

# Business Insurance

## California workers comp reform is passed by state lawmakers

SACRAMENTO, Calif.—The California Legislature passed a comprehensive workers compensation reform package late last Friday.

Gov. Pete Wilson indicated he would sign the sweeping reform, which was designed to generate at least \$1.5 billion in savings through a reduction in fraud and medical evaluations, limits on vocational rehabilitation benefits and lower insurance rates.

The state Chamber of Commerce supports the reform.  
*Continued on next page*

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## Buyers say location is everything

By SARA MARLEY and MICHAEL SCHACHNER

rose less than 5% with increased retentions.

The casualty insurance market remained soft, producing slight premium decreases and competition for some accounts.

July 1 brought the "most difficult property renewal on record" for E.L. Tomlinson, insurance manager for Ethyl Corp. in Richmond, Va.

He attributed the petrochemical company's 22% premium increase on its global property package to three things: a general firming of the worldwide property market; Ethyl's petrochemical classification; and a \$15 million loss from an explosion at the company's Pasadena, Texas, facility in 1992.

"We expected a premium increase of 10% to 15%, and

we got hit with 22%," Mr. Tomlinson said. "Even worse, though, was the fact our carriers increased our deductible to \$250,000 per site from \$100,000, and that was after five months of negotiations to get the deductible to a reasonable level." The company has 10 major sites worldwide.

"Anything along the Texas Gulf Coast or up in Tornado Alley is seeing a 5% to 25% increase," said Terry Mullaney, risk manager with Coca-Cola Bottling Group (Southwest) Inc. Premiums for the Dallas-based company increased only 5%.

In the nation's hurricane zone, risk managers are experiencing 5% to 20% property rate increases, said  
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**Risk manager report**

Risk managers with exposures in disaster-prone areas paid big property insurance premium increases during July renewals, but others relied on their loss experience and long-term relationships with insurers to keep increases in check.

Properties in coastal areas and in California were charged 5% to 25% more, but rates in areas that escaped 1992's record spate of catastrophes

## No major shifts: Property firming, casualty still soft

By LOUISE KERTESZ and MARK A. HOFMANN

Property insurance rate hikes are sticking, but casualty insurance remains competitive, insurance company executives admit.

The winds of Hurricane Andrew blew catastrophe reinsurance costs skyward and have given property insurance rates a boost, insurers say.

Some insurers say the property insurance market is on a decidedly firming path, while other insurers find that they are getting only token increases in most property/casualty lines and say the market turn has not

yet arrived.

"Our own renewal record has been very, very good," said Mike McIntyre, senior vp at Allendale Mutual Insurance Co. in Johnston, R.I. "We are getting moderate price increases—high single-digit increases.

"We've written some nice new business in the past few months without dropping prices, I might add." And poor performers are paying higher rates, he said.

"Catastrophe reinsurance is a driving force, particularly for earthquake and windstorm coverages for Florida and the East Coast. That expresses itself in the form of higher deductibles," Mr. McIntyre said.

Increases in property insurance rates are "directly attributable to increased catastrophe reinsurance charges, which have been pronounced," said Jeffrey W. Greenberg, executive vp at New York-based American International Group Inc.

But, he said, "We can't generalize. Different segments of the market are all going up by different amounts. We're looking at a few places where rates are hardening and have been for some time." Those areas include "many of the specialty classes, such as financial lines, oil and petrochemical, aviation and a number of property classes, especially those involving catastrophe perils and exposures."

Areas that are firming also include "accounts that have performed poorly over the last few years," he said.

"There are some other areas where we see some firming: some primary casualty lines are firming, and we're seeing more pressures on firming as clients and brokers are raising more and more issues about secu-

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**Insurers report**

# 1993 MIDYEAR RENEWALS

## Underwriters lament ongoing competition for many U.S. risks

By ADRIAN LADBURY and STACY SHAPIRO

LONDON—To paraphrase an English saying, U.S. insurance and reinsurance renewals in London this summer have been like the curate's egg—good in parts.

Property catastrophe reinsurance and energy insurance programs remain the most difficult to place and the most expensive coverages in the London market. Rates in some cases doubled and self-insured retentions grew, continuing the trend started at the beginning of the year.

Plenty of capacity was available at affordable prices for U.S. property insurance and reinsurance programs, though there are

*Continued on page 54*

**London market report**

## Cat capacity tight as cedants await Bermuda facilities

By DOUGLAS McLEOD

NEW YORK—Given the recent turmoil in the property catastrophe reinsurance market, nobody expected the July 1 renewals to be easy. They weren't.

Catastrophe reinsurance prices are actually slightly higher at midyear than at year end, and capacity remains scarce as buyers await the entry of several new Bermuda-based catastrophe facilities, brokers and reinsurers report.

The capacity squeeze has been worsened by the decline of funded catastrophe covers.

These helped fill gaps in traditional reinsurance programs last year, but have lost their luster as a result of new accounting restrictions proposed by the Financial Accounting Standards Board and the Securities and Exchange Commission.

As an alternative, some ceding companies are turning to so-called "trust me" covers, which are based on an assumption that a reinsurer will be repaid for losses over time but which don't contain the formal pay-back mechanisms of funded deals.

Meanwhile, demand remains heavy for property pro-rata reinsurance, which provides some measure of catastrophe protection. These treaties, though, are now subject to per occurrence caps and other restrictions imposed after reinsurers were hammered with heavy Hurricane Andrew losses last year.

The easiest renewals continue to be those without catastrophe exposure: The market for non-catastrophe property and casualty reinsurance is largely unchanged, with most covers renewing as is or with only slight increases or decreases in rates, brokers and reinsurers say.

As was the case with year-end renewals, catastrophe covers occupied center stage during July 1 renewal efforts.

"It's still preoccupying everyone and, if anything, the prices on it have gotten worse," said Michael Rothpletz,  
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**Reinsurers report**

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**Update**

**California workers comp reform**

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ported the reforms, though insurers say they do not go far enough. "We're hopeful that the reforms will produce what they promise in terms of savings, but we have our doubts," said a spokesman for the American Insurance Assn. in Sacramento.

Key reforms in the package would: require an applicant making a stress claim to show that job-related events were the predominant cause of injury; bar stress claims arising from good-faith personnel actions; and limit coverage of medical evaluations to one per side in disputed cases.

The legislation also would: reduce workers comp rates by 7% in 1994 and repeal the minimum rate law; restrict the grounds for canceling workers comp policies; bar physician referrals to facilities in which they have a financial interest; and set a \$16,000 cap on coverage for vocational rehabilitation services, among other things.

**Bel-Aire ordered liquidated**

JEFFERSON CITY, Mo.—A Missouri judge has ordered Bel-Aire Insurance Co. liquidated, ending more than two years of litigation between the Missouri Insurance Department and Bel-Aire owner Arthur A. Blumeyer III.

Cole County Circuit Judge James F. McHenry signed the liquidation order last Thursday, concluding that Bel-Aire has become insolvent since the Missouri department seized the insurer and filed a receivership petition in 1990. The court had not previously ruled on Bel-Aire's solvency.

The judge also ordered five other companies operated by Mr. Blumeyer into receivership: A.B. Carter Inc., Risk Retention Service Corp., BIC Premium Finance Corp., Association Groups of America Inc. and Atlantic General Insurance Co. Bel-Aire's assets total \$1 million and its liabilities are estimated at \$7.9 million. The litigation has cost the estate \$1.8 million in legal fees to Bel-Aire's lawyers and \$477,686 to insurance department lawyers, Missouri regulators say.

Mr. Blumeyer was indicted earlier this year on charges of using Bel-Aire and several other companies to defraud policyholders of \$43.5 million (BI, March 22).

Separately, Louisiana regulators have issued cease and desist orders against Havco Service Center Inc. of Bossier City, La., and 19 Louisiana agents involved in placing transportation risks with offshore insurers allegedly linked to Mr. Blumeyer.

**State court defines harassment**

TRENTON, N.J.—Employers and employees in New Jersey now have a set of standards to use in determining whether certain behaviors constitute sexual harassment.

The guidelines were handed down last week by the New Jersey Supreme Court, which also defined when employers can be held liable for their employees' actions. The appellate court defined sexual harassment as conduct that would not have occurred but for a person's sex and is "severe or pervasive enough" to make a "reasonable" person believe that employment conditions are altered and the working environment is "hostile or abusive."

The case comes in an appeal by a Toys R Us Inc. employee, who alleged her former boss made suggestive comments and touched her and other female employees. The high court sent the suit back to a trial court for a rehearing based on the guidelines.

The court also said a three-part standard should be used in assessing employer conduct. Employers are to be held strictly liable when mere equitable relief is sought. To recover compensatory damages beyond that level, employees would have to show negligence or similar fault. And punitive damages will be awarded "only in the event of actual participation by upper management or willful indifference."

**Colorado BC/BS CEO resigns**

DENVER—Tom Levin was forced out as chief executive of Blue Cross & Blue Shield of Colorado last week after Gov. Roy Romer ordered the plan to clean house.

In an unprecedented encounter last Tuesday, Gov. Romer told the company's 13-member board of directors that Mr. Levin must resign because of extraordinary problems uncovered by state auditors, say sources close to the department.

An audit, delivered to the governor July 2 though not publicly released, found that in Mr. Levin's six years at BC/BS of Colorado, the company made \$23.2 million in no-interest loans to ailing Blues plans in New Mexico and Nevada. The audit orders BC/BS of Colorado to reimburse policyholders millions of dollars that apparently went to subsidize the two out-of-state plans.

All three plans are jointly managed by Denver-based Rocky Mountain Health Care Corp. in preparation for a merger, which Colorado Insurance Commissioner Joanne Hill has opposed.

RMHCC directors attributed the dismissal to "deep philosophical differences between Levin and (the DOI) over the structure of RMHCC's proposal for a formal merger of the BC/BS plans of Colorado, Nevada and New Mexico." David Kikumoto, RMHCC senior vp and chief marketing officer, was named interim CEO.

**Speculation over Pru Re buyer**

NEWARK, N.J.—Prudential Reinsurance Co. and Employers Reinsurance Corp. are not commenting on reports that Employers Re is interested in buying Pru Re.

Prudential Insurance Co. of America said in March it is seeking a buyer for its Pru Re subsidiary (BI, March 15). "Every-

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**ERISA waivers in tax bill assailed by employers**

By JERRY GEISEL

WASHINGTON—While tax bills now before a House-Senate conference committee don't pack the same punch on benefit issues as previous tax measures, they still contain a slew of provisions that will affect employers.

Among other things, the conferees will decide on provisions that could be the first step in gutting the protection employer-sponsored benefit plans have from varying state benefit laws, cutting pension benefits and

contributions for higher-paid workers, retroactively renewing the tax-favored status of educational assistance benefits and boosting payroll taxes.

But perhaps more important than the measures themselves is that enactment of a tax bill will clear the deck for introduction of President Clinton's long-awaited health care reform package.

President Clinton has said that he will not unveil his health care package until Congress completes action on the tax legisla-

"Once the tax bill is done, we will see the Clinton health plan and the intense debate on it that we have all been waiting for will begin," said Frank McArdle, a consultant with Hewitt Associates in Washington.

But in the meantime, congressional conferees will be busy in the coming weeks trying to resolve differences in bills passed by the House and Senate.

Of most concern to employee benefit lobbyists are provisions—that were contained only in the

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**Retiree obligations soar**

Unfunded retiree health benefit liabilities up 81%: GAO

By JERRY GEISEL

WASHINGTON—The cost of retiree medical benefits that companies have promised, but not funded, is rising even as companies continue to cut or eliminate benefits.

The General Accounting Office estimates that unfunded employer retiree health liabilities now total \$412 billion—\$257 billion for active employees and \$155 billion for retirees.

That's an 81% increase from total liability of \$227 billion—including \$127 billion in unfunded benefits for active employees and \$100 billion for retirees—in 1988.

Rising health costs contributed to that increase, as did more early retirees and longer life expectancy, noted Donald C. Snyder, an assistant director in the GAO's human resources division.

"Because early retirees (under

age 65) are not yet eligible for Medicare, employers pay three to four times more for their health care than for retirees" covered by Medicare, the report noted.

Relatively few employers have taken the drastic step of terminating retiree health benefits. The GAO, citing several consultant surveys, estimates that up to 3% of employers have terminated benefits for current retirees and 3% to 5% have done so for future

*Continued on page 20*

But U.S. names urge fixing immediate problems first

**Big changes seen at Lloyd's**

By GAVIN SOUTER

BOSTON—Lloyd's of London is going through a dramatic and painful turnaround, according to Chairman David Rowland.

In a few years time, many of the market's trademarks will be changed or gone, he predicts.

The changes may mean that the new Lloyd's will have fewer than half the current number of syndicates, a two-year account-

ing system and a massive amount of corporate capital.

However, Lloyd's will have to overcome its short-term problems if Mr. Rowland's vision is to be fulfilled, U.S. members say.

And, the problem of litigating Lloyd's members must be solved this year or there could be an exodus of U.S. members within months, they add.

"In about three years time we will be able to look back to this

period as a period of quite extraordinary change," Mr. Rowland said at a recent meeting in Boston sponsored by Sedgwick James of New England Inc.

Although Lloyd's must be careful to retain its positive aspects, market practices that led to the disastrous retrocessional spiral must not be allowed to continue, Mr. Rowland said. And the market's expenses must be

*Continued on page 12*

**Action on redlining bills expected**

By MARK A. HOFMANN

WASHINGTON—Two House panels could vote on bills designed to curb insurer redlining in the next few weeks, as a turf battle for jurisdiction over insurance heats up, a congressional aide says.

The competing redlining bills grew out of a "Hatfield-and-McCoy-type of feud" between



two lawmakers over whose committee would have jurisdiction over insurance issues, according to Mary-Moore Hamrick, minority counsel to the House Energy and Commerce Committee.

On one side of the feud is Rep. John D. Dingell, D-Mich., chair-

man of the House Energy and Commerce Committee. On the other is Rep. Henry Gonzalez, D-Texas, who heads the House Banking, Finance and Urban Affairs Committee.

Subcommittees of both panels drafted bills to curb redlining after holding hearings on the illegal practice earlier this year, Ms. Hamrick explained last week

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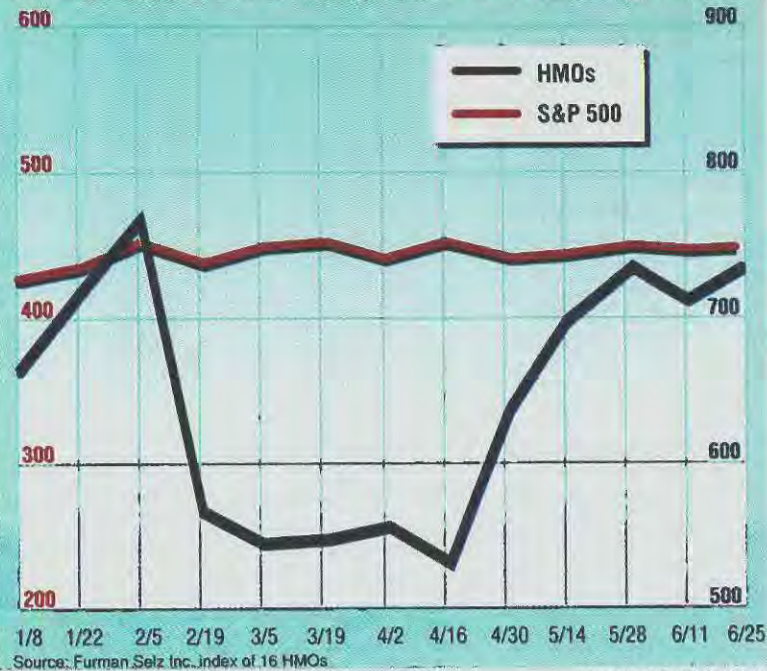
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## HMO stocks shake off Clinton jitters



# HMO stock recovery

## Slow pace of reform calms investors; repeat of panic in market not expected

By JOANNE WOJCIK

Health maintenance organization stocks are rebounding after losing about 20% of their value earlier this year in a landslide triggered by uncertainty over health care reform.

"The initial investor reaction early this year was dramatic," recalled analyst Ellie Kerns with Alex. Brown & Sons Inc. in Boston.

"But that was based largely on the fear that a Democratic president with a Democratic Congress would be able to get reforms passed quickly," she said.

However, investors are breathing a little easier now that the

Clinton administration has faced numerous obstacles in its attempts to implement its other programs, such as its tax package, according to Ms. Kerns.

"They've come to realize 'we're not a banana republic,' where sweeping changes are implemented almost daily, she said.

As a result, Ms. Kerns doesn't expect another "cataclysmic reaction" when the health care reform task force chaired by First Lady Hillary Rodham Clinton unveils its proposals this September.

Geoffrey Harris, managing director of Smith Barney Shearson's equity research division in New York, agreed that investors'

initial reaction to the prospect of health care reform was exaggerated.

"Investors were scared by Hillary's task force," with HMO stocks experiencing their biggest dip after President Clinton's Feb. 14 announcement, repeated during his Feb. 17 State-of-the-Union address, that he would seek a freeze on payments to doctors that treat Medicare beneficiaries, he recalled.

The stock freefall was triggered by California Public Employee Retirement System's Feb. 10 announcement that it had strong-armed its HMOs into accepting a rate cut (BI, March 1).

But since then, the administration has lost some of its potency, and health reform has been forced to take a back seat to

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# Court boosts legal fees in pollution dispute

By MICHAEL SCHACHNER

MINNEAPOLIS—A Minnesota state court decision awarding a policyholder's attorneys 50% higher legal fees may help small companies to secure costly legal assistance in protracted pollution coverage disputes.

Minnesota District Court Judge William R. Howard earlier this month required a pair of insurers to indemnify a Minneapolis company for pollution cleanup costs and to pay the policyholder's attorneys 1½ times

their hourly fees because the "cards were stacked" against the policyholder.

Insurer attorneys, though, called the enhanced award punitive and warned it could encourage litigation.

In his decision, the judge relied on provisions of the general Uniform Declaratory Judgments Act, which has been adopted in 34 states and allows prevailing plaintiffs forced to litigate with their insurer for coverage to collect reasonable attorneys fees and costs.

However, Judge Howard also adopted a multiplier of 1.5 to award more than \$590,000 in attorneys fees to the Minneapolis firm of Popham Haik Schnobrich & Kaufman for its cost of representing Schloff Chemical & Supply Co.

Plaintiffs attorneys say the assessment of multiplied fees in the Schloff case—which centered on the small chemical company's attempt to tap primary and excess liability coverage written by Allied Mutual Insurance Co. and Tower Insurance Co.—is the first

time a multiplier has been incorporated in determining attorneys fees in an environmental coverage dispute.

The insurers together wrote \$1.1 million in primary and excess liability insurance for Schloff in the period between 1977 and 1984.

When Schloff sought coverage for its state-mandated cleanup in 1989, the insurers denied coverage, arguing that the pollution was intended and neither sudden nor accidental, and thus excluded from coverage.

The July 1 ruling awarded Schloff \$1.4 million in coverage plus interest for past and future cleanup costs related to a St. Louis Park, Minn., warehouse site targeted for cleanup by the state, as well as some prior defense costs.

Policyholder attorneys hope the use of a multiplier for awarding legal fees will be adopted by other courts, which they say could make it easier for small companies with pollution problems to obtain quality coun-

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# Outsourcing means chance for losses as well as savings

By NANCY P. JOHNSON

As more companies try to trim expenses by hiring outside expertise for certain tasks, they must take pains to prevent a potential increase in uninsured losses that can accompany outsourcing.

Outside employees are more prone to errors than payroll employees, especially if training has been inadequate, experts warn. And, it's even more difficult to impose internal controls to prevent theft or errors on outsourced employees, who may be working off-site.

Employers are especially at risk if contract terms or insurance policies do not protect them from losses caused by outside employees, experts say.

For example, if a payroll em-

ployee embezzles funds, the losses would be covered by a company's fidelity bond, or a financial institution's bankers blanket bond. But coverage is less clear if an outside contractor's employee is behind the theft. Unless liability and coverage is spelled out in a contract between the employer and the outsourcing vendor, an employer might be left covering the loss.

Outsourcing appeals to many companies because it can cut costs and compensate for a lack of expertise.

Most commonly, firms contract out data-processing work, though legal, payroll and human resources duties are also done outside. And, financial institutions increasingly are turning to outside firms to process checks

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# Insured losses rising

## Des Moines, some businesses covered by private insurance

By MEG FLETCHER and MARY E. PFLUM

Insured losses are expected to rise—along with water levels—as rains and flooding continue to drench the sodden upper Mississippi River Valley.

