief executive officer of Frank B. Hall & Co. of Rhode Island Inc. in Providence. Mr. Tvenstrup succeeds John H. Bateman, who is retiring as chairman, CEO and president.

Mr. Tvenstrup

Also, **David H. Chase** named president.

Michael E. Cole appointed vp of Rich & Cartmill Inc. of Tulsa, Okla.

Insurers

Roger J. Consolla joined The North River Insurance Co. of Basking Ridge, N.J.—a subsidiary of Crum & Forster Inc.—as senior vp and chief underwriting officer. Mr. Consolla previously was president and chief operating officer of Crum & Forster Managers Corp. (N.Y.) of New York.

David Holmkvist named executive vp of Beaver Insurance Co. of San Francisco.

Louis P. Frascotti named vp of Long Grove, Ill.-based American Protection Insurance Co., a Kemper Group unit. He will be based in New York.

Donald E. Bitz named chairman of Economy Fire & Casualty Co. in Freeport, Ill., and its two subsidiaries, Economy Preferred Insurance Co. and Economy Premier As-

Continued on next page

Continued from previous page
surance Co. Mr. Bitz will continue to serve as president and chief executive officer of EF&C, a Kemper Corp. unit.

Jay E. Johnson joined Mutual Benefit Life Insurance Co. of Newark, N.J., as regional vp-group sales for the Western United States. He will be based in Troy, Mich. Previously, Mr. Johnson was manager-regional group sales in Detroit for Guardian Life Insurance Co. of America.

Also at Mutual Benefit Life Insurance Co., **Martin J. Fuller** named regional vp-group sales for the Eastern United States of Mr. Fuller is based in Cincinnati.

Leonard E. Meyer joined Edison Insurance Co. of Iselin, N.J., as vp-marketing/new business development. Most recently, Mr. Meyer was executive vp at Mariner Group.

Robert K. Griffin appointed regional group vp of Phoenix Mutual Life Insurance Co. of Hartford, Conn.

William F. Caplice Jr. appointed executive vp of Chicago-based Virginia Surety Co. Inc., a unit of Aon Corp.

Mutual of Omaha Insurance Co. and subsidiary United of Omaha Life Insurance Co., of Omaha, Neb., announce the following promotions: **Cecil B. Bykerk** to senior vp and actuary; **William T. Holt** to senior vp and director-group government programs and reinsurance; **Dwain R. Horn** to senior vp and director-group pensions; and **David S. Lee** to senior vp and actuary.

Also at Mutual of Omaha and United of Omaha, **Russell R. Conn**, **Phillip J. Myhra**, **Robert B. Ozenbaugh** and **Frederick M. Singer** named vps and actuaries.

Edward J. Bonach promoted to

Ms. Polich

Mr. Sanchez

vp and chief actuary of North American Life & Casualty Co. of Minneapolis.

Joseph L. Marcille joins Blue Cross & Blue Shield of New Hampshire in Concord as president and chief executive officer, effective July 17. Most recently, Mr. Marcille was executive vp of American General Group Insurance Co., an American General Corp. unit.

Charles Cronin III and **Robert E. Gorman** named regional vps of Provident Mutual Life Insurance Co. of Philadelphia.

The Fidelity & Deposit Co. of Maryland in Baltimore announced the following promotions: **Carroll J. Fitzgerald** to executive vp, **Thomas B. Bosley** to senior vp and **Joseph J. Gallagher** to senior vp and treasurer.

Walter R. Bateman named vp of Harleysville Group Inc. of Harleysville, Pa.

HMOs/PPOs

Cynthia Polich joined United HealthCare Corp. in Minneapolis as vp. She previously was president of InterStudy.

Reinsurance

Paul Sanchez joined the major accounts department of Princeton, N.J.-based American Re-Insurance Co. as vp. Mr. Sanchez most recently was was vp of American International Group Inc.'s excess/surplus division.

Also, **Mahmoud M. Abdallah** promoted to senior vp and managing director-international division of American Re.

George W. Murphy named executive vp, treasurer and chief operating officer of SwissRe Holding (North America) Inc. in New York.

Also, **Robert N. Wanglund** named senior vp at SwissRe unit North American Reinsurance Corp. of New York.

Scor Reinsurance Co. of New York announced the following appointments: **Paul Bednarz** to vp/Hartford, Conn., branch manager; **James Butridge** to vp/Chicago branch manager; **Ann-Sue Mushnick** to vp; and **Donald Quirin** to vp.

Michael R. Pinter appointed senior executive vp of Kemper Reinsurance Co. of Long Grove, Ill., a Kemper Group unit.

Michael A. Mullaney joined Smyth, Sanford & Gerard Reinsurance Intermediaries Inc. of New York as vp-domestic treaty. Mr. Mullaney previously was a vp with RFC Intermediaries Inc.

Other suppliers

Leo Jeffers promoted to vp-operations for Risk Sciences Group, a provider of risk management information services in Atlanta.

Robert M. Harding joined Iversen Marine Adjusters Inc. of New York as vp. Previously Mr. Harding was a project specialist with The Bureau of Risk Management for the state of New Jersey.

Dan O'Brien appointed executive vp of Employee Pharmaceutical Inc. of Elmsford, N.Y.

August International Corp of Orange, Calif., announced the following additions: **Kirk E. Andrews**, vp and chief financial officer, and **Richard E. Brown**, vp-client services. Previously, Mr. Andrews was vp-finance and administration for Fenwal Automated Systems, and Mr. Brown was a senior consultant with William M. Mercer Meidinger Hansen Inc.

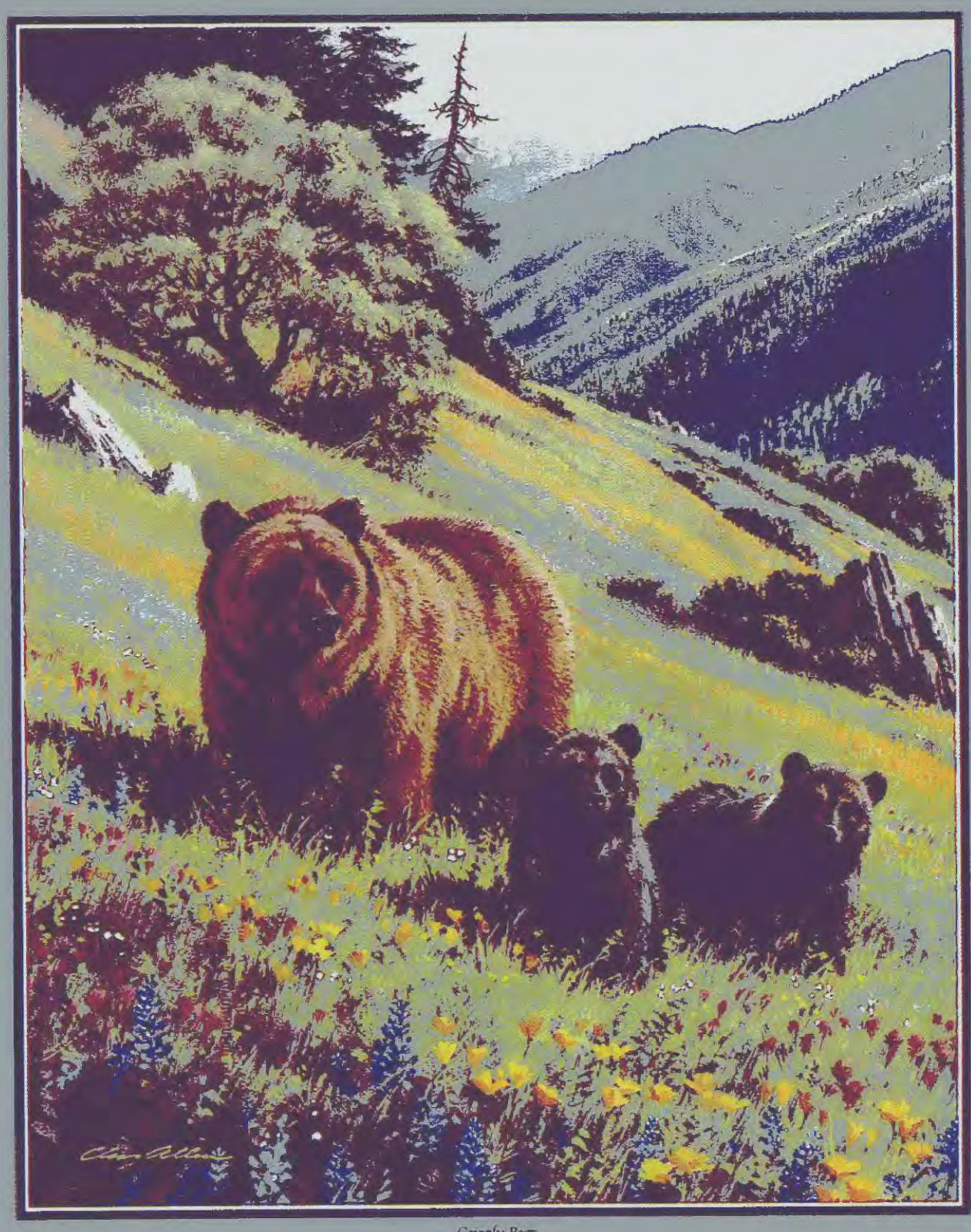
Jim Kent joined Mental Health Programs of Tampa, Fla., a managed care provider as executive vp and chief operating officer. Most recently, Mr. Kent was both a regional director of CAPP CARE and director of Medical Clinics.

Francis J. Licata joined J.H. Albert International Insurance Advisors Inc. of Needham, Mass., as staff consultant and assistant to Martin S. Berman, vp and principal consultant. Mr. Licata previously was president of Licata, Hayes & Co.

William H. Glisson appointed president of Lawrence Risk Services Corp. of Albany, N.Y., a safety and loss control subsidiary of Lawrence Agency Corp.

Suzanne Gelber joined the New York office of TPF&C, the benefits consulting division of Towers, Perrin, Forster & Crosby Inc., as a group benefits consultant. Most recently, Ms. Gelber was a national accounts sales executive with American Psychmanagement Inc.

Donald L. Park joined the Washington, D.C., office of Buck Consultants Inc. of New York as a benefit consultant. Mr. Park previously was a consultant with TPF&C. ■



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Some firms neglecting benefit cost control

By MONIQUE PARSONS

Despite rising health care plan costs, nearly 40% of small to midsized firms in the Northeastern United States have not implemented any health care cost containment strategies, a recent survey shows.

"The increasing expenses companies bear for employee benefits depress bottom-line corporate financial performance," say the authors of "Survey of Human Resources Practices in the Northeast," conducted by The Wyatt Co.

Referring to 11 common cost controls employed in group health plans and pension plans, the survey authors say: "What is surprising is that close to four in 10 companies have not adopted any of these strategies to deal with escalating benefit costs."

Indeed, containing employee benefit costs ranked as the fourth-highest human resources priority, behind attracting competent employees, retaining employees and increasing productivity, the survey found.

Approximately 877 companies and not-for profit organizations in the Northeastern United States with fewer than 1,000 employees responded to the Wyatt survey.

Because most companies in the United States have fewer than 1,000 employees, this survey may reflect national trends among small to midsized businesses, according to John Parkington, practice director for organization research and analysis services at The Wyatt Co. in Wellesley, Mass.

It is 'surprising' that 37% of respondents do not use common benefit cost controls, the survey says.

Among survey respondents, Wyatt found that:

- The cost of employee benefits —excluding statutory benefits like Social Security—exceeds 20% of payroll for 40% of the employers surveyed.

Among those 40%, 21% said benefit costs represented 20%-30% of payroll; 16% said the cost of benefits was between 30%-40% of payroll; and 3% said benefit costs exceeded 40% of payroll.

Thirty-seven percent reported that benefit costs were less than 20% of payroll, and 23% did not know.

- Health care plans were the most frequently offered benefit, followed by company-paid life insurance.
- From a list of 11 cost containment strategies—including medical coverage deductibles and coinsurance, second surgical opinions, pre-certification for medical care, wellness programs and employee assistance programs—Wyatt found that 37% of the companies employed none of the techniques to control benefit costs.

Small to medium-sized companies generally have taken longer than larger companies to adopt cost containment methods, even though these methods are available to all sizes of companies, the survey authors say.

In addition, many employers fear that when they are directing employees' medical care—such as under hospital pre-certification programs—they leave themselves vulnerable to subsequent lawsuits by employees, explained Karen Pellegrini, a consultant in Wyatt's Wellesley, Mass., office.

Of the 63% of respondents that used one or more health care cost containment strategies, the five most popular measures were:

- Deductibles or coinsurance, used by 43%.
- Second surgical opinions, 38%.
- Pre-certification for medical care, 22%.
- Outpatient surgery requirements, 21%.
- Employee assistance programs, 18%.

The least popular cost containment methods were:

- Self-funding the medical plan, 17%.
- Wellness programs, 15%.
- Covering home health/hospice care, 11%.
- Covering care in extended care facilities, 6%.
- Shifting to a defined contribution pension plan, 4%
- Preparing government reports in house, 3%.

Of an array of employee benefits offered to salaried employees, Wyatt found that the five most prevalent were: health care plans, offered by 89% of the respondents; company-paid life insurance, offered by 66%; long-term disability coverage, offered by 54%; short-term disability coverage, offered by 53%; and dental insurance, offered by 47%.

Among specific industry groups, the survey found that

- Of banking/finance companies surveyed, 100% provided a health care plan; 98% provided long-term disability benefits; 91% provided company-paid life insurance; 82% provided a dental plan; 73% provided short-term disability benefits; 69% provided a defined benefit pension plan; 42% provided a savings plan; 38% provided a profit sharing plan; 27% offered flexible benefits; 24% offered flexible reimbursement accounts; 26% sponsored an employee stock ownership plan; and 15% offered dependent care.
- Among the manufacturing companies surveyed, 94% offered a health care plan; 77% offered company-paid life insurance; 67% offered short-term disability benefits; 66% offered long-term disability benefits; 54% offered a dental plan; 49% offered a savings plan; 46% offered a defined benefit pension plan; 37% offered profit sharing; 9% offered an ESOP; 9% offered flexible benefits; 5% offered flex reimbursement accounts; and 5% offered dependent care.

"Some rather large swings occur in terms of the percentage of industry groups that offer flexible benefits and flexible reimbursement accounts," the survey authors note.

For example, 35% of health care industry respondents and 27% of banking/finance companies offered flex plans.

However, only 10% of professional services firms and 9% of both manufacturing and retail sales companies offered flex plans.

The survey also found that 79% of the respondents are confident in their level of knowledge of the myriad of legislation and regulations affecting employee benefits.

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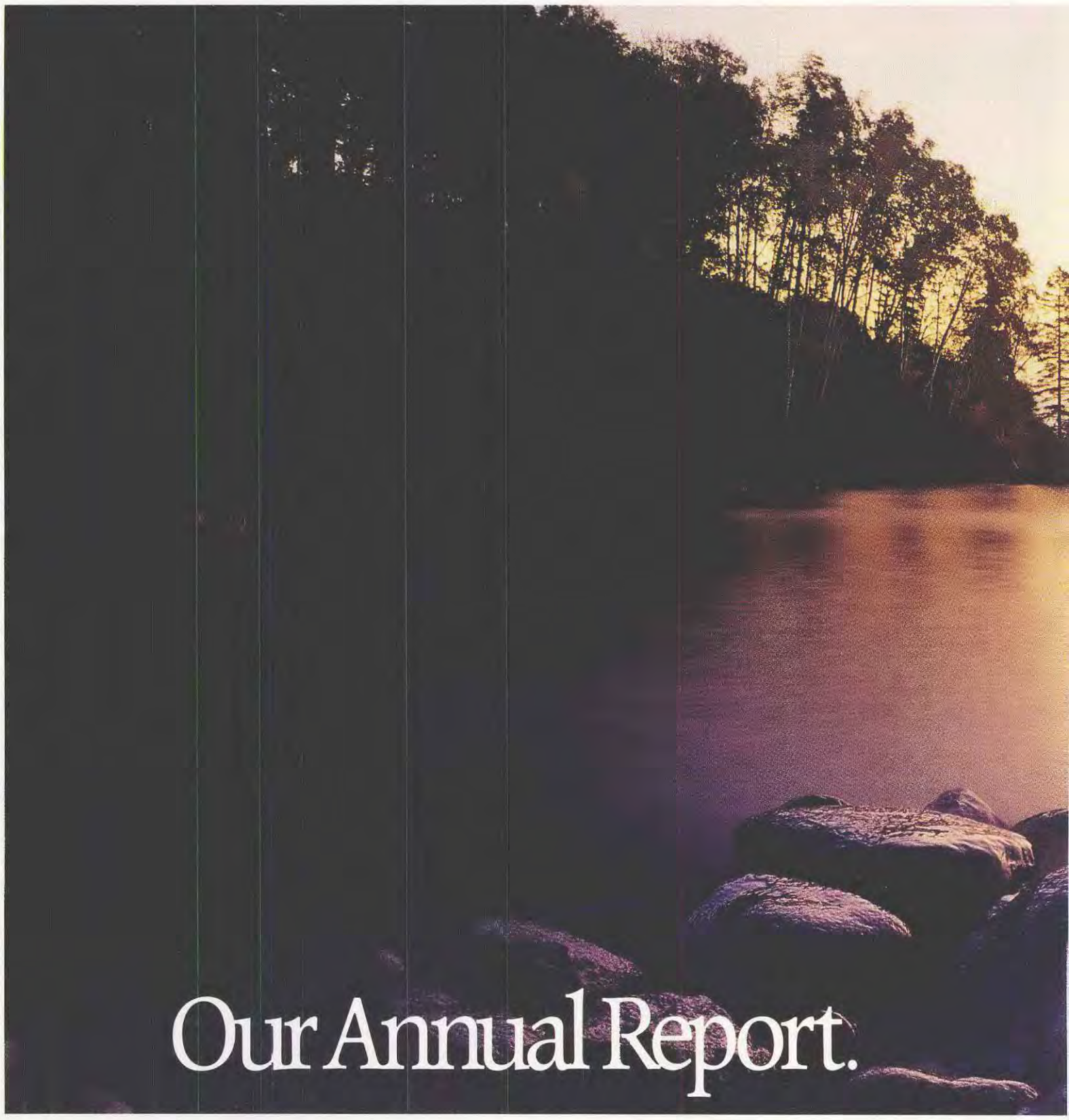
Copies of "Survey of Human Resource Programs and Practices in the Northeast" are available for $90 from The Wyatt Co., 80 William St., Wellesley Hills, Mass. 02181; 617-237-3900.



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1992 forecast: Opportunity, competition

By MICHAEL SCHACHNER

NEW YORK—The removal of trade barriers between members of the European Community and the growing prosperity of Pacific Rim nations will give U.S. insurance companies immense opportunities for international expansion, predicts an insurance executive.

However, U.S. insurers will face heavy competition and will need to improve their international communication abilities, said Allen R. Freedman, president of AMEV Holdings Inc. of Utrecht, Netherlands.

Mr. Freedman addressed several global expansion issues at "The Restructuring of the Insurance Industry" conference sponsored by KPMG Peat Marwick June 21-22 in New York.

The free trade directive planned for implementation throughout the European Community by 1992 will create a 320 million-person market, representing the equivalent of $3 trillion to $4 trillion in gross national product, Mr. Freedman pointed out.

And, much of that market may be open to U.S.-based insurers, he said.

Pacific Rim nations—particularly Japan—also should provide U.S. insurers with options for international expansion, he said.

In addition, economic booms are occurring among what Mr. Freedman called the "Four Tigers' : Singapore, Hong Kong, Taiwan and South Korea.

U.S. insurers, faced with a domestic market that is generating a decreasing percentage of worldwide insurance premiums, must expand overseas, he said.

In the past 20 years, the percentage of insurance premiums worldwide generated in the United States has decreased nearly one-fourth from 65% to 50%.

During the same time, the percentage of premiums worldwide generated in Japan has more than quadrupled to 18% from 4%.

But, U.S. insurers generate less than 2% of their premium dollars from business overseas, according to Mr. Freedman.

If domestic insurers have any doubts about their need to look beyond the U.S. border for business, those figures should dispel them, Mr. Freedman observed.

"Japanese investors are currently on top of the market, but Hong Kong and the Taiwanese and Chinese are investing, too," Mr. Freedman said. "So, American insurers must respond. While profits are falling this is tough, but they must heed the call."

With the impending removal of trade barriers among EC countries, Italy, Spain and Portugal show the most promise for U.S. expansion, according to Mr. Freedman. "This is because they spend the smallest percentage of their GNP on insurance," he said.

Other EC states—such as France, Switzerland and West Germany—already have markets saturated by a few private and state-owned insurance companies, making penetration a formidable task.

However, U.S. insurers still should attempt to expand into those markets, Mr. Freedman emphasized, noting that insurance premiums in West Germany, France, Luxembourg and Belgium as well as Italy and Spain are often twice as high as the premiums for similar products in the United States.

Therefore, domestic insurers sizing up Europe as a new frontier certainly have pricing on their side, he pointed out.

However, as appetizing as international expansion may be to U.S. insurance companies, American insurance companies will continue to lag behind their European and Asian counterparts until U.S. executives learn how to communicate better on an international basis, Mr. Freedman warned.

"Very few American executives know additional languages," Mr. Freedman observed.

"You can forget regulatory and marketing problems," he said. U.S. executives must concentrate on people skills and become familiar with the cultures of countries in which they plan to expand, he emphasized.

Acknowledging that breaking into Europe will be tough, Mr. Freedman cited several measures U.S. insurers can use to enter the EC or Pacific Rim markets. For example, U.S. insurers can develop:

- Strategic alliances with domestic companies in those markets. Such an alliance may promote acceptance by consumers and regulators, Mr. Freedman said.
- Super regional interests in EC countries already receptive to U.S. market penetration, such as the United Kingdom.
- Niche markets. U.S. insurers can introduce products not available to consumers in foreign markets or provide better pricing and expertise, Mr. Freedman said.

However, insurers that do not break into a market on their first try should not be discouraged, according to Mr. Freedman. They must look at different countries with different products and different pricing.

But, while insurance companies consider international expansion, they must be aware that their foreign counterparts are looking to expand into U.S. markets, Mr. Freedman warned. ■

Insurers advised to 'go global'

By MICHAEL SCHACHNER

NEW YORK—The U.S. economy would be buoyed if domestic insurers expanded internationally, according to a state regulator and an insurance company executive.

However, insurers face a tough time entering many markets worldwide, the executive said.

The National Assn. of Insurance Commissioners is already addressing international expansion and globalization in an effort to create a larger market for domestic companies, says James P. Corcoran, superintendent of insurance for New York.

"The NAIC is reaching out internationally. The NAIC has been meeting with representatives from around the world," Mr. Corcoran said during a conference on the restructuring of the insurance industry last month.

Mr. Corcoran explained that the NAIC has taken a great interest in opening up international expansion for U.S. insurers because the U.S. economy will be helped if more services—such as insurance—rather than goods are exported.

"This could balance the trade deficit considering that our export of hard materials is down," he said. "American (insurance) products are competitive enough to be traded internationally. Asia would buy them, and Europe is interested, too."

Henry G. Parker, senior vp and managing director of Warren, N.J.-

Continued on next page

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Global expansion

Continued from previous page

based Chubb & Son Inc., a subsidiary of Chubb Corp., concurred with Mr. Corcoran.

"We can offset the merchandise trade deficit with a pumped up service trade," Mr. Parker said.

The U.S. government has worked to facilitate expansion by U.S. insurers internationally, Messrs. Corcoran and Parker noted.

For example, the United States and Canada signed a free trade agreement last year that eliminates restrictions on U.S. ownership of Canadian life and health insurers.

The United States also is seeking to open up South Korea's insurance industry by 1990, they said.

However, more free-trade agreements are necessary, Mr. Parker said.

"Denial of access (to international markets) is the most difficult barrier to break" for U.S. insurers, he said.

"There are currently 26 non-Soviet bloc countries around the world that would deny a license to a U.S. insurer wishing to do business internationally," he pointed out.

In addition, there are at least 63 countries that provide only limited access to many of their domestic markets, Mr. Parker said.

However, the NAIC is not attempting to make European insurers' expansion into the United States prohibitively difficult, Mr. Corcoran said.

Mr. Parker suggested that the European Community could function better with a mechanism similar to the NAIC. "Europe in '92 needs something like the NAIC for harmony," he said.

Mr. Parker even suggested that the lack of insurance regulation may actually discourage some U.S. insurers from expanding into the EC market.

Nevertheless, "property/casualty insurers will have to take a serious look" at expanding in the EC market, Mr. Parker said. "They'll be making a big mistake by not going after a share of the $200 billion in premiums over there." ■

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Cox urges insurers to restructure

NEW YORK—While the insurance industry does not face a shakeout, to survive it will have to restructure, according to a veteran insurance industry executive now leading a successful offshore insurer.

A shakeout is defined as a "recession accompanied by small competitors and marginal companies being forced out of the marketplace," says John R. Cox, chairman and chief executive officer of ACE Ltd., the holding company for A.C.E. Insurance Co. Ltd. in Hamilton, Bermuda.

A shakeout may also include large reductions in insurers' staff and agencies, said Mr. Cox, who has held executive positions with Insurance Co. of North America and American International Group.

But Mr. Cox disputed forecasts of a shakeout during a conference on the restructuring of the insurance industry held June 21-22 in New York.

"No, there won't be a shakeout of this sort, only a continued erosion from what the industry was," he said.

Among the changes Mr. Cox envisions for the insurance industry:

- Insurance companies "will continue to see much selling off of pieces of the operation."

That may ultimately be for the best, Mr. Cox said. Insurance companies should not stick to their present structure solely for the sake of not breaking up what is already there, he said.

- Staff reductions may be necessary, he said.
- Insurers must concentrate on their strongest areas, he said. Insurers must recognize that not all of them can compete for all business, he added.
- Automation must be stepped up, instead of speeding up "archaic" systems, he said.
- Insurers must begin educating buyers about what goes into developing a premium, Mr. Cox said. "We cannot win by hiding things."
- Eliminating guaranty fund protection for some policyholders.

For example, policyholders who purchase insurance from low-rated insurers should not be protected by guaranty funds in the event the insurer becomes insolvent because the policyholder decided to take that risk, Mr. Cox said.

"This fresh start is essential to the survival of our industry," Mr. Cox summed up. "That's what I see as your shakeout."

"The image of the industry is bad and will continue to worsen. The industry must embark on a new course," Mr. Cox said.

—By Michael Schachner

Survival strategy offered insurers

By MICHAEL SCHACHNER

NEW YORK—As competition among property/casualty insurers continues to heat up, insurers may find it necessary to restructure their companies to survive, predicts an industry expert.

The need for the property/casualty insurance industry restructuring has been fueled by consumer demand, heavy competition among insurers, the rising costs of doing business and lack of capital, said John G. Crosby, managing director of the investment banking insurance group at Merrill Lynch Capital Markets in New York.

Mr. Crosby was speaking at "The Restructuring of the Insurance Industry" conference sponsored by KPMG Peat Marwick June 21-22 in New York.

Consumers are demanding more from their commercial and personal lines insurers than in years past, he said. "Commercial lines consumers are showing a new attitude toward insurance. They're more cost-conscious, they're more willing to self-insure, and they're seeking asset management services."

"We must be quicker on our feet to succeed," he said.

Insurers are running up against several external and internal forces that will require them to consider overhauling their present structures to succeed, Mr. Crosby said.

For example, he pointed to the consumer revolt in California against high property/casualty insurance rates that culminated in the passage of Proposition 103.

The controversial California law requires insurers to, among other things, roll back most property and liability insurance "charges" to 20% below November 1987 levels (*BI*, May 8; Nov. 14, 1988).

Other external factors influencing insurers include Proposition 103 clones in other states, inflation, volatile capital markets, taxation policies, an unpredictable and often costly tort system, the removal of trade barriers in the European Community beginning in 1990 and regulatory issues, he said.

Internally, insurers must take a longer look at general expenses, staff size and their electronic data processing systems, he suggested.

But, many insurers face a shortage of capital to address these challenges, according to Mr. Crosby.

Restructuring may be the only option, short of partial or total divestiture, to raise sufficient capital, he said. For example, "mutual companies may want to consider demutualization," he said.

And, insurers can raise capital by eliminating career agents and implementing new methods of distributing products to attract new business.

"You may also want to become more involved in what you do best. I call this functional segmentation."

Mr. Crosby outlined several ways for an insurer to restructure:

- Contraction and refocus.

Insurers can sell portions of their company or subsidiaries that are not producing desirable profit levels.

- Consolidation of interests.

Moving all wings of the operation under one roof for better management can enhance bottom line results, he said.

- Expansion.

Companies seeking alternative ways of turning a profit can seek business related to their current successful lines.

- Diversification.

Insurers can enter new fields of business for them. For example, insurance companies can begin providing some financial services, Mr. Crosby said.

And, foreigners' ever-increasing interest in acquiring U.S. companies will contribute to the restructuring of the domestic insurance industry, he asserted.

"International companies will continue to acquire U.S. interests because the U.S. dollar is under valuated overseas," Mr. Crosby explained.

"In addition, their home markets are saturated," he said.

And, U.S. companies' current market values are low because of deteriorating results and sinking stock prices, he said.

The insurance industry is not "safe and insular," and insurers must prepare for competition, he said.

"Act or get acted upon" is the axiom of today's insurance forum, he said. ■

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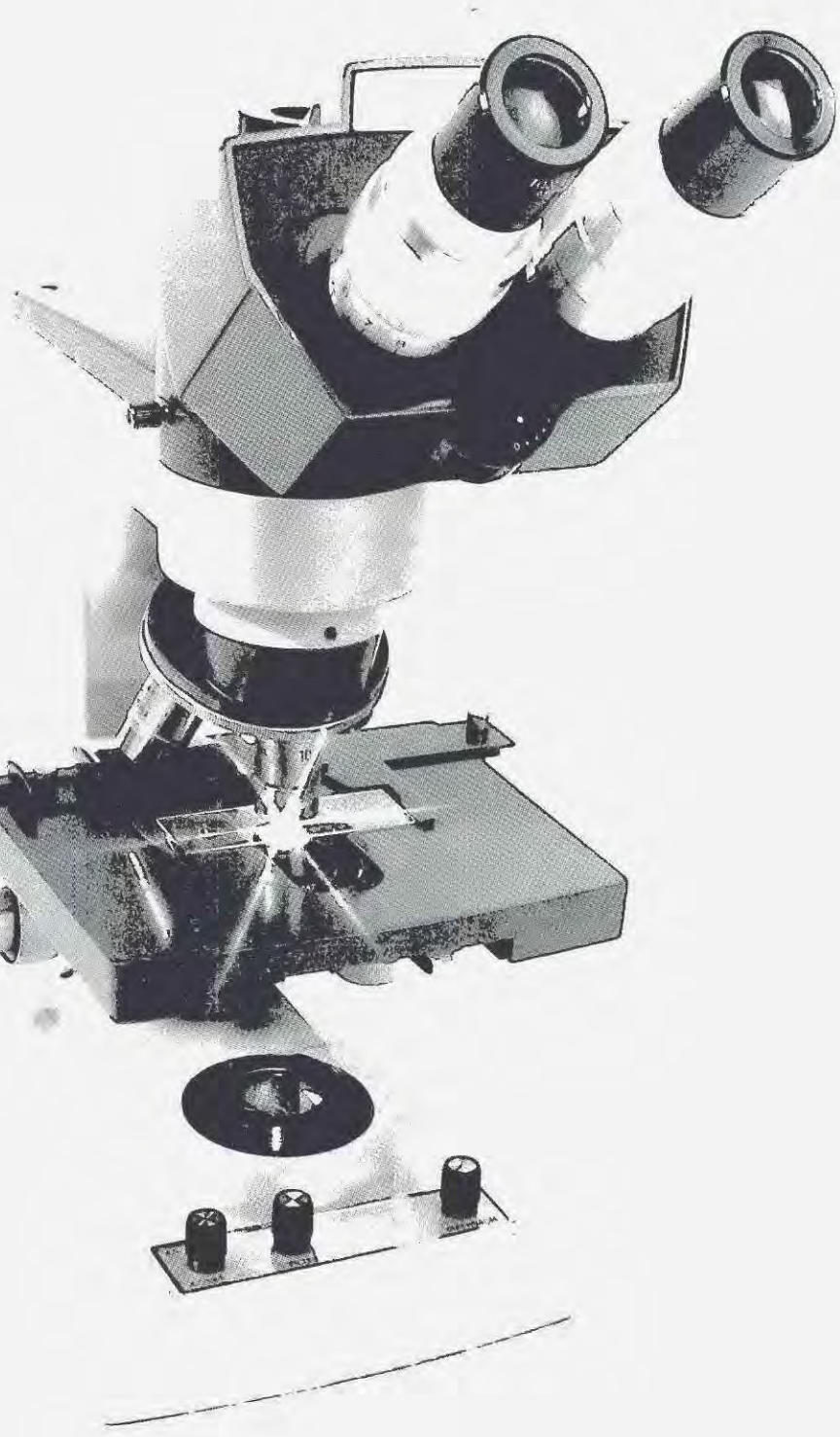

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Professional Liability and Specialty Insurance

Finding a cure

Image problem just a symptom, not cause of industry ills

By H. Felix Kloman

THE CONTINUING ASTONISHMENT of insurance industry leaders at the industry's poor public image would be humorous if it were not so tragic. There is constant self-flagellation in the press, but it appears to be unaccompanied by any realistic assessment of the roots of the problem.

All of this was sharply brought to mind by a recent *Business Insurance* article reporting a speech by C. Richard Peterson, the new president of the National Assn. of Insurance Brokers and executive vp of Fred S. James & Co. Inc. of New York.

The problem is not the "image" of the insurance industry—this is merely the symptom—but the "reality" of its growing inability to serve a public that it once served well. The failure to grasp this point limits the chance that some rational solutions will be suggested and adopted. The cure will be far longer and more difficult than simply throwing advertising and communication dollars at the problem. The $60 million spent in California didn't do the trick; who honestly believes that substantially more could do it nationally?

Mr. Peterson's speech at the NAIB conference is, unfortunately, representative of this over-concern with image and an under-concern with the underlying "reality." For example:

- Mr. Peterson is reported to have said that insurance "enables economic growth. Without insurance, investors would be unwilling to invest their capital for fear of losing it. As a result, few new products and services will be developed."

While this supposition may have been true years ago, it is much less true today. For larger corporations, insurance now addresses relatively minor risks and, in addition, the research and development undertaken by major corporations probably would be generally unaffected by even the largest "insurable" loss.

For individuals, there are many more social safety nets today, diminishing the importance of insurance. The continuing belief of the insurance industry that it is *essential* to the public welfare, rather than just incidentally useful, may be the biggest misconception to overcome.

Speaking out

- More from Mr. Peterson: "We may be the good guys, but the word is not getting out."

Has it ever occurred to anyone in the insurance industry that it may, in fact, be the bad "guys," and that the word is out? Overly aggressive sales practices, inefficient claims procedures and lack of customer knowledge have given the industry its "black hats." To think otherwise is self-delusion.

- "The insurance industry also is suffering more tangible woes, including the volatility of the commercial property/casualty insurance market," Mr. Peterson said in his speech.

The industry is *suffering* from volatility? It is the *cause* of volatility. Through such practices as over-reinsuring, participating in a quasi-cartel for pricing, failing to recognize economic realities until too late, and protecting an outmoded and overly protective regulatory system, the industry has created the very volatility that has driven so many commercial policyholders into alternative risk financing and personal lines policyholders to populist panaceas like Proposition 103!

- "Is there a Federal Reserve-like system out there that could be employed to stabilize the volatility factor in our industry without jeopardizing the profit incentives and bringing about overly protective regulation?" Mr. Peterson asks.

He apparently wants a federal financial safety net without being willing to submit to the regulation that almost certainly must follow! Sooner or later, probably sooner if things continue to go downhill, there will be a Federal Deposit Insurance Corp.-like guaranty fund, but it will also include federal regulation and the elimination of the McCarran-Ferguson Act. To want one, but not the other, is ostrich-like thinking. Why not lead this change rather than be dragged into it, resisting all the way?

- Mr. Peterson, noting that "our industry has no code of practice or ethics at this time," calls for the development of a new code of ethics.

Here, again, the hope appears to be that a wishy-washy statement of general "ethical" principles could be a substitute for the real thing and help persuade the public that the insurance industry is an upstanding citizen, responsible enough to be entrusted with the close to $500 billion that funnels through the system annually.

Will a "code of ethics" really change the personal and corporate patterns already established? It's doubtful. Ethical behavior begins with the family, with education and with leadership. It exists; it cannot be mandated or imposed by a "code."

The real problem is that the insurance industry appears to be searching for quick and easy answers to a much more deep-seated set of difficulties, having to do with practices that are out of sync with society. True, the image is lousy, but simply spending advertising bucks saying how good it is won't correct the underlying causes. Persisting in repeating the shibboleths of the past only persuades the public that the insurance industry may be incapable of changing. Indignantly arguing that it is the victim of evil external forces similarly is unpersuasive.

Akio Morita of Sony Corp. has summed it up beautifully. "Indignation is no substitute for painful self-reflection." Honest self-reflection, a quality that appears to be in short supply, is the beginning of the solution to the problems of the insurance industry.

H. Felix Kloman is a vp and principal at the Tillinghast division of Towers, Perrin, Forster & Crosby Inc. in Stamford, Conn.

Variety of risk control techniques

By The Insurance Institute of America

The following question and answer are drawn from the curriculum for the Associate in Risk Management designation awarded by the Insurance Institute of America. They represent the type of question asked—and the possible answers—in one of the three examinations for the A.R.M. designation. This month's material is drawn from a recent national examination in ARM 55-Risk Control.

A.R.M. exercises

Q: Euphoria Foods is a mail order company specializing in shipping unusual cheeses and other food specialties to individual consumers. One of its most valuable assets is a refrigerated warehouse, located on the same lot with its office and order processing facility.

Euphoria's management is concerned that any extended failure of the refrigeration, especially during the Christmas and New Year season during which the company ships about 55% of its annual sales, could be disastrous. Euphoria has installed backup generators to protect itself against interruption of the flow of electricity from the public utility. However, fire and mechanical breakdown still pose significant hazards to the refrigeration of the warehouse.

Define each of the risk control techniques listed below, explaining how it differs from the three others listed, and describe specifically how, if at all, Euphoria could apply that technique to minimize its losses from either fire damage to the warehouse or mechanical breakdown of the refrigeration system:

- Loss prevention (other than through segregation of exposure units).
- Segregation of exposure units through separation.
- Loss reduction (other than through segregation of exposure units).
- Contractual transfer for risk control (not for risk financing).

A: The following answer illustrates risk controls for both warehouse damage and refrigeration breakdown. In keeping with the wording of the questions, illustration for either one of these exposures earns full examination credit:

- Loss prevention may involve any measure that reduces the frequency of actual events that cause losses. It does not, unlike the other measures dealt with in this question, reduce the severity of losses or shift responsibility for them. Loss prevention could be applied, for example, by controlling ignition sources to prevent fire losses to the warehouse or by regularly inspecting and performing maintenance on refrigeration equipment.
- Separation of exposure units entails dividing an existing asset or operation into two or more independent units and continuing regular use of them all, not keeping any as "spares," which would be duplication, another form of segregation. Separation is the only technique listed in this question that involves physical division of an existing exposure.

As illustrations, Euphoria could, first, operate two or more warehouses at separate locations, each with its own refrigeration system. Second, Foods could install two independent refrigeration systems in one warehouse, using both regularly. Separation typically reduces the severity of losses because the maximum potential loss to each unit is smaller; but, it may actually increase loss frequency because more units are exposed.

- Loss reduction—except through segregation of exposures—entails any measure that reduces the severity, but not the frequency, of losses. Loss reduction is the only technique listed that seeks to control only the physical size of losses by, for example, extinguishing fires rapidly or reducing the length of time Euphoria's inventory is not refrigerated. This time could be reduced by speeding repairs to the refrigeration system or finding temporary alternative facilities.
- Contractual transfer for risk control is based on an agreement with another party that promises to undertake an activity or an asset and thereby agrees to take on legal and financial responsibility for any losses that activity or asset may generate. A risk control transfer is not a contract for payment of money but, instead, is an agreement for some other risk-bearing performance.

Contractual transfer is the only risk control technique discussed here that involves a shift of exposures between two parties. Euphoria could contractually transfer its property exposure by selling the warehouse, or the refrigeration equipment, to another firm and then leasing it back.

The sample questions and answers used in this column are taken from the Associate in Risk Management designation curriculum of the IIA. For more information on the content of the A.R.M. program, write Dr. G.L. Head, Vp, Insurance Institute of America, P.O. Box 314, Malvern, Pa. 19355.

ASK A BENEFIT MANAGER

Effectively conveying changes in benefits

Q **Responsibilities for employee benefit managers in the 1980s and 1990s include complicated communications to employees. In many cases, these messages are aimed at changing employee behavior and expectations, as well as government compliance. What are your suggestions for developing an effective communications program?**

A The development of an employee benefit communications program begins once you have decided on the changes to be made to your employee benefit plan. After you have received management's approval to proceed and have determined the effective date of the benefit changes, you now must deal with the best approach to get the message across effectively to your employees.

You can either reconvene a task force to establish the necessary communications program or assemble a representative group of employee benefit, human resources and communications staff members to develop the program.

The objectives of a communications program should be to:

- Clarify the rationale for adopting the new program.
- Explain the mechanics of the program to enable employees to make informed decisions (if required).
- Pinpoint the differences between the new program and the existing plan.
- Identify the impact of the plan changes at different salary and grade levels of employees and by age and sex.
- Develop a communications approach that would assure a good transition to a new program.
- Develop a listing of activities required with specific target dates and responsibilities.
- Determine what resources to use and whether all work is to be done in-house, through the use of consultants or through some combination of in-house and outside staffers.
- Establish an overall financial budget for the project, have it approved by management and determine how the charges will be paid.

Outlined below is a communications program schedule, assuming management approval was received in June or July to make a significant change in health care benefits for employees and dependents, effective Jan. 1. The program would be as follows:

- Distribute a newsletter introducing the new program and giving background and reasons for the change.

This should be followed with a message from the appropriate corporate executive—chairman or president—sent to each employee's home endorsing the program and highlighting the business reasons for the change. This should take place in August or September.

- Hold meetings for leader training. The purpose is to train those people designated to run employee meetings. It is important that they understand the reason for the plan changes and are trained in presentation skills and prepared to answer anticipated questions. A sample employee meeting should be conducted with necessary role playing. It may make sense to do this at a single location so that all receive the same training and participate in exactly the same discussion of the background, questions and problems. This should be done by the middle of September.
- Distribute a second newsletter providing a more detailed explanation of the program. This newsletter should be followed by employee memos and posters announcing the upcoming employee meeting. These should be distributed to employees at work toward the end of September.
- Distribute employee kits containing a full description of the program, including summary plan descriptions and a list of commonly asked questions with answers.

This distribution should be followed quickly by the actual employee meetings and that should take place in early October.

- Follow-up meetings should be held for those employees unable to attend earlier meetings, and a memo should be distributed to employees that have not submitted required enrollment information advising them of the need for this data. These steps should take place by the end of October. The reminder and follow-up process should continue to ensure all enrollment data is returned by the first week in November. This enrollment information should then be distributed to the appropriate parties, like payroll and human resources departments, consultants, actuaries and insurance companies.
- Material should be distributed to participants and dependents confirming their choices and the effective date of the changes. This includes "how to" information and legal documentation. This activity should take place in December.

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

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

Mr. Duva

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

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

Conflicting terms for coverage termination

Coverage provisions stated in the certificates of insurance furnished to a policyholder under a group health insurance policy took precedence over conflicting terms in the master policy, the Supreme Court of Washington ruled.

Sherri Fittro was a full-time employee of a grocery store and was insured under a group health and disability insurance policy issued by Lincoln National Life Insurance Co.

While the policy was in effect, Ms. Fittro was injured in an automobile accident that left her a quadriplegic.

The certificate of insurance given to Ms. Fittro described the insurance program. The master policy was not distributed but was available at Lincoln National's local office.

The master policy provided that the health and disability coverage automatically terminated upon the date of termination of employment with the employer or the employee's termination of membership within the eligible classes.

Legal briefs

Ms. Fittro was totally disabled from the accident and was not employed for the next 13 months. During that time, Lincoln National paid her about $46,000 in benefits.

On Nov. 1, 1982, Ms. Fittro began working at a credit union as a keyboard operator entering data one key at a time. Although a full-time employee, she missed considerable work due to physical complications and irregular service from attendants responsible for administering her care.

When Ms. Fittro began work at the credit union, Lincoln National promptly terminated her benefits under the policy concluding that she no longer was "totally disabled."

Ms. Fittro sued, alleging that under the certificate of insurance, the health and disability policy should have extended indefinitely so long as she continued making premium payments.

The certificate of insurance stated that the benefits were as described in the certificate booklet.

The booklet stated that if the policyholder was terminated and the policyholder was totally disabled, that person could continue to be eligible provided he remained totally disabled for a period of 12 months following termination.

The trial court ruled for Lincoln National and was affirmed by the Court of Appeals.

The state Supreme Court said that interpreting the language of the certificate of insurance in a manner understandable to the average person, it provided medical coverage to a person "totally disabled" for as long as the disability persists (up to policy limits).

The court also noted that the language conflicted with provisions of the master policy.

The court sided with the majority of courts that have considered disclaimer provisions in the certificate of insurance and have not given effect to the disclaimer but instead enforced the broader coverage suggested in the certificate.

"Giving effect to disclaimer language in a certificate would require the insured to demand a copy of the policy in order to compare it against the certificate for ambiguities between the two documents in regard to a claim which had not yet risen," the court said.

The lower court decisions were vacated and Ms. Fittro was found to be entitled to benefits up to the policy limits so long as she made the premium payments.

Fittro vs. Lincoln National Life Insurance Co., Supreme Court of Washington, July 14, 1988 (*BI*/01/April-$10).

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

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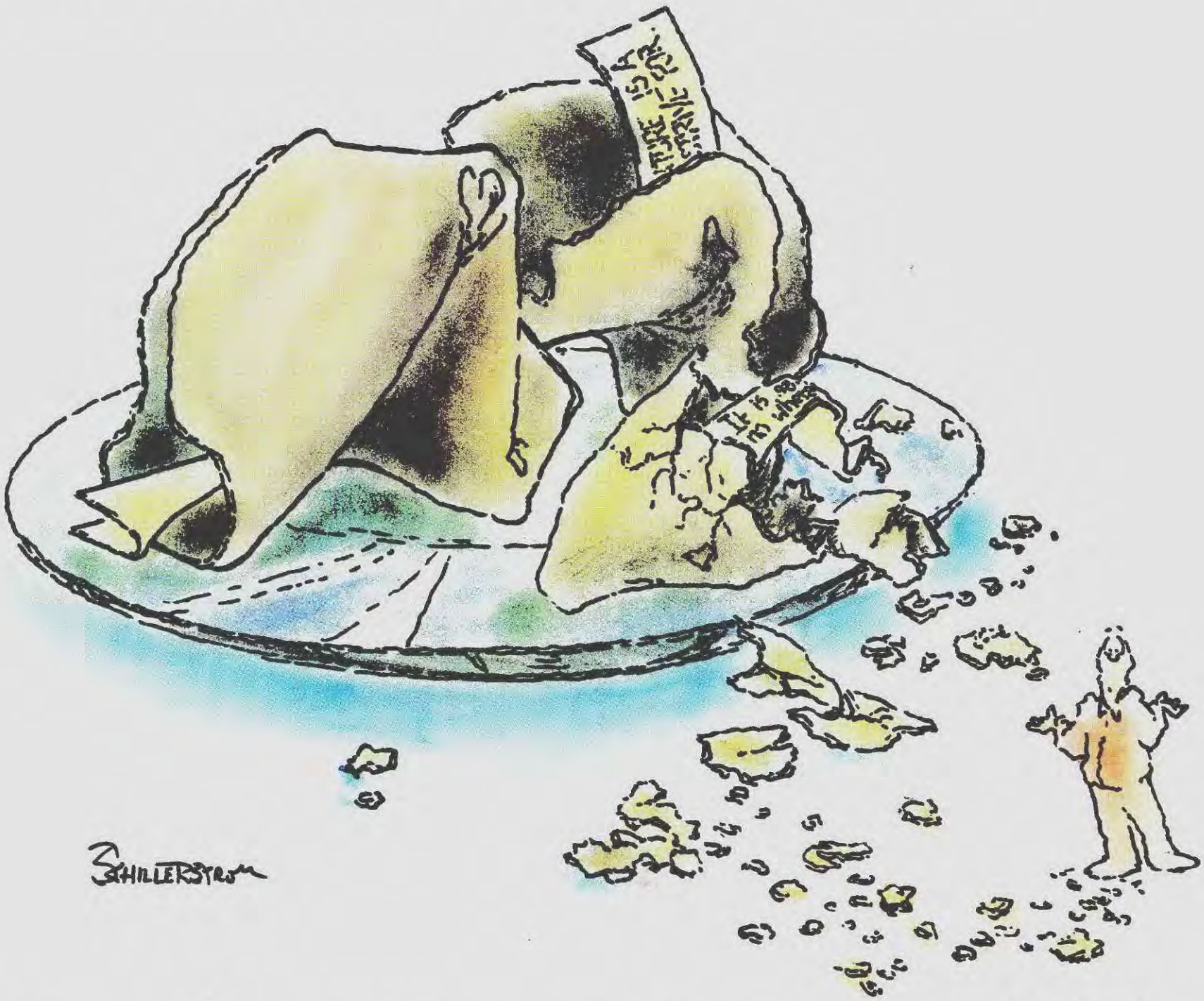

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Policy covers above-ground pollution

Up to $1 million in limited above-ground pollution liability insurance is now available from St. Paul Fire & Marine Insurance Co.

The policy "provides commercial and medical services customers with claims-made liability protection for bodily injury and property damage caused by the emission, discharge, release or escape of pollutants from policyholders' premises or work sites," said Fred Themmes, a senior underwriting officer in the commercial insurance division of St. Paul Fire & Marine, a St. Paul Cos. Inc. subsidiary.

"We are now going back to the (sudden and accidental type of pollution) coverage that was dropped from general liability forms in 1985," said Dave Kaiser, a senior underwriter with the St. Paul, Minn., insurer.

The policy covers incidents that happen entirely on or above the surface of the land, on the basement floor of any building and in any waterway or body of water, Mr. Themmes said.

He explained that occurrences must:

- Result from an accident.
- Begin and end within 72 hours.
- Occur on or after a policy's retroactive date.
- Result in environmental damage.

Pollutants covered under the policy include solids, liquids, gases, thermal irritants or contaminants, smoke, vapors, soot, fumes, acids, alkalis, chemicals and wastes.

The policy does not indemnify policyholders for damage from heat, smoke or fumes caused by a fire that becomes uncontrollable or breaks out from its intended area. Coverage for these causes of loss are provided under St. Paul's general liability policy.

Other exclusions include anything covered under the CGL policy, damage to the policyholder's own property and pollution resulting from infectious wastes.

Premiums for St. Paul's limited above ground pollution liability coverage vary based on loss potential. For example, minimum premiums are $100 for risks classified as low, $250 for moderate risks and $500 for high hazards.

For more information, contact Bruce Wakefield, St. Paul Fire & Marine Insurance Co., 385 Washington St., St. Paul, Minn. 55102; 612-221-7300.

Care evaluation

A service that helps employers, insurers, and providers assess the quality and performance of managed care programs is now available from Preferred Health Management Inc. of Alexandria, Va.

PHM's Managed Health Care System Evaluation Protocol "assists purchasers in making intelligent decisions in their selection of health care systems based on an informed review of plan operations," said Sharon Graugnard, president of PHM.

PHM's evaluation service assesses a managed health care plan's:

- Operational strengths and weaknesses.
- Management and financial resources.
- Quality and efficiency of medical care management.
- Credentialing of participating providers.
- Performance to date.
- Overall potential for growth.

Two levels of review are available, depending on the needs of the client, Mr. Graugnard explained. Level I evaluates all aspects of a managed care plan and its operations and generally can be completed within 30 to 45 days. Level II is an expedited review that concentrates on the elements of a program with the greatest potential for problems.

To begin the process, PHM requests, among other things, clients' physician and hospital fee schedules, marketing materials and satisfaction surveys.

The review of a program's operations are based on such criteria as plan personnel and qualifications, organizational background, financial structure and revenue streams and physician reimbursement methodologies.

PHM also conducts random interviews of hospital personnel and physicians and an analysis of system capabilities.

PHM prepares a preliminary report that the client verifies for accuracy.

A final report highlights the positive and negative features of the managed care program.

Fees for conducting the Managed Health Care System Evaluation Protocol range from $10,000 for a Level I review to $5 000 for a Level II review. The company also offers a volume discount for multiple plan reviews.

For more information, contact Sharon Graugnard, President, Preferred Health Management Inc., 213 N. Lee St., Suite 307, Alexandria, Va. 22314; 703-548-3455.

Product and services

Trust E&O coverage

The Continental Guaranty & Credit Corp. is expanding its financial institution insurance program to include trust department errors and omissions and fiduciary liability coverages that provide up to $5 million of limits for medium-sized commercial banks.

The new policies complement a previous package consisting of directors and officers liability and financial institution bond coverages.

The trust department E&O policy is available to midsized commercial banks and any other entity that has a trust exposure, such as a non-depository trust company or a trust subsidiary of a non-banking corporation, said Betsy Head, a vp at Continental Guaranty, a subsidiary of New York-based Continental Corp.

The trust department E&O policy protects all trust department directors and officers, employees and the entity itself "from liability arising from errors or omissions in the rendering of all trust services," Ms. Head said.

These include acting as an administrator or executor of an estate, a trustee for a third-party pension or employee benefit plan and an interest or dividend disbursing agent.

The fiduciary liability policy is available to mercantile risks, financial institutions and a wide range of other businesses, Ms.

Continued on next page

Continued from previous page
Head said.

The coverage protects the employer, employees and the entity from liability arising out of the operation or administration of its own welfare and pension plans. The policy also covers unintentional violations of the Employee Retirement Income Security Act.

The policies—written on the Insurance Services Office Inc.'s "simple language" claims-made form—can be underwritten separately or as a package, she said.

Premiums for the trust department E&O are calculated according to the value of the trust assets, types of accounts and management experience. The fiduciary liability policy is rated according to the number and size of plans and the number of participants.

The policies are available through local Continental Corp. agents and brokers.