Though federal programs are expected to pay the bulk of insured losses, property insurers will cover a small portion of the damage.

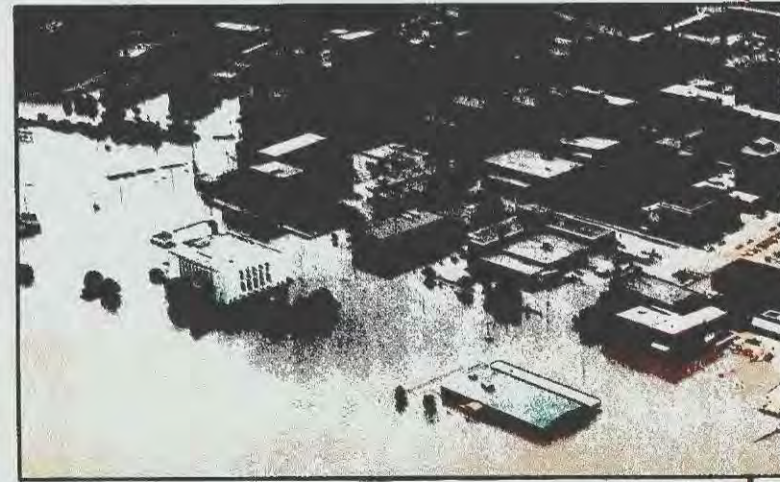
Specifically, two meatpacking companies have some coverage for related losses, including business interruption and extra expenses. And the city of Des Moines, Iowa, plagued by contaminated water, has coverage for flood damage.

Most of the flood victims are small businesses, farmers and homeowners who did not buy federal flood or crop insurance (BI, July 12).

Most commercial policies do not cover flood or subsequent

business interruption losses. Standard property policies exclude flood. Most policyholders cannot obtain business interruption coverage un-

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AP/Wide World Photo

Flood waters invaded downtown Burlington, Iowa, last week.

# Suit challenges Blues' minimum participation rule

By CHRISTINE WOOLSEY

PHILADELPHIA—A Philadelphia-area school district is crying foul over what insurance industry officials claim is simply sound underwriting practice.

Centennial School District in Bucks County, Pa., late last month filed suit in federal district court in Philadelphia claiming Independence Blue Cross' requirement that employers enroll at least 75% of their workers in the Blues' health plans violates

federal antitrust laws.

Consultants and attorneys say this may be the first time a so-called minimum participation requirement has been challenged in court as an antitrust violation, and agree a ruling in favor of the school district could be precedent-setting. But, they say, a victory is unlikely because insurers—and presumably Blue Cross plans—are generally protected from antitrust actions under the McCarran Ferguson Act.

The controversy began when

Independence Blue Cross of Philadelphia said it would not renew the school district's indemnity plan coverage, which expired June 30, unless 75% of the district's employees joined one, or a combination, of the insurer's three health plans. The Blues plan offers a traditional fee-for-service plan, as well as health maintenance coverage through Keystone Health Plan and a preferred provider plan called Personal Choice.

The district employs about 680

workers and has subscribed to the Blue's indemnity plan since 1987. Enrollment in the plan has dropped to roughly 51% this year from about 63% of employees in 1987, a spokesman from Independence Blue Cross said.

The other 49% of employees are enrolled in U.S. Healthcare, a Blue Bell, Pa.-based HMO.

Independence Blue Cross is insisting the district—and all other employers—meet the 75% minimum enrollment requirement, which the spokesman says has

always existed but was not always enforced. "Minimum participation requirements are nothing more or less than customary business practices that serve the best interests of our customers by providing an adequate risk pool," the Blues' spokesman said.

Because Blue Cross plans are by definition "insurers of last resort," it's important for them to balance higher cost, unhealthy risks with a pool of healthy indi-

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## Plan participation

Continued from page 3

viduals, he explained. "It's not that we don't want to insure more difficult risks, but in order to insure them, we need a share of good risks."

However, increasingly competitive HMOs have been entering markets and scooping up all the good risks, the spokesman said. "That's how Blue Cross plans get into trouble, and our leadership has decided not to let that happen."

Such a requirement is "standard group underwriting practice," agreed David Ogden, a consulting actuary with Milliman & Robertson in Milwaukee. "In essence they are trying to achieve a community rate within the group."

"From the Blues' perspective, enforcing minimum participa-

tion is the only way they can spread their risk," said Tim Garmager, an attorney and principal with Deloitte & Touche in Chicago.

But the school district claims Independence Blue Cross is using coercive tactics because its minimum participation rule forces employers to buy coverage from Blue Cross, rather than other competitors in the area.

The suit, which seeks class action status, claims Independence Blue Cross and its operating units' requirements violate the Sherman Antitrust Act in a number of ways. The complaint says the Blues plan has "monopoly power in the Southeastern Pennsylvania market for fee-for-service health care plans, and has a dangerous probability of obtaining monopoly power in the overall market for health plans in that area."

**In order to insure difficult risks, 'we need a share of good risks,' a Blues spokesman says.**

The complaint also alleges the defendants are restraining trade by conspiring to refuse to sell and provide fee-for-service health care plans to the district unless it agrees to purchase at least 75% of its employee health care plans from Independence Blue Cross.

In addition, the plaintiffs claim Blue Cross is "illegally tying the availability of their fee-for-service plan to their HMO plan, which is less desirable and more costly than other

HMO plans with which it competes."

Centennial spends about \$1.1 million annually on Blue Cross indemnity coverage for its workers, said Ellis Katz, the school district's attorney with Curtin & Heefner in Morrisville, Pa.

And, the district determined that buying HMO coverage from Blue Cross, rather than from U.S. Healthcare, would cost about \$34,000 more than it currently spends for that coverage, Mr. Katz said.

Independence Blue Cross is "effectively trying to eliminate competition," according to Wayne Thomas, an attorney with Kohn, Nast & Graf, a Philadelphia law firm specializing in antitrust actions, who is handling the case.

The Blue Cross spokesman said the plan is not bullying the district into buying its coverage.

"It's not coercion. We aren't insisting they buy our coverage—they can take their business elsewhere."

But Mr. Katz said the district is hampered from purchasing indemnity coverage from another insurance company because of language contained in the district's collective bargaining agreements.

"Most school districts have collective bargaining deals that specifically name Blue Cross & Blue Shield" as the health plan of choice "and you can't offer other insurance," Mr. Katz said. If the contract doesn't name Blue Cross, it probably says the employer has to offer "equivalent, identical or similar coverage," he noted.

However, "the reality is here Blue Cross does have a unique product. It's very difficult, if not impossible, to find another (insurer) to provide equal coverage."

For example, Independence Blue Cross and its subsidiaries have negotiated agreements with area providers to accept discounted reimbursement, and those doctors or hospitals have agreed not to bill patients for charges that exceed those discounts, Mr. Wayne pointed out. "There is no viable alternative to Blue Cross" since other health plan arrangements might allow providers to bill patients for excess charges, he said.

The two parties don't seem close to ironing out an agreement, but Blue Cross did agree to extend indemnity plan coverage to the school district until Sept. 30.

Some consultants and attorneys are skeptical that the district can successfully convince a court the practice violates antitrust claims.

"It would be difficult to prove antitrust allegations against an insurance company, and Blue Cross is clearly an insurance entity," Mr. Ogden observed. **BI**

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## Roberts named associate editor at BI in Chicago

CHICAGO—Sally Roberts has been promoted to associate editor in the Chicago office of *Business Insurance*.

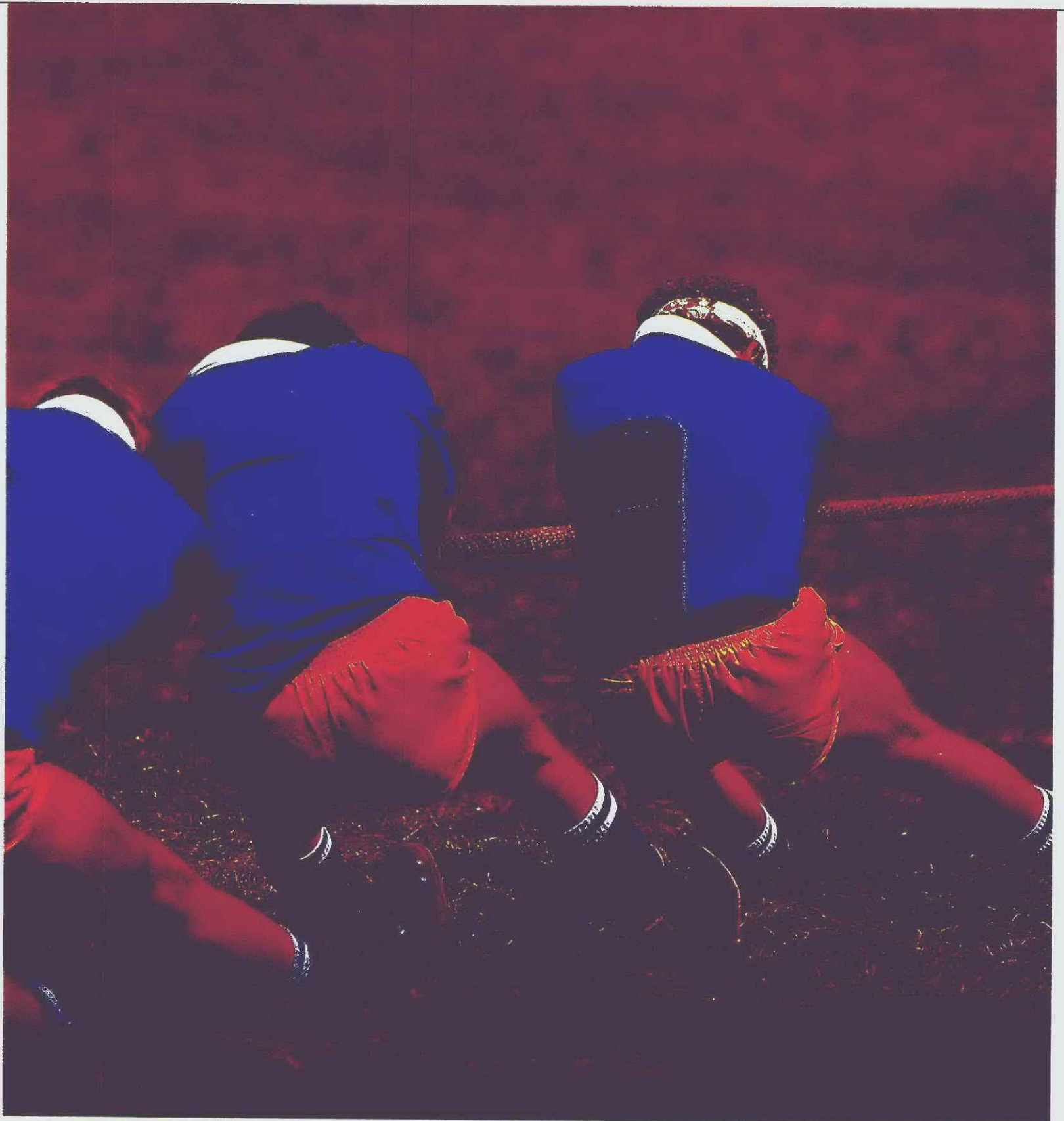
Ms. Roberts, 23, joined the staff in 1992 as a staff reporter after serving as a summer intern in Chicago.

"Sally has excelled in her coverage of the agent/broker marketplace and other assignments," said Editor James M. Burcke. "We are pleased to have her as a member of our team and to recognize her accomplishments."

Ms. Roberts holds a bachelor of science degree in journalism from the William Allen White School of Journalism and Mass Communications at the University of Kansas in Lawrence and a bachelor of arts in English from the university.

She can be reached at 312-649-5482. **BI**





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# GHAA blasts 'any willing provider' laws

State laws that guarantee a pharmacy the right to join managed prescription drug networks are hindering health maintenance organizations' efforts to control drug costs, according to a recent study.

Open pharmacy laws in effect in 15 states are compromising the ability of HMOs to selectively contract with specific pharmacies, says the study by the Group Health Assn. of America. As a result, the Washington-based GHAA is calling for a federal override of "restrictive, anti-competitive state laws."

These so-called "any willing provider" and "open pharmacy" laws prohibit HMOs from denying non-network pharmacies the right to join an HMO's network if a pharmacy is willing to meet the HMO's terms and conditions. The GHAA claims

## Benefit Beat

the laws severely harm HMOs in efforts to negotiate volume discounts with particular pharmacies.

"The ability to selectively contract with providers is at the heart of successful managed care operations," said GHAA President James F. Doherty. "A federal override (of these laws) will be essential if health care reform is to succeed."

—By Michael Schachner

## Dental HMO fraud

LOS ANGELES—A Los Angeles-based dental HMO has agreed to halt certain alleged illegal practices as part of a settlement of charges

brought by California regulators.

Among other allegations, the Department of Consumer Affairs' Board of Dental Examiners charged that ConsumerHealth Inc. and its subsidiaries, Consumer Dental Network and Newport Dental Plan, submitted misleading claims, issued rebates to consumers for patient referrals, altered patients' records and fraudulently obtained fees.

ConsumerHealth would advertise a "low-fee special," such as a \$10 exam including X-rays, to entice people with fee-for-service insurance to join one of its dental HMOs, according to Larry Ballard, chief of the enforcement program at the Board of Dental Examiners in Sacramento.

The HMOs would then bill the patients' plans at the usual, higher

fees and not at the advertised special, according to the state's suit.

"California's consumers were being bilked out of their full benefits, since most insurance companies have annual benefit limits. The subsidiary companies were depleting patients' benefits fraudulently," said Gloria Valde, president of the Board of Dental Examiners.

ConsumerHealth settled the Dental Board's complaint before it went to trial, said Stephen Casey, the HMO's president. The complaint "contains outrageous allegations that were never proven," he said.

"It was a settlement based on a business decision. We agreed to no wrongdoing but did agree to change some corporate structure," he said.

ConsumerHealth also agreed to reimburse the board for \$200,000

in attorney and investigative costs and to pay a \$1,500 civil penalty.

"The agreement also provides that each office name a managing dentist who will maintain responsibility for ensuring the dental standard of care, treatment planning and billing activity," the Dental Board said.

The board's investigators will be allowed to inspect ConsumerHealth's offices for compliance with the terms of the agreement.

—By Louise Kertesz

## NCQA accreditation

Several more large employers are mandating that their health maintenance organizations meet standards set by the National Committee for Quality Assurance.

Allied-Signal Corp., Ameritech Corp., GTE Corp. and PepsiCo Inc. join Xerox Corp. in requiring NCQA accreditation.

Other companies—including General Electric Co., International Business Machines Corp., Mercantile Stores Co. Inc. and USAir Inc.—are all strongly recommending that their health plans become NCQA accredited, the Washington-based group announced earlier this month.

By the end of 1993, close to one-third of the nation's 550 HMOs will have gone through the NCQA accreditation process. So far, 20% of the plans reviewed have received full accreditation status, while 77% have received a provisional status and 3% have been denied.

The NCQA is a 14-year-old independent non-profit organization that evaluates a health plan's internal quality processes and develops measures to gauge plan performance. Currently, the NCQA is developing performance standards so that health plans eventually can compare themselves and consumers can assess health plan performance.

—By Nancy P. Johnson

## Benefit cuts allowed

RAPID CITY, S.D.—John Morrell & Co., a meat packing unit of Chiquita Brands International Inc., may unilaterally modify or eliminate existing medical benefits to its 3,300 retired hourly employees, a federal judge ruled.

On June 24 U.S. District Judge Richard H. Battey ruled that former Morrell employees who retired prior to April 1, 1989, do not have vested lifetime health, medical and surgical benefits because recent negotiated contracts between Morrell and the United Food & Commercial Workers union didn't extend the retirees' benefits beyond the duration of the contracts. Unlike pension benefits, medical benefits are not automatically vested or guaranteed, he said.

"Despite a general desire that retired Morrell employees should have adequate (health, medical and surgical) coverage, the court cannot transfer such desire into contract provisions in what otherwise are clear and unambiguous contracts which contain no such provisions," Judge Battey wrote.

Morrell brought this action against the UFCW in 1991 seeking a ruling that it could change or eliminate retired hourly employees' health benefits. The company cited contract language negotiated in the 1980s that limited benefits to the duration of contracts.

The labor union countered that changes in retirees' health benefits constituted breaches of Morrell's fiduciary duties under the Employee Retirement Income Security Act.

The union is expected to appeal the decision.

—By Sally Roberts

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## Opinions

## A farewell to Metzenbaum

UNDOUBTEDLY, THE REACTION of many employers and insurers after hearing that Sen. Howard Metzenbaum will retire next year was: It can't happen soon enough.

We empathize with that kind of reaction. On occasion after occasion, during a 16½-year Senate career, the Ohio Democrat has lit into employers and insurers and has generally been a thorn in their sides.

Now that Sen. Metzenbaum is retiring, it would be hypocritical of us to praise him after we have criticized his proposals so often on these pages. But while we continue to believe many of his proposals have been—to put it charitably—misguided, Sen. Metzenbaum can claim credit to a series of solid legislative accomplishments.

He was instrumental in the passage of legislation that prevents companies from using the Bankruptcy Code as a strategy to walk away from their retiree health care programs. He also backed legislation—ultimately passed by Congress—that requires employers to recognize employees' years of service after age 65 for pension accrual purposes. That is only fair and reasonable.

What so many have found objectionable about Sen. Metzenbaum stems as much from his rhetoric and tactics as his legislative proposals. When Sen. Metzenbaum was against something, he didn't mince his words. And a sense of fair play was often absent when Sen. Metzenbaum wanted something. Just last month, he tried to ramrod a highly controversial proposal—a total rewrite of penalties under the Employee Retirement Income Security Act—through the Senate without any hearings.

As to his proposals, many of them appeared based on the faulty premise that employers and insurers are out to cheat their workers and policyholders.

But having said all this, we would be the first to add that there is a role for the Howard Metzenbaums of the world. We need critics to challenge our basic assumptions and what passes for conventional wisdom.

For example, Sen. Metzenbaum's rhetoric on pension reversions may have been exaggerated, but he did have a point. The failure of Executive Life Insurance Co., which



“HE JUST HEARD ABOUT METZENBAUM RETIRING.”

sold many annuity policies to employers terminating overfunded pension plans, and the number of Labor Department suits against employers that purchased the policies, illustrate that the rules governing reversions did not offer enough protection to pension plan participants.

By the same token, Sen. Metzenbaum's criticisms of state regulation of the insurance industry may have been overblown. But even the staunchest supporters of state regulation now acknowledge the system needs to be improved.

We doubt that following the announcement of his retirement, Sen. Metzenbaum will go quietly into the night. We're sure his tactics and proposals, in his remaining year in the Senate, will continue to outrage and be outrageous. But we also know he will continue to challenge us and force us to defend and perhaps reassess our views. That may be Sen. Metzenbaum's most important contribution.

## Letters

## Cambridge Re's liquidation a model for Mentor

To the editor: We are writing to correct two inaccuracies in the June 28 Bermuda article, "Mentor Deadline," which describes the status of the liquidation of Mentor Insurance Ltd.

First, it describes the Mentor plan as "a pioneering effort to use actuarial methods to value outstanding unreported claims." Second, the article reports liquidator Charles Kempe's assertion that the "scheme of arrangement will result in the fastest liquidation of its kind."

Actuarial estimates were used in the liquidation of Cambridge Reinsurance Ltd.—also in Bermuda—in 1988 and 1989. The liquidator of Cambridge, David Lines, conceived the idea and asked us to develop an actuarial approach for the liquidation. Cambridge became insolvent around the same time as Mentor, yet Mr. Lines was able to pay a first dividend in 1989, which was three years before Mentor. In fact, the liquidator of Cambridge has paid two additional dividends and has distributed the bulk of Cambridge's estate to creditors.

The liquidation of Cambridge was, if anything, the blueprint for Mentor. A de-

scription of the use of actuarial estimation in the Cambridge liquidation was presented at the June 1989 American Bar Assn. seminar on the law and practice of international insurance collections by ourselves and John Milligan-Whyte, counsel to the Cambridge liquidation.

The liquidation of Mentor will be fast, as such things go, but it will not be the fastest

and it is not pioneering—we did it first.