For more information, contact Betsy Head, Continental Guaranty & Credit Corp., 180 Maiden Lane, New York, N.Y. 10038; 212-440-7199.

Cost containment

A new hospital bill-auditing service is available to employers and insurers from Efficient Health Systems Inc.

The program identifies errors such as unwarranted testing and excessive, unrelated and duplicate charges, explained Harve A. Ferrill, chairman and chief executive officer of EHS.

Under the program, nurses "familiar with hospital billing and practices" use computer software that cross-references medical records and other documentation to identify computation errors and duplicate charges, he explained.

First, the claims payer flags potentially erroneous bills by using factors such as ancillary charges exceeding 10% of the bill's total and room and board charges totaling more than 50% of the bill.

EHS nurses then audit the bill.

If the bill is errorless, EHS bills the claims payer $25.

When errors are identified, EHS generates a report of findings and informs claims payers. The process usually takes two to three days.

If claims have already been paid, the hospital is asked to correct the error and submit a refund.

Employers using the service, which is available separately or as part of EHS's utilization review program, have two payment options, explained Jim. Adams, president of EHS. One allows employers to share savings equally with EHS and the other lets them pay EHS $16 for every $1,000 saved.

For more information, contact Jim Adams, Efficient Health Systems Inc., 5215 Old Orchard Road, Skokie, Ill. 60077; 312-967-7800.

Subrogation help

Self-insured corporations and insurers nationwide can now employ Assured Recoveries Ltd. to recover subrogation claims.

As subrogation claims specialists, Assured Recovery acts as an intermediary to recover losses caused by a third party that already have been paid by a self-insured employer or an insurer.

Self-insureds often do not have the staff or expertise to deal with subrogated claims, said John J. Wenz, president of the Wantagh, N.Y.-based company, which also operates as a third-party claims administrator.

The subrogation service features computerized recordkeeping and monthly reports detailing case activities.

Fees for the subrogation service are negotiable and are set purely on contingency, Mr. Wenz said. The standard fee schedule depends in part on the size of the recovery, he added.

For more information, contact John J. Wenz, Assured Recoveries Ltd., 3375 Park Ave., Suite 2000A, Wantagh, N.Y. 11793; 516-579-6108.

Non-profit D&O

Non-profit community-based organizations and social services can now purchase up to $1 million in directors and officers liability coverage from Black/White & Associates Insurance Brokers.

The policy covers an entity's board of directors against errors and omissions while serving on the board. It is available on a surplus lines basis nationwide through licensed brokers.

The minimum premium for the coverage is $650, said a company spokeswoman who declined to name the underwriters.

Among the policy exclusions are:

- Breach of contract.
- Pending and prior litigation.
- Wrongful termination. However, this exclusion can be covered with an endorsement at a "small" additional premium, the spokesperson said.

The Oakland, Calif.-based surplus lines brokerage and managing general agent "has long provided property/casualty coverage for social service organizations," the spokeswoman said. She added that the D&O coverage for nonprofit organizations is an extension of that program.

For more information, contact Gayle Alexander, Black/White & Associates Insurance Brokers, 18952 McArthur Blvd., Suite 330, Irvine, Calif. 92715; 714-833-1036.

Chemical storage

A new series of portable spill containment sumps designed to provide secondary containment for storage of hazardous chemicals is available from Safety Storage Inc.

The sumps comply with Occupational Safety & Health Administration requirements, environmental regulations and local ordinances covering the storage of hazardous materials, said Cliff Hannar, a marketing manager with the Cupertino, Calif.-based company.

Three models feature standard measurements of 11 inches high by 8½ feet wide and optional lengths of 22 feet, 15 feet and seven feet and storage capacity of 570 gallons, 380 gallons and 190 gallons, respectively.

The sumps are constructed of continuously welded 10-gauge steel, protected with two coats of chemical-resistant epoxy paint and designed for internal and external use.

Standard features include forklift pockets for easy relocation, Fiberglas floor grating, a sump drain and static grounding/bonding lugs. Options include special types of flooring materials and polypropylene sump liners.

Prices are available from area representatives, Mr. Hannar said.

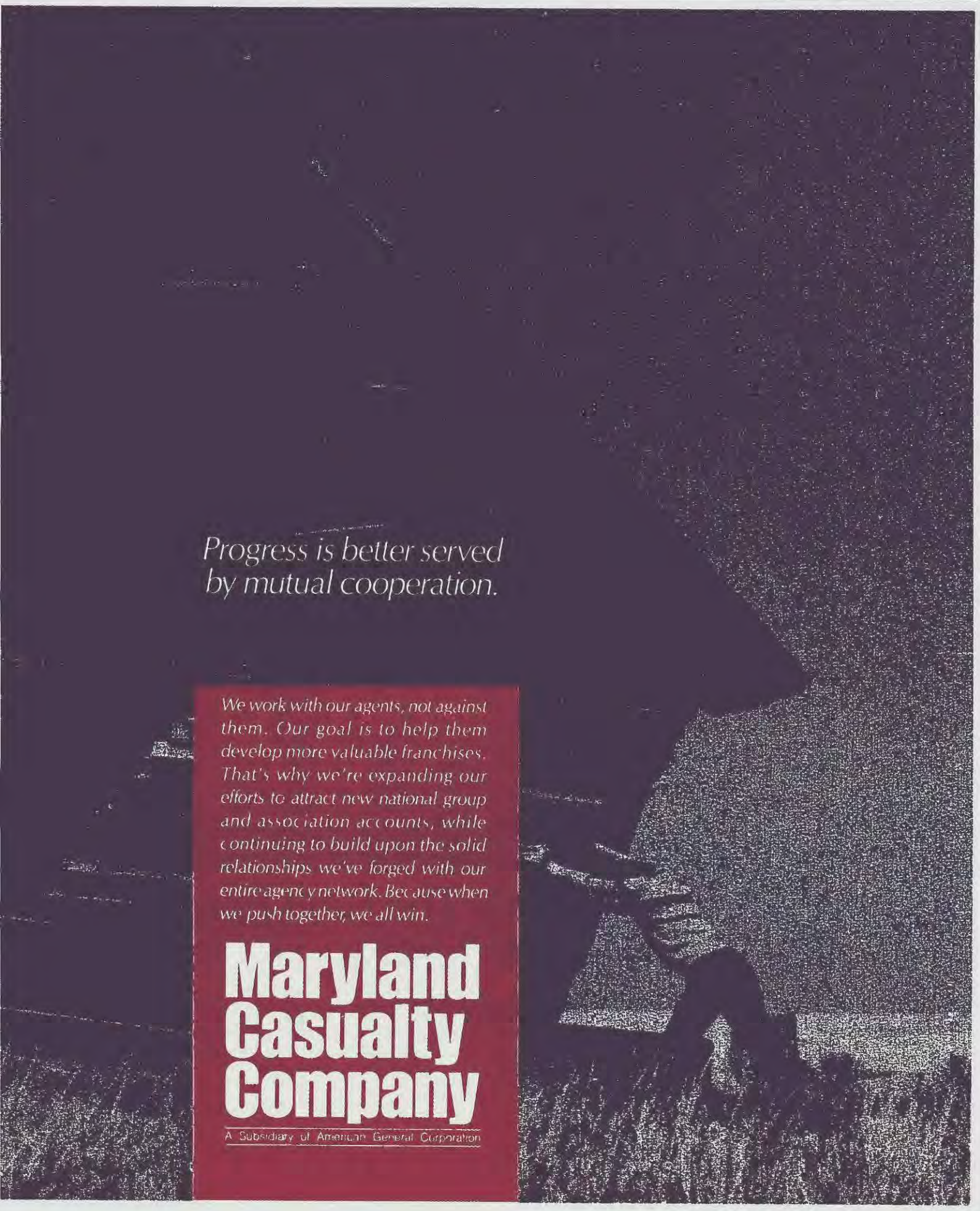
For more information, contact Cliff Hannar, Safety Storage Inc., 18900 Stevens Creek Blvd., Cupertino, Calif. 95014; 800-748-6306 or 408-252-2750.

Policy wording guide

The British Chemical Industries Assn. Ltd. has issued a second edition of "Liability Insurance: Model Policy Wordings and Guidance Notes."

The publication contains two model liability policies and notes explaining why clauses have been worded in particular ways as well as guidance on risk assessment of product and environmental impairment liabilities.

Copies of the booklet are available for 15 pounds ($23.18 at current exchange rates) for members or 25 pounds ($38.63) for nonmembers from CIA, Kings Buildings, Smith Square, London SW1P 3JJ. ■



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• The American Insurance Assn. offers an updated **Summary of State Laws and Regulations Relating to Automobile Insurance**. State statutes and regulations regarding no-fault insurance, policy cancellations and non-renewals, financial responsibility and compulsory liability insurance, unsatisfied judgment funds and residual market plans effective as of Jan. 1 are discussed. The summary is $9 for AIA members and $35 for nonmembers and is available through the Publications Department, American Insurance Assn., 85 John St., New York, N.Y. 10038; 212-669-0469.

• **"Fact vs. Fiction"** is a 13-minute video examining the issues of insurance industry profits, regulations and auto insurance produced by the Insurance Information Institute. The video is intended for use by industry representatives who discuss these issues with legislators, study commissions, the media and other business groups. Industry experts, including executives, academics and consumer leaders, appear in the video. The tape is available free for loan by calling the III hot line at 800-221-4954.

• **"What is the Future for Defined Benefit Pension Plans?"** addresses the shift from traditional "final pay" defined benefit pension plans to new forms of defined benefit plans and defined contribution plans. The book is compiled from proceedings and papers from a 1988 Employee Benefit Research Institute roundtable co-sponsored by the Pension Benefit Guaranty Corp. The authors discuss trends in the formation and termination of defined benefit and defined contribution plans, the changing needs of an increasingly mobile work force and the impact of legislation and regulation during the last 10 years. Single copies are $19.95 plus $3.95 handling per order, prepaid. Copies of the books are available from EBRI, P.O. Box 4866, Hampden Station, Baltimore, Md. 21211; 301-338-6946.

• A questionnaire to help financial and human resource executives select 401(k) plan recordkeeping services is available from The Johnson Cos., compensation and benefit consultants. **"How to Compare Providers of 401(k) Recordkeeping Services"** offers a way to track objective and subjective analyses of recordkeeping candidates. Free copies are available from Monica Martino, Communications Specialist, The Johnson Cos., 1 Summit Square, Route 413 and Double Woods Road, Langhorne, Pa. 19047; 215-860-3771.

• A new edition of American Re-Insurance Co.'s **"General Guide to Tort Reform"** brochure is now available. The guide includes state-by-state charts listing significant reforms, including the elimination of joint and several liability, the adoption of damage award "caps," punitive damages and immunity of public entities, enacted through Dec. 31, 1988. Free copies of the new edition are available by contacting Corporate Communications & Advertising Department, American Re-Insurance Co., 555 College Road East, P.O. Box 5241, Princeton, N.J. 08543; 609-243-4538.

• **"The Risk Retention Act: Bane or Blessing?"** is a monograph of 17 previously unpublished articles by experts in law, insurance, business and finance. Included are discussions of the need for Congress to clarify the scope of the act, guidelines for risk retention group organizers and whether the act addresses the problems it was intended to remedy. The Society of Chartered Property & Casualty Underwriters published the collection, which is available for $35 from Publications, The Society of CPCU, 720 Providence Road, CB No. 9, Malvern, Pa. 19355-0709.

• **"Primer on Workers Compensation, Second Edition,"** is a handbook outlining the current state laws and regulatory trends affecting work comp. It includes a discussion of the most commonly filed complaints and addresses and telephone numbers of all work comp agencies, a glossary, bibliography and a table of cases. Copies are $25 and must include your state's sales tax and $3 shipping charges for the first book and $1 for each additional. Order publication code 0596 from BNA Books Distribution Center, 300 Raritan Center Parkway P.O. Box 7816, Edison, N.J. 08818-7816; 201-225-1900.

• **"Risk Allocation and Risk Management: A Message to Owners,"** is published by the Assn. of Engineering Firms Practicing in the Geosciences. The publication focuses on risk allocation and discusses the purposes of professional liability insurance for design professionals. Copies are available for a $1 postage and handling fee from ASFE, 8811 Colesville Road, Suite G106, Silver Spring, Md. 20910; 301-565-2733.

• The **"1989 Guide to ERISA Reporting and Disclosure Requirements"** is designed for plan sponsors, administrators, trustees and attorneys by Coopers & Lybrand's Actuarial, Benefits & Compensation Group. It addresses special disclosure requirements for plan installation, amendment and termination; considerations for establishing new or supplemental plans; and developing controls for compliance with the Employee Retirement Income Security Act of 1974. Copies are available upon request from Coopers & Lybrand, National ABC, 1800 M St., Washington, D.C. 20036.

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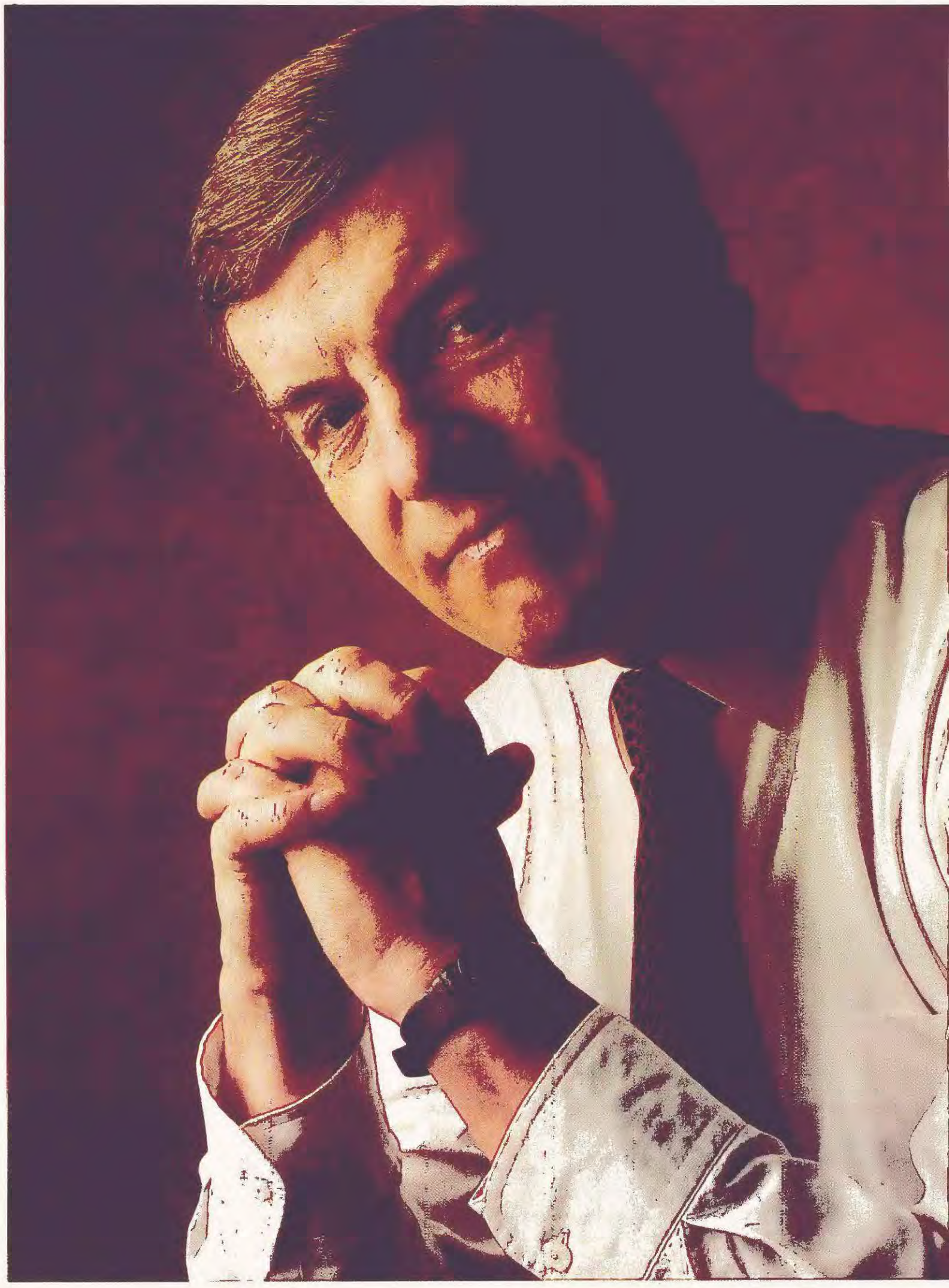

Use of alarms in loss control studied

By CHRISTINE WOOLSEY

PHILADELPHIA—The findings of a Temple University study on the effectiveness of burglar alarms as a loss control tool may lead to savings for both policyholders and insurers, researchers say.

The study, currently concentrated in three Philadelphia suburbs, will try to determine the probability of burglary in suburban commercial and residential properties with and without alarms.

In addition, the study will compare the overall loss costs in the two categories, the authors say.

The study is partly designed to help risk managers decide whether they should invest in an alarm system and what, if any, other specific mechanisms or security measures best help reduce commercial burglary losses.

"The principal idea behind our research is loss control," said M. Moshe Porat, associate professor of risk management and insurance at the Philadelphia university, and one of the authors of the study.

The study is partly designed to help risk managers decide whether they should invest in an alarm system and what, if any, other specific mechanisms or security measures best help reduce commercial burglary losses.

"It's really a cost-benefit question" to risk managers, equivalent to deciding whether the premium discount given for installing a sprinkler system will eventually pay for the system, he explained.

The research also may be of significant interest to insurers, which often give policyholders discounts for installing security systems, the survey authors say.

"The importance of our study to insurance companies is to see which alarm is most effective, how worthwhile it is to give discounts and how those discounts should apply to the premium," explained Simon Hakim, Professor of Economics and the study's principal author.

The study "will determine for the insurance industry whether alarms are worth their discounts," he said.

For example, if alarms do not prevent burglaries, but merely send burglars to other insured properties that may not have alarms, then insurers do not benefit from the alarms, he explained.

So far, preliminary findings of the study show that most burglarized properties in two of the three suburbs were commercial establishments that had alarms on the premises.

"We want to find out what makes a commercial property attractive to burglars," Mr. Hakim explained.

Currently, most insurance companies base their burglar alarm discounts on a wide range of premium discounts recommended by the Insurance Services Office Inc. The recommended discounts vary based on the type of alarms installed.

"The discounts were set up several years ago by our insurer committee based on their underwriting experience," an ISO spokeswoman said. However, ISO has no statistical evidence that burglar alarms do lead to reduced losses, she pointed out.

However, some insurers will not even underwrite a risk unless there is a burglar alarm on the premises.

At Aetna Life & Casualty Co., for instance, "underwriting guidelines demand certain classes of burglar alarms to make a risk writable," explained David Queior, director of commercial property product management at the Hartford, Conn.-based insurer.

"For example, an insurer won't touch a risk like a camera shop in New York City unless it has a sophisticated alarm," he said.

However, "any crime insurance is bought, not sold," he observed, suggesting that most business owners consider insurance a necessary expense.

Aetna bases most of its premium discounts for alarmed properties on ISO guidelines, Mr. Queior added.

Funding for the study is provided by the Pennsylvania Fire & Burglar Alarm Assn. and the Alarm Industry Research & Educational Foundation.

The groups hope study findings will aid them in establishing quality control measures for the products and the companies that sell and install them.

The $6 billion security industry —which has been expanding at an annual rate of 15%—has its share of questionable alarm systems and "fly-by-night" installers, Dr. Hakim explained.

However, the researchers say they need additional funds to collect as much data as possible, and they are looking to the insurance industry as a possible source.

"We want to expand our study to other (geographic) areas" to determine the loss experience of businesses in areas not generally considered to be high risks, Dr. Hakim said.

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For further information, contact Andrew Buck or Simon Hakim at 215-787-5037; or M. Moshe Porat at 215-787-8456. ■

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Risk management tips pitched to non-profits

By KARI BERMAN

Most non-profit organizations can beef up their risk management programs by forming liability insurance purchasing groups, training volunteers better and utilizing a proposed claims information clearinghouse, according to a task force.

While recognizing that solid risk management programs are difficult to implement in the non-profit sector because of high staff turnover, poorly paid employees and a large number of untrained volunteers, the task force says non-profit organizations must emphasize risk management.

"Non-profits should do good work, but they also need to do it carefully. Non-profits should maximize the good they do for society by minimizing the harm," said Charles Tremper, a professor at the University of Nebraska College of Law in Lincoln, Neb.

Mr. Tremper leads the Non-profit Sector Risk Management Task Force, which has established a list of formal recommendations for non-profit organizations to follow to upgrade their risk management programs.

The task force, which is financed by the Ford Foundation, includes representatives from insurance, legal, academic, government and non-profit organizations.

"We sent surveys to non-profits nationwide in order to identify their most significant liability exposures, held seminars and interviewed organization leaders in order to identify the problems and respond with ideas that might help the situation," Mr. Tremper said.

The task force recommends that non-profit organizations should:

- Act collectively to meet their risk financing needs.

Task force findings suggest that non-profit entities might obtain greater and less expensive coverage by forming insurance purchasing groups under the federal Risk Retention Act.

Mr. Tremper explained that non-profit organizations are not very attractive to commercial insurers because they do not generate high premium volume.

"Because non-profits constitute a small share of the commercial market, in order to adequately meet their needs they have to come together to improve their marketability," he said.

- Utilize a national claims information clearinghouse that the task force proposes establishing in Washington, D.C.

The clearinghouse would collect claims data relating to non-profit organizations and provide non-profit organizations with information on designing risk management programs, evaluating insurance policies and forming purchasing groups.

The clearinghouse will open within the year, Mr. Tremper predicted.

- Reduce the liability exposures that untrained volunteers typically bring to an organization by providing them with specialized training.

The task force also recommends that non-profit organizations indemnify their volunteers against third-party liability claims.

The task force suggests that non-profit organizations either purchase liability insurance or establish an alternative funding arrangement to pay claims filed against volunteers.

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For a free copy of the Non-profit Sector Risk Management Task Force recommendations, contact National Center for Non-profit Boards, 1225 19th St. N.W., Suite 340, Washington, D.C. 20036.

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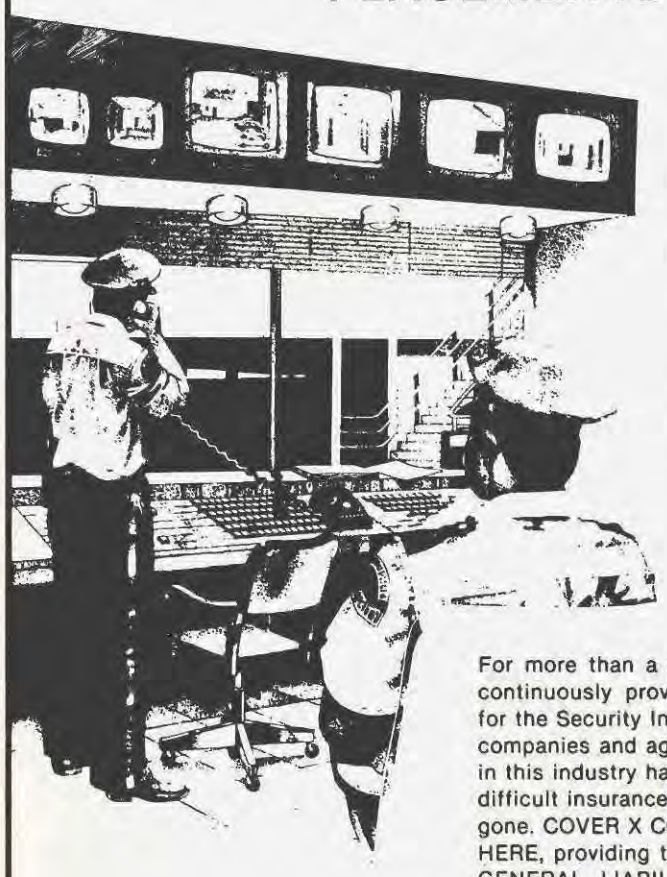

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Business Insurance

Brokers' views

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Overall, small to medium-sized accounts produce more predictable losses, brokers point out.

"In the large account area, coverages are somewhat unique, and they don't have the law of large numbers" to help in rating the coverage, says John F. O'Sullivan, managing director of Marsh & McLennan Inc. in New York. That makes it risky for insurers to cut their rates on large accounts, he explained.

Citing flat rates and some rate increases in recent weeks for M&M's largest accounts, Mr. O'Sullivan predicted: "We are seeing the slow death of the (current) soft market."

"We have seen a few increases in the last few weeks in the casualty area among Fortune 500 accounts where we didn't expect an increase," said Lawrence L. Drake, also an M&M managing director, noting that those increases—in the 10% to 20% range—reflect clients' loss experience.

Frank A. McDougald Jr., senior vp and national marketing director of Fred S. James & Co. Inc. in New York, still sees "a very cooperative market" for nearly all commercial property/casualty accounts but agrees that small to medium-sized accounts "are getting a bigger (price) break."

"Carriers, on larger accounts, are trying to get quality added to the services" they provide their largest clients, rather than relying on price reductions to retain the business, he said.

"A number of carriers aren't anxious to go any further with the price," agreed Robert Kerekes, senior vp-casualty with Johnson & Higgins in New York. "Thus, it's incumbent on the broker and risk manager to obtain the value-added portion during the soft market."

'We are seeing the slow death of the (current) soft market,' M&M's Mr. O'Sullivan predicts.

Beyond price cuts, insurers are enhancing claims administration services and other "technical expertise" to help cultivate long-term relationships among insurers, brokers and policyholders, Mr. Kerekes said.

While "price will always be the strongest issue, price can sometimes not be worth the paper it's written on, so price has to be tied in with value added," he said.

Robert L. Ludwig, president of the Charleston, W.Va., office of McDonough Caperton Insurance Group, noted that the magnitude of rate reductions also "depends upon how the account was priced last year. If it had a big reduction last year, we're not seeing that much of a reduction this year."

However, other brokers still observe strong rate competition among insurers for most property/casualty insurance accounts.

J. Bransford Wallace, executive vp and chairman of the Brokerage Services Group of Corroon & Black Corp. in Nashville, Tenn., said many insurers "are bragging" that they are not cutting rates because their premium volume is "up only a small percentage."

But, "I am unimpressed when I read that their premium volume is growing only a small amount or not growing at all," he said.

When annual premium reductions are averaging 10% to 15% and insurers also must replace business lost to their competitors, their total premium volume should be dropping 10% to 15%, "unless they are going out and writing a ton of new business at ridiculous prices," Mr. Wallace explained.

He noted, however: "For larger accounts, in the primary casualty area, rates are not falling as fast. Reductions are in the neighborhood of 5%. That market hasn't hit bottom, but it has slowed down."

For low-hazard, midsized accounts, "what we're seeing now is an unjustified competitive situation," reported Robert H. Hilb, president of Hilb, Rogal & Hamilton Co. in Richmond, Va.

While "insurers are certainly using some creative ways of doing it, as far as we're concerned we're just seeing lower premiums for the same risks," he added.

Mr. Hilb noted that some insurers, "in order to find a whipping boy," are blaming brokers for driving down rates by shopping for the best price for their clients.

Instead of laying the blame elsewhere, "they should use a semblance of intelligence in doing their underwriting," he stressed.

And, with the exception of workers compensation rates in states with exceptionally high guaranty fund assessments and residual market loadings, brokers do not see much regional variation in ratemaking philosophies.

Overall, "insureds are seeing the benefits of general improvements in terms and lower pricing which cuts across the gamut of demographics," said Larry Sorensen, senior vp and director of marketing at Rollins Burdick Hunter Co. in Chicago.

And, surprisingly, California's Proposition 103 has had little impact on the affordability or availability of insurance coverages in that state, brokers observe.

Proposition 103, a voter initiative, requires rate rollbacks to 20% below November 1987 levels in most property/casualty insurance lines unless insurers can prove those rate cuts would affect their ability to earn a "fair and reasonable rate of return" (*BI*, May 8; Nov. 14, 1988).

While the mandated rollback has not been an issue in most commercial lines, where rate competition has driven costs lower than 20% below November 1987, it is in personal auto insurance, the high cost of which led to voter approval of Proposition 103.

Some commercial insurance brokers were concerned that insurers might leave the California marketplace entirely if they could not charge adequate rates for personal auto insurance.

John R. Tomassi, executive vp and chief operating officer of Albany, N.Y.-based Lawrence Agency Corp., which does business primarily in New York and California, said that despite all the speculation and the Insurance Department hearings on rating, Proposition 103 has not noticeably changed the property/casualty market in California.

"Commercial lines haven't changed much. And I believe that whatever course Prop. 103 takes, it won't change business in California. One in nine Americans lives there, and there's too big a market share at stake for the carriers to think of pulling out or changing the way in which they do business there," Mr. Tomassi said.

Countrywide, most brokers say they are seeing continuing property rate reductions of between 5% and 20%, and none is having trouble placing any type of property insurance, unless the client has lousy loss experience.

A lack of any major property catastrophe accompanied by insurers' desire for premiums to invest has fueled intense competition among property insurance underwriters.

"There is no bottom with property," said Lawrence Greenfield, co-president of New York-based Walter Kaye Associates Inc. "Last week's favor is this week's reality. We just have so many people chasing the large property risks. There's no end in sight.

"Incumbent carriers, if they haven't been slaughtered, are doing anything to write business. And they're admittedly looking at investment income," he added.

J. Patrick Gallagher Jr., vp of oper-

Continued on next page

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Continued from previous page
ations for Arthur J. Gallagher & Co. in Rolling Meadows, Ill., said property rate reductions are averaging 10%, although "on occasion we have been surprised by some deep reductions." But, with this round of rate cuts, "I believe that property rates are about as thin as you can get," he added.

Property rates are now at the point "where the size of the reduction has gone from 50% 12 months ago to 20%," noted James E. Goulard, president of the Corporate Risk Division of Frank B. Hall & Co. Inc. in New York.

Yet, brokers also report that some insurers have refused to cut rates any further for property accounts when they considered the rates too low.

Jim Stone, president of the Chicago office of Jardine, Emett & Chandler Inc., said that in the Midwest, two property insurers "recently passed on $1 billion worth of property at 3 cents per $100 in value. It wasn't HPR (highly protected risk) property, and it had had a $1.2 million loss."

But, the account finally was written at a rate of 2.5 cents, he said.

And, Nelson Green, vp-marketing for Poe & Associates Inc. in Tampa, Fla., has a similar story from the Southeast: "I just wrote a $400 million property risk at 4 cents per $100 where the value had risen 3%. The coverage included DIC (difference in conditions). That's too cheap, but if I didn't do it, someone else would have."

The account had been written at 6 cents per $100 in January.

Rate reductions for property/casualty package policies "continue in the 15% to 20% range," said Corroon & Black's Mr. Wallace.

Others say the magnitude of property/casualty package rate reductions depends upon whether the concentration of risk is in the property or the casualty area.

For example, for clients in the $50,000 to $100,000 annual premium range, package rate reductions on renewal are averaging from zero to 5% for those with larger casualty exposures and 15% to 20% for those with larger property exposures, explained McDonough Caperton's Mr. Ludwig.

And Mr. Goulard of Hall noted that the main reason heavy casualty packages are not seeing the reductions prevalent among heavy property packages is because of increasing workers compensation costs.

Mr. Goulard explained that if the coverages provided under packages were examined separately, "you might see the workers compensation rates going up, but general liability and commercial auto rates going down."

William B. Conner, president and chief executive officer of Robinson-Conner Inc. in Erie, Pa., sees the dynamics differently. Noting that medical costs are rising faster than state boards are increasing workers comp rates, he said: "Carriers say that to write your workers comp at a loss, they want your liability at a fair rate. Therefore, I think you may see a firming of the casualty market driven by workers comp."

Brokers agree that workers compensation is generally costing employers more, not less, on renewal. In addition to increasing medical costs, guaranty fund assessments and residual market loadings have grown to major proportions in some states.

For mainstream primary casualty insurance accounts, some brokers say they are still seeing rate reductions averaging between 10% and 15% on renewal.

"The barometer is 10% to 15% on standard business, although when we market an account and run into competition on it, that reduction may grow," said John C. Sturgeon, vp-marketing department for Near North Insurance Agency Inc. in Chicago.

"Although there are a lot of variables that affect casualty business, risks that have been with a market for a while and where there is competition can see reductions of 10% to 30%," according to Nickolas Deutchak, senior vp and director of property and casualty for Alexander & Alexander Inc. in New York.

However, others cited only minor reductions or stable rates in the primary casualty area.

Primary casualty rates "seem to be at about the bottom now. You might be looking at 5% reductions or flat renewals," Mr. Gallagher explained.

Hall's Mr. Goulard observed that, on the average, 75% of the premium collected for primary casualty insurance is used to fund losses. That leaves less premium on average than in other lines to fund other insurance company expenses, he said. These other expenses include agent commissions, loss adjustment expenses and premium taxes.

Expecting to pay out a steady 75% of premium for primary casualty losses and anticipating additional costs for adjusting claims, insurers are less inclined to cut primary casualty premiums, he said.

While personal auto insurance rates are high in many states around the country, Robinson-Conner's Mr. Conner and Poe's Mr. Green both said commercial auto liability rates are falling about 5% to 10% from what they were at the start of the year.

'I just wrote a $400 million property risk at 4 cents per $100 where the value had risen 3%. The coverage included DIC. That's too cheap, but if I didn't do it, someone else would have,' says Nelson Green of Poe & Associates.

In the excess casualty area, competition remains heated, most brokers agree. Several sources, however, say umbrella policies saw larger rate reductions at the beginning of 1989 and during the 1988 midyear renewal period.

"Umbrellas are seeing modest reductions—10% to 20% at most," said Walter Kaye's Mr. Greenfield, adding: "Most of the fat has already been wrung out of this line."

But Corroon & Black's Mr. Wallace said that "the excess market is very soft, and umbrellas are in very, very sharp (rate) declines" in the 10% to 30% range.

Insurers are most interested in writing excess liability coverages excess of primary limits up to $25 million. In this area, policyholders can find "significant rate reductions—20% to 30%," following similar rate reductions in 1988, said James' Mr. McDougald.

Mr. McDougald attributed this to the availability of excess coverage through line slips and other excess insurance facilities; the willingness of many insurers to write the first layer of excess limits over their own primary coverage; and the recent strategy by some reinsurers to market their capacity directly to commercial policyholders (*BI*, May 15).

According to RBH's Mr. Sorensen, "up to $200 million in excess occurrence-based capacity is generally available, depending on the class of business, (although) for latent health exposures, occurrence coverage is still difficult" to purchase. Furthermore, "depending upon the client's and the exposure group's loss experience," excess occurrence rate reductions are averaging 10% to 25%, he said.

"Almost all liability is being written on occurrence forms," pointed out Jardine's Mr. Stone. "And this is certainly an enticement for all those who have been stuck on claims-made forms."

"I've seen an abundance of occurrence capacity," added J&H's Mr. Kerekes, "sometimes up to $100 million in excess coverage on some accounts."

And, while excess coverage for hazardous products exposures is usually offered only on a claims-made basis, clients can generally purchase $200 million to $300 million in limits by using high excess facilities like A.C.E. Insurance Co. Ltd. and X.L. Insurance Co. Ltd., James' Mr. McDougald said.

Brokers also cited examples of excess limits available for other classes of business that had experienced significant restrictions in coverage during the last hard market.

M&M's Mr. O'Sullivan said there has been a "tremendous increase in capacity" for directors and officers liability insurance.

"About $300 million in capacity is available on a worldwide basis" today, with price reductions that are "on occasion dramatic," he said. However, he does caution that some of the new D&O policy forms provide more limited coverage.

"There are a lot more people entering the market for new D&O accounts," said Walter Kaye's Mr. Greenfield.

Jardine's Mr. Stone agreed, but

Continued on next page

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Continued from previous page

said that to make sure his clients can secure D&O coverage when the cycle turns hard, he is currently trying to spread D&O limits among a number of insurers.

It is common practice to place, for example, $15 million with one insurer, $5 million with another and an additional $5 million with a third insurer, he said.

"Therefore, when the market turns, capacity will be there and the carriers will have experience writing these specific risks," Mr. Stone said.

Brokers cite other lines of insurance that had been difficult to place as being more readily written now.

RBH's Mr. Sorensen said that while prices are not dropping to any great degree, errors and omissions coverages are more readily available "with the impact of risk retention groups and association captives."

Brokers also note a greater willingness to write coverages for municipalities and financial institutions.

"Right now there is a fairly ready market" for municipalities, Mr. McDougald said. However, he expects that more municipalities will need to pool their risks when the market turns and insurers become less interested in writing municipal risks. Thus, he advises municipalities to have pooling mechanisms in place.

And, municipal risk financing pools are finding more support from commercial insurers, other brokers say.

Insurers are still "pretty conservative in underwriting" bankers blanket bonds, commented Mr. Ludwig of McDonough-Caperton.

With the exception of pollution exposures, for which there has been no appreciable improvement in availability or price since the hard market of the mid-1980s, the toughest line of business to place is surety, several brokers agreed.

"Surety is definitely not in a soft market. It is in a state of undercapacity, and there are not a lot of people chasing that business," said Corroon & Black's Mr. Wallace.

Surety is "probably the toughest area, although surety results have begun to improve and some major stock companies are more willing to write it now than in the past. There are no rate reductions and nobody is buying surety business," said M&M's Mr. O'Sullivan.

Brokers also cite specific businesses that can still be difficult to market to insurers.

Mr. Ludwig said "the most difficult type of risk we've had to deal with is general liability for the heavy construction industry—roads, bridges, tunnels, etc."

Political risk coverage is also hard to obtain in China, Russia and Iron Curtain countries, Mr. McDougald noted. "Where there is interest in purchasing it, those are the areas where there are problems" finding it.

And, Mr. Sorensen said that because insurers are showing a "sensitivity to the financial capabilities" of their clients, highly leveraged companies are having a hard time securing paid-loss retro coverage or fronted self-insurance programs. Chemical and pharmaceutical risks and long haul trucking exposures are also "not seeing the benefits of the competitive market," he added.

"Medical malpractice is virtually closed, and whatever decreases in rates that carriers had given on high-hazard products are gone," said of Robinson-Conner's Mr. Conner. "Heavy products are a struggle. We renewed an account with no known claims and had to fight like dogs just to keep the premium stable," he said.

Brokers perceptions of which insurers are more likely to maintain pricing now and which are more price competitive vary.

More than one broker, however, cited good underwriting discipline despite market conditions at Schaumburg, Ill.-based Zurich-American Insurance Cos.; Basking Ridge, N.J.-based Crum & Forster Inc.; Philadelphia-based CIGNA Corp.; and Novato, Calif.-based Fireman's Fund Insurance Cos.

And two or more brokers said taking aggressive marketing stands are Chicago-based CNA Insurance Cos.; Boston-based Liberty Mutual Insurance Co.; and one or more units of New York-based American International Group Inc.

"CNA looks at each individual risk as we renew it. Based on each risk's experience, we price the business accordingly. There is no general rule on pricing business more or less on renewal," said a spokeswoman for the Chicago-based insurer.

A Liberty Mutual spokeswoman said that "Liberty Mutual is maintaining its long-term policyholder relationships by continuing to provide quality loss control services, equitably priced."

"Within our portfolios, prices on more difficult niche specialty lines did not go down," said Thomas Tizzio, vice chairman of AIG. However, he added: "We are looking to maintain our renewals and working with brokers to do so."

Brokers say that despite competitive market conditions, they do not see an exodus from alternative risk financing mechanisms. And they note that some clients still continue to examine these options, although few are setting them up while insurance rates remain attractive.

"I can't think of one client who has gone back" to traditional insurance from alternative risk financing mechanisms, said Mr. Gallagher.

"People see that they can hold onto their own cash and have a ton of impact on what happens within their retained levels," Mr. Gallagher observed. And while he acknowledged a slowdown of new business in that area, he added: "our coffer is full of people poised, ready and waiting for the market to turn" to set them up.

Corroon & Black's Mr. Wallace agreed that there is still "a lot of interest in setting up (alternative risk financing mechanisms) and a lot of examination," although not as many are forming.

Mr. Wallace also observed that the insurance industry as a whole still faces "a tremendous lack of credibility" among buyers and lawmakers, and "we're looking down a gun barrel as far as the federal government's involvement is concerned."

In fact, in the areas of workers compensation and product liability, federal involvement may "better serve" the public, he said, adding: "That's hearsay, but it's true."

No one predicts a significant market turn before mid-1990.

"The market couldn't turn now if it wanted to. It's too cumbersome, and word never gets down to those who actually operate the industry," said Poe's Mr. Green. "So, I don't think we'll see anything until midway through next year at the earliest."

Charles E. Keller, president and chief executive officer of Boston-based Republic Hogg Robinson Inc., equated predicting when the market will turn to flipping a coin.

"We all said it would slow down last year. Then we said this year," explained Mr. Keller. "Now everyone is saying next year. All I can say is that when it does finally tighten, it will do so quickly."

M&M's Mr. Drake said that since insurers' "first-quarter (1989) financials were in reasonable ranges and property insurers had one of their best years in history" in 1988, it is unlikely that there will be any major market changes for at least a year.

And, James' Mr. McDougald predicts that the market will not turn until insurers' return on equity falls to unacceptable levels, which he said could occur by the latter part of 1990. That will restrict pricing and availability until mid-1992, he speculates, when insurers will again seek more premium volume.

However, brokers continue to monitor market conditions on a daily basis. As Near North's Mr. Sturgeon cautions: "If you don't have people watching the market, you could end up with your pants down." ■

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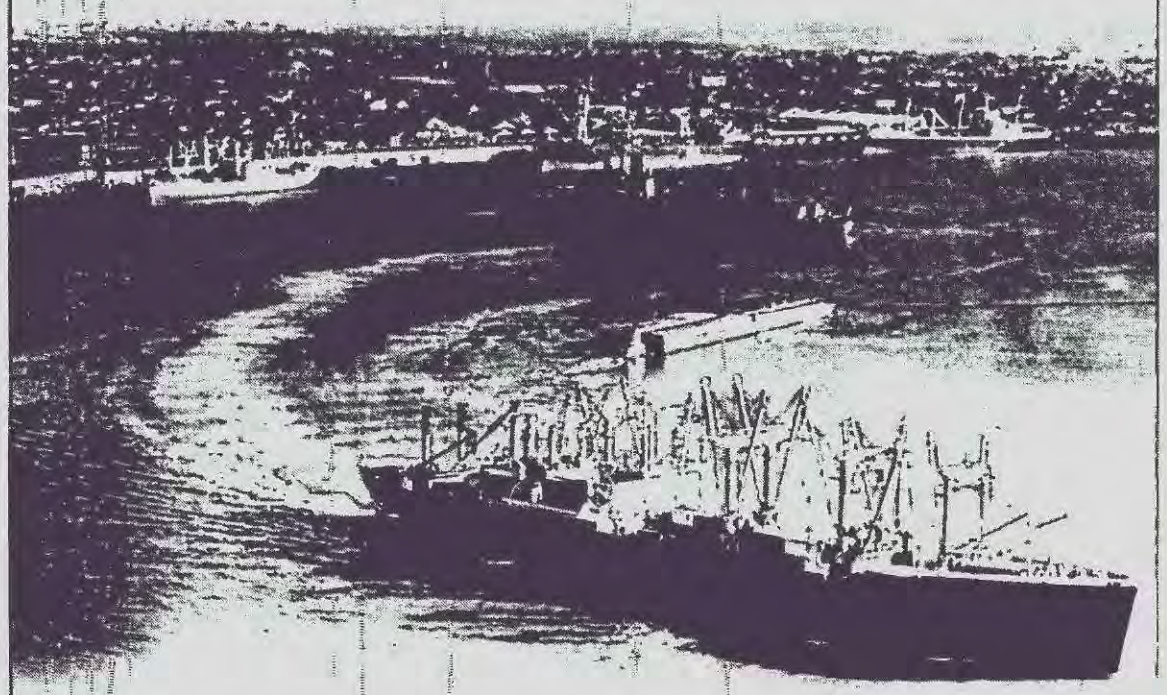

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Reinsurers' views

Continued from page 1
sas City, Mo.

Although pricing is obviously more favorable, insurers "don't seem to be taking advantage of it where they did in the early '80s," Mr. Erickson said.

In addition, "there's probably been somewhat less movement of reinsurance than there has been in the past," pointed out James Dwane, president of Prudential Reinsurance Corp. of Newark, N.J.

That is because stability is even more important than price these days, according to Angus Robinson, president and chief executive officer of NWNL Reinsurance Co. in Minneapolis, a unit of Northwestern National Life Insurance Co.

"Price is secondary to security," he said.

"I think the primary competition tends to be moderate, and that does not encourage primary companies generally to make changes from established relationships that they've had," observed Edwin J. Goss, chairman and president of American Union Reinsurance Co. of Indianapolis, Ind.

"I think generally that's a healthy thing for the business," he added.

"It seems like the people are all out hustling for business and not much of it is moving," said Paul Ingrey, president of F&G Re in Morristown, N.J., a USF&G Corp. subsidiary. "This is the quietest last half of June I remember ever."

"There's a lot of continuity," Mr. Erickson agreed.

For example, he said, if there are 10 reinsurers on a particular treaty and two drop off, the remaining eight probably will immediately pick up that business. A couple of years ago, though, two new reinsurers would have been more likely to pick up the business, Mr. Erickson said.

Reinsurers also are taking less business from managing general agents in this soft market than in previous soft markets, when there was a surge of business activity because of the formation of new MGAs, observed Steven H. Newman, chairman, president and chief executive officer of Underwriters Reinsurance Co. of Woodland Hills, Calif.

Not only is there very little new business, but generally the new business that is available is "not really as attractive an opportunity," pointed out Mr. Robinson of NWNL Re.

As a result, most reinsurers are "feeling pressures to maintain premium volume," said George Roberts, president of Reliance Reinsurance Management in Philadelphia.

Reinsurers "are working extremely hard to keep their accounts, which makes it very competitive," Mr. Fitt agreed.

"I think (competition is) certainly increasing," said Jeremy R. Wallis, president and chief executive officer of the New Zealand Reinsurance Co. of America, based in Chatham, N.J.

Paul Hawksworth, president and chief executive officer of Mercantile & General Reinsurance Co. of America in Morristown, N.J., a unit of The Mercantile & General Reinsurance Co. P.L.C. of London, agreed.

'It seems like the people are all out hustling for business and not much of it is moving,' says Paul Ingrey, president of F&G Re in Morristown, N.J., a subsidiary of USF&G Corp. 'This is the quietest last half of June I remember ever.'

"I don't think there is any question about the fact that we're seeing some softening in the (reinsurance) market," he said.

And London is still very competitive on catastrophe business as well, Mr. Wallis said.

Probably the heaviest competition is seen for property business, with improvements seen in rates and terms, according to reinsurers and intermediaries.

"With property, you could walk down the street with a slip and have it oversubscribed by the time you'd gone one block," said Joseph M. Fedor, executive vp of New York-based U.S. RE Corp.

"There is a tremendous glut of capacity" for property per risk business, and this has produced rate reductions and improvements in reinsurance contract terms, agreed Andrew O'Brien, a general partner with reinsurance intermediary E.W. Blanch Co. Limited Partnership in Minneapolis.

"It's a situation where you can easily oversubscribe all your capacity needs for a particular class," he said.

Rates for property per risk treaty and catastrophe coverages continue to fall while capacity is increasing, agreed Michael E. Rothpletz, executive vp with intermediary G.L. Hodson & Son Inc. in New Hyde Park, N.Y.

Reinsurers' property loss experience "has been excellent," Mr. Rothpletz said, explaining rate reductions of between 8% and 15% on property business. "We have been catastrophe-free. We haven't had any big losses, and that has affected the working and pro-rata areas" as well as catastrophe markets.

U.S. RE has seen rate reductions of 10% to 15% or more on property treaty business, according to Tal P. Piccione, president and chief executive officer.

Property catastrophe business also is being renewed at rate decreases of 10% to 15%, according to Mr. Piccione.

"I think there is still some of what I would term rate corrections downward" on property per risk and catastrophe business that are justified by good experience on the business, said Philip W. Mitchell, chief executive officer of intermediary TPF&C Reinsurance, a unit of Towers, Perrin, Forster & Crosby Inc. in Philadelphia.

He added that the pace of the reductions is slowing, but that "we have not bottomed out yet."

New Zealand Re's Mr. Wallis said that direct writing reinsurers in particular are being very competitive in areas where they do not normally participate.

In one recent case involving a property catastrophe policy, a direct writer quoted a price that was one-third the current rate, Mr. Wallis said.

In addition, property reinsurance terms are being improved.

For example, reinsurers that had imposed limited reinstatements of exhausted policy limits are offering more reinstatements at lower additional premiums, said Mr. O'Brien of Blanch.

In some cases the number of reinstatements has been increased from two or three to five or six, noted Lewis Paul, senior vp at Frankona Reinsurance Co. in Kansas City, Mo.

And sometimes the reinsurers are not charging an additional premium for the additional reinstatements, he said.

Reinsurers also are increasing ceding insurers' profit commissions on proportional property treaty business, Mr. Piccione of U.S. RE noted.

In cases where commissions are calculated on a sliding scale based on profitability, reinsurers have also limited potential downward adjustments, Mr. Piccione said.

Profit commissions for ceding companies are being improved, agreed Mr. O'Brien of Blanch.

He noted that in one case, a reinsurer even agreed to an upfront cash payment of half the ultimate expected profit commission on a piece of business, carrying the other half forward as a credit due the ceding company.

For the past couple of years insurers also have been pushing for higher ceding commissions on proportional property facultative business, explained A. Edward Gschwind, president and chief executive officer of American Royal Reinsurance Co. of New York.

But, now some of these commissions are coming down to a more rational level, Mr. Gschwind said.

However, Mr. Paul of Frankona said, "I have not seen a lot of pressure on ceding commissions for property." This may be because the property market has been soft for so long, he said.

U.S. RE's Mr. Piccione pointed out

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Continued from previous page
property rates are falling not only because of competition among reinsurers but also because "for the first time in some time we are beginning to see a marked softening" in property retrocessional markets.

He explained that growing excess-of-loss capacity is bringing rate reductions of about 10% on these retrocessional coverages.

There is increasing softness in the casualty reinsurance market as well, although rates have not been cut much, reinsurers and intermediaries say. Softness on the casualty side more often takes the form of reinsurers covering risks they previously avoided and improving terms, they said.

For example, Frankona Re is "seeing increasing competition, particularly so in the more hazardous lines of casualty business" such as professional liability, said Mr. Paul. The market is seeing competition that had not existed before in these lines, he said.

Mr. Mitchell of TPF&C Re agreed that reinsurers are more willing to entertain classes of business they would not look at before, such as asbestos abatement, environmental impairment liability and errors and omissions programs.

Pru Re's Mr. Dwane said he thinks competition is "very keen among reinsurers in certain lines, more so on the short-term business, but also competitive in the longer-tail business."

Many programs are renewing as is on price but with improved terms and conditions, including liberalization or elimination of sunset clauses and aggregate caps, according to Mr. Rothpletz.

Michael Born, vp at Frankona Re, said that five-year sunset clauses have been extended to seven or 10 years.

Casualty terms that were very tight a few years ago have eased somewhat, said American Union Re's Mr. Goss. Some fairly onerous terms had been enforced in the past, but "that has eased a good deal now," he said.

"The sunset clauses have eased considerably in the market," he said. "A few years ago, it was hard to get high level excess casualty coverage without sunset clauses." Now, however, that coverage is available "either without sunset clauses or considerably less onerous ones."

Sunset clauses still applied to workers compensation and other long-tail liability lines are being extended by one or two years, said Mr. O'Brien of Blanch.

In addition, Mr. Born reports that loss ratio caps of 150% or 175% are now up to 200% or 225%.

Reinsurers may offer to average a loss ratio cap over a five-year period rather than applying the cap on a year-to-year basis, noted Hodson President and Chief Executive Officer Ronald J. Taylor.

Sunset clauses and loss ratio caps have already been eliminated from most casualty treaties handled by TPF&C Re and are "not an item for discussion any more," Mr. Mitchell said.

Another example of easing terms is in the reinstatement of limits on excess casualty coverage, both in respect to the number of reinstatements and the cost of those reinstatements, according to Mr. Goss.

"The market is significantly more liberal now than it was a few years ago" in this area, he said.

Reinsurers also have eased terms for workers compensation coverage. Previously the policy limit might have applied per employee but now "the more liberal per employer (limit) is now the case." This means that the retention is pierced more quickly.

In addition, Reliance's Mr. Roberts noted that some exclusions are being relaxed on both reinsurance and the underlying business. For instance, directors and officers liability insurance policies may no longer exclude financial institutions, he said.

However, Pru Re's Mr. Dwane said he has seen little movement on terms.

"I don't see a lot of activity in that area. I think most of the term changes already occurred in the last year or two. We haven't seen a lot of that. I think it's mostly a pricing situation at this point."

Others agree they are seeing some loosening of rates.

Rates for treaty casualty clash business have declined about 10%, said U.S. RE's Mr. Piccione. However, reinsurers are not cutting rates for other casualty business, he said.

"Rates seem to be loosening, but very, very slowly, and it's on a case-by-case basis," said Mr. Mitchell of TPF&C Re.

Enough casualty capacity exists to meet "reasonable needs," though "we have not encountered any significant rate reductions in the casualty area," said Mr. O'Brien of Blanch.

M&G Re's Mr. Hawksworth characterized casualty reinsurance rates as "pretty solid."

While commenting that market "conditions are continuing to deteriorate," Underwriters Re's Mr. Newman observed that the reduction in rates now is "not as much of an improvement as the previous renewal."

But, this was to be expected because of the size of the initial reductions, he noted.

Mr. Goss of American Union Re also noted that there has been more competition for treaty business in general than for facultative business. "The facultative business has slowed up considerably," he said.

Underwriters Re's Mr. Newman pointed out that some business that had been written on a facultative basis is now being put on treaties, because it is easier to buy treaty business.

However, Employers Re's Mr. Fitt said that facultative property business is "extremely competitive," and that "on the casualty facultative side, it's becoming more and more competitive every day."

But, Mr. Gschwind of American Royal Re said that on facultative casualty business, "if anything, we would say terms are tightening a bit."

While reinsurers are certainly out competing for business, reinsurance officials report the competition has not reached irresponsible levels. "You're not seeing the reinsurers out slashing prices indiscriminately," Signet Re's Mr. Erickson said. "It's spirited, but not cutthroat."