**Peter Licht**  
Manager/Senior Associate Actuary  
Insurance Services Office Inc.  
New York

**John C. Narvell**  
Senior Consulting Actuary  
Ernst & Young  
New York

## Time to stop self-regulated liquidations

To the editor: A couple of years ago in *Business Insurance*, I authored a Perspective article, "Insurer Solvency Regulation: Destroying Myths That Now Surround the Solvency Issue" (*BI*, March 18, 1991). The basic theme of the article was that the liquidation of insurance companies was the business of insurance and should be regulated as any other aspect of the insurance business—not by the liquidator or the courts. The reaction to the article was a resounding ho-hum, though a few professional liquidators did quietly take me behind the wood pile to scold me for suggesting that liquidation was the business of insurance.

Now, however, the U.S. Supreme Court has agreed that the liquidation process is the business of insurance. The decision, of course, is *Department of the Treasury vs. Fabe*, in which the Supreme Court upheld the superiority of policyholders' claims over the tax claims of the United States on the basis that the liquidating process is the business of insurance and therefore protected by the McCarran-Ferguson Act. The irony is that the Supreme Court basically

upheld the position of the liquidator, who argued that the liquidation process was the business of insurance.

This conclusion is something that many of us who represent policyholder and creditor interests against estates already knew. It is now time for the regulators of the business of insurance and the professionals they hire to also recognize the full scope of the Supreme Court's conclusion that the liquidation of insurance companies is the business of insurance. It is not just for the purpose of determining priorities.

In light of *Fabe*, it is time to reconsider the process where the liquidator regulates itself. If the rest of the insurance industry even remotely suggested such unfettered self-regulation, it would raise a chorus of opposition to rival any of the recent anti-industry invectives. Yet the liquidators plod merrily along without anyone, including the so-called consumer advocates, objecting to the liquidation process as substantially self-regulated.

**Peter H. Bickford**  
Bickford Hahn & Haley  
New York

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## Outsourcing

Continued from page 3

and deposits as well as to review loans and handle internal auditing functions.

Much outsourced work is done on computers, and computer crime is an increasing source of losses for companies. An average computer theft yields about \$560,000, compared with \$19,000 in a typical bank robbery, said Geoffrey H. Wold, a partner at Minneapolis consulting firm McGladrey & Pullen and co-author of "Computer Crime: Techniques for Preventing and Detecting Crime in Financial Institutions."

In financial institutions, the most frequent computer crime is the misposting or misdirecting of customer deposits to the perpetrator's own account. Other common schemes include crediting loans to bogus borrowers (see chart).

But not all employee losses are due to theft.

"The biggest issue isn't theft, it's failure to perform," said Rick Betterley, president of Betterley Risk Consultants in Worcester, Mass.

For example, if bank employees do not accurately track the money flowing in and out of a bank and this leads to lost money on an investment, the result could be a very expensive loss, Mr. Betterley said.

Careful contract wording is also essential to successful outsourcing, said Bill McAllister, assistant vp-risk management and insurance at PNC Bank Corp. in Pittsburgh.

Last fall, PNC contracted out its mail handling. The risk management staff saw to it that the contract: had a hold-harmless clause to benefit PNC; named PNC as an additional insured; and provided

certificates of insurance for all coverages, including E&O, general liability and fiduciary bonds.

"Put as much burden as possible" on vendors, advised Cristen Kogl, an attorney with Coffield, Ungaretti & Harris in Chicago, who specializes in information systems technical law. "Make sure the contract has a disaster recovery plan," and check at least once a year that it is in place, Ms. Kogl advised.

Also, have all employees—regular and outsourced—sign a confidentiality agreement, suggested Ms. Kogl. If an employee decides to alter computer records for a patient's pathology test, or divulges to the press that someone has AIDS, "who knows what liability you may face?"

The contract should require that if security measures are breached, the outsourcing vendor must immediately notify its client, stop the work and agree to liability for the damage, she said. And, because total damages are impossible to predict in advance, an outside contractor should be required to immediately pay the client a specific amount.

One often overlooked outsourcing problem is how to end deals that have gone bad, Ms. Kogl said.

Disputes can be costly. One large company had invested \$125 million with a vendor to develop and manage its information system, said Ms. Kogl, but has since spent \$100 million in lawsuits against the vendor, claiming it had not developed and updated the system as agreed.

Also, the contract should not have a heavy penalty if the service purchaser terminates it early, and should include a clause to end the agreement within a reasonable

amount of time, with renewability each year thereafter, she suggested. One such early termination penalty cost a company \$4.5 million, said Ms. Kogl.

To prevent the vendor from holding the purchaser "hostage," contracts should permit the service purchaser to buy back data, hardware and software, and should guarantee a smooth transition back to the purchaser, she said.

"Make sure the contract is clear as to who is liable for what and at what point, added James Ostrom, senior underwriting officer-fidelity for St. Paul Financial Services in St. Paul, Minn.

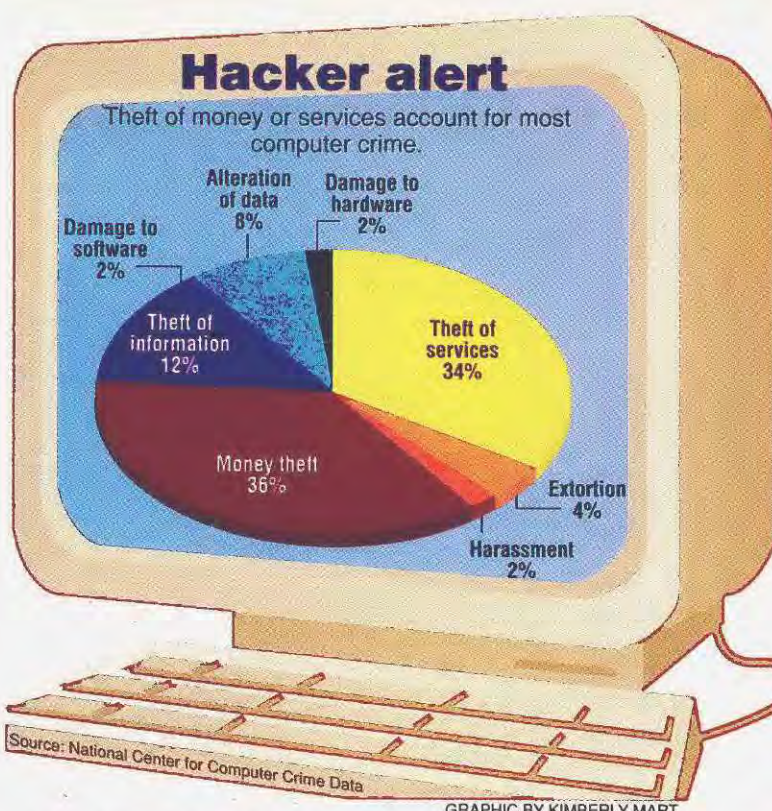
"We have seen contracts limiting the liability of the service provider to the value of the contract—what the purchaser is paying. Obviously, the loss could total many times that," he said.

Contract negotiations should cover insurance, experts agree.

First, service purchasers should ask to be included in the contractor's third-party fidelity coverage, which would cover the vendor for acts occurring on the purchaser's premises, said Mr. Ostrom.

Also, the purchaser should ask the vendor to have its insurer include the purchaser as a named insured on its fidelity bond. "This is difficult to accomplish in today's market, because underwriters have difficulty knowing the controls at the buyer's premises," Mr. Ostrom noted.

Fidelity bond coverage proved to be a sticking point for Continental Bank Corp. in a contract negotiation. In 1991, Integrated Systems Solution Corp., an IBM subsidiary, took over maintaining computer support equipment and software development for the Chicago bank.



ISSC's insurer wouldn't allow Continental to be named on its fidelity bond, so Continental instead required ISSC to maintain a certain level of coverage on the bond, said Ronald J. Vlamis, director of corporate insurance for the bank.

Third, the purchaser should ask its own insurer to add the contractor's employees to the fidelity bond.

Next, the purchaser should install internal controls and employee education programs, said Mr. Ostrom, who suggested:

- The vendor and purchaser must have a clear agreement of

what duties the outsourcing employees will perform.

- The outsourcing employees must be thoroughly trained beforehand.

- The risk manager should determine what internal controls are needed to prevent dishonest acts or errors and omissions.

One common internal control tool is dual control, which prevents any one employee from taking care of a transaction from beginning to end, Mr. Ostrom explained. Employers should rotate employees' tasks periodically and make sure employees take their vacations. **BI**

# CAPITAL

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# In office, Metzenbaum has never been retiring

By JERRY GEISEL

WASHINGTON—When Sen. Howard Metzenbaum retires next year, businesses and the insurance industry will be relieved of a strident antagonist while benefit plan participants will lose their most dogged champion.

Almost singlehandedly, the Ohio Democrat pushed through legislation that effectively prevented employers from recapturing surplus assets after terminating over-funded pension plans.

He also was responsible for legislation that made it more difficult for employers in bankruptcy to walk away from their retiree health care programs.

In addition, Sen. Metzenbaum, 76, played an important role in passing laws that require employers to recognize years of service after 65 for pension accrual purposes and that created new rules regulating so-called window programs designed to encourage older workers to retire.

More recently, Sen. Metzenbaum introduced legislation—which the Senate did not act on—that would have subjected insurers that mishandled health insurance claims to state penalties, including punitive damage awards.

And last month, Sen. Metzenbaum proposed an amendment, which he later withdrew on the Senate floor, that would have exposed employers and their benefit advisers to big damage awards for violations of the Employee Retirement Income Security Act.

On risk management and insur-

ance issues, Sen. Metzenbaum, during his 16½ years in the Senate, has been just as active, though much less successful.

In 1988, Sen. Metzenbaum was forced to withdraw on the Senate floor—in the wake of a filibuster—a proposal that would have required former employees to be notified for up to 30 years after they left a firm that they are or have been at high risk of contracting an occupational disease from workplace exposure to certain hazardous materials.

Often a strident critic of the insurance industry, Sen. Metzenbaum several times introduced legislation to gut the McCarran-Ferguson Act, the 1945 law that exempts insurers from most federal antitrust laws.

He also backed legislation, which was not acted on, that would have created: federal solvency standards for property/casualty insurers; a federal reinsurance office that would have regulated both domestic and offshore reinsurers; and a new federal guaranty fund system that would have superseded state funds.

Few, if any, members of Congress have provoked such strong feelings—negative and positive—as Sen. Metzenbaum.

Business groups describe Sen. Metzenbaum as misguided, driven by a philosophy that employers are out to deprive workers of their benefits.

"He had a fundamental suspicion that employers were out to cheat participants even though employers had put in benefit plans

voluntarily," said James Klein, executive director of the Assn. of Private Pension & Welfare Plans in Washington.

Sen. Metzenbaum could not be reached for comment before deadline.

"He has taken Populist political positions. Beating up on insurance

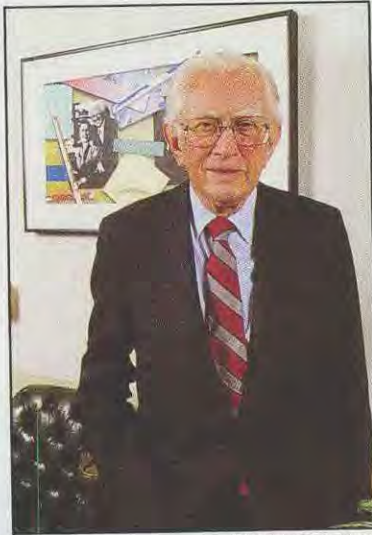


Photo by Tom Reed

**Sen. Howard Metzenbaum, long a thorn in the side of business, is retiring next year.**

companies goes with that territory," said Marc Rosenberg, vp-federal affairs for the Insurance Information Institute in Washington.

"He's made a career out of being a gadfly. He has annoyed his colleagues as much as anyone else," he added.

"It was part of his stock and trade to be a Populist curmudgeon," according to Les Cheek, senior vp-federal affairs in the Washington office of Crum & Forster Inc.

To organized labor, retiree and consumer groups, Sen. Metzenbaum has been a tireless hero.

"He has been a tremendous friend of retirees and workers. He has been the type of person who will stand up and fight. We think the world of Sen. Metzenbaum," said Alan Reuther, legislative director of the United Auto Workers union in Washington.

"He took a participant rights-oriented view. He was willing to stand up for the individual against employers and insurers. He stood up for those without strong voices," said David Certner, legislative tax counsel for the American Assn. of Retired Persons in Washington.

"He is a great man. He always fought for the little guy," said J. Robert Hunter, president of the National Insurance Consumer Organization in Alexandria, Va.

Friend and foe alike agree on at least one thing about Sen. Metzenbaum: When he believes in something he doesn't give up.

"He was tough. He would hang onto an issue year after year and not give up," said Howard Weizmann, a former APPWP executive director and now a consultant with The Wyatt Co. in Washington.

A case in point: Sen. Metzenbaum fought for seven years until Congress essentially killed pension reversions in 1990.

"Sen. Metzenbaum showed tremendous tenacity on the reversion issue," the AARP's Mr. Certner said.

"He fought and fought for his proposals," Mr. Klein said.

Although insurance industry lobbyists label Sen. Metzenbaum as a single-minded adversary of the industry, they also acknowledge that his criticisms of the industry focused attention on important issues.

"He can take a measure of credit for the attention that has been given to the need to improve" solvency requirements, said David Farmer, vp-federal affairs with the Alliance of American Insurers in Washington.

"While I often disagreed with him, he did make us aware of problems that we might not have paid as much attention if he hadn't focused on them," said Mr. Cheek.

Sen. Metzenbaum was appointed to the Senate in January 1974 to fill the vacancy created by the resignation of William B. Saxbe. He served until December 1974. Sen. Metzenbaum lost his bid for renomination in 1974, but he was elected in November 1976 and re-elected in 1982 and 1988.

Sen. Metzenbaum said he will not seek a fourth term and will retire next year to spend more time with his family.

Ironically, his family may be looking to spend more time with the Senate. His son-in-law, Joel Hyatt, founder of the chain of legal services offices that bear his name, has been raising money for the race.

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## Lloyd's

Continued from page 2  
cut back, he added.

These changes ultimately will lead to fewer syndicates in the market, he predicted.

But as few as 100 syndicates, down from the current 228, would still leave a market with huge diversity, Lloyd's chairman said.

Lloyd's may also abandon its three-year accounting system, he suggested.

The three-year system stems from Lloyd's membership structure, in which a member joins a syndicate for a specific underwriting year. That year's accounts are not closed for three years to ensure that any profits or losses are attributed to the correct year.

"We would very much like to bring that period down, and we are exploring the possibility of bringing it back to two years," Mr.

Rowland said.

He said Lloyd's is keen to attract "hundreds of millions of dollars" in corporate capital for 1994, which was a cornerstone of the market's business plan unveiled earlier this year (BI, May 3).

Several investment banks are showing interest in raising capital to invest in Lloyd's, Mr. Rowland said. "At the moment, it's rather like hot breath on the shop window. We have an enormous number of capital managers talking to us, but moving from the breath on the window to the shop counter is something that takes time," he said.

The future Lloyd's will also have executives that are prepared to take a firm control of the market.

"Never again must somebody in my role say we won't interfere in the market," Mr. Rowland said.

But if Lloyd's is to achieve the bright future that Mr. Rowland

hopes for, it will have to overcome much of the litigation that surrounds the market, said U.S. members who gathered in Boston earlier this month for an Assn. of Lloyd's Members meeting.

"We all seem to be suing each other," said Ralph B. Bunje Jr., regional organizer for the ALM in Northern California.

"Solving the litigation is uppermost in peoples' minds," added Roderick L. MacDonald, a regional organizer in Boston.

Many U.S. members meeting in Boston were hearing Mr. Rowland and Lloyd's Chief Executive Peter Middleton speak for the first time.

"I think they were impressed with what they heard, and there was a feeling that we all have to work together to solve the problem," Mr. MacDonald said.

The most popular solution to solving the litigation crisis involves freeing up funds at Lloyd's where

losses have been "double counted," he said.

Between 600 million pounds (\$898.2 million) and 1 billion pounds (\$1.49 billion) of reserves at Lloyd's are believed to double counted, he said.

This occurs when two different syndicates reserve for the same loss. For example, one syndicate may establish a reserve for a liability claim and then make a cash call on members, which prompts litigation. Another syndicate—which wrote errors and omissions coverage for members agents—may set aside a reserve in anticipation of its policyholder being required to pay members' losses on the original liability claim.

"There was a feeling that if we could free up that money it could be used as additional capital which could help solve the litigation problem," Mr. Macdonald said.

Currently, around 25% of U.S.

members are having serious problems meeting their Lloyd's losses, Mr. Bunje estimated.

"If the results of 1991 are half as bad as 1990 then the number of distressed names could go up to 40% next year," he said.

However, fewer U.S. than British members will have to sell their houses to meet their losses, said Frank Streeter, also an ALM organizer in Boston.

U.S. members are more likely to have to sell stocks and bonds to meet their Lloyd's losses, and this might make them less likely to sue Lloyd's, he said.

"I think that if I had lost an estate that had been in the family for 10 generations I would be much more angry about (the losses)," he said.

But despite the softer blow, many U.S. members will not remain in Lloyd's for long, unless they see evidence that the litigation problems are likely to be cleared up soon, Mr. Streeter said.

Many members at the ALM meeting said they want to stay in Lloyd's for the prospect of future profits, but they will wait to see what solutions to the problems are first offered, he said.

"Nobody was saying, 'Sign me up now.' They are waiting until October before they decide," Mr. Streeter said.

Members wishing to resign from the 1994 underwriting year have to notify Lloyd's by October. **BI**

## ELIC insureds from Michigan luckier than most

LANSING, Mich.—State regulators' prudence in dealing with Executive Life Insurance Co. before its spectacular 1991 failure is paying off for Michigan policyholders.

As the Executive Life rehabilitation ground on in a Los Angeles courtroom, Michigan policyholders' claims were being paid through a special fund set up by the State Insurance Bureau.

Because of the bureau's concerns about Executive Life even before the 1991 failure (BI, April 26), the insurer was required to put \$1 in cash-equivalent bonds into the fund for every \$1 in premiums it collected from Michigan policyholders.

By November 1991, when California regulators moved in, that fund contained \$150 million, said John Colpean, a partner in Zagaroli & Colpean, the Lansing law firm that administers the Michigan Life & Health Insurance Guaranty Assn.

Shortly after Executive Life failed, it paid Michigan policyholders' claims directly, and Michigan reimbursed the insurer out of the special fund. Total claims between November 1991 and last month were about \$10 million.

"We expected (reimbursing Executive Life) to be an arrangement of very short duration, but the California proceeding to dispose of Executive Life has been dragging on in a very bitter court proceeding," said Mr. Colpean. "Last month, we decided we should just administer the claims ourselves, so the claims are now being paid through the Michigan insurance commissioner."

Because Executive Life claims are being covered by the special fund, Michigan life insurers will not face guaranty fund assessments for them.

Meanwhile, a Los Angeles judge is expected to rule this week on the modified Executive Life rehabilitation plan.

—Crain News Service

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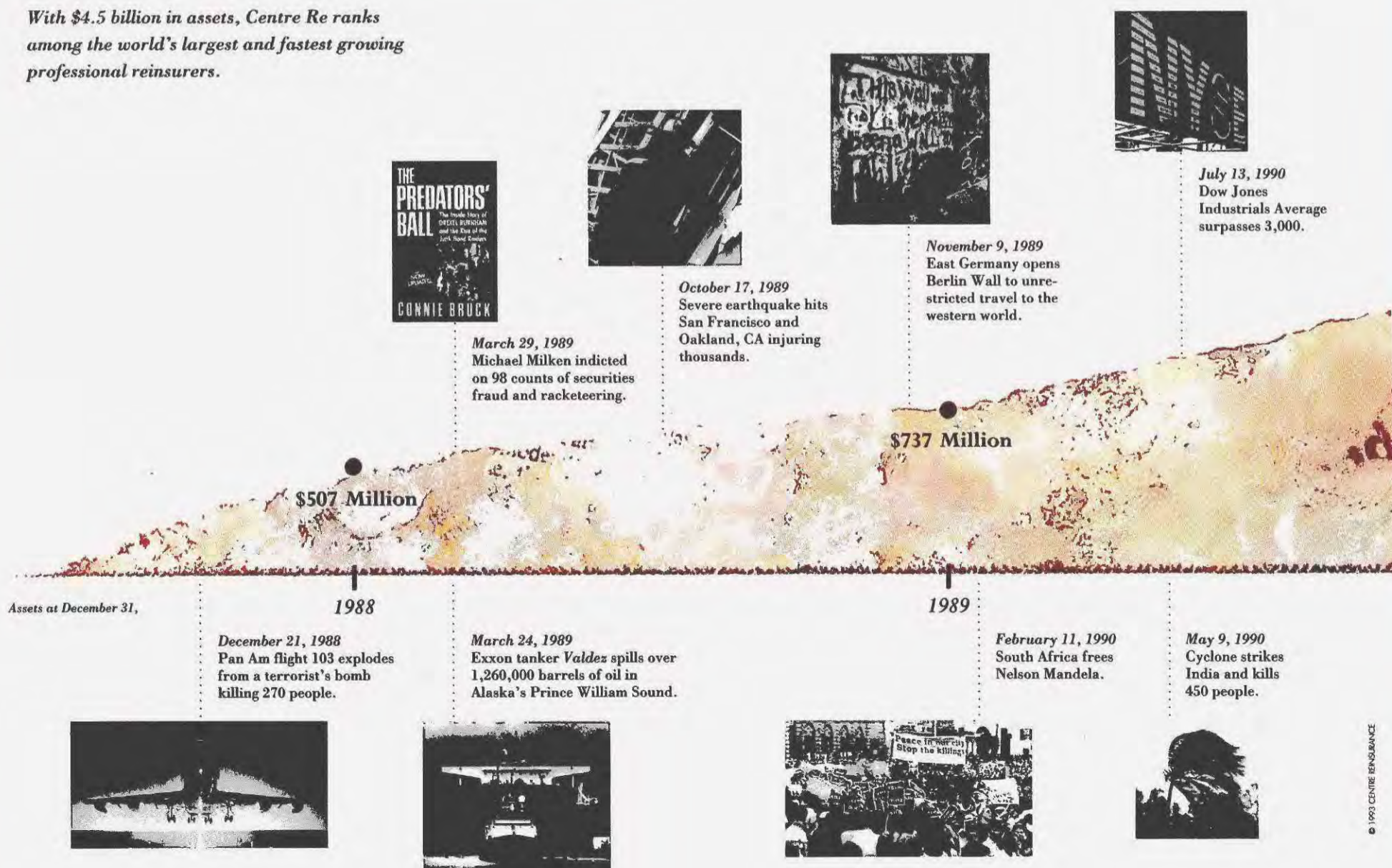
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# prologue

William Shakespeare



August 24, 1992  
Hurricane Andrew causes more than \$15.5 billion in damages.



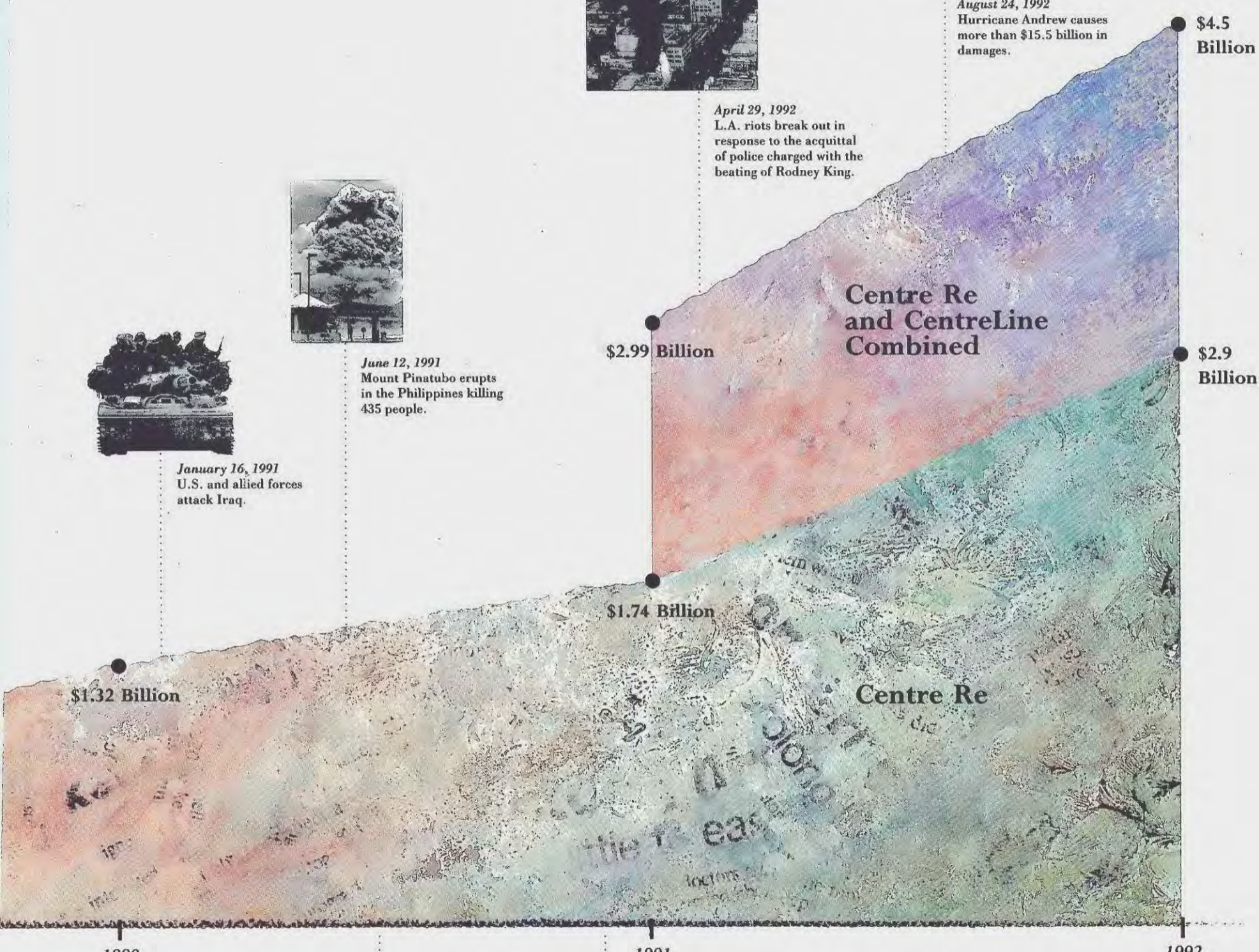
April 29, 1992  
L.A. riots break out in response to the acquittal of police charged with the beating of Rodney King.



June 12, 1991  
Mount Pinatubo erupts in the Philippines killing 435 people.



January 16, 1991  
U.S. and allied forces attack Iraq.



October 11, 1991  
Anita Hill testifies to alleged sexual harassment by Clarence Thomas.



December 25, 1991  
Union of Soviet Socialist Republics (USSR) is formally abolished.



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## Regulation

*Continued from page 2*

at the National Conference of Insurance Legislators' meeting.

Both bills would require insurers to report certain market data to regulators and both would set federal rules on agent termination and other insurance practices.

Both subcommittees held redlining hearings earlier this year (BI, March 1).

On the Energy and Commerce side, Ms. Hamrick noted, Rep. Cardiss Collins, D-Ill., chairwoman of the Subcommittee on Commerce, Consumer Protection and Competitiveness, appears to be pushing to have the subcommittee vote on her bill, H.R. 1188, before the August recess.

If that happens, Ms. Hamrick predicted that Rep. Collins' Banking Committee counterpart, Rep. Joseph Kennedy II, D-Mass., would quickly bring his anti-redlining bill, H.R. 1257, to a vote.

In addition to anti-redlining measures, the legislation proposed by Rep. Kennedy, chairman of the Subcommittee on Consumer Credit and Insurance, would also grant the federal insurance administrator certain powers to oversee the solvency of alien insurers and reinsurers.

If the Kennedy bill passes, Ms. Hamrick said, Rep. Dingell might decide to push to get a vote on H.R. 1290, his bill that would create a dual system of state and federal regulation of insurer solvency.

"We feel there's a definite push to get something passed" to settle the jurisdictional dispute, said Ms. Hamrick, who noted that she was appearing as a "reporter" rather than as an advocate of any particular approach.

Another speaker sounded very much the advocate as he presented a regional insurer's view of regulation.

David Rolwing, president of Montgomery Mutual Insurance Co. of Sandy Springs, Md., said he shares Thomas Jefferson's belief that the government that governs least governs best.

But state legislatures are governing every aspect of the business of insurance down to the type size that appears on contracts, complained Mr. Rolwing, who is also chairman of the Alliance of American Insurers and a former Missouri legislator.

"I don't view the state or federal government either as my friend or my enemy," he said. Both should regulate insurers objectively, yet the results are often punitive, he said.

For example, Mr. Rolwing asked, why should his insurance company—which writes in eight Eastern and Southeastern states—have to undergo a market conduct examination by Maryland regulators and then have to undergo the same type of examination three weeks later by North Carolina regulators and have the privilege of paying for both of them?

Mr. Rolwing said he doesn't necessarily favor federal regulation, adding that he would support any effort to improve state regulation of insurer solvency. It is the heaping of regulation upon regulation on insurers that causes insurers to question whether the current system of state regulation is the best approach, he said.

Steven T. Foster, insurance commissioner of Virginia and president of the National Assn. of Insurance Commissioners, de-

fended the state system as superior to federal regulation or, worse yet, a system of dual regulation.

The NAIC's accreditation program for state insurance departments is improving regulation, he said. "Accreditation, frankly, has exceeded my expectations."

Mr. Foster added that while the NAIC remains opposed to dual regulation, it supports federal penalties for insurance fraud and would like the federal government to make the NAIC a "gatekeeper" to oversee alien insurers and reinsurers operating in the United States.

Andrew Wright, vp-federal affairs for the American Insurance Assn., said the trade group hasn't endorsed Rep. Dingell's dual regulation proposal, but does consider it a "good first step" for improving solvency regulation.

Right now AIA members suffer

a one-two punch, he said. They are often undersold by companies that don't intend to be around when claims are paid and then must pay into state guaranty funds to make up the losses of their insolvent competitors, he said.

"The purpose of insurance regulation is solvency regulation," Mr. Wright stressed. And during a question-and-answer period, he returned to that point.

Some states restrict rates and then refuse to allow insurers to stop writing business even though they must do so at a loss, he said.

"There's nothing the NAIC can do about that," he said, or about a "rogue regulator doing a lousy job."

Mr. Wright appealed to his audience of state lawmakers to once again focus regulatory efforts on solvency. **B**

## Critic assails effectiveness of managed competition



WASHINGTON—As far as William Niskanen is concerned, managed competition sounds like a sure recipe for economic indigestion.

"Managed competition is stone soup," said Mr. Niskanen during an all-day public hearing on health care reform held by the National Conference of Insurance Legislators at their annual meeting in Washington last week.

Mr. Niskanen is chairman of the Cato Institute, a libertarian think tank in Washington. During the early 1980s, he served on President Reagan's Council of Economic Advisers.

While most other speakers at

the hearing called for some sort of increased government role in health care reform, Mr. Niskanen dismissed managed competition as "a massive restructuring of a huge sector of the American economy for no apparent purpose other than to satisfy the whims of the current generation of social engineers."

Managed competition by itself will neither extend coverage to the uninsured nor reduce the "rapid increase in the relative

*Continued on next page*

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Continued from previous page  
inflation and expenditures for medical care," he said.

Instead, "individuals would have even less incentive to maintain their own health status and limit the use of medical care, because everyone would pay the same premium for the basic plan," Mr. Niskanen contends. "It is an unsavory stone soup that does not address the major perceived problems of our current system of medical care. The most important and costly elements of this plan will be a substantial increase in the demand for medical care—financed by some combination of mandates on employers and tax subsidies—and some combination of price controls and global budgets.

"These measures would lead to some combination of increased prices and rationing... and the bureaucratization of the American system of medical care. I doubt this

is what most Americans had in mind when they voted for change last November," he said.

After his presentation, Mr. Niskanen was asked what he'd do about the uninsured.

**'Most of us don't have asteroid insurance,' yet no one regards that as a national problem, Mr. Niskanen says.**

"Lack of health insurance is not of itself a problem... most of us don't have asteroid insurance," yet no one regards that as a national problem, he said. Instead, "we should be restricting insurance to genuine disasters."

—By Mark A. Hofmann

## Tax bills

Continued from page 2

House bill—that would give special waivers to benefit laws and rules in Hawaii, Maryland, Minnesota and New York from the pre-emption provisions of the Employee Retirement Income Security Act (ERISA, May 17). Section 514 of ERISA pre-empts state laws and regulations that "relate" to employee benefit plans.

Hawaii wants a waiver to make certain changes in its 1974 universal health care statute. A waiver approved by Congress a decade ago does not apply to post-1974 changes.

The other three states are seeking waivers to restore or protect health care reforms that may run afoul of the ERISA pre-emption.

Under the House tax legisla-

tion, Hawaii would receive a permanent ERISA waiver, while waivers in Maryland, Minnesota and New York would be for only two years.

Employer benefit lobbyists strongly oppose the waivers of ERISA pre-emption. They say such waivers directly conflict with a key goal of ERISA: pre-emption of varying state laws so multi-state employers can operate uniform benefit plans.

"This is a real slap at ERISA pre-emption," said James Klein, executive director of the Assn. of Private Pension & Welfare Plans in Washington.

Others note that if Congress this time approves the four state waivers, it will set the stage for dozens of more states seeking waivers in the future.

"The concern is not so much about these four states as the prospect of 40 more states seek-

ing relief from ERISA pre-emption," said Henry Saveth, a principal with A. Foster Higgins & Co. Inc. in New York.

"Employers worry what these waivers signify for the future," said Hewitt's Mr. McArdle.

Benefit experts aren't sure if the conferees will accept the ERISA waiver provisions in the House bill, though some signs indicate they will not.

The APPWP's Mr. Klein says Rep. Daniel Rostenkowski, D-Ill., a member of the conference committee and chairman of the House Ways and Means Committee, has expressed a willingness to get rid of the waivers if they prove too controversial.

However, because the two bills contain nearly identical tax provisions on cutting pension benefits and contributions for higher-paid workers, conferees are likely to reach agreement in this area.

Both House and Senate bills would reduce to \$150,000 from the current \$235,840 the amount of employee compensation that could be recognized in setting defined benefit pension formulas and making contributions to defined contribution plans.

For example, an employer that contributes 5% of pay to a savings plan could contribute a maximum of \$11,972 to the plan on behalf of an employee earning \$235,840. Under the two tax bills, the employer contribution would be cut to \$7,500.

The two bills differ, though, in how they would index the \$150,000 limit. Under the House bill, the \$150,000 would increase annually in line with the rise in the Consumer Price Index.

By contrast, the Senate bill would raise the \$150,000 limit only in \$10,000 increments. When cumulative CPI increases produced an increase of \$10,000 or more, the limit would be increased by \$10,000.

The two bills also differ on retroactively extending the tax-favored status of educational assistance benefits.

Under the House tax bill, the tax-favored status of educational assistance benefits would be permanently restored, retroactive to June 30, 1992, when these benefits' tax-favored status was last part of the Internal Revenue Code.

Under a special transition rule, employees who paid taxes on their 1992 tax returns for educational assistance benefits would reduce their 1993 taxable income by the amount paid.

The House bill also would continue the \$5,250 ceiling on the maximum amount of tax-free educational assistance benefits an employer could provide to an employee.

The Senate bill would retroactively restore Section 127 to June 30, 1992, but only until June 30, 1994. Benefit observers say that conferees may go with the Senate version because it loses much less revenue—\$800 million over five years—than the House version, which would cost the Treasury Department \$2.8 billion in revenues.

Both measures would subject all employees' wages to the 1.45% Medicare portion of the Social Security payroll tax. The tax now applies only to the first \$135,000 of wages.

The measures would make it more expensive for tax purposes to entertain clients. Only 50%—rather than the current 80%—of the cost of business lunches and dinners could be deducted as a business expense. **BI**

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## HMO stocks

*Continued from page 3*  
 budget issues, Mr. Harris said.

"Now investors are more realistic about the likely scope of the reforms," he said. "There is a feeling that national reform is likely to come farther down the road, and just because something is proposed doesn't mean it will become law."

Furthermore, the HMO industry "is about to report incredibly strong second-quarter earnings," pointed out Todd Richter, an analyst with Dean Witter in New York. "Most importantly, enrollments are up."

Indeed, second-quarter results to be reported by most publicly traded HMOs will show that "despite the gyration of HMO stocks in the February-March time frame, the fundamentals remain strong," agreed Mr. Harris.

The higher earnings indicate that HMOs have kept the lid on medical inflation while increasing their enrollment and revenues, he said.

"The conventional wisdom is that under any scenario, the HMO industry will experience decent growth," concurred Randall Huyser, managing director in the San Francisco office of New York-based investment analyst Furman Selz Inc.

"Profit margins have improved steadily over the past few years," giving investors "a greater comfort level," he said.

Mr. Richter concurred: "There is now a recognition that federal health care reform is more than likely going to be a huge positive for the industry, since the leading proposal so far supports a managed competition-based reform structure."

State reforms passed this year in California, Florida and Minnesota that give an edge to the managed care organizations by requiring across-the-board community rating also are helping HMO stock prices, according to Smith Barney's Mr. Harris. HMOs traditionally use community rating to set prices for their services on a capitated basis.

Underwriting reforms included in A.B. 1672, a new law that took effect July 1 in California, restrict insurers' ability to vary rates for health status, occupation or claims experience (BI, April 5).

Florida's reform law, enacted in April, was the first such state legislation based on managed competition. The law, which took effect July 1, established community health purchasing alliances to help provide greater access to health care coverage for the state's 2.5 million uninsured citizens (BI, April 12).

In May, Minnesota passed health reform that will create non-profit integrated service networks that will function like HMOs. The law, parts of which will be phased in over the next several years, is expected to harness health care costs by controlling the networks' revenue growth (BI, June 21).

In fact, national reform that mirrors the reforms that have been implemented so far at the state level will likely help rather than hurt HMOs, he predicts.

However, there is still a concern that the proposal the administration unveils this fall will include a payroll tax to finance health reform, which Mr. Harris characterized as "just a Trojan horse for a one-payer system."

Among the HMOs that have been riding the crest of the stock price swell are:

- Oxford Health Plans, which surged to a 52-week high of \$73.25 per share after tumbling to about \$36 a share after the State-of-the-Union address. Its 52-week low was \$23.

"Oxford's just outpacing everyone," observed Alex. Brown's Ms. Kerns. "It has the greatest growth potential of any HMO stock."

Oxford has posted the largest percentage gain in enrollment of any HMO nationwide, with a 73% increase in 1992 and a 76% gain in the first quarter of 1993, according to Ms. Kerns.

As of year-end 1991, Oxford, which operates in New York, three counties in Connecticut and statewide in New Jersey, had total enrollment of 65,000, according to the Group Health Assn. of America in Washington.

It is one of the only HMOs to  
*Continued on page 20*

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## HMO stocks

*Continued from page 18*

make inroads in the Greater New York area, where a regulatory climate has kept many larger players on the sidelines, she explained.

In New York, New Jersey and Pennsylvania, health insurance rates—including HMO capitation fees—are subject to prior approval. "Every year, U.S. Healthcare goes through a lot of anxiety over whether its rates will be approved," Ms. Kerns said. "That's kept the competition out over the years."

Another problem inhibiting HMO expansion in the Northeast has been the shortage of primary care physicians, especially in high-rent districts like midtown Manhattan, according to Furman Selz's Mr. Huyser.

"New York is sort of the last

bastion of HMO penetration," he said.

- United Healthcare Corp. of New York, which closed at 64½ on July 9 after a year low of \$40.

- U.S. Healthcare Inc. of Blue Bell, Pa., now at 48½ after a year low of \$35.75.

- HealthCare Corp. of the Mid-Atlantic, a for-profit subsidiary of Blue Cross & Blue Shield of Maryland, reached a 52-week high of 26½ after falling to just \$9 a share during the same period.

- Coventry Corp., parent company of Group Health Plan Inc. in St. Louis and HealthAmerica Pennsylvania Inc. of Pittsburgh, climbed to a 52-week high of 35½ after sinking to a low of \$13.25 earlier this year.

- Wellpoint Inc., the for-profit managed care subsidiary recently spun off from Blue Cross of California, climbed about 17%

**'Under any scenario, the HMO industry will experience decent growth,' sums up Randall Huyser.**

to \$31.50 on July 9 from \$27 a week earlier, after experiencing a brief "roller-coaster ride" stemming from attempts by the California Medical Assn. to undo the conversion.

Surprisingly, the stock also dipped slightly after Blue Cross announced its intention to cut specialist fees.

"The real challenge for Wellpoint is going to be improving its ratios," said Mr. Huyser. "It already has about the lowest medical loss ratio of any HMO."