"I would say competition among ourselves is reasonably sublime. I don't see this as a heated reinsurance market," Mr. Gschwind said.

And, there are not many new reinsurance markets to spur competition, Mr. Wallis of New Zealand Re pointed out.

"There really aren't too many new players," he said.

Mr. Newman of Underwriters Re said that although the market is soft, "by and large the reinsurance community is pretty much retaining its professionalism."

"The reinsurance market clearly has become more competitive than it was a couple of years ago," said American Union Re's Mr. Goss, pointing to declining premium volume.

However, at least to this point, "it's still pretty stable, and I think the reinsurance companies are attempting to do a good job of underwriting while they shave their pricing somewhat to meet more competitive conditions," he said.

"If the reinsurance market doesn't get substantially more liberal than it is currently, it's not likely to exacerbate the cyclical downturn," Mr. Goss said.

Many reinsurance programs have been profitable over the past few years, so it is not irrational that ceding companies are looking for premium reductions and better terms, said M&G Re's Mr. Hawksworth.

"There is probably room for give and take for certain areas," he said. "I see it going south, but I don't think it's awful yet," he said of the market.

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New York Bureau Chief Douglas McLeod contributed to this report.

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Risk managers

Continued from page 1

manager at a large manufacturing firm in the Northeast.

Risk managers renewing their excess and umbrella liability insurance programs report they are obtaining rate cuts of up to 15%.

William M. Scott, risk manager at Ponderosa Inc. of Dayton, Ohio, said the cost of the restaurant chain's $40 million in umbrella insurance limits was "down significantly" at its recent renewal.

This is the second consecutive year the coverage price has dipped, he noted.

Lance Inc., a snack food manufacturer based in Charlotte, N.C., also is expecting its umbrella coverage to cost less at its pending renewal.

Risk Manager John Wiggins said he believes the coverage will be written at rates 10% to 15% below the 1988 renewal cost.

Last year's renewal was written at a similar reduction from the 1987 price, he noted.

The risk manager for a major oil company said his excess liability coverage will cost 10% to 15% less this renewal season.

The oil company's renewals are "pretty much done, except for some aviation risks that will be completed in the latter part of July," he explained.

"That market is about as soft as soft can be. We've had more aviation people calling wanting to quote on that business than all the others combined. They're crazy for that business."

One risk manager recently arranged a novel excess product liability insurance program above the company's self-insured retention.

Carol L. Nist, risk manager at Marion Laboratories Inc. in Kansas City, Mo., said the pharmaceutical manufacturer this summer completed a new "financial arrangement" for its product liability exposure after years of high premium payments.

"We've had good support from the traditional market, but we're still classified as a pharmaceutical risk," Ms. Nist explained. "We were paying a significant premium and haven't had claims that have hit the insurers."

This summer, Marion Labs signed a five-year, non-cancelation agreement with an insurance unit of Berkshire Hathaway Inc. The policy provides excess product liability coverage over a self-insured retention.

Ms. Nist described the coverage as a "controlled self-insurance" arrangement under which the actual cost of the coverage depends on the amount of losses.

Berkshire offers two options under the excess product liability insurance program:

- Pre-pay a 5-year premium.
- Pay a portion of a 5-year premium for the same amount of limits to set up an escrow-type account out of which losses will be paid for five years. This premium also includes a charge anticipating that claims will exceed the amount of the escrow account.

In either case, the policyholder gets some money back at the end of the policy term if losses do not outstrip the five-year premium or the escrow account.

If losses are greater than the prepaid-premium or the escrow account, the policyholder does not pay an additional premium.

"It works like a retro plan," said Ms. Nist, declining to specify which option she chose. "That part appealed to me."

She also described the program as "unique because of the length of time" it covers. "There aren't many five-year programs out there," she said.

'We're starting to see excess liability carriers taking a closer look this year,' says Mr. Caperton.

Ms. Nist explained that the coverage "fills the gap" between Marion Lab's self-insured product liability coverage and a layer written by X.L. Insurance Co. Ltd.

X.L. writes limits excess of $25 million.

Joel Myers, executive vp of commercial casualty with Berkshire Hathaway in New York, called the arrangement "a non-traditional plan" that includes "real insurance. There is risk transfer. It's not 100% funded."

Berkshire Hathaway entered into the arrangement with Marion Labs because it considers the pharmaceutical company "a superior risk in a very difficult market," Mr. Myers explained.

Bob Caperton, corporate risk manager at Commercial Metals Co. of Dallas, said insurers are eager to write his company's excess liability coverage, which does not renew until later this year.

However, he says underwriters appear to be more concerned about the quality of the business than in recent years past.

"We're starting to see excess liability carriers taking a closer look this year," Mr. Caperton noted. "We're already being contacted by our incumbent carriers. They want to take a closer look at our operations," he said.

In the last couple years, "I've never had an excess carrier look at more than an application and base a quote on underlying coverage," he pointed out.

"It seems they're a little more hands-on" this year, Mr. Caperton said.

Risk managers report that insurers also are particularly receptive to negotiating the price and terms of directors and officers liability insur-

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ance this year.

For example, the cost of Boehringer Ingelheim's D&O coverage was cut during both the 1989 and 1988 summer renewals, Mr. Williams said.

And the terms of the coverage were broadened during those years, he said.

D&O insurance prices are favorable even though competition for that business is not as fierce as in other areas, Mr. Williams said.

"I think underwriters are saying they are willing, even without the overt competition, to negotiate with a risk manager to retain the line of coverage and develop long-term relationships," he said.

Rebecca Gilman, risk manager with Centel Corp. of Chicago, said her company's D&O insurer "deleted a few restrictive endorsements" from last year's policy when renewing the telecommunications company's coverage this summer.

Centel's general liability insurance renewal with its incumbent insurers also is "going rather well," Ms. Gilman said.

The company is finding no coverage problems, Ms. Gilman said. "Everything was available that I expected," she noted.

But, Ms. Gilman added that she "would have enjoyed seeing some broadening in casualty terms and a little more pollution coverage, please."

Centel was able to secure only slight increases in limits for pollution liability coverage, she said.

"It was limited, but at least it was (increased) a little bit," Ms. Gilman said.

Sondra Geller, director of insurance at Personnel Pool of America Inc. in Fort Lauderdale, Fla., said she recently renewed her company's general and professional liability coverages, and "it was a very easy negotiation."

In fact, "it was our least eventful renewal," she said.

Personnel Pool's insurer renewed the coverage with the same terms and conditions and at the same limits, and the company "did get some concessions on price," Ms. Geller said.

Not all liability risks have had such an easy renewal season, though.

For example, municipalities report they are not seeing a softening marketplace.

"I'm not noticing any softening as far as municipalities are concerned," said Phil Bauccio, assistant insurance manager for Suffolk County, N.Y.

But that fear is unfounded in the case of Suffolk County, he said. "As a municipal group, I think we're one of the better risks around. We obviously have a lot of exposures, but we do a lot to keep a lid on those exposures," Mr. Bauccio explained. "The market doesn't recognize that situation."

Municipalities are "being held hostage as a group, and I don't think it's fair," he declared.

Primary property insurance prices, traditionally less volatile in price than primary liability insurance prices, have remained stable or have dropped slightly, these risk managers report.

Conversations with several brokerages have proved fruitless in Suffolk County's search for affordable excess liability coverage, Mr. Bauccio says. 'The only thing I have seen is that the last quote was a little less ridiculous than the one two years ago.'

"When the market went into a spin in 1986, we lost our excess coverages," Mr. Bauccio said. Underwriters then were not interested in the county's business except at very high prices, and the county "opted not to buy it," he said.

The municipality is shopping during the current renewal season but is seeing little interest from insurers, Mr. Bauccio said.

Conversations with several major brokerages have proved fruitless in the county's search for affordable excess liability coverage, he said.

"The only thing I have seen is that the last quote was a little less ridiculous than the one two years ago," he quipped.

"We were even willing to look at a large deductible, and the cost that was quoted was prohibitive," Mr. Bauccio noted.

Insurers are scared to insure municipalities because they believe cities and counties are considered easy targets for lawsuits, he said.

"They're still afraid of the court system" that has traditionally considered municipalities to have "deep pockets" and an ability to pay judgments regardless of the municipality's percentage of fault, he said.

Even for municipalities, that coverage has "never been a problem," said Mr. Bauccio, who renewed the county's property coverage earlier this year.

George Mills, risk manager for the New Jersey Highway Authority in Woodbridge, N.J., said he did "surprisingly well" during recent property renewals for the authority's bridges.

He said rates dropped below 3 cents per $100 of value for the authority's bridges that are valued at more than $400 million.

The reduction is the second consecutive rate cut that Affiliated FM Insurance Co. has granted the authority at mid-year renewals, according to Mr. Mills.

The oil company risk manager said oil companies are finding greater capacity this year for property coverage written for refineries. His company increased coverage limits "a substantial amount" at the recent renewal, he said.

Centel is "seeing some reductions from a property standpoint, but really nothing significant," Ms. Gilman said.

However, property rates were cut somewhat during last year's renewal, she said.

Risk managers do not expect the soft market to continue beyond next year. They say they expect the market begin to harden in 1990.

"I'm planning for the market to turn during the next 12 months, and I'm trying to put together programs to deal with the changing market," Ms. Gilman said.

"I'm making sure that we have enough markets that are stable on my coverages," she said.

Mr. Mills of the NJHA said he expects to see "some firming next year," as insurers begin to raise prices to pay for increasing losses related to coverage underpriced in the soft market.

Mr. Williams of Boehringer Ingelheim said insurers' July renewals of reinsurance treaties will influence when the market turns, but he predicts "favorable pricing throughout '89. I don't see any hardening until possibly toward the third or fourth quarter of 1989."

Reinsurers and intermediaries report a continuing softening reinsurance market (see story, page 1).

Mr. Caperton of Commercial Metals agreed that the market will not harden before the end of this year. And, "we'll take advantage of the softening anywhere we can," he noted.

However, "we have not jumped out and changed carriers in any soft markets. We just negotiate the best deals we can. We believe in long-term commitments," Mr. Caperton added. ■

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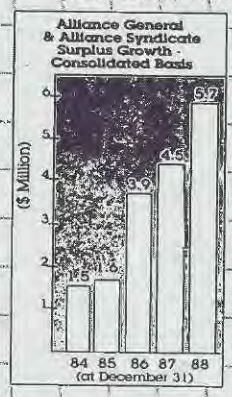

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Chinese risk cover costly after unrest

By CAROLYN ALDRED

LONDON—Underwriters again are insuring the political risks of companies trading with China, as the apparent threat of civil unrest in the country subsides.

But, the cost is higher than before the student protests resulted in military action.

"Chinese risks now are being underwritten again but on a selective basis," said Anthony Palmer, marketing director for Lloyd's of London political risk broker Berry Palmer & Lyle Ltd.

Most commercial underwriters refused to write political risk coverage in China for several days after the Red Army stormed into Beijing's Tiananmen Square June 4 to quash student-led, pro-democracy demonstrations (*BI*, June 12).

But now that "the threat of outright civil war has disappeared the underwriters have stepped back in," Mr. Palmer said.

"It's quite obvious it is not going to decline into anarchy now," a leading Lloyd's political risk underwriter said of the situation in China.

Political risk underwriters at American International Group Inc. of New York began telephoning brokers on June 12 to announce that they were writing coverage for risks in China again, said Nick Hedley, senior political risk underwriter for American International Underwriters (U.K.) Ltd., a subsidiary of AIG.

Although political risk coverage is again available, rates range from 50% to 300% higher than before the bloody encounter in Tiananmen Square, and underwriters are being far more selective.

"Underwriters are looking very closely at each deal and who the parties are," said Mark Drummond-Brady, a director of Lloyd's broker Lloyd Thompson Ltd.

The underwriters' quick reversal came as China's hard-line leaders reasserted control and made clear that China plans to continue its economic reforms, brokers and underwriters agree.

"The one thing underwriters don't like is uncertainty. They can handle a situation as long as they can see the picture clearly," Mr. Drummond-Brady said.

"It's quite clear the hard-liners have gained control. But all the statements they have made indicate they still want to encourage foreign business links," he added.

However, not all underwriters are jumping back into the fray.

Underwriters for syndicates managed by Merrett Underwriting Agency Management Ltd. stopped writing political risk insurance for risks in China long before the troops moved in to disperse the demonstrators, and they still are not writing any Chinese risks, brokers say.

Lloyd's underwriter Stephen Merrett confirmed that the Merrett syndicates have "not written any Chinese risks for some time."

"There's still a lot of uncertainty" about the situation and it is "very difficult to get information on the real situation in China," he noted.

And, Overseas Private Investment Corp., a U.S. government agency that writes political risk insurance for American firms investing in developing countries, suspended writing new coverage for risks in China, said a spokesman in Washington, D.C.

OPIC stopped writing new coverage in China after the House of Representatives voted to suspend new coverage in China, he said. The Senate likely will vote on the issue later this month, he added.

However, "there was very little new business coming through the door anyway," the spokesman said.

OPIC offers property confiscation and damage insurance for new ventures in developing countries.

OPIC coverage in-force for exposures in China will not be affected by the move as most policies last between 12 and 20 years, the spokesman noted.

Otherwise, much of the political risk insurance market is "becoming more relaxed" about writing coverage in China, said Dierdre Green, a director of Investment Insurance International (Managers) Ltd. in London, a subsidiary of Hogg Robinson & Gardner Mountain P.L.C.

American International Underwriters was one of the earliest insurers to step back into the market, many brokers note.

"We started picking up our pens again fairly soon afterwards," said AIU's Mr. Hedley, explaining that the insurer "perceives a long-term potential in China."

However, AIU is being selective and primarily is insuring companies "with long experience and contacts in China. We don't want to bail out the companies who hadn't been trading for long and now are screaming for help," Mr. Hedley said.

In addition, AIU is focusing on insuring trade and property exposures in China that "are used to generate exports" from China, he added.

The Chinese authorities are very concerned about China's economy and will be keen to continue supporting joint ventures that are likely to result in exports from China, he explained.

For example, the supply of Western equipment that will help China to manufacture goods for export will be welcomed, whereas the supply of equipment or construction of factories to produce consumer goods for the Chinese market will be "given low priority," Mr. Hedley said.

For risks it deems acceptable, AIU currently is offering the same capacity as before the Tiananmen Square violence, although rates have increased, he said.

For example, AIU currently offers:

- Up to $25 million in limits covering confiscation of property. Rates are about 0.5%-0.7% of the property's insured value for renewal of existing business and about 0.75%-1.5% for new business, Mr. Hedley said. Before the troubles in China began, rates for new business averaged about 0.6%, he said.
- Up to $7 million in limits for non-payment of letters of credit. This capacity is limited to LOCs authorized by the Bank of China and for a short period only, up to about 10 days, said Mr. Hedley. LOCs for longer time periods are available for companies that have been trading with China for some time, he added.

AIU is offering rates of about 1.5%-3% for such LOC risks, compared with 1.2% or less previously, he noted.

Long-term policies, including any policy for more than a 12-month period, still are very unpopular with political risk underwriters, Mr. Drummond-Brady said.

However, underwriters now are quoting on many types of political risk coverage for China, he said.

Among the risks being underwritten are:

- Asset protection and confiscation of property.
- Interruption of supply for companies importing products and supplies from Chinese manufacturers.

For example, Western toy distributors may seek to obtain this insurance coverage against Chinese subcontractors failing to deliver products that could result in loss of business and market share.

- Contract frustration insurance, which covers losses sustained because of the cancellation or repudiation of contracts.
- Non-payment on letters of credit. However, underwriters still are not offering coverage for the refusal to issue letters of credit, Mr. Drummond-Brady noted.

Despite the renewed interest in writing coverage for China, "everybody is being cautious," noted Miles Wright, political risk underwriter for Lloyd's syndicate 1098, managed by Polwring Underwriting Agency Ltd. Mr. Wright again is writing coverage for non-payment on letters of credit.

Companies renewing political risk insurance stand a better chance of obtaining coverage than companies seeking insurance for the first time.

If companies are asking for political risk coverage in China for the first time, it "doesn't say much for their risk management," Mr. Wright noted.

Another leading Lloyd's underwriter, who did not want to be quoted by name, agreed.

"Property confiscation coverage is available particularly for those already insured. While regular customers can obtain coverage, newcomers are less likely to," he said.

Meanwhile, underwriters continue to carefully monitor the situation in China and the political risk insurance market could again change overnight if the situation there changes, brokers noted.

Underwriters also are watching Western governments' responses to China, such as recent calls in the United States for increased trade sanctions against China. ■

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Surplus market seeking tougher risks

By GLENN HUNTLEY

Surplus lines insurers continue to cut rates—to a point—for property/casualty insurance accounts to compete with admitted insurers.

But surplus lines insurers are walking away from risks if they cannot write them profitably and instead are turning to tougher classes of business the admitted market is not vying for, say surplus lines insurers and brokers.

Competing is becoming increasingly difficult for surplus lines insurers because this year's discounts come on top of last year's already bargain-basement rates.

"We continue to see a soft market. It's hard to tell if it's leveling off or not," said Marcus Payne, executive vp and chief operating officer of Crump E&S Group, the Dallas-based surplus lines brokerage subsidiary of Fred S. James & Co. Inc.

"Accounts are being shopped around quite heavily, which is not good news for those of us who want the soft market to come to an earlier end," observed Ralph Palmieri, president and chief operating officer of First State Insurance Co. in Boston, a Hartford Insurance Group unit.

Property rates in the surplus lines market are at least 50% below hard market rates, according to Thomas Bloom, president of Willis Faber Holdings Inc. in New York and chairman of subsidiary McAlear Associates Inc. in Grand Rapids, Mich.

And, it is common for surplus lines insurers to cut rates to one-third of those charged three years ago, he said.

"Then somebody cuts it by another 10-20-30% and we lose the account anyway," Mr. Bloom said.

American Empire Surplus Lines Inc. has been cutting property/casualty insurance premiums about 10% to 15% at renewal for established accounts, said Joseph M. Walsh, president of the Cincinnati-based insurer.

Still, premiums charged by admitted markets undercut the best surplus lines deals by large margins, Mr. Walsh said.

Rate cuts ranged between 20% and 30% for both primary property and casualty coverages in the closing days before July 1 renewals, said Mr. Palmieri of First State.

"What is disconcerting is this is the third round for reductions in that range" for casualty business, Mr. Palmieri said.

The situation is "even bleaker" for property insurance: This is the fourth consecutive year of rate cuts for property business, he said.

Montgomery & Collins Inc., a surplus lines broker in Los Angeles, has seen property/casualty insurance rate cuts of between 5% and 15%, according to Robert Keul, president.

Rates for excess property insurance are ranging 5% to 10% below a year ago, according to John Griffin, president and chief executive officer of The London Agency, an underwriting management unit of Crum & Forster Inc. in Atlanta.

But, "we're at a point now where we don't want to price our business much below where we are pricing now," Mr. Griffin said.

Donald F. Privett, senior vp for the property division of wholesale broker Swett & Crawford Group in New York, said excess property insurance premiums are down by about 20% on renewal.

The cut may be less for lower layers, though, he said.

Rate cuts for liability coverages have reached 15% this year, but they are "getting closer to the 5% mark more frequently," said Mr. Griffin of The London Agency.

The London Agency is retaining about 67% of its accounts, Mr. Griffin said.

For large umbrella liability insurance accounts, admitted insurers are offering to cut rates 75% below those in the surplus lines market "with great regularity," according to Mr. Walsh of American Empire.

"We are not losing our business for a few points of rate," he said.

In cutting rates, admitted markets are offering higher limits at lower premiums than surplus lines insurers are quoting, according to Mr. Walsh.

For example, an umbrella liability policy in the surplus lines market with a $1 million limit that previously cost $50,000 may be replaced at renewal with a $5 million limit for $35,000 from an admitted insurer, he said.

The surplus lines market does have all the capacity it needs, points out Willis Faber Holding's Mr. Bloom. "It's as open-ended as it possibly could be."

Umbrella coverage limits of $200 million to $300 million are available, he said. "It's just a question of how many people you have to call to get it done."

General liability insurance limits are generally $1 million or less, but coverage to $5 million or more is available, said Rolland Wiegers, president of Scottsdale Insurance Co., a unit of Nationwide Mutual Insurance Co.

"If we want to write higher limits, there's capacity available through reinsurance," Mr. Wiegers said.

Meanwhile, layered property insurance program limits for large accounts without California earthquake exposure can reach $500 million or more, according to Mr. Privett.

California earthquake coverage costs "a lot of money" but can be found with limits of up to $300 million, he said.

Despite the competition, surplus lines insurers generally have maintained "walk-away" prices, below which they will let business go to other markets rather than write it at a loss, said Mr. Payne of Crump E&S.

"Most of the E&S markets have held the line like they said they would," Mr. Payne said.

The admitted market, however, is pricing to capture business, he said. "They are still the cause of the soft market cycle," he asserted.

Despite public statements to the contrary, admitted insurers are driving the soft market by charging prices that do not fully reflect the risks involved, agreed Kenneth Woods, president of California Union Insurance Co., CIGNA Corp.'s Excess & Surplus Division in Los Angeles.

"They are after market share. I don't care what the executives tell you," he said.

California Union, which primarily writes excess property and umbrella liability business, continues to be socked by slumping premium volume. The company will lose about 20% of gross premium volume this year, which comes on top of a 30% decline last year.

"The last two months have probably been the worst two months we've seen in the last three years," Mr. Woods said.

Readily available reinsurance is helping fuel the soft market, he said. "There is more reinsurance capacity available than anyone would need," Mr. Woods said.

Competition from admitted insurers still is "intense," but surplus lines markets are exhibiting "very good discipline" in setting rates, said Andrew Frazier, executive vp and chief operating officer of Western World Insurance Co., a surplus lines insurer

Continued on next page

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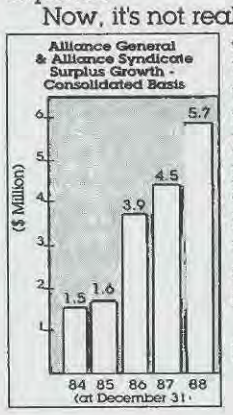

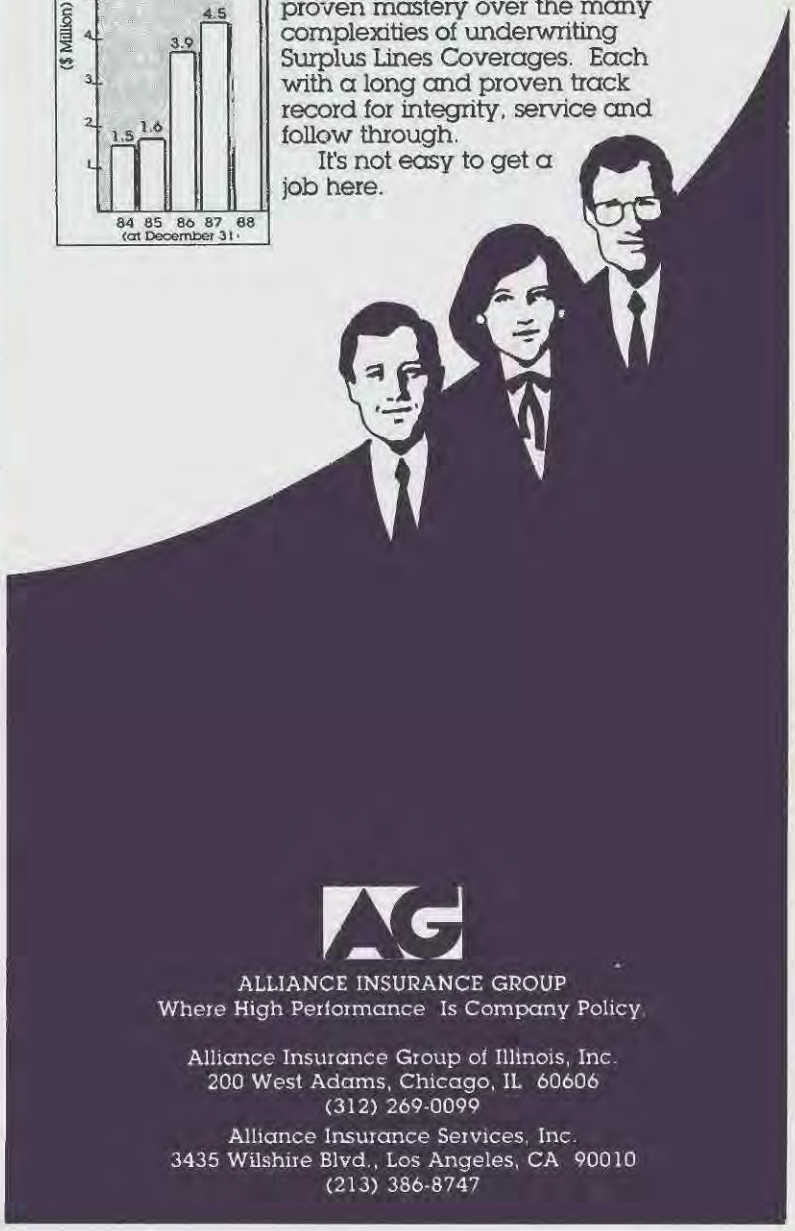

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Surplus lines

Continued from previous page

based in Keane, N.H.

"I don't see any spiraling down from our E&S competitors," he said.

Western World has found "good business at profitable prices" in several lines, including product liability and errors and omissions insurance, he said.

"But, there is less of it," he noted.

And, most of the accounts Western World is renewing are being renewed at expiring rates, he said.

However, continued erosion to the admitted market will decrease the company's premium volume by about 12% this year, Mr. Frazier estimated.

Some surplus lines brokers and insurers think the worst may be over, though.

"I think the market is really bottoming out," said Kevin Kelley, president of Lexington Insurance Co., the Boston-based surplus lines insurance company subsidiary of American International Group Inc.

Lexington has renewed some specialty casualty lines business, including medical malpractice and pharmaceutical liability, at close-to-expiring rates this summer, according to Mr. Kelley.

Overall, premiums are down less than 10% for renewing accounts, and Lexington has been able to retain 70% to 75% of its business at renewal he said.

"It's reflective of our business. We have always been a market for heavier risks," Mr. Kelley said. "It's more or less business as usual, as I see it."

Indeed, by sticking with specialty lines, some surplus lines insurers and brokers report they have been able to keep premium volume stable and have seen some pricing moderation.

"We lose one of those to the standard market now and then, but that's business that comes back when the market turns," said Mr. Bloom of Willis Faber Holdings.

Surplus lines insurers are surviving the soft market by holding on to profitable business, such as specialty casualty lines, and positioning themselves for an eventual market swing, said American Empire's Mr. Walsh.

"We'll be there until the last dog dies. Our intent is to be there when there is business to write," Mr. Walsh said.

Crump E&S has increased it premium volume by 2% from a year ago by focusing on less cyclical business, such as directors and officers liability and product liability insurance.

"In a real soft market, that's not a bad record," Mr. Payne said.

While admitted insurers have competed for directors and officers liability and errors and omissions liability business to some extent, prices for the coverages have "stayed more firm" than other surplus lines, said Mr. Privett of Swett & Crawford.

Scottsdale Insurance expects "a pretty good year" during 1989 in part because it has begun writing professional liability, association insurance and other property/casualty lines through a new specialty underwriting division, Mr. Wiegers said.