- Among other HMO stocks that have rebounded from 52-week lows are: FHP International, which closed July 9 at \$28.25, up from \$14.50; PacificCare Health Systems closed at \$41.75, up from \$25.50; Safeguard Health Enterprises closed at \$9, up from \$7; Sierra Health Services closed at \$27.50, up from a low of \$9.38; and TakeCare Inc. closed at \$45, up from a low of \$25.75.

Foundation Health Corp. of Rancho Cordova, Calif., is the only HMO that appears to have fallen behind the pack, according to analysts.

"Foundation hasn't come back as much," said Mr. Kerns. "The big factor is the CHAMPUS contract renewal," which has pitted Foundation against Wellpoint, Aetna Health Plans Inc. and Qual-Med Inc.

The contract for the Civilian

Health and Medical Program of the Uniformed Services for dependents of military personnel and military retirees in California and Hawaii, which expires Jan. 1, 1994, is valued at \$3 billion. The CHAMPUS contract covers 860,000 lives and currently comprises approximately 40% of Foundation's business, generating \$650 million a year in revenues.

While Pueblo, Colo.-based Qual-Med is considered a dark-horse candidate for the contract, both Wellpoint and Aetna are admirable opponents for Foundation.

But Ms. Kerns thinks Foundation has a good chance of keeping the contract, since Foundation has done a good job of managing health care costs for the military. And that could improve its stock market performance, she said. **BI**

## GAO report

*Continued from page 2*  
retirees.

But nearly 70% of employers either have or plan to in the next year raise retiree premium contributions or otherwise alter their retiree health plans, according to a forthcoming report from A. Foster Higgins & Co.

And another recent survey of 216 plans found that half are increasing retiree contributions. That study, by William M. Mercer Inc., indicated that 34% of retirement plans now have tighter eligibility standards, while 26% have caps on company contributions.

Mercer concluded that future retirees stand to lose the most from an overall cutback in employer-provided retirement plans. Approximately 22% of retiree health plans in the study have done away with coverage for at least some future retirees and/or their spouses.

Retiree benefit cuts generally have passed court muster, the GAO noted. Courts generally have given employers a green light to alter or terminate retiree health care benefits as long as they had reserved the right to do so in plan documents.

Employers' freedom to cut benefits means retiree health benefits are not secure, the GAO said. "Our review of available data and health benefit consultant studies showed that retiree health benefits are not secure under the present employer-based system because under certain circumstances they can be changed whenever and as employers deem necessary," the report said.

As Congress considers various health reform proposals, it should pay particular attention to retirees, especially those under 65 not yet eligible for Medicare, who could lose their coverage, the report added.

The Clinton administration, as part of its still-evolving reform proposal, has been examining what employers' responsibilities will be to provide health care coverage to retired workers. No final decisions have been made.

Copies of "Retiree Health Plans: Health Benefits Not Secure Under Employer-Based System," are available from the U.S. General Accounting Office, P.O. Box 6015, Gaithersburg, Md. 20877; 202-275-6241. The first copy is free; additional copies are \$2 each. Checks should be made out to the Superintendent of Documents. Specify report No. GAO/HRD-93-125.

# YESTERDAY

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■ Information and advice for using surety bonds in construction projects is provided in a pamphlet from ARM Tech. Request item 2402.

■ A booklet from Johnson & Higgins presents the results of a study examining the condition of the insurance market and key issues affecting the current and future profile of the industry. Request item 2403.

■ A brochure provided by Crawford & Co. explains its claims handling service. Request item 2404.

■ A flyer provided by ICAIM Group offers 10 essential steps to successful and cost effective litigation management. Request item 2405.

■ An article made available from A.I. Credit Corp. details how premium financing offers many advantages for both the broker or agent and the insured. Request item 2406.

■ A newsletter from Gregory B. Bragg & Associates Inc. offers articles and tips to prevent and manage risks. Request item 2407.

■ A 38-page coloring book depicts life in the claims department of a property/casualty insurance company. The book is available from InPhoto Surveillance. Request item 2408.

■ Incidental property/casualty exposures faced by a small business overseas are explored in a booklet from Kemper National Insurance Cos. Request item 2409.

■ Claims services for the insurance industry are described in a publication from Crawford & Co. Request item 2410.

■ A magazine by Liberty Mutual Insurance Co. contains information on a variety of risk management topics including insurance coverages, research, exposure, and costs. Request item 2411.

■ A Vista Environmental Information Inc. paper discusses recently completed work on a national standard for environmental site assessments in commercial real estate transactions. Request item 2412.

■ Graham Miller Security Consultants Ltd.'s security consulting services are described in a pamphlet. Request item 2413.

*Continued on next page*

## Business Insurance

Information Resource

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Please check one item for each category:

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B <input type="checkbox"/> Association	G <input type="checkbox"/> Ins Broker	L <input type="checkbox"/> TPA
C <input type="checkbox"/> Union	H <input type="checkbox"/> Ins/Reins Co	M <input type="checkbox"/> Healthcare Inst
D <input type="checkbox"/> Government	I <input type="checkbox"/> Actry/Consl	N <input type="checkbox"/> Other
E <input type="checkbox"/> Educational Inst	J <input type="checkbox"/> Attorney	
- Number of employees:
 

1 <input type="checkbox"/> 150 or less	2 <input type="checkbox"/> 151-499	3 <input type="checkbox"/> 500-999
4 <input type="checkbox"/> 1,000-4,999	5 <input type="checkbox"/> 5,000 or more	6 <input type="checkbox"/> Unknown
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### Topics to be Discussed:

- ▼ SHOULD THE WORKERS COMPENSATION AND GROUP HEALTH CARE SYSTEMS BE COMBINED?
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- ▼ MINIMIZING FRAUD AND ABUSE IN THE WORKERS COMPENSATION SYSTEM
- ▼ INNOVATIVE STRATEGIES TO CUT WORKERS COMPENSATION COSTS
- ▼ HOW TO EVALUATE AND SELECT A THIRD-PARTY ADMINISTRATOR
- ▼ HOW TO SELF-ADMINISTER YOUR CLAIMS
- ▼ FINANCING ALTERNATIVES FOR WORKERS COMPENSATION
- ▼ HOW TO INTEGRATE CASE MANAGEMENT INTO A WORKERS COMPENSATION PROGRAM

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Telephone ( ) \_\_\_\_\_ Fax ( ) \_\_\_\_\_



Continued from previous page

■ ARM Tech offers assistance in creating a formal document to **request proposals for actuarial services**. Request item 2414.

■ A Commonwealth Risk Services Inc. brochure defines an insurance program that could **lower the net cost of property/casualty insurance** for corporations in the United Kingdom and continental Europe. Request item 2415.

■ A quarterly publication produced by Crawford & Co. discusses **risk transfer issues**. Request item 2416.

■ NAS Insurance Services Inc. provides information sheets that detail **legal expenses reimbursement insurance for health care institutions** sued in connection with physician peer reviews. Request item 2417.

■ ICALM Group offers a manual for **catastrophe response, claims resolution and litigation management**. Request item 2418.

■ A study by Johnson & Higgins reviews the **construction industry's attitudes about insurance-related issues**. Request item 2419.

■ An information packet from the **Illinois Insurance Exchange** describes its role in the surplus lines industry. Request item 2420.

■ Graham Miller International details its **international environmental pollution claims handling services** in a bi-fold. Request item 2421.

■ A brochure from Specific Software Solutions Corp. outlines the **concepts and methodology behind loss forecasting**. Request item 2422.

■ The Insurance Institute of America's three-course **Associate in Risk Management designation program** is described in a flyer. Request item 2423.

■ Information about States Self-Insurers Risk Retention Group, a **risk retention group writing excess liability coverage for public entities**, is described in a booklet and annual report. Request item 2424.

■ A brochure from Rosemurgy &

Co. describes its **marine claims services**, including crew and passenger injuries, vessel damage, pollution claims and more. Request item 2425.

■ A Commonwealth Risk Services Inc. brochure detailing a **risk financing approach** for difficult to secure or prohibitively priced coverages. Request item 2426.

■ Crawford & Co. offers a booklet describing **appraisal and claim services for heavy equipment**. Request item 2427.

■ "The Warren Report" is a monthly four-page newsletter of **current risk management issues**. Request item 2428.

■ NAS Insurance Services Inc.'s information sheets describe a **directors and officers liability**

**policy** that reimburses directors and officers for legal expenses if they are sued by any governmental entity or agency. Request item 2429.

■ A.I. Credit Corp. provides an article explaining how **premium financing and audit funding** are valuable tools for controlling cash flow and credit. Request item 2430.

■ A flyer with news and commentary on **current litigation management events and issues** is available from ICALM Group. Request item 2431.

■ Graham Miller International offers a brochure about **claims adjusting and surveying for the jeweler, furrier and fine art markets**. Request item 2432.

■ ARM Tech offers an informative article on reasonable **crime coverage and ways to avoid coverage gaps**. Request item 2433.

■ A description of Crawford & Co.'s risk management services for **government entities and self-insurers** is provided in a six-page brochure. Request item 2434.

■ Isotechnologies Inc. offers a strategic response plan to the **Americans with Disabilities Act** in a pamphlet that also summarizes the act. Request item 2435.

■ Insurance Agency Programs Inc. offers a newsletter describing **financial insurance products** like loss portfolio transfer and prospective funding programs. Request item 2436.

■ An article containing suggestions on **how to avoid malpractice claims**, including adequate docket control and peer review, is offered by Associated Claims Enterprises Inc. Request item 2437.

■ A quarterly magazine from Crawford & Co. **examines key risk management issues** in an expanded format. Request item 2438.

■ An International Risk Management Institute Inc. brochure describes a revised and updated publication on **broad form property damage coverage**. Request item 2439.

■ The Oil, Energy and Engineering division of Graham Miller International, which specializes in adjusting property  
*Continued on next page*

# Long Haul Workers' Comp

The Property/Casualty Information Resource section is an editorial compilation of current informational and educational materials on topics of interest to risk management and insurance executives.

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

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

All requests for free material must be received before **Sept. 13** to be processed.

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## Information Resource

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  - C  Union      H  Ins/Reins Co      M  Healthcare
  - D  Government      I  Actry/Conslt      Inst
  - E  Educational Inst      J  Attorney      N  Other
- Number of employees:
  - 1  150 or less      2  151-499      3  500-999
  - 4  1,000-4,999      5  5,000 or more      6  Unknown
- My title is best defined as:
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Continued from previous page  
damage, machinery breakdown and business interruption **claims in the hydrocarbon process**, is described in a pamphlet. Request item 2440.

■ Anistics offers a quarterly newsletter on **risk management services, strategies and concerns**. For a sample, request item 2441.

■ Key elements of an effective **risk management program for the environmental professional** are reviewed in a Vista Environmental Information Inc. article. Request item 2442.

■ ARM Tech offers assistance in creating a formal document to **request proposals for self-insured liability claims audits**. Request item 2443.

■ An overview of Crawford & Co.'s risk management services includes information on **risk control, claims administration, health care management and information systems**. Request item 2444.

■ Customized Worldwide Weather Insurance Agency Inc. offers an information packet describing **weather insurance around the world**. Request item 2445.

■ A booklet describes Graham Miller International's **construction risk consultation services**. Request item 2446.

■ NAS Insurance Services Inc. offers an information packet on **employers errors and omissions liability insurance** for wrongful discharge, discrimination and sexual harassment. Request item 2447.

■ A 16-page brochure from Crawford & Co. provides an overview of **vehicle claims services** including appraisals, nationwide service and drive-in damage appraisals. Request item 2448.

■ Structured Financial Associates Inc. offers a manual to aid in **early settlement of personal injury, wrongful death, workers comp** and other claims. Request item 2449.

■ **Controlling legal costs** through management of liability problems, law firm relationships and transaction costs is discussed in an ICALM Group handbook. Request item 2450.

■ A booklet describing a manual from the International Risk Management Institute Inc. addresses **commercial auto, truckers and garagekeepers insurance**. Request item 2451.

■ **Risk management services and risk exposure** are explored in a Crawford & Co. brochure. Request item 2452.

■ A description of all **property and casualty insurance courses and programs** offered by the American Institute for Chartered Property & Casualty Underwriters and the Insurance Institute of America is provided in a booklet. Request item 2453.

■ A brochure from Kemper National Insurance Cos. details how companies can **improve their bottom line through loss control**. Request item 2454.

■ A semi-annual report examining **developments in the alternative risk financing marketplace** is available from Commonwealth Risk Services Inc. Request item 2455.

■ Graham Miller International offers a brochure that explains **coverage of entertainment losses** and claims handling services. Request item 2456.

■ Crawford & Co. offers a pamphlet detailing its **oil and hazardous materials claims services**. Request item 2457.

■ How **bank managers and directors must manage environmental risks** is reviewed in an article available from Vista Environmental Information Inc. Request item 2458.

Continued on next page

It's 11:00 P.M., the end of the day for some, but not for truckers, where it's just the beginning of a long night.

And their workers' compensation exposures can be as difficult to navigate as the roads they travel.

When several large trucking firms were looking for a responsive, cost-effective program for their employees' non-stop workers' compensation exposures, Commonwealth Risk was there to help.

As a specialist in alternative risk financing, Commonwealth Risk knows all the routes an insured can take in the Alternative Market. With over twelve years of experience in structuring captives, Insurance Profit Center® programs and innovative funding arrangements, Commonwealth Risk can assist brokers in developing responsive workers' compensation programs for all types of sophisticated insureds.

Designing the right alternative risk financing program is just like knowing the best way to get from here to there.

When you need a better avenue to control your large clients' rising cost of workers' compensation coverage, call Commonwealth Risk.

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Continued from previous page

■ A risk manager's guide explaining how to **avoid problems when using different methods of surveillance** is available from InPhoto Surveillance. Request item 2459.

■ ARM Tech is offering an article that explains the **purpose, process and cost included in performing an insurance claims audit**. Request item 2460.

■ An overview of a **telephone claims reporting program** that enables timely claims reporting

is provided by Crawford & Co. Request item 2461.

■ ICALM Group offers a guide to **claims, litigation and preparedness**, highlighting operational and contingency planning for catastrophes, loss prevention and remedial action programs. Request item 2462.

■ A brochure from Commonwealth Risk Services Inc. describes a program to **lower the net aftertax cost of property/casualty insurance** for Canadian corporations. Request item 2463.

■ Crawford & Co. offers a national **directory of its risk control professionals**. Request item 2464.

■ A Kemper National Insurance Cos. information packet details services for **commercial lines property and/or casualty accounts**, including international programs. Request item 2465.

■ A brochure describes the **banking, financial and political claims handling services** available from Graham Miller International. Request item 2466.

■ A booklet presented by ICALM Group at the RIMS Conference outlines the elements required to develop **response plans for catastrophes, claims and litigation**. Request item 2467.

■ **Casualty claims services** available to the insurance, trucking, petrochemical and vehicle services industries and governmental entities are described in a 16-page publication from Crawford & Co. Request item 2468.

■ ARM Tech offers a two-page information leaflet listing nine

important points to know about **accepting certificates of insurance**. Request item 2469.

■ A folder supplies an overview of Rosemurgy & Co.'s **aviation adjusting services**. Request item 2470.

■ A brochure from Graham Miller lists its **risk experts worldwide** in the areas of banking, construction, energy and engineering, entertainment, environmental pollution, financial risks, political risks, property, reinsurance, and specie and fine art. Request item 2471.

■ ICALM Group provides an article on building successful relationships with defense counsel. Request item 2472.

■ Crawford & Co.'s office directory provides lists of **offices in more than 42 countries**. Request item 2473.

■ Graham Miller International describes its **specialty claims handling services** around the world. Request item 2474. **BI**

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# A LOOK AT HURRICANE RISK.

Our analysis of industrial property losses following Hurricane Andrew revealed that a full 80% of property damage incurred can be prevented in the event of another hurricane of the same magnitude.

Furthermore, we've established that many improvements can be incorporated during new construction at minimal cost; and, more important, they can easily be worked into existing facilities.

One Allendale customer with over one dozen facilities in Andrew's path reported that windstorm improvements incorporated into their design cost less than \$2,500 per building. The result:

damage from Andrew at all facilities was slight.

Recent inspections by our windstorm specialists of the twenty largest facilities we insure in Puerto Rico identified

\$1.1 billion in exposures that could be eliminated for less than \$2.5 million, a reduction of \$400 of exposure for every \$1 spent.

For a more complete discussion of our findings from Hurricane Andrew and of

the actions you can take, write to us for a copy of our latest brochure. Allendale Insurance, P.O. Box 7500, Johnston, Rhode Island 02919.

## THERE ARE THINGS YOU CAN DO RIGHT NOW. HERE ARE JUST TWO EXAMPLES:

Inspect your roof's perimeter flashing. It should sit over a firmly secured, continuous hook strip. The hook strip should be secured to the wood nailer or similar device at 12- to 16-inch intervals. For an easy test, tug on it. It should feel secure. The average repair cost is \$2.00 per linear foot of flashing. Average exposures with this type of deficiency typically exceed \$500,000. This one deficiency accounted for over 20% of the industrial property damage losses incurred from Andrew.

For steel deck roofs, examine the underside of the steel deck. A greater number of fasteners should penetrate the deck in the 8- to 10-foot strip closest to each wall. If the roof lacks additional fasteners, focus repair efforts on the 100 square foot corner areas of the roof covering for each building. Providing additional fasteners and patching the penetrations will cost less than \$500 per corner. Average exposures with this type of deficiency typically range from \$500,000 to \$1.5 million.

**Allendale Insurance/Factory Mutual System**  
World leaders in property risk management since 1835.

# GUIDE TO ALTERNATIVE RISK FINANCING FACILITIES

With expectations that the conventional commercial property/casualty insurance market will eventually harden, the alternative risk financing market is holding strong, reporting steady premium volume despite a slight drop in the number of policyholders.

The seventh annual *Business Insurance* survey of these facilities—which serve a wide range of corporations, public entities and professionals—lists a record 87 alternative risk financing facilities, up from 75 in last year's guide (*BI*, July 13, 1992).

Fifty-one of the facilities listed expect to write coverage for more policyholders in 1993 than in 1992.

The 87 facilities listed on the next 10 pages wrote coverage for more than 17,000 policyholders in 1992. They reported a combined premium volume of \$2.59 billion in 1992. Their policyholder capital and surplus totaled \$6.38 billion at year end, while assets totaled \$11.86 billion.

Nineteen facilities are new to the guide this year. These facilities write coverage for a range of policyholders, including: commercial banks; medical researchers; national fraternity organizations; tank truck operators; non-profit groups like social service, counseling and residential care organizations; home builders and developers; plastics processors and manufac-

turers; managers of commercial, industrial or multiple-residential buildings; fast-food franchises; and metalworking and electrical companies.

Some of the facilities no longer write coverage only for owners; non-shareholders can obtain coverage without even a deposit premium. However, the others generally require potential policyholders to invest funds before they can purchase coverage.

The facilities that responded to the survey are domiciled in the United States and abroad.

Arizona, California, Colorado, Delaware, Florida, Georgia, Hawaii, Illinois, Minnesota, North Carolina, Tennessee and Vermont are home to U.S.-based facilities. Offshore domiciles represented by the facilities include Barbados, Bermuda and the Cayman Islands.

The facilities provide mainstream coverages to their owners and members, including primary and excess liability, directors and officers liability, property and workers compensation. Others, though, provide much more specialized lines—like medical malpractice, export credit, improper sexual contact and harvest strike—to meet the far-reaching risk financing needs of policyholders.

All of the facilities listed were capitalized by an initial group of policyholders with common insurance needs to obtain coverage they either

could not find or could not afford to buy in the commercial insurance market and could not efficiently fund as individual self-insurers or captive insurance company owners.

Each individual listing provides information about: the facility's manager and the name, address and telephone number of the person to contact for additional information; the risks the facility underwrites; the limits it provides; the date the first policy was written and the type of policy form used; how potential policyholders can gain access to the facility; premium volume in 1992 and estimated volume in 1993; assets as well as capital and surplus at year-end 1992; the number of policyholders in 1992 and an estimate for 1993; and a description of the facility's membership, sometimes by association.

The information on each facility was provided by the facility or its manager in response to a *Business Insurance* questionnaire. Although every effort has been made to report complete and accurate information, *BI* is unable to verify all the information provided.

Readers should contact the person listed for more information about each facility.

To be included in next year's guide, contact Kathy Welyki, Directory Editor, *Business Insurance*, 740 N. Rush St., Chicago, Ill. 60611-2590; 312-649-5279; fax: 312-280-3174.

Facility Management company Contact name, address & phone	Risks	Limits	First policy Policy form	Access	Premium volume (in millions) 1992 1993(est.)	1992 assets/ Capital & surplus (in millions)	Number of policy- holders 1992 1993(est.)	Membership
<b>AAOMS National Insurance Co., Risk Retention Group</b> Self-managed Dr. Harold S. Firfer, 9700 Bryn Mawr Ave., Rosemont, Ill. 60018; 708-928-0041 Domicile: Illinois	Professional liability	\$250,000 per occurrence/\$750,000 aggregate primary; \$5 million/\$5 million reinsurance	June 1988 Claims-made	Specific brokers	\$21.0 \$22.0	\$45.0 \$8.1	1,858 2,020	Members of American Assn. of Oral & Maxillofacial Surgeons
<b>AmHS Insurance Co. Risk Retention Group</b> Johnson & Higgins Services Inc. James C. Jordan, 12730 High Bluff Drive San Diego, Calif. 92130; 619-481-2727 Domicile: Vermont	Excess hospital professional liability, general liability and umbrella	\$45 million excess of underlying	June 1990 Claims-made	Direct	\$38.2 \$40.0	\$11.8 \$2.1	30 30	Members of American Healthcare Systems
<b>Accountants Liability Assurance Co. Ltd.</b> Minet Risk Services (Bermuda) Ltd. Colin R. Newell, P.O. Box HM462, Hamilton HM BX, Bermuda; 809-295-0073 Domicile: Bermuda	Accountants professional indemnity	\$5 million primary or \$5 million excess	June 1986 Claims-made	Specific broker	\$9.8 \$10.7	\$59.2 \$39.8	31 32	Public accounting firms
<b>ACE Insurance Co. (ACE Ltd.)</b> Self-managed William J. Loschert, P.O. Box 1015 Hamilton HM DX, Bermuda; 809-295-5200 Domicile: Bermuda	Excess liability, excess D&O, executive compensation	Excess liability: \$200 million excess of \$100 million; D&O: \$50 million excess of \$25 million; executive comp: \$150 million primary	November 1985 Claims-made	Any non-U.S. broker	\$395.0 \$353.0	\$2.0 \$1.1	409 500	All classes of business
<b>Affiliated Chemical Group Ltd.</b> CFM Insurance Managers Ltd. Simon Scupham, Reid House, 31 Church St., Hamilton HM 12, Bermuda; 809-292-6424 Domicile: Bermuda	Commercial general liability, including products and completed operations; sudden and accidental coverage	\$1 million per occurrence/\$3 million aggregate; or \$2 million per occurrence/\$5 million aggregate	1977 Claims-made	Specific brokers	\$3.0 \$3.0	\$19.0 \$6.0	35 35	Chemical distributors and manufacturers
<b>Alembic Insurance Co. Ltd.</b> Willis Corroon ARMS Division Cathy Wedekind or Don Heim, 26 Century Blvd., Nashville, Tenn. 37214; 615-872-3200 Domicile: Cayman Island	General liability, products liability, automobile, and workers compensation	\$2 million primary; \$8 million excess of \$2 million	1980 Occurrence	Direct	\$8.5 \$8.3	\$35.0 \$11.0	28 28	Machinery and chemical manufacturers, contractors
<b>Alexander Insurance Managers Ltd.</b> Captive Property Reinsurance Facility Alexander Insurance Managers Ltd. Donald C. Wiseman, Dorchester House, Church Street, P.O. Box 2020, Hamilton HM HX, Bermuda; 809-295-0265 Domicile: Bermuda	Property, business interruption	\$125,000 primary; \$100 million excess of captive retention	June 1973	AIM clients	\$27.0 \$35.0	Line slip	21 23	Various

Continued on page 27

# Guide to alternative risk financing facilities (Continued from previous page)

Facility Management company Contact name, address & phone	Risks	Limits	First policy Policy form	Access	Premium volume (in millions) 1992 1993(est.)	1992 assets/ Capital & surplus (in millions)	Number of policy- holders 1992 1993(est.)	Membership
<b>American Bankers Professional &amp; Fidelity Insurance Co.</b> Jardine Pinehurst Management Co. Ltd. Don Baker, 33-35 Reid St., Jardine House, Hamilton, Bermuda; 809-295-4864 Domicile: Bermuda	D&O, bond, trust department E&O, lenders lia- bility, combined safe depository	D&O: \$5 million, Bond: \$6 million, Trust & lenders: \$1 million, Safe: \$2 million	1987  Claims-made	All brokers and direct	\$25.2 \$26.0	\$45.0 \$9.7	1,200 1,200	Commercial banks
<b>American Safety Risk Retention Group Inc.</b> Environmental Management Insurance Services Inc. Lloyd A. Fox, 1900 The Exchange, Suite 450, Atlanta, Ga. 30339; 404-916-1908 Domicile: Vermont	General and profes- sional liability asbestos abatement and environmental remediation liability	Highest limit: \$5 million per occurrence/ \$5 million aggregate	March 1988  Claims-made and occurrence	All brokers	\$7.3 \$8.5	\$4.2 \$2.5	250 350	Asbestos abatement and environmental remediation contractors, consultants and facility owners
<b>Associated Electric &amp; Gas Insurance Services Ltd.</b> Aegis Insurance Services Inc. Norm Cocanour, 700 Plaza II, Harborside Financial Center, Jersey City, N.J. 07311-3994; 201-915-7257 Domicile: Bermuda	Excess liability, workers compen- sation, fiduciary & employee benefits liability, D&O	\$35 million excess \$200,000	July 1975  Claims-made; occurrence for workers compensation	All brokers and direct	\$257.4 \$230.0	\$1,900.0 \$447.9	286 300	Gas and electric utilities, gas and oil pipe- lines, telephone companies and independent power projects
<b>Bankers Insurance Co. Ltd.</b> Powerscourt Group Ltd. Edith Lichota or David Sampson, P.O. Box HM 2267, Hamilton HM JX, Bermuda; 809-295-8495 Domicile: Bermuda	D&O liability	\$10 million primary or excess	May 1986  Occurrence	Direct	\$7.3 \$7.0	\$98.0 \$39.0	20 NA	Large U.S. banks
<b>C.P.S. Insurance Co. Ltd.</b> International Advisory Services Ltd. David Ezekiel, P.O. Box 1760, Hamilton HM HX, Bermuda; 809-295-3688 Domicile: Bermuda	Workers comp- ensation, auto and general liability	\$1 million per occurrence/\$3 million aggregate	July 1980  Occurrence	Specific broker	\$9.3 \$9.7	\$21.4 \$2.2	36 33	Termite, pest control and sanitation consulting firms
<b>California Hospital Insurance Co., A Risk Retention Group</b> California Hospitals Affiliated Insurance Services Jeff Sousa, 11060 White Rock Road, Suite 210, Rancho Cordova, Calif. 95670; 916-631-0333 Domicile: Hawaii	Medical malpractice	\$5 million primary	April 1989  Claims-made	Management company	\$11.8 \$14.0	\$8.1 \$2.2	14 17	Member of California Assn. of Hospitals and Health Systems
<b>Casting Manufacturers Insurance Ltd.</b> Johnson & Higgins (Bermuda) Ltd. Susan Gray, P.O. Box HM 1826, Hamilton HM HX, Bermuda; 800-631-1124 Domicile: Bermuda	Comprehensive general liability	\$500,000 primary, up to \$5 million excess	1982  Claims-made	Direct	\$1.5 \$1.6	\$6.9 \$6.5	38 39	Members of Michigan Tooling Assn.
<b>Chariots of Hire Risk Retention Group</b> Commercial Insurance Alternatives Inc. E. Richard Crebs, 176 Main St., Suite C, St. Helena, Calif. 94574; 707-963-2400 Domicile: Arizona	Livery	\$1 million primary	June 1989  Claims-made	All brokers	\$5.7 \$7.0	\$11.0 \$3.1	300 400	Taxis and airport vans
<b>Chesapeake Casualty Insurance Co.</b> RiskCap Sherlyn W. Farrell, 1571 Race St., Denver, Colo. 80206; 303-388-5688 Domicile: Colorado	Professional liability	Proprietary	1976  Claims-made	Pure captive	\$0.8 \$1.0	\$6.9 \$3.1	1 1	Medicine and surgery practition- ers, medical researchers, medical teach- ing services
<b>Clinic Mutual Insurance Co. Risk Retention Group</b> Willis Corroon Carolyn Greene, 26 Century Blvd., Nashville, Tenn. 37214; 615-872-3365 Domicile: Tennessee	Medical professional liability and general liability	\$1 million per occurrence/\$3 mil- lion aggregate, \$1 million excess of of \$1 million	January 1988  Claims-made	Exclusive	\$3.7 \$4.0	\$7.7 \$2.7	115 120	Non-profit community health care clinics
<b>College Liability Insurance Co. Ltd., A Risk Retention Group</b> Sedgwick James Management Co. Inc. Andrew Sargeant or Michael Richmond, 95 St. Paul St., Suite 3A, Burlington, Vt. 05401; 802-658-7947 Domicile: Hawaii	Commercial general liability, auto, and educators legal liability	\$250,000 primary, \$9,750,000 excess of \$250,000	May 1991  Claims-made and occurrence	Specific brokers	\$0.8 \$0.9	\$1.4 \$2.6	8 8	Private U.S. West Coast colleges
<b>Colorado School Districts Self-Insurance Pool</b> Self-Insurance Specialists Inc. Sally Perske Arnold, 600 S. Cherry St., Suite 1205, Denver, Colo. 80222; 303-393-0344 Domicile: Colorado	Property, general liability and auto	\$500,000 primary; General liability \$500,000 excess of \$500,000	July 1981  Claims-made and occurrence	Direct	\$6.0 \$6.0	\$14.0 \$5.0	92 90	Public school districts

# Guide to alternative risk financing (continued from previous page)

Facility Management company Contact name, address & phone	Risks	Limits	First policy Policy form	Access	Premium volume (in millions) 1992 1993(est.)	1992 assets/ Capital & surplus (in millions)	Number of policy- holders 1992 1993 (est.)	Membership
<b>Consolidated Catholic Casualty Risk Retention Group</b> Skandia International Risk Management (Vermont) Inc. George Chaffee, P.O. Box 64649, Burlington, Vt. 05406-4649; 802-658-1474 Domicile: Vermont	Excess and D&O liability	\$25 million excess	July 1987  Claims-made and occurrence	Direct	\$6.9 \$7.5	\$41.3 \$20.3	11 12	Catholic multi- institutional health care systems
<b>Constance Insurance Co.</b> RiskCap Edward Rohrer, 1571 Race St., Denver, Colo. 80206; 303-388-5688 Domicile: Colorado	Product and general liability, blanket crime bond, blanket prop- erty, business interrup- tion extra expense	Proprietary	April 1978  Occurrence	Restricted	\$2.3 \$2.3	\$14.8 \$10.3	1 1	Manufacturers of valves and fittings
<b>Corporate Officers and Directors Assurance Holding Ltd.</b> ACE Insurance Management Ltd. Charles D. Smith, P.O. Box HM 1015, Hamilton HM DX, Bermuda; 809-295-5200 Domicile: Bermuda	D&O liability	\$25 million primary or excess of \$5 million	September 1986  Claims-made	Non-U.S. brokers	\$38.1 \$40.0	\$454.0 \$237.5	186 195	All classes
<b>ELSIP (Excess-of-Loss Self-Insurance Pool)</b> RiskCap James M. Graham, 1571 Race St., Denver, Colo. 80206; 303-388-5688 Domicile: Colorado	General liability	\$1 million primary	July 1990  Occurrence	Colorado school districts	\$0.2 \$0.2	\$0.3 \$0.3	3 3	Colorado school districts
<b>Energy Insurance Mutual Ltd.</b> Self-managed Gene L. Weaver, 6200 Courtney Campbell Causeway, Suite 510, Tampa Fla. 33607; 813-287-2117 Domicile: Barbados	General and D&O liability	General: \$100 mil- lion excess of \$25 million; D&O: \$50 million excess of \$25 million	July 1986  Claims-made	All brokers and direct	\$64.6 \$47.5	\$310.0 \$160.5	117 132	Electric and gas utilities
<b>Engineers Liability Insurance Co. Ltd.</b> IAS (Barbados) Ltd. William Tomlin, CGM Building, Collymore Rock, Barbados; 809-436-8296 Domicile: Barbados	Professional liability	\$100,000, \$250,000, \$500,000, \$1 million, (minimum S.I.R \$10,000)	December 1987  Claims-made	Direct	\$0.4 \$0.5	\$1.1 \$0.5	15 20	Engineers (civil, electrical, mech- anical, structu- ral) and arch- itects
<b>Englewood Reinsurance Co. Ltd.</b> International Risk Management (Bermuda) Ltd. Graham D. Brice, Belvedere Building, P.O. Box HM 660, Hamilton HM CX, Bermuda; 809-295-0713 Domicile: Bermuda	Property and casualty	Various limits	March 1989  Claims-made and occurrence	Captive insurance companies	\$50.0 \$53.0	\$119.0 \$22.0	10 10	All classes
<b>Evergreen Indemnity Ltd.</b> International Insurance Services Inc. Richard A. Hartford, 655 Main St., P.O. Box 61, Lewiston, Maine 04240; 207-784-4566 Domicile: Barbados	Multi-peril property, general liability, inland marine, auto	\$1 million primary; \$1 million excess of \$1 million	June 1986  Occurrence	Direct	\$3.1 \$3.2	\$8.1 \$3.1	700 725	Privately owned campgrounds
<b>Evergreen USA Risk Retention Group Inc.</b> International Insurance Services Inc. Richard A. Hartford, 655 Main St., P.O. Box 61, Lewiston, Maine 04240; 800-343-7900 Domicile: Arizona	General and excess liability	\$1 million primary	November 1989  Occurrence	Direct	\$0.6 \$0.7	\$1.8 \$1.1	125 150	Privately owned for-profit campgrounds
<b>Exporters Insurance Co. Ltd.</b> BF&M Management Ltd. Robert Svensk or Mark Reynolds, 335 Madison Ave., New York, N.Y. 10017; 212-370-6000 Domicile: Bermuda	Export credit and political risks	\$6.3 million per occurrence	March 1990  Occurrence	All brokers	\$2.0 \$2.8	\$15.1 \$13.3	22 30	Major exporters and financial institutions
<b>Financial Institutions Reserve Risk Retention Group Inc.</b> Johnson & Higgins Services Inc. Richard Grayson, 191 Peachtree St. N.E., Suite 3400, Atlanta, Ga. 30303-1762; 404-586-8365 Domicile: Vermont	D&O liability	Various limits	July 1988  Claims-made	Direct	\$3.3 \$4.0	\$77.4 \$60.8	16 16	Banking institutions
<b>Financial Services Mutual Insurance Co., A Risk Retention Group</b> Skandia International Risk Management (Vermont) Inc. George A. Chaffee, P.O. Box 64649, Burlington, Vt. 05406-4649; 802-658-1474 Domicile: Vermont	Professional liability	\$1 million primary	April 1989  Claims-made	All brokers	\$1.4 \$2.0	\$1.6 \$0.8	1,400 2,000	Financial planners and advisors
<b>Florida Hospital Excess Trust Fund</b> Sedgwick James of Florida Inc. Peter J. Brennan, P.O. Box 945155, Maitland, Fla. 32794-5155; 407-875-5900 Domicile: Florida	Excess professional liability	\$10 million excess	April 1985  Claims-made	Direct	\$7.0 \$8.5	\$55.0 \$20.0	28 32	Private, not- for-profit and govern- ment hospitals
<b>Florida Hospital Trust Fund</b> Sedgwick James of Florida Inc. Peter J. Brennan, P.O. Box 945155, Maitland, Fla. 32794-5155; 407-875-5900 Domicile: Florida	Professional liability	\$250,000 per occurrence/ \$1 million aggregate	April 1975  Claims-made	Direct	\$5.0 \$5.0	\$30.0 \$12.0	23 25	Private, not- for-profit and govern- ment hospitals

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# Guide to alternative risk financing facilities (Continued from previous page)

Facility Management company Contact name, address & phone	Risks	Limits	First policy Policy form	Access	Premium volume (In millions) 1992 1993(est.)	1992 assets/ Capital & surplus (In millions)	Number of policy- holders 1992 1993 (est.)	Membership
<b>Florida Hospital Workers' Compensation S.I.F.</b> Sedgwick James of Florida Inc. Peter J. Brennan, P.O. Box 945155, Mailland, Fla. 32794-5155; 407-875-5900 Domicile: Florida	Workers compensation	Statutory	September 1977 Occurrence	Direct	\$10.2 \$11.0	\$20.0 NA	32 32	Private, not- for-profit and govern- ment hospitals
<b>Food Processors Risk Retention Group</b> Johnson & Higgins Services Inc. Basil Futrell, 1401 New York Ave. N.W., Washington, D.C. 20005; 202-639-5910 Domicile: Vermont	Products liability	\$10 million primary	April 1988 Occurrence	Direct	\$1.3 NA	\$1.2 \$0.6	150 NA	Members of National Food Processors Assn.
<b>Forest Insurance Ltd.</b> International Risk Management (Bermuda) Ltd. Graham D. Brice, Belvedere Building, P.O. Box HM 660, Hamilton HM CX, Bermuda; 809-295-0713 Domicile: Bermuda	Excess umbrella liability	Maximum capacity: \$10 million per occurrence/\$10 million aggregate	January 1980 Claims-made and occurrence	Must be captive insurance company related business	\$2.4 \$2.5	\$6.7 \$4.0	8 8	Forest products industry
<b>Fraternity Insurance Trust</b> C.J. Spivey Associates Inc. C.J. Spivey, 5821 Fairview Road, Suite 100, Charlotte, N.C. 28209; 704-556-9558 Domicile: North Carolina	General liability, property	\$2 million primary	October 1992 Claims-made and occurrence	Invitation only through Specific broker	\$1.2 \$1.5	\$0.4 \$0.4	5 10	National fraternity organizations

Continued on page 30



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# Guide to alternative risk financing facilities (Continued from previous page)