Scottsdale Insurance has projected a 10% increase this year, Mr. Wiegers said, noting that written premiums were up $13 million, or about 20%, for the first six months of the year.

He also sees price levels bottoming out.

"I don't think they will go any lower. I think it's bottomed out, and it will remain stable for another year," he said.

New business has led to "steady" premium volume over the last year for Sherwood Insurance Services, a wholesale brokerage based in San Francisco, despite property rates that are generally 50% below 1987 levels.

"We're making up for the premium losses with new business," particularly property risks with large earthquake exposures and high limit liability coverages, which generate $90,000 to $100,000 in annual premium volume, said Donald Sherwood, president of the firm.

Mr. Sherwood said he was not certain what was causing some business to move back to surplus lines markets, but he speculated that California's Proposition 103, which mandates an insurance "charge" rollback to 20% below November 1987 levels, may have had an influence.

About 60% to 70% of the brokerage's business is with California-based clients.

"The major stock companies are getting a little paranoid about 103," he said.

However, surplus lines insurers generally have not measured whether Proposition 103 has led to any increase in California business.

Rates for architects and engineers professional liability insurance have been cut slightly in some cases, but only because the line has had favorable loss experience, said Douglas C. Dolan, senior vp of underwriting manager The Schinnerer Group Inc. in Chevy Chase, Md.

"People who are shopping purely on price basis can find substantially lower prices, and some of them are going for that," Mr. Dolan said.

But many accounts, especially architects and engineers, have been "burned by cheap capacity" before and prefer to stay with their current insurer, he said. ■

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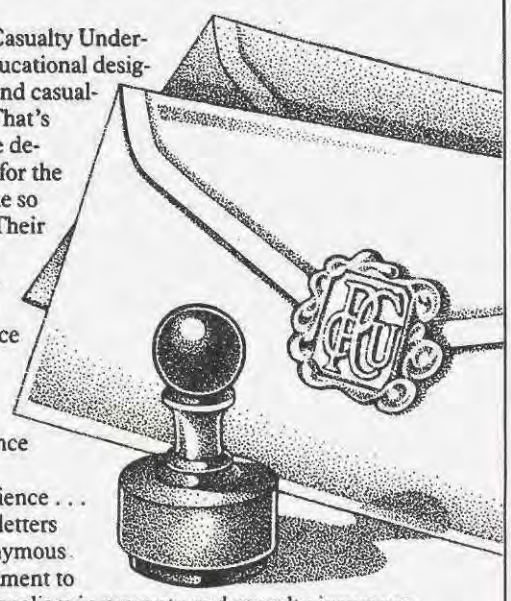

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Piper Alpha loss resounds in London

By STACY SHAPIRO and CAROLYN ALDRED

LONDON—The year-old Piper Alpha North Sea oil disaster is overshadowing an otherwise calm July 1 renewal season in the London market.

London marine underwriters who are renewing their own rig and London market excess-of-loss reinsurance programs are finding less capacity and huge rate hikes of between 50% and 300% from last year because of the $1.4 billion Piper Alpha loss.

However, the underwriters are not yet tightening the market in kind for the few U.S. oil companies renewing their property/casualty insurance programs. Those programs are seeing rate reductions, but not like last year. And, those programs with North Sea oil rig risks are seeing rates that are remaining stable or are increasing 15% to 100% from last year.

Meanwhile, London-based underwriters writing U.S. property insurance and reinsurance generally are offering 10% to 25% rate reductions from last year and are increasing the number of reinstatements in some cases.

And, London-based underwriters writing U.S. casualty business are offering rate reductions of 10% or more and some broader conditions. However, most underwriters are continuing to insist that primary coverage be written on a claims-made basis and that reinsurance policies retain sunset clauses.

Limits for general liability coverage written on a claims-made basis can be as high as $40 million, but the London market still offers only about $5 million in primary liability insurance limits for an occurrence form.

"Generally speaking, the market is soft and hasn't seen bottom," said David J. Roe, director of Liberty Mutual Insurance Co. (Massachusetts) Ltd. in London, which recently pulled out of writing marine business but has increased its capital to write more non-marine business.

Liberty Mutual's paid-up capital increased to 10 million pounds ($15.8 million) from 5 million pounds ($7.9 million), and its authorized capital increased to 15 million pounds ($23.7 million) from 5 million.

"In all (non-marine) areas, rates are falling. We are waiting for the situation to improve," Mr. Roe said.

"We are in a market downturn situation," said Harvey Simons, director and senior underwriter for CNA Reinsurance of London Ltd. "The reinsurers are not hurting yet, so there will be no dramatic turnaround," he predicted.

Most brokers and underwriters agreed that this midyear renewal season is very calm, with policyholders and ceding companies placing their coverage well in advance of the renewal dates.

"It's a quiet market," summed up Ian Waite, deputy chairman of Lloyd's of London wholesale broker Alexander Howden Ltd. "But this is usually a quiet time anyway."

"We're pretty much done with July 1 renewals," said Ken Barrett, Lloyd's non-marine underwriter at Merrett Underwriting Agency Management Ltd., echoing the sentiments of many marine and non-marine underwriters in London.

However, some brokers and underwriters thought the market was busy through June 30. "The July 1 renewal season is very late," said Callum Stewart, chairman of Lloyd's broker C.E. Heath (North America) Holdings Ltd.

Many agree, though, that the renewal season has been overshadowed by the Piper Alpha North Sea oil platform explosion, which killed 167 people on July 6, 1988. The loss happened only six days after last year's renewal season and left some London underwriters with little or no reinsurance programs were not in place by July 1 (*BI*, July 18, 1988).

The Piper Alpha also was the single largest man-made insured loss. So far, about $750 million has been paid to three of the four companies that owned the drilling platform for property loss, business interruption and other costs.

Another $100 million in liability losses are in the process of being settled, said an ILU underwriter on the loss.

But the settlements do not include the one-third portion of the loss borne by Occidental Petroleum Corp.'s insurers, the underwriter said. He estimates the total insured loss will reach between $1.25 billion and $1.4 billion.

'Generally speaking, the market is soft and hasn't seen bottom,' says David J. Roe of Liberty Mutual.

As of last month, more than 6 billion pounds ($9.5 billion at current exchange rates) worth of claims notifications related to the Piper Alpha loss were floating around Lloyd's and the ILU market as underwriters try to collect on their London market and rig excess-of-loss reinsurance policies.

The Piper Alpha loss has had two major effects on this year's July 1 renewals of most Lloyd's and ILU underwriters' rig excess-of-loss reinsurance programs, brokers and underwriters agree:

- London marine underwriters quickly placed their reinsurance coverages before July 1 rather than search for bargains as some of their colleagues did last year.

"One underwriter learned his lesson last year because he lost his job over it," said an ILU underwriter. The underwriter was sacked because he went on vacation before he put his rig reinsurance to bed, thinking the market would be softer when he returned, he said.

Unlike his unfortunate colleague, the underwriter's rig covers are renewed in early June, he said. "But, I placed it a month before that," the underwriter added.

Other underwriters are similarly cautious.

"July renewals were very much ahead of time" this year, said Jonathan Marland, director of Lloyd's broker Lloyd Thompson Group P.L.C. "People don't want to be caught short again."

- Underwriters are paying between 50% and 300% more for their excess-of-loss reinsurance programs, which were wiped out by Piper Alpha last year.

One Lloyd's marine underwriter walloped by Piper said his rig excess-of-loss reinsurance cost him 160% more than last year.

Others are paying twice as much as they did last year, he said.

"Significant increases are coming in now on rig protections," said Trevor Scutts, marine underwriter for English & American Insurance Co. Ltd. "You can buy (rig reinsurance coverage) for 40% to 50% increases, or for the same amount as last year or for 200% to 300% of last year. It depends (on the underwriter's loss record)."

But, as in the past, many London underwriters who are now paying more for their reinsurance and retrocessions are not passing the increased cost to their insurance clients, according to underwriters and brokers.

As a result, the underwriters' profit margins are getting squeezed, Mr. Waite said.

"Don't you feel it's deja vu?" Mr. Waite of Alexander Howden asked.

"We've been here before, and no doubt we will be here again," Mr. Waite said. "Insurers seem to have an aversion to making money."

The impact of the Piper Alpha loss on energy companies' property/casualty insurance programs has been minimized so far because of the enormous amount of capacity still available in the London, Scandinavian and U.S. markets, brokers and underwriters agree.

"Even if we removed one out of every five underwriters from the market, we would still have overcapacity," said Mr. Scutts of English & American Insurance Co.

"The direct (insurance) market has always been subject to fearsome competition from the U.S. and Scandinavian markets," said Terry Green, Lloyd's marine underwriter with Gresham Underwriting Agencies Ltd.

"The renewals for drilling rig business are entirely (too low) considering the drilling rig losses have been so large and numerous."

But, "although nothing dramatic is happening at the moment, there is a stirring in the underwriting loin," said Richard Youell, leading Lloyd's marine underwriter at underwriting agency Janson Green Ltd.

"I think something will show itself in the not-too-distant future," he said, predicting the London marine market will begin to harden "in the last few months of this year."

But, for the majority of policyholders renewing coverage July 1, "there

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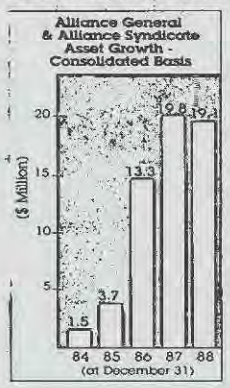

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London market

Continued from previous page

are no signs of hardening in the market," he said.

However, there are some signs of change as a result of Piper Alpha. Direct rig insurance rates for some platforms in the North Sea have increased 15% to 100%, according to leading Lloyd's marine underwriter Chris Rome. "There's been a wide disparity of increases, but all North Sea rates have gone up by something," Mr. Rome said.

Also, Lloyd's and London marine underwriters agreed on the June 25 renewal of the London Master Energy Line Slip—the largest line slip for insured energy risks in the market—to reduce the program's physical damage capacity by 14.7% because they say the premiums are not high enough to sustain the high limits.

The premiums for 12 months were expected to be in the range of $125 million to $150 million, compared with $200 million last year.

Clive Goddard, director of Sedgwick Energy Ltd., confirmed that the line slip will provide energy-related companies this year with:

- $725 million for physical damage for any one unit/any one interest/or any one item, down from $850 million last year.
- $250 million of marine liability coverage, which is unchanged.
- Up to $100 million of non-marine liability coverage, which an oil company could use as a layer of excess liability coverage. It can be written on an occurrence or claims-made basis.
- A combined limit of $925 million for all the coverages offered on the line slip—physical damage, control costs, marine and non-marine liabilities—for one unit, down from $1.1 billion last year.

One of the few energy-related companies to place its property/casualty insurance packages this renewal season found that marine underwriters in London were unwilling to write the coverage for half the premium that was paid last year, underwriters agreed.

Sedgwick Energy promised to place the coverage for the Canadian firm Bow Valley at half the premium the buyer paid last year, said a Lloyd's marine underwriter.

However, the underwriters were not willing to accept the rate Sedgwick had promised to its client.

"It's not a bad risk, but it's too cheap," said the Lloyd's underwriter.

The company's coverage was finally placed: partially in the Scandinavian market for an unknown rate, and partially in the London market for an increased rate, the underwriter said.

Mr. Goddard of Sedgwick Energy, however, would not comment on the placement of the coverage, except to say that it had been placed on its renewal date at the end of June.

Meanwhile, the July 1 renewal season is the key time for the 15 major U.S. insurance companies to place their property reinsurance treaty programs in the London market.

Among them are The Travelers Corp., Fireman's Fund Insurance Co., Continental Reinsurance Corp., the Hartford Group Inc., New Jersey Manufacturers Insurance Co. and Aetna Life & Casualty Co.

London property underwriters have been bombarded with some huge losses in the last few years, topped by the $3 billion October 1987 windstorm in Southeast England and parts of France and Norway. As a result, the London underwriters' property retrocessions—known as LMX—are more expensive than ever before (*BI*, Jan. 2; Oct. 26, 1987).

However, more capacity in the United States and London has led to reduced or stable property reinsurance rates.

"Property catastrophe reinsurance treaties where the U.S. companies have to buy $200 million to $300 million renewed as was," said a Lloyd's underwriter who saw most of the U.S. insurance company renewals.

"The companies that needed smaller limits got about a 10% cut."

The large U.S. insurers also received property catastrophe reinsurance with one reinstatement or more, but London underwriters were unwilling to give unlimited reinstatements, the underwriter said.

'Property catastrophe reinsurance treaties where the U.S. companies have to buy $200 million to $300 million renewed as was,' according to a Lloyd's underwriter who saw most of the U.S. insurance company renewals.

All property reinsurance renewals "are seeing premium (volume) reductions averaging about 10%," said Mr. Simons of CNA Re. "This is mainly because ceding companies' premiums are going down," he explained.

"U.S. property catastrophe rates are weakening. . .and are probably down on average 10% to 15% from last July," agreed Tony Dodd, treaty underwriting manager for British & European Reinsurance Co. Ltd., a unit of Commercial Union Assurance Co. P.L.C. that just started writing U.S. property treaty reinsurance in London again after a 17-year hiatus.

"There is plenty of capacity, and there has been no property catastrophe loss in the U.S. since 1983," Mr. Dodd said.

Meanwhile, London's casualty reinsurance market continues to be under pressure from competition in the U.S. market to broaden policy wordings and offer more coverage for lower prices, brokers and underwriters agree.

But, while London underwriters are willing to concede on price, they are still apprehensive about offering broader U.S. casualty policy wordings.

"We want to write the coverage where we can define the risk, whether it's by sunset clauses, or claims-made, or whatever," said one Lloyd's underwriter who writes $26 million in premiums on U.S. casualty reinsurance treaties. "We will follow most things down," where competitive markets have quoted broader coverage or lower premiums, "but not on U.S. casualty."

"Casualty (reinsurance) rates have held up well, and we are pleased," said Lloyd's non-marine underwriter Mr. Barrett at Merrett, who is one of the three underwriters who replaced retired leading casualty underwriter Robin Jackson this year.

"There is pressure on conditions, but we would rather give up money than conditions," he said.

For example, ceding companies want more reinstatements of their coverage, and London underwriters may give three or four reinstatements as opposed to one last year, Mr. Barrett said.

But, London underwriters will not give unlimited reinstatements, he said.

Mr. Barrett is one of the leading underwriters for U.S. medical malpractice reinsurance, which brings about $300 million in premiums into the London market.

He realizes that medical malpractice insurance rates are falling in some states, but he does not believe that the reduced rates will affect London's reinsurance for the coverage. Because medical malpractice insurance is written on a claims-made basis, policyholders will pay additional premiums for tail coverage on top of renewal premiums.

For primary property insurance, U.S. corporate policyholders are seeing reduced rates, but the cuts are not as big as last year.

Property insurance buyers saw rate reductions in London of between 15% and 25%, according to Steve Matanle, joint deputy chief executive of Lloyd's broker Bowring North America Ltd.

Last July, however, property rate reductions were around 40% off of 1987 prices, he said (*BI*, July 11, 1988).

"The London market is struggling to keep the business, but it is doing well," said Mr. Matanle, who recently moved back to Bowring after a short stay with Lloyd's broker Gibbs Hartley Cooper Ltd.

"It is difficult, however, to get new (U.S.) business. So the London market is offering new products to attract business," he added.

For example, London market underwriters are offering combined

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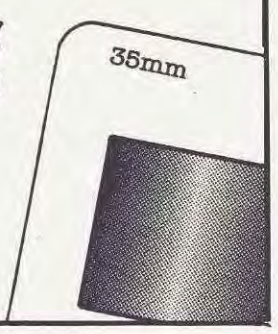

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property/casualty placement for commercial business, he said.

The London market also is feeling pressure to offer broader general liability insurance coverage at lower prices, and underwriters are making concessions—to a point.

For example, policyholders are trying to obtain general liability insurance rate reductions of 10% or more, said one Lloyd's broker. "But London has some firm ideas of minimum premiums, so they are not willing to compete at any price," he said.

And, the London market is still adamant that general liability insurance should be written on a claims-made basis, even though there is a strong occurrence market in the United States, the broker said.

"London is driven by claims-made," he said. "On claims-made, you can get $30 million to $40 million—with a fair wind—on limits, whereas last year you would get nearer $30 million. We will soon be up to that magical $50 million mark.

"But on an occurrence basis, you can get about $5 million on a coinsurance basis" with more than one market, he said.

In the marine market, there is about $500 million of general liability insurance available on an occurrence basis.

However, policyholders have to show that there is at least "a tinge" of marine-related activities to have the risk insured in that marine market, another Lloyd's broker said. ■

Security a question in London

By STACY SHAPIRO and CAROLYN ALDRED

LONDON—Policyholders are concerned about the security of the London underwriters with which they place business this July renewal season, London market observers say.

Policyholders' worries center around the major marine and nonmarine losses that have inundated the London market, culminating in serious problems for Lloyd's of London and London insurance company underwriters, observers agree.

For example, 83 Lloyd's syndicates have left open a total of 133 runoff syndicate accounts as of year-end 1988, with a net total deterioration of more than 177 million pounds ($279.7 million) in one year, according to the Assn. of Lloyd's Members.

However, Lloyd's Chairman Murray Lawrence says there were only 114 open syndicate accounts at the end of 1988.

The syndicates mainly are suffering from soaring U.S. liability claims for asbestos-related injuries and environmental pollution and cannot close their accounts because they cannot estimate their ultimate losses.

In addition, underwriters at Lloyd's and the Institute of London Underwriters have been walloped with a series of extraordinary claims now spiraling through the London market excess-of-loss reinsurance market:

- The 1983 Hurricane Alicia disaster in the United States, for which underwriters are still paying out.
- The $3 billion October 1987 European windstorm.
- Last year's estimated $1.4 billion Piper Alpha North Sea oil platform disaster.

The losses, particularly the Piper Alpha loss, are causing the London underwriters' reinsurance costs to skyrocket. But, a competitive market is forcing the underwriters to offer competitive prices just to maintain their normal premium income levels (see story, page 55).

Policyholders and sources in the market are wondering how long the underwriters can hold out under so many massive losses, particularly in a soft market, brokers and underwriters say.

"The big question by clients is insurer security," said Ian Waite, deputy chairman of Lloyd's broker Alexander Howden Ltd.

"If the income is not developing on the front end, but reinsurance prices are increasing, then (the insurer's income) will get stretched like a rubber band," Mr. Waite said. "Then the question is if the underwriter can make a profit with his expenses increasing and his premiums decreasing."

"Underwriters clearly are worried" about the Piper Alpha loss on

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Security concerns

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top of other losses in the market, agreed Lloyd's marine underwriter Chris Rome.

"I would not be surprised if several syndicates don't go out of business in the next six to 12 months. Underwriters will leave, and syndicates will be merged," Mr. Rome predicted.

"I would expect people to be questioning brokers about security, particularly Lloyd's security," said a non-Lloyd's underwriter.

"We are getting lots of questions" about the solvency of Lloyd's syndicates because of open years, said Ken Barrett, Lloyd's non-marine underwriter with Merrett Underwriting Agency Management Ltd.

"The concern about open years is becoming fashionable. But, I haven't heard of anybody moving business from Lloyd's to another entity. In fact, quite a lot of business is asking for more security from Lloyd's," Mr. Barrett added, referring to coverage.

A few policyholders also are asking about the security of London underwriting agency H.S. Weavers (Underwriting) Agencies Ltd., the market's largest U.S. casualty underwriter, following a letter in April sent to the clients by Alexander & Alexander Services Inc. The A&A letter raised questions about the ability of Weavers to pay future claims, despite major changes made last year in the Weavers line slip (*BI*, April 24; April 18, 1988; Jan. 11, 1988).

Weavers subsequently increased its leading underwriter's reserves 57% to 231 million pounds ($418.1 million) at year-end 1988 from 147 million pounds ($276.4 million) at year-end 1987, a move endorsed by the London office of actuarial firm Tillinghast, a division of Towers, Perrin, Forster & Crosby Inc. (*BI*, May 22; May 8).

Meanwhile, shareholders of Weavers' parent company, London United Investments P.L.C., held a stormy annual general meeting in June regarding another matter—the non-disclosure for the last 12 years of two LUI directors' and a former director's interest in underwriting agency Russell Reinsurance Services Inc. of Southfield, Mich.

LUI was expected to adopt a three-point plan to restore shareholders' confidence in the company's management (*BI*, June 19).

Weavers' solutions seem to satisfy its clients, Lloyd's brokers say.

"We have had one or two people ask us about things regarding Weavers, but no one has asked me to remove business from Weavers or not to use Weavers," said one North American casualty broker. "Weavers is being used as much as in the past. I don't see a reduction in the queues to use them."

"The fact that (increasing reserves) is going in the right direction; and the shares are going in the right direction; and they got through the shareholders meeting although it was bumpy—I think they've made it," said another North American casualty executive, referring to Weavers. ■

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Insurers' views

Continued from page 1

increase prices."

Hartford has no illusions about the possible impact of that strategy. "We may pay a price for that in the amount of business we write in 1989," he said.

Hartford's net property/casualty premiums were down 1.8% to $6.2 billion in 1988 and fell 3.6% in the first quarter of 1989.

The marketplace now is "in transition," according to Mr. Donahue. The next six months will determine whether the market slides to the depths it reached in the middle of the decade, he said.

"There is no more money left to give. If you do not begin to turn it around, you're only gauging the depth of the hole you're willing to get into," he said.

Among insurance companies asserting that they are holding the line on rate reductions is Novato, Calif.-based Fireman's Fund Insurance Co.

Fireman's Fund has no intention of dropping the price-holding strategy it adopted in April 1987, said Bruce P. Berthelsen, senior vp-distribution management for Fireman's Fund. "We will not knowingly underprice our business," he said. "We will continue to hold the course. The strategy is working for us."

Fireman's Fund's property/casualty net premiums written plummeted 15.7% in 1988 to $2.8 billion, the largest drop among commercial property/casualty insurers. First-quarter 1989 premiums fell 12.8%, again the largest drop among insurers.

In the marketplace, "what we continue to see in respect to pricing is claims costs continuing to rise by about 10% and prices continuing to fall," said Mr. Berthelsen. "We've seen this for the last two years, and it's our view that the trend needs to be reversed."

Also strongly stating its intention to hold the line on pricing is Schaumburg, Ill.-based Zurich-American Insurance Cos.

"Where we have the expertise, we're open for business. But we're not competing on price in any segment," said Richard A. Manetta, senior vp-insurance services division. All of Zurich-American's divisions are setting walkaway prices on an account basis," Mr. Manetta said.

Each division has its own marketing plan, "but none is chasing market share through pricing," he added. Instead, the insurer is stressing the claims and loss-control services it provides.

'There is no more money left to give. If you do not begin to turn it around, you're only gauging the depth of the hole you're willing to get into,' says John F. Donahue of Hartford Group Inc.

This strategy has led to a "reasonably good" rate of renewal business, Mr. Manetta said.

Zurich-American's net written premiums increased 20% to $941.1 million in 1988 from $781.4 million in 1987. But, its premium volume for the first quarter of 1989 stood at $203.8 million, a drop of 3.3% from $210.6 million in the comparable quarter in 1988.

While several insurers have said they have "walkaway prices," Hartford's Mr. Donahue called the phrase a cliche. "It's awfully easy to say that. It's much more difficult to get that down to the desk underwriter."

(Brokers do cite both Fireman's Fund and Zurich-American as indeed holding the line on price reductions.)

A.C.E. Insurance Co. Ltd. continues to charge the same rates for excess liability insurance that were established when it was formed by its first policyholders in 1985.

John R. Cox, chairman of Hamilton, Bermuda-based policyholder-owned X.L. Insurance Co. Ltd., said he sees "nothing dramatic" in the market currently. "Just a general continued softening."

Dennis E. Hoffmann, chairman of Moline, Ill.-based John Deere Insurance Co., said that while some insurers may be treating pollution exposures more liberally, some insurers may be overlooking such exposures rather than changing their policy language.

Instead of cutting price or adding coverage, some insurers say they are trying to keep their customers through enhanced services.

Lowell Tornow, executive vp-field operations for the Wausau, Wis.-based Wausau Insurance Cos., for example, said his company is emphasizing its Direct Information Access Link—DIAL—that allows customers with annual workers compensation

price cutting by other insurers has already pushed rates below safe levels. He added he thinks that "the people from Mad magazine are running the insurance companies."

Other insurance company executives acknowledge that the commercial property/casualty insurance market has softened somewhat during the past year but insist that it's not yet the same market that preceded the severe market contraction of the mid-1980s, and no others speculated it could be.

While price competition continues in most lines of insurance, there is no across-the-board price slashing, they say.

And, pockets of firmer pricing, some ominous economic factors—including the unrealized effect of the Tax Reform Act of 1986 on insurers' combined ratios and the still unknown impact of California's Proposition 103 and its clones—have raised the caution flag for insurers.

Insurers also warn that a major catastrophe, like an earthquake centered on Los Angeles, would end price cutting immediately.

And some insurers say additional insurance company insolvencies or deteriorating general economic conditions could change the market.

In general, rates for most liability lines have dropped by 10% or less during the past year, the insurers say. But property rates, particularly for large commercial risks, have continued to fall even more.

For the time being, "I see no discernable trend up or down. I would characterize it as bumping along the bottom," said David Prentiss, president of the agency division of the Philadelphia-based CIGNA Corp.'s property and casualty group.

"We're still in a competitive mode, but price cutting is tailing off. Our feeling is this can't go on much longer," said Urban E. Leimkuhler, vp-commercial lines for Baltimore-based United States Fidelity & Guaranty Co. "By the first half of 1990, there will be some firming in commercial lines," he predicted.

"It's continuing to be competitive. I think it's approaching the point where we're talking about price inadequacy in some lines," warned James S. Kemper III, senior vp-commercial lines for the Long Grove, Ill.-based Kemper Insurance Group's nation property/casualty companies.

But Mr. Kemper added that this marketplace differs significantly from that of the mid-1980s: The decade's earlier soft market involved all commercial lines, and the price cutting was "almost euphoric," he said.

There is no euphoria now, Mr. Kemper said.

Brian O'Hara, president of Hamilton, Bermuda-based policyholder-owned X.L. Insurance Co. Ltd., said he sees "nothing dramatic" in the market currently. "Just a general continued softening."

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Lowell Tornow, executive vp-field operations for the Wausau, Wis.-based Wausau Insurance Cos., for example, said his company is emphasizing its Direct Information Access Link—DIAL—that allows customers with annual workers compensation

amine a claims data base by phone. "We've started to have an edge in our services," he said.

The property market remains one of the softest markets and is likely to stay that way absent either "a couple of major catastrophes" or significant accumulation of losses, said Michael C. McIntyre, senior vp-staff marketing for Allendale Mutual Insurance Co. in Johnston, R.I. Allendale, one of the Factory Mutual Insurance companies, writes only property coverages.

In general, rates are down about 20% from their already low levels of a year ago, Mr. McIntyre said. "If an account's been a good account for us, we try to roll with the market and hold that account," he said. Highly protected risks is among the most competitive lines, while general commercial property coverage provided by Allendale's "broker-oriented" units—Affiliated FM Insurance Co. and Appalachian Insurance Co.—seems to be stabilizing.

"What we noted there is that rates seem to be leveling. There may be some glimmer of hope that there will be a stabilizing in price," Mr. McIntyre said.