Facility Management company Contact name, address & phone	Risks	Limits	First policy Policy form	Access	Premium volume (in millions) 1992 1993(est.)	1992 assets/ Capital & surplus (in millions)	Number of policy- holders 1992 1993(est.)	Membership
<b>Hopewell International Insurance Ltd.</b> International Risk Management (Bermuda) Ltd. Graham D. Brice, Belvedere Bldg., P.O. Box HM 660, Hamilton HM CX, Bermuda; 809-295-0713 Domicile: Bermuda	Property and marine insurance/ reinsurance	Unlimited excess of captive retentions	1972  Occurrence	Must be captive insurance company related business	\$110.0 \$110.0	\$21.5 \$7.8	56 58	Multi-national companies, including me- talworking, food manufacturing, banking, phar- maceutical
<b>Hospital Underwriting Group Inc.</b> HUG Services Inc. Kenneth W. Smith, 25 Century Blvd., Suite 300, Nashville, Tenn. 37214; 615-885-5333 Domicile: Tennessee	Hospital general liability and professional liability	\$25 million excess of \$5,000	June 1976  Claims-made	All brokers and direct	\$24.0 \$26.0	\$126.0 \$24.0	9 10	For-profit and not-for- profit multi- state hospital systems
<b>Housing Authority Property Insurance Inc.</b> Yankee Captive Management Co. John Salisbury, P.O. Box 189, Cheshire, Conn. 06410; 203-272-8220 ext. 201 Domicile: Vermont	Property	Blanket limits	August 1988  Occurrence	Direct and Specific broker	\$5.0 \$5.8	\$9.1 \$5.3	125 140	Members of Housing Authority Insurance Inc.
<b>Housing Authority Risk Retention Group Inc.</b> Yankee Captive Management Co. John Salisbury, P.O. Box 189, Cheshire, Conn. 06410; 203-272-8220 ext. 201 Domicile: Vermont	Liability	\$5 million primary	June 1987  Claims-made and occurrence	Direct	\$21.4 \$23.8	\$70.7 \$24.3	270 290	Public housing authorities
<b>IARW Insurance Co. Ltd.</b> Atlantic Security Ltd. Richard Witkowski, P.O. Box HM 2078, Hamilton, Bermuda HM HX; 809-295-5425 Domicile: Bermuda	Legal liability	\$1 million primary	1973  Occurrence	Direct	\$3.1 \$3.4	\$3.2 \$0.5	145 150	Members of the International Assn. of Refrigerated Warehousemen
<b>ISBA Mutual Insurance Co.</b> Self-managed David Taylor, 20 S. Clark St., Suite 910, Chicago, Ill. 60603; 312-726-4226 Domicile: Illinois	Professional liability	\$5 million per occurrence/\$5 million aggregate	November 1988  Claims-made	Direct	\$6.0 \$6.5	\$15.9 \$4.9	4,000 4,500	Members of Illinois State Bar Assn.
<b>Independent Laboratories Assurance Co. Ltd.</b> International Advisory Services Ltd. David Pickering, P.O. Box HM 2274, Hamilton HM JX, Bermuda; 809-295-3688 Domicile: Bermuda	Professional liability	\$1 million excess	1976  Claims-made	Direct	\$0.6 \$0.6	\$2.6 \$2.1	21 21	Independently owned testing laboratories
<b>Ironworking Contractors Insurance Program</b> Mutual Risk Management Ltd. Richard C. Holton, 1850 Craigshire, Suite 102, St. Louis, Mo. 63146; 314-469-2184 Domicile: Bermuda	Workers compensa- tion, general liability and auto liability	\$1 million primary	December 1988  Occurrence	Direct	\$8.0 \$9.0	\$8.8 \$0.3	18 20	Members of Union of Ironworking Contractors
<b>Joint School Districts Workers' Compensation Self-Insurance Pool</b> RiskCap Michael Murphy, 1571 Race St., Denver, Colo. 80206; 303-388-5688 Domicile: Colorado	Workers compensation	Statutory	July 1986  Occurrence	Restricted	\$4.0 \$3.9	\$11.9 \$2.8	4 4	Colorado school districts
<b>MPC Insurance Ltd.</b> Johnson & Higgins Services Inc. Julie S. Boucher, 7 Burlington Square, Sixth Floor, P.O. Box 530, Burlington, Vt. 05402; 802-864-5599 Domicile: Vermont	Professional liability	\$10 million primary; \$5 million excess of \$10 million; \$25 million excess of \$25 million	September 1987  Claims-made	Not accessible	\$8.6 \$9.9	\$50.4 \$19.8	13 13	Law firms
<b>MEDMARC Insurance Co.</b> Hamilton Resources Corp. Roger N. Loftis, 4000 Legato Road, Suite 800, Fairfax, Va. 22033; 703-273-1995 ext. 330 Domicile: Vermont	Product liability	\$5 million primary	January 1979  Claims-made	All brokers	\$32.7 \$35.0	\$124.5 \$40.5	521 540	Manufacturers and distributors of medical devices and clinical laboratory products
<b>Mental Health Risk Retention Group Inc.</b> Skandia International Risk Management (Vermont) Inc. George A. Chaffee, P.O. Box 64649, Burlington, Vt. 05406-4649; 802-658-1474 Domicile: Vermont	General, professional and D&O liability	\$1 million primary	January 1988  Claims-made	All brokers	\$4.0 \$4.3	\$3.5 \$1.4	84 88	Members of Mental Health Corp. of America or National Council Health Centers
<b>Midwestern Liability Insurance, A Risk Retention Group RiskCap</b> Sherlyn W. Farrell, 1571 Race St., Denver, Colo. 80206; 303-388-5688 Domicile: Colorado	General liability and surety	\$150,000 retention; \$850,000 excess of \$150,000	June 1988  Occurrence	Direct and all brokers	\$0.3 \$0.2	\$1.7 \$1.4	6 6	Waste management companies

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# Guide to alternative risk financing facilities (Continued from previous page)

Facility Management company Contact name, address & phone	Risks	Limits	First policy Policy form	Access	Premium volume (in millions) 1992 1993(est.)	1992 assets/ Capital & surplus (in millions)	Number of policy- holders 1992 1993(est.)	Membership
<b>Mount Mansfield Insurance Group Inc.</b> AIG Captive Management Co. Inc. John P. Giesen Jr., 1233 Shelburne Road, South Burlington, Vt. 05403; 802-658-9405 Domicile: Vermont	Workers compensation	Statutory	September 1992  Occurrence	All brokers	\$5.5 \$12.0	\$8.0 \$2.0	12 24	Members of Drivers Employer Council of America
<b>National Dental Mutual Insurance Co., A Risk Retention Group</b> Professional Benefits Insurance Co. Mary Hart, 10835 Rockley Road, Houston, Texas 77099; 713-561-5311 Domicile: Colorado	Dental medical malpractice	\$1 million per occurrence/ \$3 million aggregate	January 1988  Claims-made	All brokers and direct	\$0.4 \$0.5	\$3.2 \$2.5	350 370	Members of Dental Risk Management Foundation
<b>National Guardian Risk Retention Group</b> Willis Corroon Corp./ARMS Shane Knotts, P.O. Box 305024, Nashville, Tenn. 37230-5024; 615-872-3373 Domicile: Tennessee	Medical professional liability	\$1 million per occurrence/\$3 mil lion aggregate; \$10 million annual aggregate	January 1979  Claims-made	Not marketed	\$3.0 \$3.0	\$6.8 \$1.2	1 1	Members of National Guardian Membership Assn.

Continued on page 32

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## Guide to alternative risk financing facilities (Continued from previous page)

Facility Management company Contact name, address & phone	Risks	Limits	First policy Policy form	Access	Premium volume (in millions) 1992 1993(est.)	1992 assets/ Capital & surplus (in millions)	Number of policy- holders 1992 1993(est.)	Membership
<b>New Providence Mutual Ltd.</b> Allendale Management Co. Ltd. Elaine Parker, Skandia International Risk Management Ltd. P.O. Box HM 2062, Hamilton, Bermuda; 809-295-2185 Domicile: Bermuda	All-risk property	\$4 million primary	December 1991  NA	All brokers and direct	\$4.0 \$4.5	\$5.0 \$5.0	7 10	Industrial and commercial property business
<b>Nonprofits' Insurance Alliance of California</b> Self-managed Pamela Davis, P.O. Box 8485, Santa Cruz, Calif. 95061-8485; 408-459-0980 Domicile: California	General liability, commercial auto, miscellaneous professional, D&O, improper sexual contact	\$1 million primary	November 1989  Claims-made and occurrence	All brokers	\$3.6 \$5.6	\$5.0 \$1.7	720 1,060	California nonprofit corporations tax- exempt under IRS code 501(c)3
<b>Non-Profits Insurance Assn., An Interinsurance Exchange</b> Berkley Risk Services Vicki Fraher, 920 Second Ave. S., Suite 700, Minneapolis, Minn. 55402; 612-376-4220 Domicile: Minnesota	Property, inland marine, various general, profes- sional, D&O and auto liability, physical damage and crime	Various	December 1989  Claims-made and occurrence	Appointed agents	\$1.0 \$5.0	\$11.8 \$9.7	203 600	Social service organizations with 501(c) IRS designations
<b>Non-Profits' Mutual Risk Retention Group</b> Risk Retention Management Inc. Wayne Harris or Julius Aebly, 1800 Second St., Suite 104, Sarasota, Fla. 34236; 800-533-3097 Domicile: Vermont	General, D&O, auto, property, crime, boiler, machinery and improper sexual contact	\$1 million primary; \$5 million excess of primary	November 1991  Claims-made and occurrence	All brokers	\$2.4 \$3.5	\$1.8 \$0.7	400 600	Non-profit organ- izations, social services, counsel- ing, residential care
<b>North American Builders Indemnity Co.</b> RiskCap Michael Murphy, 1571 Race St., Denver, Colo. 80206; 303-388-5688 Domicile: Colorado	Real estate E&O, comprehensive general liability	Proprietary	May 1990  Claims-made and occurrence	Pure captive	\$1.7 \$1.8	\$5.2 \$2.5	1 1	National home builders and developers listed on the NYSE
<b>Nuclear Electric Insurance Ltd.</b> Self-managed Quentin Jackson, 1201 Market St., Suite 1200, Wilmington, Del. 19801; 302-888-3000 Domicile: Bermuda and Delaware	Excess property and business interruption on nuclear power stations	\$425 million bus- iness interruption \$1.38 billion excess of \$500 million property	September 1980  Claims made and occurrence	Direct	\$190.0 \$180.0	\$1,500.0 \$1,762.0	70 70	Electric utility companies

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### Four health plans team up to launch computer network

SAN FRANCISCO—Four leading California managed care health plans have jointly launched an electronic data interchange network to reduce administrative costs and improve service for their combined state-wide membership of nearly 3.5 million people.

"The California Health Information Network"—formed by Blue Shield of California, Health Net, PruCare of California and TakeCare Health Plan—will set up computer links for paperless transactions between health plan payers and providers.

The network will expedite transmission of health care data such as billing and eligibility transactions. It is estimated to save up to \$40 million in annual administrative costs.

Other health plans may join the network, and savings could double, said a Blue Shield spokesman.

The network, expected to be fully active in early 1994, is designed and operated under contract with Electronic Data Systems Corp. of Plano, Texas, and Health Information Technologies of Princeton, N.J.

—By Louise Kertesz

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# Guide to alternative risk financing facilities (Continued from previous page)

Facility Management company Contact name, address & phone	Risks	Limits	First policy Policy form	Access	Premium volume (in millions) 1992 1993(est.)	1992 assets/ Capital & surplus (in millions)	Number of policy- holders 1992 1993(est.)	Membership
<b>Nuclear Mutual Ltd.</b> Self-managed Quentin Jackson, 1201 Market St., Suite 1200, Wilmington, Del. 19801; 302-888-3000 Domicile: Bermuda and Delaware	All-risks property for nuclear utilities	\$500 million primary	January 1973  Occurrence	Direct	\$83.0 \$85.0	\$650.0 \$645.0	22 26	Electric utility companies
<b>Oil Casualty Insurance Ltd.</b> Oil Management Services Ltd. K. Doyle Stephens or Jon R. King, ACE Building, 30 Woodbourne Ave., Pembroke HM 08, Bermuda; 809-295-0905 Domicile: Bermuda	Umbrella general and D&O liability	Umbrella: \$100 mil- lion excess of \$20 million; D&O: \$50 million excess of \$20 million	June 1986  Claims-made	Bermuda brokers and direct	\$38.0 \$43.0	\$262.1 \$155.7	45 50	Petroleum industry
<b>Oil Insurance Ltd.</b> Oil Management Services Ltd. K. Doyle Stephens, ACE Building, 30 Woodbourne Ave., Pembroke HM 08, Bermuda; 809-295-0905 Domicile: Bermuda	Property, well control, pollution liability and marine hulls	Up to \$200 million per occurrence; \$275 million agg- regate excess of at least \$5 million	January 1972  Occurrence	Bermuda brokers and direct	\$226.3 \$255.5	\$1,445.8 \$588.4	49 50	Petroleum industry
<b>PAR Ltd. Program</b> Mutual Risk Management Ltd. Chuck H. Stamey, Community Corporate Centre, 445 Hutchinson Ave., Columbus, Ohio 43235; 614-888-4869 Domicile: Bermuda	Professional liability	\$5 million primary	December 1986  Claims-made	Direct	\$9.2 \$9.5	\$38.0 \$22.0	128 130	Large, regional U.S. and Canadian insurance agencies and their affiliates
<b>Plastics Industry Risk Retention Group</b> Risk Retention Management Inc. Wayne Harris or Julius Aebly, 1800 Second St., Suite 104, Sarasota, Fla. 34236; 800-533-3097 Domicile: Vermont	Plastics companies	\$1 million primary; \$5 million excess of primary	September 1990  Claims-made and occurrence	All brokers	\$0.6 \$0.7	NA NA	23 27	Plastics process- ors, manufactur- ers, machinery manufacturers
<b>Polaris Asbestos Insurance Corp.</b> (A Risk Retention Group) Johnson & Higgins Services Inc. Warren O. Hart, 2777 Summer St., Stamford, Conn. 06905; 800-292-7272 Domicile: Colorado	Premises asbestos liability	\$2 million per occurrence /\$6 million aggregate	November 1992  Modified claims-made	All brokers	\$0.002 \$16.1	\$0.5 \$0.5	1 125	Managers of commercial, industrial manufacturing or multiple residential buildings

Continued on page 34

## Centre Re given initial rating of 'A' by A.M. Best Co.

OLDWICK, N.J.—A.M. Best Co. Inc. recently assigned a high initial rating to one of the world's largest reinsurers and upgraded the ratings of two major property/casualty insurers.

Centre Reinsurance Co. of New York, its Bermuda-based parent Centre Reinsurance Bermuda Ltd. and two offshore affiliates were assigned first-time Best ratings of A. Centre Re, which is roughly three-quarters owned by Zurich Insurance Co. of Switzerland, has surplus of about \$1 billion, according to Best.

Sun Alliance Group's rating was raised to A++ from A+, a move that Best says "reflects the outstanding financial performance, conservative operating strategy and very strong balance sheet position" of the New York-based subsidiaries of London-based Sun Alliance Group P.L.C.

Best also upgraded Chicago-based Old Republic Insurance Co. to A+ from A, in recognition of the company's "conservative operating strategy, expertise within the alternative risk transfer business and the company's strong capitalization."

—By Mark A. Hofmann

carrier takes a big hit **TICK**.....**TICK**.....**TICK**.....**TICK**



General Accident Insurance Company of America; General Reinsurance Corporation; The Home Insurance Company; Insurance Company of North America; Maryland Casualty Company; NAC Reinsurance Corporation; The Travelers Indemnity Company; Zurich Insurance Company, U.S. Branch.



American Excess  
Insurance Association

# Guide to alternative risk financing facilities (Continued from previous page)

Facility Management company Contact name, address & phone	Risks	Limits	First policy Policy form	Access	Premium volume (in millions) 1992 1993(est.)	1992 assets/ Capital & surplus (in millions)	Number of policy- holders 1992 1993(est.)	Membership
<b>Primex Ltd.</b> Johnson & Higgins (Barbados) Ltd. Anderson Marshall or David K. Self, P.O. Box 1274, Alleyne House, White Park Road, Bridgetown, Barbados; 809-436-9929 Domicile: Barbados	Excess liability in- cluding bodily injury, property damage, personal injury and advertising injury	\$15 million excess of \$1 million general liability or \$2million auto liability	July 1986  Claims-made	All brokers and Bermuda brokers	\$11.9 \$10.5	\$48.4 \$24.3	17 19	Chemical and chemical- related manufacturers
<b>Professional Business Owners Self Insurers Fund</b> Self-managed Jack Arnold, 1051 Winderly Place, Suite 207, Maitland, Fla. 32751; 800-533-3628 Domicile: Florida	Workers compensation	\$100,000 per occurrence; \$100,00 each em ployee / \$500,000 per policy	1990  NCCI standard	All brokers	\$21.0 \$25.0	\$14.6 \$1.2	943 NA	Members of Professional Business Owners Assn.
<b>The Property Insurance Facility Ltd.</b> International Risk Management (Bermuda) Ltd. Graham D. Brice, Belvedere Building, P.O. Box HM 660, Hamilton HM CX, Bermuda; 809-295-0713 Domicile: Bermuda	Property	Various	August 1992  Claims-made and occurrence	All brokers	\$0.9 \$2.0	\$3.3 \$2.3	2 4	Various unrelated enterprises
<b>Quail Street Casualty Ltd.</b> Quail Street Management Ltd. Mark G. Moffat, P.O. Box HM 1088, Hamilton HM EX, Bermuda; 809-292-2582 Domicile: Bermuda	Workers compensation, harvest strike, credit, flood, earthquake, ocean marine cargo	Various	1979  Claims-made and occurrence	All brokers and direct	\$4.9 \$5.5	\$18.0 \$7.0	150 150	Members of Western Growers Assn. of California and Arizona
<b>Risk Engineering Insurance Co. Ltd.</b> Allendale Management Co. Ltd. Elaine Parker, Skandia International Risk Management Ltd. P.O. Box HM 2062, Hamilton, Bermuda; 809-295-2185 Domicile: Bermuda	All-risk property	\$5 million primary	1980  Occurrence	All brokers and direct	\$4.0 \$5.0	\$23.5 \$23.5	11 8	Industrial and commercial property business
<b>The Risk Exchange Assn.</b> Skandia International Risk Management Ltd. Robert J. Rosser, P.O. Box HM 2062, Hamilton HM HX, Bermuda; 809-295-2185 Domicile: Bermuda	Property, casualty, marine	Property/marine: \$2 million primary; Casualty: \$2 million excess of \$5 million	February 1984  Claims-made and occurrence	All brokers and direct	\$2.0 \$2.3	NA NA	12 14	Captive insurance companies that reinsure each others' parent- related risks
<b>Sargasso Mutual Insurance Co. Ltd.</b> Johnson & Higgins (Bermuda) Ltd. Eugene Carmichael, P.O. Box HM 1826, Hamilton HM HX, Bermuda; 809-292-4402 Domicile: Bermuda	D&O liability	Primary or excess: \$5 million, \$10 mil- lion or \$15 million	1986  Claims-made	Direct	\$0.8 \$1.0	\$31.8 \$30.2	18 18	Mutual life insurance com- panies domiciled in the United States and Canada
<b>Sporting Arms Insurance Ltd.</b> International Advisory Services Ltd. David Pickering, P.O. Box HM 1760, Hamilton HM HX, Bermuda; 809-295-3688 Domicile: Bermuda	Product liability	\$1 million primary	June 1986  Claims-made	Direct	\$3.0 \$2.7	\$7.0 \$4.0	40 36	Sporting arms manufacturers and importers
<b>States Self-Insurance Risk Retention Group Inc.</b> Berkley Risk Services Inc. R. Scott King, 1303 Hightower Trail, Suite 220, Atlanta, Ga. 30350; 404-594-7744 Domicile: Georgia	Auto, general, public officials and law enforcement liability	\$10 million excess of minimum \$100,000 S.I.R.	July 1988  Claims-made	All brokers and direct	\$4.9 \$5.5	\$14.2 \$10.1	115 120	Public entities: cities, counties, school boards, affiliated utility districts
<b>Structural Engineers Insurance Ltd.</b> <b>International Advisory Services Ltd.</b> David Ezekiel or David Lampit, P.O. Box HM 1760, Chevron House, 11 Church St., Hamilton HM HX, Bermuda; 809-295-3688 Domicile: Bermuda	Professional liability	\$1 million primary; \$1 million excess of \$1 million	1986  Claims-made	Direct	\$1.6 \$1.6	\$8.5 \$2.0	16 13	Structural engin- eering firms with more than \$1.5 million annual billings
<b>Structured Insurance Products Designed for Individual Clients</b> Zurich International (Bermuda) Ltd. Michael R. Deevy, P.O. Box HM 2268, Hamilton HM JX, Bermuda; 809-292-8155 Domicile: Bermuda	All risks	Various	October 1988  Claims-made and occurrence	All brokers and direct	\$145.0 NA	\$493.0 \$114.7	70 80	Various
<b>SUBWAY Owners' Mutual Insurance Co.</b> AIG Captive Management Co. Inc. John P. Giesen Jr., 1233 Shelburne Road, South Burlington, Vt. 05403; 802-658-9405 Domicile: Vermont	Workers compensation and business owners' package	\$1 million primary	January 1993  Occurrence	All brokers	\$0.0 \$6.0	NA NA	0 1,500	Fast food franchises