Kemper's Mr. Kemper said that property rates were down about 10% or so. But, he added, "I think it's very clear that rate decreases have declined drastically."

Mr. McIntyre said that competition involves more than rates. "What we're into now is additional coverages without increases in premium."

He likened some of the no-cost coverages to "walrus incursion endorsements" because they protect against unlikely exposures like a facility being overrun by a herd of walruses.

If a risk manager resists adding the coverage, the broker advises that it be accepted because it doesn't cost anything and anyway, you can never be too well-protected against walruses, said Mr. McIntyre, chuckling.

"Walrus incursion endorsements" usually don't last in a hardening market, he added.

For liability risks, rate decreases are still prevalent, but not to the extent of good property risks.

General liability rates are 5% to 10% below those of last year, said Frederick H. Jarvis, president, chairman and chief executive officer of Branchville, N.J.-based Selective Insurance Co. of America, a regional company concentrated in the East and South.

He cited small contractors and condominiums as being particularly competitive markets.

While rates for directors and officers liability insurance have dropped by about 10% during the past year, the degree of rate reduction "tends to run the gamut," said John Coonan, vp and assistant national manager-executive protection department for Warren, N.J.-based Chubb Corp.

"In some accounts, where the broker is effective in saber-rattling, there have been decreases of 20% or even more," he said. However, Mr. Coonan said that such decreases were the exception rather than the rule.

Ralph E. Jones III, senior vp and national manager of Chubb's executive protection department, noted that Chubb has not increased its primary limits of $25 million during the past year.

A.C.E.'s Mr. Cox said that prices for primary D&O liability coverage prices are coming down 10% to 25% on average.

A.C.E. writes general liability limits of $150 million excess of $100 million and D&O coverage of $50 million excess of $25 million. A.C.E. has not yet instituted proposed increases in its limits, Mr. Cox noted (*BI*, April 10).

X.L.'s Mr. O'Hara said premiums for excess coverage for risks without a product liability exposure are dropping 10% to 20%.

"These are the most sought-after risks," according to Mr. O'Hara. Bermuda-based X.L. writes $75 million

$25 million and $25 million of D&O coverage excess of $25 million.

Chubb's Mr. Jones said that competition tends to be more acute for non-profit D&O coverages and higher excess layers. Coverage for financial institutions or corporations involved in merger and acquisition activity remains more expensive, he said.

Memories of the D&O coverage drought of the mid-1980s and concern about not being covered for claims arising from merger and acquisition activities has bred a cautiousness among buyers, Mr. Jones said. "We see that many customers will shop around but not really move their coverage," he said.

Mr. Jones also noted rate drops of 10% to 15% for commercial crime coverages. But rates for kidnap/ransom coverage "have been flat as a pancake," he said.

USF&G's Mr. Leimkuhler said competition seems fiercest for some businessowners programs, package programs and low-hazard liability risks, although the degree of rate-cutting varies greatly. Regional insurers have been particularly competitive for these coverages, he said.

'We're still in a competitive mode, but price cutting is tailing off. Our feeling is this can't go on much longer,' said Urban E. Leimkuhler of USF&G. 'By the first half of 1990, there will be some firming in commercial lines.'

CIGNA's Mr. Prentiss cited excess liability coverages as one of the areas of considerable competition, although he could not say how much average percentage rates had dropped during the past year.

John Deere's Mr. Hoffmann said that while general liability rates were "a little lower" than a year ago, competition for umbrella business made those policies "candidates for irresponsible pricing."

Several insurers said that competition in the Midwest is hotter than on either coast.

"Competition in the Midwest has been tougher than other areas," said USF&G's Mr. Leimkuhler.

Mr. Kemper agreed, speculating that the region's renewed economic vigor is creating more demand for commercial coverages. Mr. Kemper added that competition also seems pronounced in the Southeast.

Hartford's Mr. Donahue agreed that the Midwest was competitive, as it has been for the past three or four years. When the market began softening, rate reductions in the Midwest appeared faster than in other regions, he said. One reason for the hot market is the number of small to medium-sized regional insurers that will compete vigorously for their market niche, he said.

John Deere's Mr. Hoffmann disputed that regional companies were driving the competition. "I don't think it makes any difference what size a company is—the generalists are cutting up the market," he said.

Competition also can vary within a state. For example, competition for some of the smaller commercial risks, such as small plumbing shops and general contractors, is more pronounced in southern New Jersey than in the northern counties, said Selective's Mr. Jarvis.

Other insurers said that geography does not seem to be playing a consistent role in competitiveness. "On the broad book of business, I don't see any geographic variance," said CIGNA's Mr. Prentiss.

A few lines of insurance are showing some price firming, some executives say.

Joseph R. Wiedemann, president of New York-based American Home Assurance Co., a unit of American International Group Inc., though, said that he detected a firming or even an upward trend in pricing for several casualty coverages, including risks.

One line where rates are on the upswing is workers compensation, some insurer executives noted.

"Workers comp rates are more adequate than they were a year ago," said the USF&G's Mr. Leimkuhler.

"We're increasing prices on workers comp, pretty much countrywide," Wausau's Mr. Tornow said, adding that workers comp generates 65%-70% of Wausau's premium volume. The amount of increase varies widely by state, he said.

Many insurers expect rate competition, whether by most lines or by region, to remain the rule for the immediate future.

"I don't see any force that is going to change anything for a year. Generally, profitability is so strong that there is no need to change," X.L.'s Mr. O'Hara said.

"The market doesn't change until it needs to change," he added.

Events that could force the market to change include the effect of the Tax Reform Act of 1986 on insurers' combined ratios, the still unknown impact of California's Proposition 103 and its clones and a major property catastrophe.

Zurich-American's Mr. Manetta said that many insurers have yet to factor the impact of the Tax Reform Act of 1986 on their combined ratios. He predicted that individual insurers with a considerable book of long-tail business would add more than three points to their combined ratio.

USF&G's Mr. Leimkuhler said that long-tail lines of coverage—including general liability, workers comp, and both personal and commercial auto—could suffer a deterioration of as much as eight points in the combined ratio as a result of tax reform.

CIGNA's Mr. Prentiss, though, said that the property/casualty insurance industry has been spared full impact of tax reform by the stock market. There is still significant cash flow from stocks, he said, "and that will be part of the problem."

Insurers are split on their assessment of Proposition 103's impact.

"Fear of what Proposition 103 may do is definitely out there," said Hartford's Mr. Donahue.

Mr. Manetta said that Proposition 103 demonstrates that insurers will "ask for severe consumer reaction if we move prices too quickly."

USF&G's Mr. Leimkuhler said, though, "it's too early to tell what's going to happen in terms of Proposition 103 spreading."

AIG's Mr. Wiedemann took a calm view of the controversial California law. "I think we'll learn to live with it. We're prepared to do that."

CIGNA's Mr. Prentiss said that while the ultimate impact of the law remains uncertain, the recent California Supreme Court ruling upholding Proposition 103 with the provision that insurers must be allowed to earn a fair rate of return "has essentially taken the pressure off."

"When you see these political questions out there—McCarran-Ferguson, the attorneys general lawsuits, Proposition 103—it seems to me that intelligent management would say, 'We're not going to fly around willy-nilly in these marketplaces,' " said Wausau's Mr. Tornow.

Considering the excellent loss history in property lines, which has fueled competition to write property insurance, insurance executives say a large property catastrophe also could change the market.

"A disastrous earthquake could do it," said Mr. Kemper.

Allendale's Mr. McIntyre said an

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Insurers' views

Continued from previous page

accumulation of property losses or "a couple of major catastrophes" would turn pricing higher.

Zurich-American's Mr. Manetta also cited the possibility of additional insurance company insolvencies turning the market. "It wouldn't take more than a couple major ones," to impair state guaranty funds and lead to a rise in insurer assessments.

Economic conditions in general could bring about a turnaround, said Mr. Donahue. Signs that the inflation rate is picking up, combined with a predicted drop in interest rates within six to nine months, should cut competitive hunger, he said.

Few executives are willing to say when they think insurance prices will start to go up.

Mr. Manetta said most industry watchers thought a year ago that the market would turn by the end of 1989 or early 1990, and now that prediction has moved forward a year.

Companies "should get their shop in order by the end of the year," predicted Wausau's Mr. Tornow.

But A.C.E.'s Mr. Cox took a less optimistic view. Agreeing with comments Chairman Warren E. Buffet made to shareholders at the annual Berkshire Hathaway Inc. meeting, Mr. Cox said he thinks the market could remain soft for another four years (*BI*, May 1).

•

Associate Editor Stacy Adler in Chicago contributed to this article.

Bermuda mulls new solvency test

By ROGER SCOTTON

Bermuda

Bermuda-based insurers, especially those running off their business, could be required to maintain more capital and surplus under a government proposal to amend Bermuda's 1978 Insurance Act.

The current minimum general solvency margin requires that insurers maintain as capital and surplus a specified minimum amount —depending on the type of business written—and not write net premiums exceeding five times their capital and surplus.

The Ministry of Finance has pointed out that insurers that stop writing new business or reduce their premium income "would see their capital and surplus requirement also reduced, thus allowing distribution of dividends at the risk of insolvency in subsequent years if losses developed adversely."

The government proposal calls for all insurers also to maintain capital and surplus of at least 10% of their loss reserves.

This additional solvency margin is one of several key changes to Bermuda's insurance law and supporting regulations that the government is proposing in an effort to improve Bermuda's reputation as a well-regulated insurance domicile and to close potential loopholes in the law.

The changes were announced by Minister of Finance David Saul in a speech to the Bermuda Insurance Institute late last month.

The other changes include:

- Regulating the discounting of loss reserves.

Companies that discount their loss reserves and would not otherwise have been able to meet the solvency margin would have to have their discounting practice reviewed and certified by an actuary.

- Requiring insurance company directors and "principal representatives" to annually declare that their companies have complied with the conditions of their Bermuda operating license.
- Making directors responsible for explaining what corrective action has been taken in cases where companies have failed to comply with solvency and liquidity ratios.
- Requiring insurers that write property/casualty insurance to start segregating related and unrelated gross premium amounts in their annual returns to the government. In addition, these insurers will be required to reveal details of stop-loss reinsurance, stating the maximum annual aggregate net losses retained by each class of business. ■

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Weavers, Transit

Continued from page 2

think we can probably help them."

The Sunday Times based its report on information from Transit Casualty, according to Mr. Dissenko. The Sunday Times estimate, however, was its own and not Transit Casualty's, he added.

However, Weavers' parent, London United Investments P.L.C., stated early last week that the article was "seriously inaccurate and misleading."

The underwriters on the Weavers line slip between 1978 and 1985 face total gross liabilities of "not more than $60 million" on business ceded by Transit through NUA, LUI stated.

And, the leading underwriter on the slip—Weavers' sister company, Walbrook Insurance Co. Ltd.—faces gross liabilities of not more than $10 million and net liabilities of $5 million on the Transit business ceded through NUA, according to Mr. Wilson.

Walbrook and other LUI subsidiary insurance companies included reserves for these losses in LUI's audited results for the year ended Dec. 31, 1988, LUI said.

"The Sunday Times will be printing an apology," Mr. Wilson asserted.

Transit Casualty, which went into receivership in 1985, faces total liabilities estimated at between $2 billion and $3 billion and will attempt to recover about $500 million from more than 1,400 reinsurers, according to documents from the U.S. House Subcommittee on Oversight and Investigations (*BI*, April 17; April 10).

As of June 30, state guaranty funds, excluding New York state, have paid out a total of $432.5 million for Transit Casualty losses, according to Mr. Dissenko.

The New York fund could not say at press time its total payments on behalf of Transit Casualty.

One of Transit's largest producing managing general agents between 1978 and 1985 was NUA, which is 37.5% owned by Weavers' parent, LUI; 37.5% by Transit; and 25% by NUA's founder, Richard E. Foss (*BI*, Jan. 4, 1988).

Total gross premiums paid to the underwriters on the Weavers line slip for Transit's reinsurance ceded through NUA between 1978 and 1985 totaled $24.3 million, according to Mr. Wilson.

Mr. Foss was unavailable for comment.

In addition, Transit Casualty shared ownership with LUI and/or Weavers of a reinsurance underwriting manager and a reinsurance broker.

Transit owned 23.1% of Southfield, Mich.-based Russell Reinsurance Services Inc., according to information given the House subcommittee.

LUI has held 66.7% ownership of Russell Re since last year when two LUI directors and a former director of LUI transferred their 12-year-old shareholdings to LUI without taking a payment (*BI*, May 22).

LUI and Transit Casualty also held shares in E&S Intermediaries Inc. before it was sold to Rolling Meadows, Ill.-based broker Arthur J. Gallagher & Co.

Weavers' information and cooperation 'could be very useful to the receiver,' Peter Wilson says.

The Weavers line slip and its Bermuda arm, London Weavers Re Agency (Bermuda) Ltd., reinsured as little as 16.4% in 1978 and as much as 41.2% in 1985 of the first $10 million of Transit's quota share reinsurance treaty, and 10% of the $5 million excess of $10 million excess quota share reinsurance layer for all of those years, according to Mr. Dissenko.

Transit Casualty's receivers also say that an actuarial study by Coopers & Lybrand found that the policies underwritten by NUA for Transit Casualty could incur losses of $800 million to $1 billion.

Transit Casualty, however, will not release the Coopers & Lybrand report, and Coopers & Lybrand will not release the report without Transit Casualty's permission.

So far, Transit Casualty has been notified of $100 million in claims from business written by NUA, Mr. Dissenko said.

The receivers have not determined how much the Weavers line slip may owe Transit Casualty on business ceded through Russell Re or E&S Intermediaries, Mr. Dissenko said.

The Weavers line slip wrote 66.67% of the first $600,000 of Transit Casualty's multiline quota share reinsurance for business underwritten by Russell Re between 1978 and 1979, said Mr. Dissenko. By 1984, that had increased to 66.25% of a $1 million layer.

However, Mr. Wilson says that any Transit Casualty losses ceded to the Weavers line slip through Russell Re would be small because the business ceded was excess-of-loss property catastrophe coverage and not casualty.

Also, E&S Intermediaries did not place Transit Casualty business with the Weavers line slip, added Mr. Wilson.

Meanwhile, Weavers is offering to release to brokers a 32-page summary of an actuarial study of the loss reserves of Walbrook and its subsidiaries by the London-based unit of the Tillinghast division of Towers, Perrin, Forster & Crosby Inc.

The study is available to insurance brokers who sign a confidentiality letter, confirmed Mr. Wilson.

The letter, among other things, says that the summary will be released only to those companies that agree not to quote from it partially and not to take information out of context, sources in London claim. Mr. Wilson and Tillinghast would not release a copy of the summary to *Business Insurance*.

Walbrook currently writes 55% of the Weavers line slip.

Earlier this year, U.S. broker Alexander & Alexander Inc. sent letters to former, current and potential clients of Weavers questioning the financial strength of Walbrook.

In late 1987, Marsh & McLennan Cos. Inc. also raised questions about Weavers' security, which led to major changes in the participants on the slip (*BI*, April 24; Jan. 11, 1988).

Following the A&A letters, LUI announced that Walbrook's loss reserves had been endorsed by Tillinghast.

Meanwhile, the board of LUI will meet "in due course" with the major institutional shareholders of LUI so they can "better understand the activities of the company," said Mr. Wilson.

At a heated annual general meeting last month, LUI shareholders expressed their concerns over the LUI directors' "secret" ownership of Russell Re and LUI's stock price, which began fluctuating in early May (*BI*, June 19). ■

$5 million sought in Atlanta fire

By MICHAEL BRADFORD

ATLANTA—The family of a 37-year-old secretary killed in a fire in a downtown Atlanta office building is seeking at least $5 million in a lawsuit against the building's owner.

Five people were killed and 23 others were injured in the June 30 blaze at the 10-story Peachtree 25th Building, which was heavily damaged by the fire.

Building damage estimates were not available late last week.

The attorney for the secretary's family as well as several brokers last week said they were not aware of any commercial property/casualty insurance to cover claims stemming from the fire.

An Atlanta Fire Department spokesman said an investigation was continuing to determine the exact cause of the fire. "The problem started when some electrical work was being done," he said.

The spokesman confirmed that there was no sprinkler system in the 27-year-old building to help contain the blaze. The building was constructed before the city's building code required sprinklers, he noted.

The suit, filed July 5 in Fulton County Superior Court in Atlanta on behalf of the family of Patsy Jones, asks for $3 million for pain and suffering and the "full value of her life."

The suit also seeks at least $2 million in punitive damages.

Ms. Jones had been at her job only three days before the fatal fire, according to plaintiff's attorney Guerry R. Thornton Jr. of the Atlanta firm Thornton & Leff, who also represented eight plaintiffs in lawsuits related to the 1986 New Year's Eve fire at the Dupont Plaza Hotel in San Juan, Puerto Rico.

The lawsuit names "Guilford Glazer doing business as American Management Co." as a defendant. "We are told that Guilford Glazer owns the building," Mr. Thornton said.

Mr. Thornton said he understands Mr. Glazer is "a very, very wealthy individual" and that there is no commercial insurance to cover liability claims stemming from the fire or property damage to the building.

Mr. Glazer was described in Forbes magazine last October as a 67-year-old businessman based in Beverly Hills, Calif. The magazine approximated his wealth, which comes largely from real estate holdings, at $430 million or more.

A spokeswoman for American Management in Atlanta refused to answer questions regarding the fire.

An Atlanta attorney representing Mr. Glazer could not be reached for comment.

Several brokers contacted last week said they were not aware of any commercial insurance covering the building that would respond to claims stemming from the fire.

The suit also names Lite Tech Inc., a firm Mr. Thornton described as an electrical repair company. The firm was working at the building when the fire started, according to Mr. Thornton.

Lite Tech could not be reached for comment on the fire or the lawsuit.

Mr. Thornton pointed out that other defendants may be added to the suit, including the architects and engineers of the building and security and maintenance companies.

Other defendants could include "product liability parties," such as wiring manufacturers and the makers of any "flammable or toxic substances at the scene of the fire," the attorney said.

Potential defendants are still being identified, Mr. Thornton said.

Liquidation

Continued from page 2

said they had been denied access to American Lloyd's records and "verbally abused, refused entry to the premises and threatened" by American Lloyd's representatives.

As a result, the examiners said they were unable to complete a general review of the operations.

American Lloyd's later conceded that it is insolvent.

Along with the insolvency finding, Insurance Department examiners charged that American Lloyd's had improperly accounted for more than $1 million in premiums as fees and service charges to avoid paying taxes and guaranty fund assessments.

In addition, an American Lloyd's official issued certificates for one policyholder saying the policyholder was covered by "American Lloyd's Insurance Co.," examiners found.

American Lloyd's Insurance Co., a Texas-domiciled unit of CIGNA Corp., is unrelated to Louisiana-domiciled American Lloyd's.

Louisiana department examiners are now attempting to get a fix on the company's business and its finances, an Insurance Department spokeswoman said.

Among its other lines of business, American Lloyd's—which reported gross premiums of $17.3 million in 1988—wrote policies for purchasing groups. The liability policies involved roller rinks, water parks, logging operations and gravel haulers, as well as garagekeepers liability for tow truck operators, she said.

Several agencies received premiums for these policies but did not remit the money to American Lloyd's, according to the spokeswoman. The Insurance Department has yet to take action to recover the funds.

"We are still exploring our options and trying to figure out where the business actually is and where the money is," she said.

American Lloyd's, formed in October 1986, comprised two syndicates as of June 30, 1988: Gulf States Underwriting Syndicate Inc. and Oxford Underwriting Syndicate Inc.

The syndicates appointed John H. Kastner, chairman of Metairie-based Oxford Underwriters Inc., as their underwriter. Mr. Kastner, in turn, appointed Oxford Underwriters as attorney-in-fact for American Lloyd's, according to the Insurance Department's examination report.

The top officers of American Lloyd's were also officers of Oxford Underwriters, including Gerald J. LeBlanc, president of American Lloyd's; Edgar F. Arbour III, the insurer's secretary; and William L. Jennings, American Lloyd's treasurer.

In addition to being licensed in Louisiana, American Lloyd's was authorized as a surplus lines insurer in Georgia, Indiana and Utah as of June 1988, according to the exam report.

However, the Insurance Department spokeswoman said the insurer was found to be writing policies in several other states where it was not licensed or authorized, including Illinois, Maine, Maryland and New Jersey. American Lloyd's may have been writing business in these states through purchasing groups, she said.

American Lloyd's 1988 financial statement shows all direct premiums were written in Louisiana.

Much of the information included in American Lloyd's financial statement is not reliable, the spokeswoman said, noting for example that premiums written in states where the insurer was not licensed or authorized may not have been included in premium volume figures.

The financial statement showed American Lloyd's gross written premiums expanding to $17.3 million in 1988 from $10.9 million in 1987 and $471,247 in 1986.

Gross premiums in 1988 included $11.3 million of direct business and $6 million of assumed reinsurance. Net premiums totaled $16.8 million.

As of year-end 1988, American Lloyd's reported total policyholder surplus of $3 million.

The Louisiana department encountered several problems when it began examining American Lloyd's in July 1988, the exam report indicates.

In addition to being denied access to various records—or finding that certain records didn't exist—examiners were verbally harassed by Mr. Kastner and other representatives of American Lloyd's, the report says.

At one point, an American Lloyd's employee met one examiner in the insurer's parking lot and threatened to have the examiner arrested for trespassing if he entered American Lloyd's offices, the Insurance Department spokeswoman said.

Mr. Kastner did not return phone calls for comment on this story.

Judge Guidry granted an Insurance Department request for an order placing American Lloyd's in conservation on Sept. 19. However, this order was stayed four days later pending an administrative hearing on

The administrative hearing was delayed for several months, in part because of objections by American Lloyd's that the hearing officer—an Insurance Department employee—could not be unbiased, according to the department spokeswoman.

Louisiana Gov. Buddy Roemer appointed a retired judge, Thomas Tanner, as hearing officer, and hearings were held earlier this year.

The Insurance Department's exam report on American Lloyd's, which was submitted during the hearings, found the insurer insolvent by $11 million after boosting its reserves and disallowing $13.7 million of $17 million in assets.

Among the assets disallowed were:

- A $5 million second mortgage loan on an unimproved property for which a title opinion or title insurance policy was not available. Such loans are prohibited under several sections of the state insurance code.
- $2.5 million in cash and short-term investments. These consisted of checking and savings accounts, certificates of deposit and other investments that were not held in the name of American Lloyd's.
- $5.6 million classified as receivables from parent, subsidiaries and affiliates.

The exam report also charged that American Lloyd's avoided paying state premium tax and guaranty fund assessments on more than $1 million in premiums by recording the premiums as fees and service charges.

The premiums were paid on American Lloyd's policies issued by Mr. Kastner to Frank's Casing Crews, a Lafayette, La.-based oil and gas contractor, through G&K Insurance Agency Inc., of which Mr. Kastner is an officer, the report said.

G&K never remitted the premiums to American Lloyd's, the report says.

G&K and/or Mr. Kastner also issued certificates on these policies indicating that Frank's Casing Crews was insured by American Lloyd's Insurance Co., the Dallas-based CIGNA Corp. unit, the report said.

During the administrative hearing, American Lloyd's conceded it was insolvent and proposed a self-liquidation plan, court papers show. However, the insurer never provided details of the plan during the administrative hearing or a court hearing, the spokeswoman said.

In the administrative hearing, Judge Tanner declared American Lloyd's insolvent and refused the in-

Oregon Legislature fails to pass work comp reform

SALEM, Ore.—Despite prodding from the governor, the Oregon Legislature adjourned last week without passing major workers compensation reform measures.

The lawmakers debated reform proposals until the regular session ended at 12:30 a.m. July 4, but the workers compensation proposals died in House and Senate committees.

Gov. Neil Goldschmidt and Theodore R. Kulongoski, director of the state Department of Insurance and Finance, had urged approval of numerous workers compensation reforms to increase benefits and help stem losses of the State Accident Insurance Fund Corp., the state-run work comp insurer that covers 48,000 employees (*BI*, June 19).

"It's real disappointing for us," an Insurance Department spokeswoman said.

Among the dozens of workers comp proposals was to exclude work comp benefits for maintenance care such as continued physical therapy and medication.

It had been proposed that those claims be paid by employers' health insurance plans, which would have saved workers comp insurers, including SAIF, $30 million a year.

Another proposal was to require employers to contract with managed care providers to administer medical care to injured workers. And, the governor also proposed creation of a $72 million trust fund to provide increased benefits to the most severely injured workers.

Earlier, Gov. Goldschmidt said he would call lawmakers into special session if they failed to approve substantial reforms before the session closed at the end of June. The next regular session of the Legislature is scheduled for January 1991.

—By Glenn Huntley

Around the states

Georgia sells insurer

ATLANTA—The Georgia insurance guaranty fund will not be tapped to pay claims of the failed ChadBrooke Insurance Co. because Georgia officials have negotiated its sale to a Houston company.

Global Capital Group Inc. of Houston agreed last month to provide $1.5 million in new capital to cover ChadBrooke's policyholder claims, said Danny Almond, Global's vp and chief financial officer. Global Capital Group Inc. is the holding company for insurance and reinsurance units of CRS Sirrine Inc., a construction and architectural firm.

Georgia Insurance Commissioner Warren D. Evans took control of the insolvent insurer in March and continued to pay policyholders' claims while he negotiated the sale of the company.

As of Jan. 1, ChadBrooke's policyholders surplus was deficient by $4.1 million to meet its liabilities, and an additional $1.2 million in capital was needed for the company to meet statutory capital requirements in the state, according to the commissioner's report.

"It was a real success story that the state is very proud of," Andrew Ekonomou, special assistant attorney general for the Georgia Insurance Department, said of ChadBrooke's sale. "All the policyholders are going to have the full protection as if they were still policyholders in a solvent company."

ChadBrooke Insurance Co. wrote workers compensation, surety, nursing home, professional liability and property insurance, commercial vehicle insurance and nonstandard private passenger automobile insurance, Mr. Ekonomou said.

Global will service ChadBrooke's policyholders until their policies expire, but no new policies will be written this year, Mr. Almond said. Any new business written in 1990 will require the state insurance commissioner's permission, and ChadBrooke will then operate as a sister company of the existing Global Insurance Co. of Greenville, S.C., which is wholly owned by Global Capital Group, Mr. Almond explained.

"We were looking for a second company, one to operate as an excess and surplus lines company—Global Insurance Co.—and one to operate as an admitted carrier. We will eventually license ChadBrooke in all the states we want to do business in," he said.

Explaining Global's interest in the insurer, Mr. Almond explained: "We were ChadBrooke's major reinsurer. We already were familiar with the company."

The buyout saved inestimable sums for the "surviving" Georgia insurance companies, according to a state Insurance Department spokesman. The Georgia Insurers Insolvency Pool assesses all insurers in the state amounts based on premiums written in the state to pay claims of liquidated insurance companies.

Mr. Evans and Mr. Ekonomou hailed the acquisition as a victory for the state's insurers and, ultimately, for consumers.

"If insurance companies are asked to bail out an insolvent company, sooner or later it's going to be reflected in higher premiums," said the Insurance Department spokesman.

—By Monique Parsons

Missouri comp rates

JEFFERSON CITY, Mo.—Missouri last week approved a 7.6% increase in workers compensation rates, effective July 1.

The National Council on Compensation Insurance had requested a 9.4% increase at a May 10 public hearing.

—By Paul D. Winston

Update

Lockheed agrees to OSHA fine

Continued from page 2

indicating the company knew about the unsafe conditions and had not corrected them.

"We told OSHA early on that it was incorrect to characterize the violations as 'willful,' " a Lockheed spokesman said.

Most of the conditions cited by OSHA have been corrected and the rest will be corrected within 30 days, he said.

The agreement also stated that the settlement could not be used in court as evidence of admission of any wrongdoing.

In a lawsuit filed in Los Angeles County Superior Court last year, 39 Lockheed employees alleged the aircraft manufacturer had knowingly exposed them to hazardous chemicals while they worked at the Burbank plant. The suit, which is pending, seeks $245 million in punitive damages and unspecified compensatory damages (*BI*, Oct. 3, 1988).

Pru Re protests offset ruling

LOS ANGELES—Prudential Reinsurance Co. continues to assert its right under the California Insurance Code to set off unspecified amounts due to it and subsidiary Gibraltar Casualty Co. against amounts owed to insolvent Mission Insurance Group Inc.

In a May 26 brief filed in the California Superior Court in Los Angeles, Prudential Re asks the court to overturn its May 3 ruling denying the reinsurer's right to offsets, said an attorney with Adams, Duque & Hazeltine in Los Angeles, which represents Prudential Re (*BI*, May 29). The brief contends that the commissioner has misread the insurance statutes regarding offset rights in insolvency cases.

But, Insurance Commissioner Roxani Gillespie maintains in separate briefs that the court must consider the rights of Mission's policyholders before the offset rights of the reinsurers, said a department spokesman. The department estimates the total amount of reinsurance collectibles in the Mission liquidation at about $300 million.

U.S. settles for $73 million

WASHINGTON—The federal government will not seek subrogation claims against the operator of a now-shuttered nuclear weapons plant or the operator's insurers for its $73 million settlement of a suit charging that plant emissions endangered the health of nearby residents, a government attorney says.

Without admitting any liability, the Department of Energy earlier this month agreed to settle the suit filed by 24,000 residents living near the Fernald, Ohio, plant, which NL Industries Inc. operated. The suit named both NL Industries and the government.

Although the government says there is no evidence the plant emitted dangerous amounts of uranium, it offered $73 million on behalf of NL Industries for "nuisance and emotional distress."

Much of the money will be used to pay for the cost of health studies on residents within five miles of the Feed Materials Production Center. The money also will be available to compensate residents for "diminution of property values caused by the nuisance," according to the settlement papers.

Shell can retain law firm: Court

SAN FRANCISCO—Shell Oil Co. will not have to drop one of the law firms handling the company's massive pollution coverage battle with liability insurers even though one of the insurers paid the law firm to defend the oil company in underlying litigation, a California appellate court has ruled.

The court on June 28 upheld a lower court's decision denying a motion by Travelers Insurance Co. to disqualify the law firm of Holme, Roberts & Owen from representing Shell (*BI*, Feb. 8, 1988).

Travelers argued it was unethical for the law firm to represent Houston-based Shell because the insurer previously had paid the law firm $16 million to represent Shell in the underlying litigation brought by the federal government.

A jury in December found that Shell knew it was polluting the Rocky Mountain Arsenal near Denver when it dumped contaminants on the property and therefore is not entitled to recover any insurance for the estimated $2 billion to $4 billion cost of cleaning up the site (*BI*, Dec. 26, 1988). Shell is appealing the verdict.

Man guilty of OSHA violations

SIOUX FALLS, S.D.—The president of a South Dakota plumbing firm has pleaded guilty to criminal charges of willfully violating federal safety laws that led to the deaths of two workers in a 1988 trenching accident.

Howard Elliot, owner-operator of Elliot Plumbing & Heating Co. in Avon, S.D., pleaded guilty last month of willfully failing to follow trenching safety standards set by the Occupational Safety and Health Administration.

The Justice Department brought the charges after two people were killed in May 1988 when a trench Mr. Elliot was digging collapsed.

Maximum penalties for the violations include six months in jail, $250,000 in fines and five years' probation, according to the Justice Department. Mr. Elliot will be sentenced next month in U.S. District Court in Sioux Falls, S.D.

Mr. Elliot earlier agreed to pay $4,000 in fines to settle civil citations OSHA issued, an OSHA spokesman said.

Briefly noted

The U.S. Supreme Court refused to hear an appeal from **A.H. Robins Co.** seeking to block a federal grand jury from reviewing company documents regarding the Dalkon Shield intrauterine device. The grand jury is investigating criminal charges that Robins concealed the dangers of the IUD. . . .**Lloyd's of London members** face up to 12 million pounds ($19 million) in additional taxes for the 1985 and 1986 underwriting years because of a London Judicial Review ruling last Friday that upheld the British Inland Revenue's tax treatment of syndicates' investments in U.S. bonds (*BI*, Feb. 13).

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Consolidation pressures are evident among reinsurers

By MYRON M. PICOULT

Special to Business Insurance

THERE HAS AND WILL continue to be consolidation in the property/casualty reinsurance business.

While the ticket for admission to this arena today is a statutory surplus figure in the $100 million to $125 million range, we believe that this figure will increase to the $250 million level within the next three years as primary insurers reduce the number of reinsurers with which they deal because of low ratings, cramped limits capacity and reinsurance recoverable problems.

Mr. Picoult

We continue to consider the latter a material problem and expect to be reviewing the industry's exposure to reinsurance recoverables in a forthcoming column, as we did last year (*BI*, Aug. 1, 1988; July 25, 1988). Our data base indicates that an average of absolute and adjusted recoverables equaled about 96% of statutory surplus.

The consolidation pressures are clearly illustrated in the quarterly and annual data published by the Reinsurance Assn. of America. Of the roughly 65 companies included in that survey, the Top 20 reinsurers account for approximately 81% of the total statutory figure and approximately 82% of net written premiums. Hence, some 45 companies are chasing 18% of available volume.

The consensus is that the primary industry is still flush with capital. There is apparent capital and real capital in the property/casualty business. But we continue to believe that the real capital base is much smaller than the reported figure, and that the "real" premium-to-surplus ratio is closer to 2.7-to-1 than the often-reported 2.0-to-1 relationship.

The difference relates to adjustments that would be made to recognize reserve deficiencies, the carrying values of various assets and prospective write-offs of reinsurance recoverables at the end of 1989.

The industry's record on reserve adequacy has been far from perfect in recent years. A study by the Insurance Services Office Inc., based on year-end 1987 reserves, still showed a deficiency. The rush to cut prices and increase retentions over the past few years did not aid the deficiency that existed at the end of 1987.

A review that we have completed shows the rise in retentions, on average, for a sampling of commercial insurers and the multiline companies over the past three years. From this, our sense is that retention levels are up more in the casualty area than in the property area.

Furthermore, we believe that most insurers have not sufficiently adjusted their reserving processes to recognize both the higher retention levels and the spike in development that is likely to occur in the upper casualty layers. This will all ultimately come home to roost. Perhaps sooner rather than later.

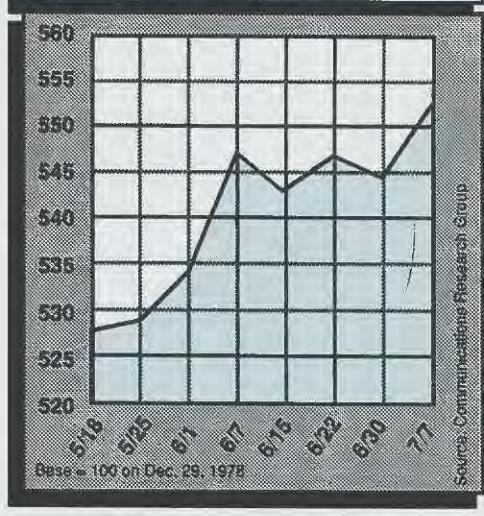
We believe that the primary industry's capital pressures will become more evident as the year progresses and we enter into 1990. The alacrity with which "Wall Street" provided equity capital to the insurance industry at the end of the last underwriting debacle was mind boggling. We doubt there will be a repeat performance.

While there will be exceptions, the only insurers that are likely to have good access to the capital markets are those companies that have shown the capability and willingness to make effective use of their equity capital base.

As their alternatives shrink, it is quite possible that the *strong* reinsurers will become bankers to the primary companies as they try to extricate themselves from the underwriting quagmire once again. ■

Myron M. Picoult is senior vp and senior insurance analyst with Oppenheimer & Co. in New York. He is past president of the Assn. of Insurance & Financial Analysts and a member of the New York Society of Security Analysts.

BI Insurance Index



Insurance industry stocks climbed 8.1 points last week, as the *Business Insurance Index* rose to 553.1 on July 6, from 545.0 on June 29. Advancing issues were led by United HealthCare Corp., up 12.9%; U.S. Healthcare, up 10.3%; and Statesman Group Inc., up 9.7%. Declining issues followed Western Health Plans Inc., down 8.7%; Re Capital Corp., down 6.1%; and Safeguard Health Enterprises, down 3.2%. The most active issue during the period was Sears, Roebuck & Co. (Allstate), 2.3 million shares traded. The *BI Index* gained 1.5% for the period; the New York Stock Exchange Composite was up 0.6%; the Standard & Poor's 500 was up 0.3%; and the Dow Jones 30 Industrials gained 0.2%.

British Issues

July 6 Companies	Price pence	P/E	Div. pence	Yield %	1 Week High—Low pence	pence
Comml Union	382	14.4	29.3	7.7	384—378	
Genl Accident	918	8.6	70.7	7.7	925—918	
Gdn Royal Exch	210	11.1	15.7	7.5	210—205	
Royal	389	11.9	34.0	8.7	394—389	
Sun Alliance	277	8.0	17.0	6.1	279-274	
Brokers						
Bradstock	205	14.0	10.0	4.9	208—205	
CE Heath	463	13.2	34.5	7.5	463—461	
Hogg Robinson	138	11.5	9.3	6.8	139—137	
Lloyd Thompson	220	16.9	8.0	3.6	220—220	
PWS Holdings	45	11.0	3.3	7.4	46—45	
Sedgwick Grp	246	17.3	16.7	6.8	246—244	
Steel Birl Jones	236	15.7	15.3	6.5	236—234	
Willis Faber	228	16.9	15.3	6.7	239—228	

Source: Philip Olsen/Alan Clifton, Insurance Industry Specialists Kitcat & Aitken Stockbrokers, London

N.Y. judge halts unlicensed insurer

By MICHAEL SCHACHNER

ALBANY, N.Y.—A New York State Supreme Court judge has ordered Empire Benefit Plans Inc. to cease doing business as an insurer in the state because it has been operating without a license since September 1988.

Empire Benefit Plans, under the direction of two independent insurance agents—David Balzer in Buffalo, N.Y., and John Dunham in Clifton Park, N.Y.—was shut down by Judge Daniel Prior Jr. on June 14 after New York Insurance Superintendent James P. Corcoran requested a temporary restraining order in May.

The judge will now appoint a receiver to oversee Empire Benefit Plans' assets.

Empire Benefit Plans, which never applied to operate as either a licensed or approved insurance company in the state, collected almost $850,000 in premiums from more than 5,200 employees of small businesses that did not offer their employees group health insurance.

An investigation of the company by the Insurance Department showed that in addition to operating without a license, Empire Benefit Plans lacked proper reserves to pay future claims.

The investigation revealed that $120,000 set aside in a reserve fund was instead used to pay administrative fees and to purchase personal automobiles, according to an Insurance Department spokesman.

The department's investigation was initiated after several insurance agents approached by Messrs. Balzar and Dunham to help sell the product contacted the department.

The agents were suspicious because the premiums charged by Empire Benefit Plans were "far too low compared with those of the licensed companies," the spokesman explained. ■

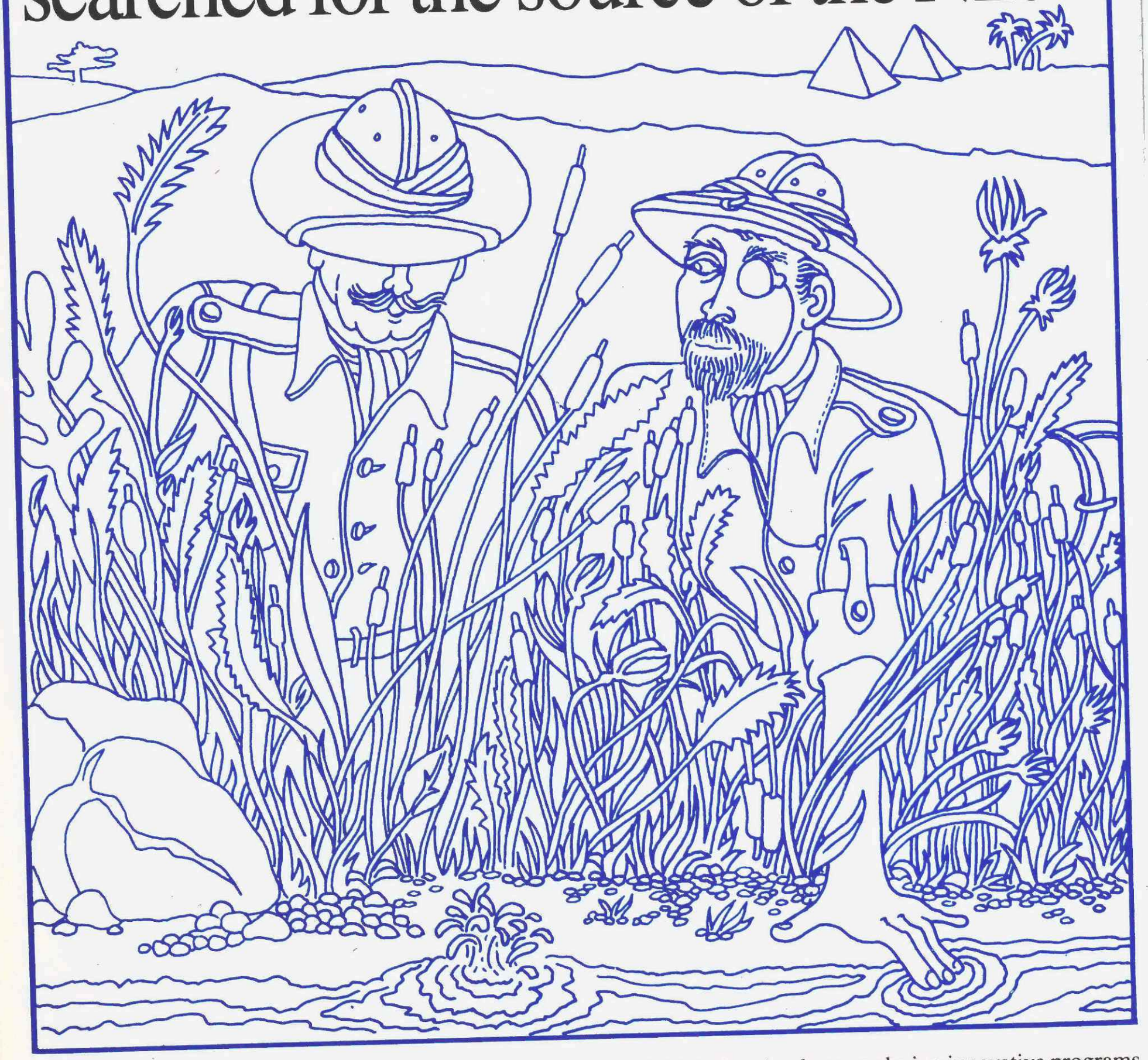
BI Industry Stock Report

JULY 6, 1989 **6/30/89 THRU 7/6/89**

BROKERS		Price	Weekly % change	Year to Date % change	Annual High	Annual Low	Vol.(000)	$ Div.	% Yield	P/E	Book value	Mkt/Bk. value
Alexander & Alexander Svcs	NYSE	25.25	0.5	7.4	26.50	22.63	503	1.00	4.0	17.1	2.90	8.71
Corroon & Black Corp.	NYSE	33.88	0.0	8.8	35.75	30.75	30	1.24	3.7	13.2	7.62	4.45
Gallagher Arthur J. & Co.	NYSE	20.00	0.0	19.4	20.38	16.13	27	0.52	2.6	14.2	5.33	3.75
Hall Frank B. & Co.	NYSE	4.38	9.5	52.1	4.63	2.50	106	0.00	0.0	-2.1	0.00	N/A
Hilb, Rogal & Hamilton	OTC	15.50	3.3	1.6	15.75	13.75	49	0.20	1.3	14.0	4.60	3.37
Marsh & McLennan Cos. Inc	NYSE	64.63	1.0	14.9	65.25	55.13	243	2.50	3.9	16.0	6.48	9.97
Poe & Assoc. Inc.	OTC	8.75	0.0	6.1	8.75	8.25	2	0.40	4.6	9.5	1.43	6.12
BROKERS	AVERAGE		2.0	15.8					2.9	11.7		
CONGLOMERATES & HOLDING COMPANIES												
Berkley W.R. Corp.	OTC	32.25	0.8	9.3	34.00	29.25	255	0.40	1.2	6.8	21.28	1.52
Berkshire Hathaway Inc. DEL	NYSE	6725.00	0.4	43.1	7000.00	5948.00	33	0.00	0.0	23.8	2468.63	7.74
ITT (Hartford Group)	NYSE	58.38	1.5	16.5	60.75	49.75	778	1.48	2.5	10.0	56.33	1.04
Sears Roebuck & Co. (Allstate)	NYSE	44.63	2.3	9.2	48.00	40.13	2263	2.00	4.5	16.7	36.09	1.24
CONGLOMERATES	AVERAGE		1.3	19.5					2.1	14.3		
INSURERS/REINSURERS												
Aetna Life & Cas Co.	NYSE	57.00	3.6	20.6	56.50	46.75	710	2.76	4.8	8.8	58.11	0.98
AmBase Corp.	NYSE	13.88	2.8	26.2	14.50	11.00	187	0.20	1.4	5.2	18.66	0.74
American General Corp.	NYSE	36.00	0.3	20.5	38.00	29.50	403	1.50	4.2	10.9	28.04	1.28
Amer Heritage Life Invt	NYSE	26.38	1.0	2.4	27.88	25.00	2	1.20	4.5	10.3	22.47	1.17
Amer Indty Fin'l Corp.	OTC	12.25	0.0	16.7	13.00	9.50	8	0.56	4.6	7.9	17.38	0.70
American Int'l Group	NYSE	84.25	1.2	24.4	87.38	66.25	951	0.48	0.6	11.8	33.55	2.51
Aon Corp.	NYSE	35.50	-0.4	26.8	36.25	27.00	188	1.40	3.9	12.3	16.67	2.13
Argonaut Group	OTC	57.75	-0.4	32.0	58.00	43.50	53	0.00	0.0	8.0	36.83	1.57
AVEMCO Corp.	NYSE	23.25	2.2	-10.2	26.13	22.63	3	0.40	1.7	12.3	9.20	2.53
Baldwin & Lyons Inc.	OTC	18.13	0.0	21.8	18.25	14.50	37	0.20	1.1	6.4	17.57	1.03
Belvedere Corp.	AMEX	5.13	-2.3	14.0	6.50	4.50	1	0.04	0.8	7.8	8.43	0.61
Chandler Insurance	OTC	9.13	2.8	31.6	10.88	7.00	48	0.00	0.0	5.3	9.53	0.96
Chubb Corp.	NYSE	68.63	-0.4	18.3	73.50	57.63	277	2.32	3.4	8.0	53.50	1.28
CIGNA Corp.	NYSE	56.38	-0.4	19.6	58.00	45.88	223	2.96	5.3	9.9	53.08	1.06
CNA Fin'l Corp.	NYSE	73.50	-0.3	21.5	79.25	57.63	98	0.00	0.0	11.5	54.52	1.35
Continental Corp.	NYSE	34.38	2.2	6.2	36.00	31.50	262	2.60	7.6	23.4	42.10	0.82
Durham Corp.	OTC	34.00	5.4	3.0	33.75	30.00	19	0.92	2.7	19.7	26.32	1.29
Fireman's Fund Corp.	NYSE	34.63	0.7	18.4	36.00	29.00	268	0.60	1.7	8.6	32.74	1.06
Fremont Gen Corp.	OTC	15.75	1.6	17.7	18.25	12.13	61	0.60	3.8	12.1	17.61	0.89
Frontier Insurance Group	OTC	18.75	2.7	50.0	20.25	12.25	47	0.00	0.0	9.1	7.53	2.49
General Re Corp.	NYSE	66.25	0.2	19.4	68.88	54.38	527	1.36	2.1	12.5	29.04	2.28
Hanover Ins Co.	OTC	27.00	-0.9	0.9	30.25	25.75	32	0.44	1.6	5.5	31.47	0.86
Harleysville Group Inc.	OTC	19.75	-1.9	9.7	22.50	17.75	21	0.48	2.4	6.9	18.94	1.04
Hartford Steam Boiler	OTC	42.25	-1.2	15.0	44.00	34.75	132	1.60	3.8	11.7	13.04	3.24
Kans City Life Ins	OTC	35.25	0.0	2.2	36.00	32.75	1	0.00	0.0	12.6	39.22	0.90
Kemper Corp.	NYSE	39.25	4.3	63.5	38.50	22.75	443	0.84	2.1	9.2	28.91	1.36
Lawrence Ins. Group	AMEX	7.00	1.7	-11.2	8.50	6.63	1	0.24	3.4	14.9	3.19	2.19
Liberty Corp. S.C.	NYSE	35.00	0.0	-2.8	38.00	32.50	13	0.80	2.3	19.9	21.17	1.65
Lincoln Nat'l Corp.	NYSE	51.38	-0.2	16.8	52.25	42.75	94	2.48	4.8	12.7	39.21	1.31
NAC Re Corp.	OTC	40.00	3.2	26.0	40.25	31.00	58	0.30	0.8	14.3	22.81	1.75
Navigators Group	OTC	27.00	1.9	35.0	27.25	20.50	7	0.00	0.0	11.5	15.22	1.77
Nobel Ins Ltd.	OTC	2.38	5.8	-49.9	5.00	1.50	20	0.42	7.6	-9.2	7.76	0.31
Northwestern Nat'l Life	OTC	36.13	-0.3	16.1	37.25	26.88	159	1.20	3.3	13.0	37.50	0.96
Ohio Cas Corp.	OTC	45.50	-0.5	27.3	46.00	35.50	138	2.08	4.6	6.6	33.30	1.37
Old Rep Int'l Corp.	OTC	25.63	1.5	6.8	28.88	23.38	94	0.74	2.9	14.3	26.50	0.97
Orion Cap Corp.	NYSE	21.88	-1.7	42.3	23.00	15.38	16	0.84	3.8	7.1	12.93	1.69
Phoenix Re Corp.	OTC	10.00	1.2	5.3	11.00	8.75	8	0.00	0.0	5.5	12.99	0.77
Protective Life Corp.	OTC	15.25	-1.6	15.1	16.25	12.88	20	0.70	4.6	76.3	14.54	1.05
Re Capital Corp.	AMEX	11.50	-6.1	26.0	0.00	0.00	26	0.00	0.0	11.5	12.60	0.91
RLI Corp.	NYSE	7.75	5.0	1.6	0.00	0.00	33	0.36	4.6	7.6	10.71	0.72
Provident Life & Acc Ins Co.	OTC	23.00	0.5	19.5	24.75	19.13	272	0.68	3.0	9.7	23.24	0.99
St. Paul Cos. Inc.	OTC	53.38	2.7	22.7	53.50	43.00	484	2.20	4.1	7.3	32.00	1.67
SAFECO Corp.	OTC	29.75	-0.8	25.9	32.00	23.13	476	1.20	4.0	7.4	24.88	1.20
SCOR U.S. Corp.	NYSE	8.63	1.5	-5.5	0.00	0.00	23	0.20	2.3	6.5	10.35	0.83
Seibels Bruce Group Inc.	OTC	13.50	-1.0	18.6	13.63	10.25	104	0.80	5.9	11.3	13.42	1.01
Selective Ins Group Inc.	OTC	24.00	-1.0	4.3	26.00	21.75	15	1.40	5.8	5.2	22.33	1.07
Statesman Group Inc.	OTC	3.63	9.7	16.0	4.00	2.38	113	0.05	1.4	90.8	3.48	1.04
Tokio Marine & Fire Ins	OTC	71.50	1.4	-21.8	95.50	66.00	12	0.24	0.3	43.3	0.00	N/A
Torchmark Corp.	NYSE	38.75	-0.6	27.0	0.00	0.00	236	1.20	3.1	12.2	12.24	3.17
Transamerica Corp.	NYSE	37.38	2.7	10.3	0.00	0.00	780	1.88	5.0	8.4	30.70	1.22
Travelers Corp.	NYSE	41.38	2.2	19.1	0.00	0.00	475	2.40	5.8	32.3	44.85	0.92
Trenwick Group Inc.	OTC	16.38	0.8	13.0	17.75	13.75	5	0.24	1.5	9.3	16.91	0.97
United Fire & Cas Co.	OTC	32.38	1.2	6.2	32.50	29.00	24	1.20	3.7	5.9	22.56	1.44
United States Fid & Gty	NYSE	32.25	1.6	13.2	34.00	28.50	742	2.80	8.7	12.0	22.57	1.43
UNUM Corp.	NYSE	33.75	0.4	25.0	34.88	26.63	135	0.60	1.8	11.2	30.64	1.10
USLIFE Corp.	NYSE	44.00	-1.1	26.1	45.63	34.13	59	1.40	3.2	10.7	54.27	0.81
Washington Nat'l Corp.	NYSE	26.75	0.0	-0.9	27.63	24.00	10	1.08	4.0	-19.1	32.33	0.83
Zenith Nat'l Ins Corp.	NYSE	19.63	3.3	12.2	19.75	16.75	52	0.84	4.3	9.1	13.61	1.44
INSURERS/REINSURERS	AVERAGE		1.0	15.1					3.2	12.8		
HEALTH MAINTENANCE ORGANIZATIONS												
FHP International Corp.	OTC	30.75	7.0	153.5	30.25	11.75	236	0.00	0.0	15.7	3.54	8.69
HMO America Inc.	OTC	8.50	7.9	11.4	9.38	0.94	428	0.00	0.0	-7.5	1.12	7.59
Pacificare Health Systems	OTC	30.00	9.1	144.9	32.50	12.25	23	0.97	3.2	24.0	6.35	4.72
Safeguard Health Ent.	OTC	7.63	-3.2	38.7	8.00	4.75	8	0.00	0.0	12.9	2.99	2.55
Sierra Health Services	AMEX	5.00	5.3	206.7	5.75	1.50	20	0.00	0.0	-4.1	1.59	3.14
United HealthCare Corp.	OTC	9.88	12.9	125.6	9.25	4.13	815	0.00	0.0	-4.5	0.31	31.87
United Medical Corp.	AMEX	5.88	0.0	12.0	0.00	0.00	1	0.00	0.0	1.8	4.11	1.43
U.S. Healthcare	OTC	12.13	10.3	108.8	13.00	5.25	908	0.20	1.6	173.3	2.87	4.23
Western Health Plans Inc.	AMEX	0.63	-8.7	-8.7	1.13	0.38	9	0.00	0.0	-0.3	0.82	0.77
HMOs	AVERAGE		4.5	88.1					0.5	23.4		
ALL COMPANIES	AVERAGE		1.5	23.8					2.8	14.1		

Duncanson & Holt.

Weren't they the explorers who searched for the source of the Nile?



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