# Guide to alternative risk financing facilities (Continued from previous page)

Facility Management company Contact name, address & phone	Risks	Limits	First policy Policy form	Access	Premium volume (in millions) 1992 1993(est.)	1992 assets/ Capital & surplus (in millions)	Number of policy- holders 1992 1993(est.)	Membership
<b>Technologies Assurance Risk Retention Group . Assn. Inc.</b> Sedgwick James Management Co. Inc. Andrew Sargeant, 95 St. Paul St., Suite 3A, Burlington, Vt. 05401; 802-658-7947 Domicile: Vermont	General liability, including products/ completed operations	\$1 million primary; \$1 million or \$2 million aggregate available	November 1989  Occurrence	All brokers and direct	\$1.2 \$1.5	\$3.5 \$1.2	27 35	Members of The Assn. for Manufacturing Technology
<b>Terra Insurance Ltd.</b> CFM Insurance Managers Ltd. Simon Scupham, Reid House 31, Church Street, Hamilton HM 12, Bermuda; 809-292-6424 Domicile: Bermuda	Professional and environmental impairment liability	\$1 million per occurrence/\$1 mil- lion aggregate	1971 Claims-made	All brokers and direct	\$1.0 \$1.0	\$5.3 \$5.0	9 9	Members of Assn. of Soil and Foundation Engineers
<b>TOPS Insurance Ltd.</b> Oil Management Services Ltd. K. Doyle Stephens, ACE Building, 30 Woodbourne Ave., Pembroke HM 08, Bermuda; 809-295-0905 Domicile: Bermuda	Offshore production facilities	\$100 million	January 1993  Occurrence	Direct	\$0.0 \$30.0	NA- NA-	0 16	Oil and/or gas operations
<b>Tortuga Casualty Co.</b> International Risk Management (Cayman) Ltd. Roger Phelps, British American Tower, P.O. Box 69, Grand Cayman, Cayman Islands, B.W.I.; 809-949-0155 Domicile: Grand Cayman	Excess liability	\$50 million excess of \$25 million	January 1986  Claims-made	All brokers and direct	\$7.0 \$7.5	\$28.0 \$7.0	16 18	Various
<b>United Educators Insurance Risk Retention Group Inc.</b> United Insurance Management Co. Arthur G. Broadhurst, 2 Wisconsin Circle, Suite 1040, Chevy Chase, Md. 20815; 301-907-4908 Domicile: Vermont	Educators legal liability, excess umbrella, profes- sional liability, ERISA fiduciary	Legal liability: \$25 million primary; excess: \$25 million excess of \$1 million; and professional: \$1 mil- lion primary ERISA: \$10 million primary	June 1987  Claims-made occurrence	All brokers	\$25.2 \$27.5	\$18.2 \$2.6	667 750	Educational insti- tutions, colleges, foundations, cultural organi- zations
<b>United Insurance Co.</b> International Risk Management (Cayman) Ltd. Roger Phelps, British American Tower, P.O. Box 69, Grand Cayman, Cayman Islands, B.W.I.; 809-949-0155 Domicile: Grand Cayman	Property and casualty	\$1.5 million primary; \$5 million excess of various	January 1976  Claims-made and occurrence	All brokers and direct	\$60.0 \$50.0	\$220.0 \$14.0	75 75	Various
<b>The Water, Wastewater and Process Equipment Manufacturers' Insurance Co.</b> AIG Captive Management Co. Inc. John P. Giesen Jr., 1233 Shelburne Road, South Burlington, Vt. 05403; 802-658-9405 Domicile: Hawaii	General liability, product liability, pollution coverage	\$1 million primary; \$4 million excess of \$1 million	November 1989  Occurrence	All brokers	\$0.4 \$1.0	\$2.2 \$1.5	19 28	Members of WWEMA or PEMA
<b>Western Pacific Mutual Insurance Co., A Risk Retention Group</b> RiskCap Michael Murphy, 1571 Race St., Denver, Colo. 80206; 303-388-5688 Domicile: Colorado	Ten-year new home warranty	Home value primary	July 1990  Occurrence	Warranty administrator	\$2.6 \$3.2	\$5.1 \$1.7	Proprietary Proprietary	Purchase warranty through Resi- dential Warranty Corp. home construction and sales
<b>Wrenford Insurance Co. Ltd.</b> International Risk Management (Bermuda) Ltd. Anna W. Summers, Belvedere Building, P.O. Box HM 660, Hamilton HM CX, Bermuda; 809-295-0713 Domicile: Bermuda	All-risks property - primarily highly protected risks	Unlimited excess of \$25,000 deductible Sep. PD/BI	June 1975 captive Occurrence	Must be insurance company related business	\$3.0 \$3.0	\$2.2 \$0.9	5 5	Metal-working, electrical companies
<b>X.L. Insurance Co. Ltd.</b> Self-managed James S. Ansaldi or Robert J. Cooney, Cumberland House, Victoria St., Hamilton HM JX, Bermuda; 809-292-8515 Domicile: Bermuda	Excess general, D & O and E&O liability	General liability: \$100 million excess of \$25 million; D&O: \$20 million excess of \$20 mil- lion; E&O: \$25 mil- lion excess of \$25 million	April 1986  Claims-made and occur- rence reported	Bermuda brokers	\$460.0 NA	\$3,067.0 \$1,627.0	NA NA	Industries, finan- cial institutions and service com- panies

# Primex's success proving insurers wrong

By DAVE LENCKUS

BRIDGETOWN, Barbados—Primex Ltd. had a few things to learn when the group captive began providing excess liability coverage for medium-size chemical companies in 1986.

But policyholders and managers now think they may have taught the traditional insurance market a few things.

Seven years after Primex was created, those connected with the

facility say it is none the worse for:

- An excess liability coverage program placed with H.S. Weavers (Underwriting) Agencies Ltd. that ended when Weavers collapsed in 1990.

- Two full-limits losses within 18 months of each other beginning in Primex's third year.

- A somewhat cumbersome initial claims-payment system.

But Primex has provided its policyholder members with relatively stable premiums and capacity, and

capital has grown as it has not suffered any more full-limits losses.

Indeed, as of March 31, Primex's unaudited financial statements show it has \$25.1 million of capital and surplus. Assets totaled nearly \$61.7 million. It also had almost \$30.1 million of gross discounted loss reserves, which includes case reserves and reserves for incurred-but-not-reported claims.

"It's actually performing just the way we thought it would be," said Dick Turner, a vp with Johnson &

Higgins in Atlanta. Mr. Turner, a Primex manager, helped to prepare a feasibility study on the facility.

"I think it's worked a little better than initially expected," said Craig E. Carpenter, director-risk and materials management for Angus Chemical Co. of Buffalo Grove, Ill., one of the policyholders that suffered a full-limits loss.

"It seems the company has proceeded along the lines I had anticipated," said risk management consultant Robert N. Hughes, who

reviewed the facility for Weavers in 1988.

Mr. Hughes, president of Robert Hughes Associates Inc. of Dallas, reported to Weavers in 1988 that Primex was well-managed and appropriately reserved and had sound underwriting practices.

Today, "it's very much a success," he said.

Those connected with Primex say its loss experience and growth show that commercial insurers should not have abandoned all midsize chemical company risks in the last hard market.

"Insurers shouldn't have been so greedy in trying to recoup in one year whatever they were trying to recoup," said Bill Hamilton, corporate treasurer for Quaker Chemical Corp. of Pittsburgh, a founding member of Primex. "That would have stopped us dead in our tracks. None of us wanted to be in the insurance business. It has cost us a lot of professional time," said Mr. Hamilton, who was elected last month to a two-year term as Primex chairman.

Quaker turned to the facility because of its problems finding \$10 million to \$15 million of liability insurance in the mid-1980s.

"The insurance industry was wrong for walking away from us," said Mark F. Wilson, who spearheaded Primex's creation when he was risk manager of First Mississippi Corp.

During 1985's midyear renewals, Jackson-based First Mississippi could complete only 5% to 10% of its \$100 million general liability program. And, it had to accept an absolute pollution exclusion, said Mr. Wilson, who was named to the 1987 *Business Insurance* Risk Management Honor Roll in part because of his efforts to establish Primex (*BI*, March 30, 1987).

If commercial insurers had approached the risks of midsize chemical companies as Primex did, they could have continued to successfully underwrite the business, including pollution risks, said Mr. Wilson, now risk manager and assistant treasurer at Lyondell Petrochemical Co. in Houston. Lyondell is not a Primex member.

Primex is designed for chemical companies with \$100 million to \$1 billion in annual revenues that produce chemicals and chemical-related products used by other manufacturers or pharmaceutical companies in their production processes. Primex policyholders can purchase separate \$15 million limits for: product liability/completed operations; automobile liability; employer's liability; and other personal injury and third-party property damage. Coverage is written on a claims-made basis.

Primex does not cover onsite pollution. But it will cover bodily injury and property damages stemming from offsite pollution, as well as cleanup costs. Pollution must stem from incidents that begin and end within 36 hours.

Policyholders must retain at least \$1 million for most losses. The exception is a \$2 million retention for auto losses.

Policyholders' aggregate retained losses for product liability/completed operations are limited to \$6 million annually.

Coverage can be placed by any broker through captive manager Johnson & Higgins (Barbados) Ltd.

Primex altered its limits for only about two years beginning in 1988. Under a deal with Weavers, limits were lowered to \$5 million, with Weavers providing \$20 million of

Continued on page 40

A V I A T I O N P R O D U C T S L I A B I L I T Y

## SUIT TAKES MANUFACTURER TO CLEANERS DUE MAINLY TO DEPTH OF POCKETS.



.....

MOST OF THE EVIDENCE IN AN AIRPLANE CRASH WAS DESTROYED BY FIRE, SO NO CASE COULD BE PROVED AGAINST SEVEN DIFFERENT DEFENDANTS, MAKERS OF THE AIRCRAFT, ENGINES, AND COMPONENTS. YET IT TIED UP ONE "DEEP POCKETS" DEFENDANT, A SWITCH MANUFACTURER, IN COURT FOR ALMOST FIFTEEN YEARS, COSTING HUNDREDS OF THOUSANDS TO DEFEND. IT'S AN EXPENSIVE FALLACY TO THINK THAT BY BEING CONSCIENTIOUS, OR BY HAVING LITTLE-TO-NO INVOLVEMENT WITH AVIATION, OR BY HAVING NOTHING TO DO AT ALL WITH

.....

MANUFACTURING AIRCRAFT YOU WILL HAVE NO EXPOSURE TO AVIATION PRODUCTS LIABILITY CLAIMS. AAU KNOWS THE RISKS YOU FACE AND HOW TO PROTECT YOU, BY EXPERT UNDERWRITING, LOSS PREVENTION PLANS, RESOURCEFUL LEGAL AND CLAIMS SUPPORT. IN SHORT, THE RIGHT INSURANCE WITH THE RIGHT PEOPLE. ASSOCIATED AVIATION UNDERWRITERS. YOU DON'T HAVE TO BUILD AIRPLANES TO NEED AVIATION PRODUCTS LIABILITY PROTECTION.

**AAU** Raising Your Expectations

# Insurer Topics

A special editorial section  
sent exclusively  
to insurers and reinsurers

## Sculpting an identity helps some insurers fight industry image

### Names, symbols and statements all serve to set companies apart

By SARA MARLEY

ASHEVILLE, N.C.—An insurance company can't control its image, but it can control its identity.

Advertising and marketing staffs may not be able to sway public perceptions about the industry as a whole, but they can set one company apart through its corporate identity, said David Martin, managing director of The Schechter Group, a New York marketing firm.

And a strong corporate identity can be created within budget constraints by "thinking outside the box" when planning advertising or philanthropic events.

Products and services, distribution, senior management's expertise, ratings and historical reputation can help distinguish one insurance company from the thousands of others, Mr. Martin said at the Insurance Marketing Communications Assn. summer meeting in Asheville, N.C., last month.

"For financial services, corporate identity is the primary brand," Mr. Martin said. "The products and services are intangible. You don't buy them off a shelf."

Image is how the public views a company, while identity is how a company is presented to the public, he explained.

"Perceptions are out of your direct control," Mr. Martin said. "Image and performance are not directly related. There can be a substantial lag."

Four criteria should guide communicators in developing an insurer's corporate identity:

- A communicative name, which is the word the company uses as its name.
- The way that name is portrayed visually, through typefaces.
- A symbol, like a rock, shield or umbrella.
- A theme or subname that describes the company's philosophy.

"When all the elements are working, the image is in sync with the reality of the corporation," Mr. Martin said. "You visually and verbally present yourself well."

But for advertising and marketing staffs to develop a successful corporate identity for an insurer, they must have access to senior management.

They should learn top managers' vision of the company by talking to senior executives and board members, he suggested.

"Spend time with the individuals that drive the firm," Mr. Martin said. "Learn their view of the mission, vision and strategy."

Communicators should understand how senior executives and board members view the company. If it is not

in line with how consumers view the insurance company,

communicators will have to challenge the internal view.

Corporate identities can change, but most companies want to avoid a dramatic alteration of its name or logo, Mr. Martin said. Instead of a radical change, many companies opt to carry elements of the historical name and logo into an updated version.

"You don't want to change a strong name," Mr. Martin stressed. "There is image value in the name alone."

Also, corporations that operate under several different names should aim for consistency in the names of those subsidiaries and presentations that link them visually with the parent company.

"The way (the company) is presented throughout all communications should be consistent," Mr. Martin said.

Developing or changing a corporate identity does not have to be expensive.

Much information on current public perceptions about an insurance company can be gleaned from existing sales and marketing information.

Outside public relations and advertising agencies the insurer employs can also be a good source of information about the targeted audience.

Communicators should not overlook policyholders themselves to determine how they view the company and how a new identity could influence that view.

Insurance companies that are looking to enhance their identity may find the costs of hiring a sports figure or adding distinctive music to an advertisement lies within their reach, other communication experts say.

Continued on next page



## Insurer Topics

## Corporate identity

Continued from previous page

Sponsoring the Super Bowl or World Series would be astronomically expensive, but sponsoring a giveaway at a minor-league game can be affordable, said Michael Ritz, vp-creative and promotion services of PSP Sports Marketing Inc. in New York, who spoke at another session at the IMCA summer meeting.

And the cost of obtaining the rights to a popular song for a national commercial is steep, but leasing prerecorded music for in-house videos can cost only slightly more than a boxed set of compact discs, or about \$100, said Fred Story, president of Fred Story Productions in Raleigh, N.C.

Creative uses for both sports and

music can be tailored to any marketing budget, and are worth the investment.

Sports fans are active, accustomed to spending money and loyal, Mr. Ritz said.

Hosting a skybox hospitality suite, throwing a tailgate party at a college game or just attending an event with important clients can be effective ways to link a company with the world of sports.

"It creates a positive image to be associated with things customers like and believe in," he said.

Celebrity athletes can be brought in for an autograph signing, or autographed items or tickets can be auctioned without a celebrity appearance, Mr. Ritz suggested.

Music adds a professional, polished touch to any project, Mr. Story said.

Music options include prerecorded, or so-called "needle-drop" music, he said.

The price range is huge and also varies by location.

It can start as low as \$50 for prerecorded music used in a not-for-broadcast marketing or training video to as high as \$250,000 to license a popular song.

Computers and synthesizers have brought the cost of composing and producing music down significantly, Mr. Story said.

Companies should also be aware of the complex legal issues surrounding the use of music.

Commissioning a work for hire means that the buyer—not the musician—is regarded as the author and owns the copyright.

Companies can save money by contracting for a limited use of a

piece of music. For example, they may license the music only for a year. For an additional fee, the production company will usually agree not to allow anyone else to use the music for a specified period of time.

No matter how the music is purchased or licensed, the benefits are many.

"Music can radically alter the feel of a spot," Mr. Story said.

He also offered some words of caution:

- Know when not to use music. "Silence can have an impact, too," he said.
- Don't be afraid to break the rules.
- Don't be afraid to commit to the style of music you use.
- Don't expect music to save your production. **BI**

## Top honors to Reliance at IMCA showcase

By SARA MARLEY

ASHEVILLE, N.C.—Reliance National Insurance Co. took the Sammy Award—top honors—at the Insurance Marketing & Communications Assn.'s 23rd annual

**IMCA** Showcase Awards for property/casualty insurance advertising and marketing firms.

IMCA members vote on the Sammy Award, given to the entry that made the greatest contribution toward raising the level of insurance marketing communications.

Wausau Insurance Cos. also impressed IMCA members, walking away with Best of Show awards in three categories and an Award of Excellence in another.

In all, 45 awards to 29 companies were given out in nine categories.

- Marketing and Sales Promotion Directed to Consumers: Best of Show to Wausau; Awards of Excellence to Chubb Corp., Utica National Insurance Group, Fireman's Fund Insurance Co., Phico Insurance Co., General Accident Insurance Co. and ITT Hartford Insurance Group.

- Marketing and Sales Promotion Directed to Agents and Brokers or Company Personnel: Best of Show to Wausau; Awards of Excellence to Chubb, Utica, General Accident, Hanover Insurance Co., Maryland Insurance Group, Harleysville Insurance Cos., SAFECO Corp. and Aetna Life & Casualty Co.

- Television Advertising: Best of Show to Nationwide Insurance Cos.; Awards of Excellence to Allstate Insurance Co., Farm Bureau Insurance Cos. of Indiana and Aetna.

- Radio Advertising: Best of Show to Chubb; Award of Excellence to The Country Cos.

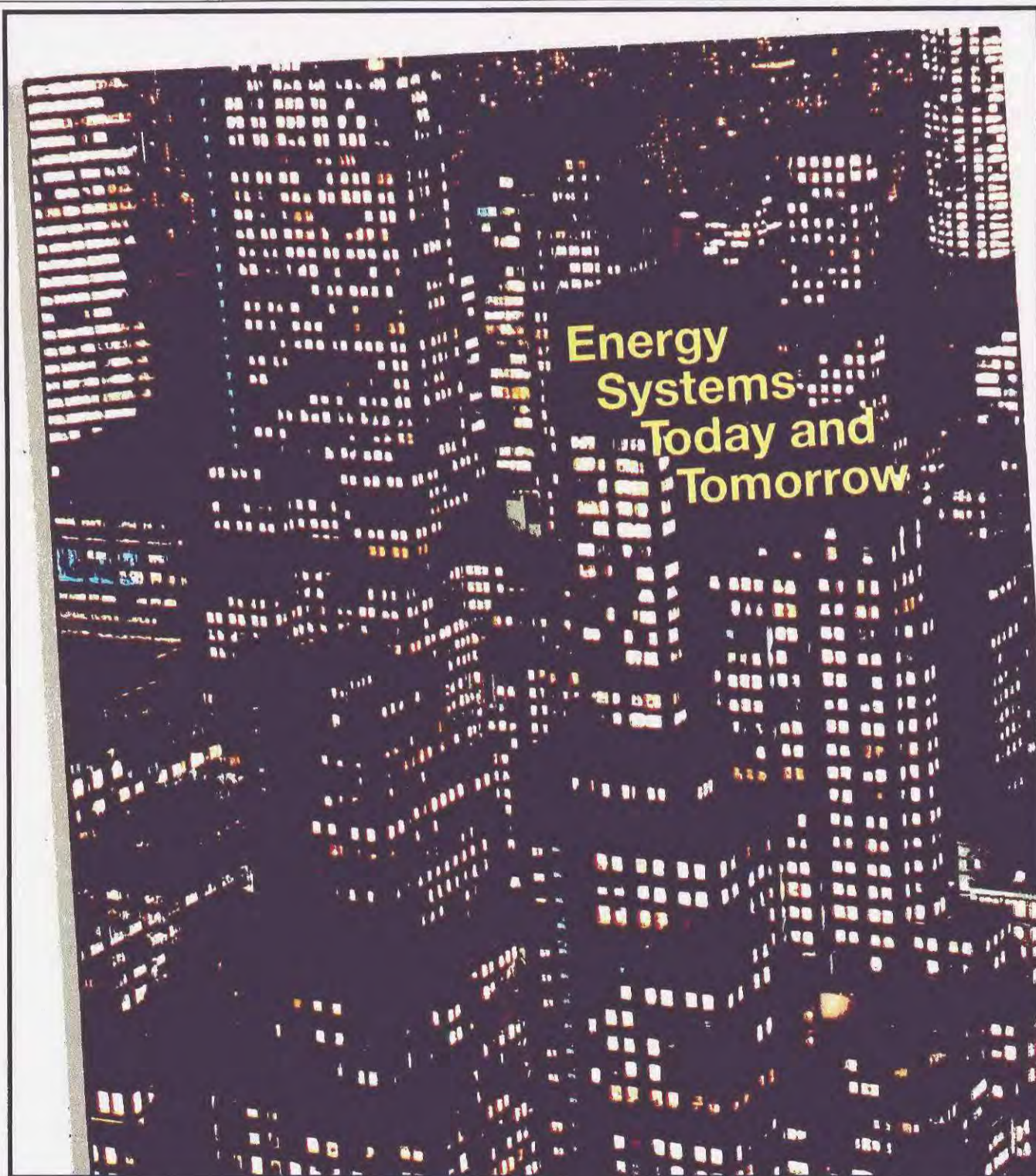
- Print Advertising Directed to Consumers: Best of Show to SAFECO; Awards of Excellence to Utica, Wausau, Farm Bureau Insurance-Michigan and Nationwide.

- Print Advertising Directed to Producers: Best of Show to General Accident; Awards of Excellence to Swett & Crawford Group, Northland Insurance Cos. and Reliance National.

- Public Relations: Best of Show to Canadian Reinsurance Co.; Awards of Excellence to Erie Insurance Group, Country Cos., Hanover and Aetna.

- Annual Reports: Best of Show to Wausau; Awards of Excellence to Medical Inter-insurance Exchange, Westfield Cos., Commercial Union Insurance Cos. and the Virginia Insurance Reciprocal.

- Media Advertising etc. Directed to Companies: Best of Show to *Business Insurance*; Awards of Excellence to Risk Management magazine and the American Institute for Chartered Property & Casualty Underwriters and the Insurance Institute of America. **BI**



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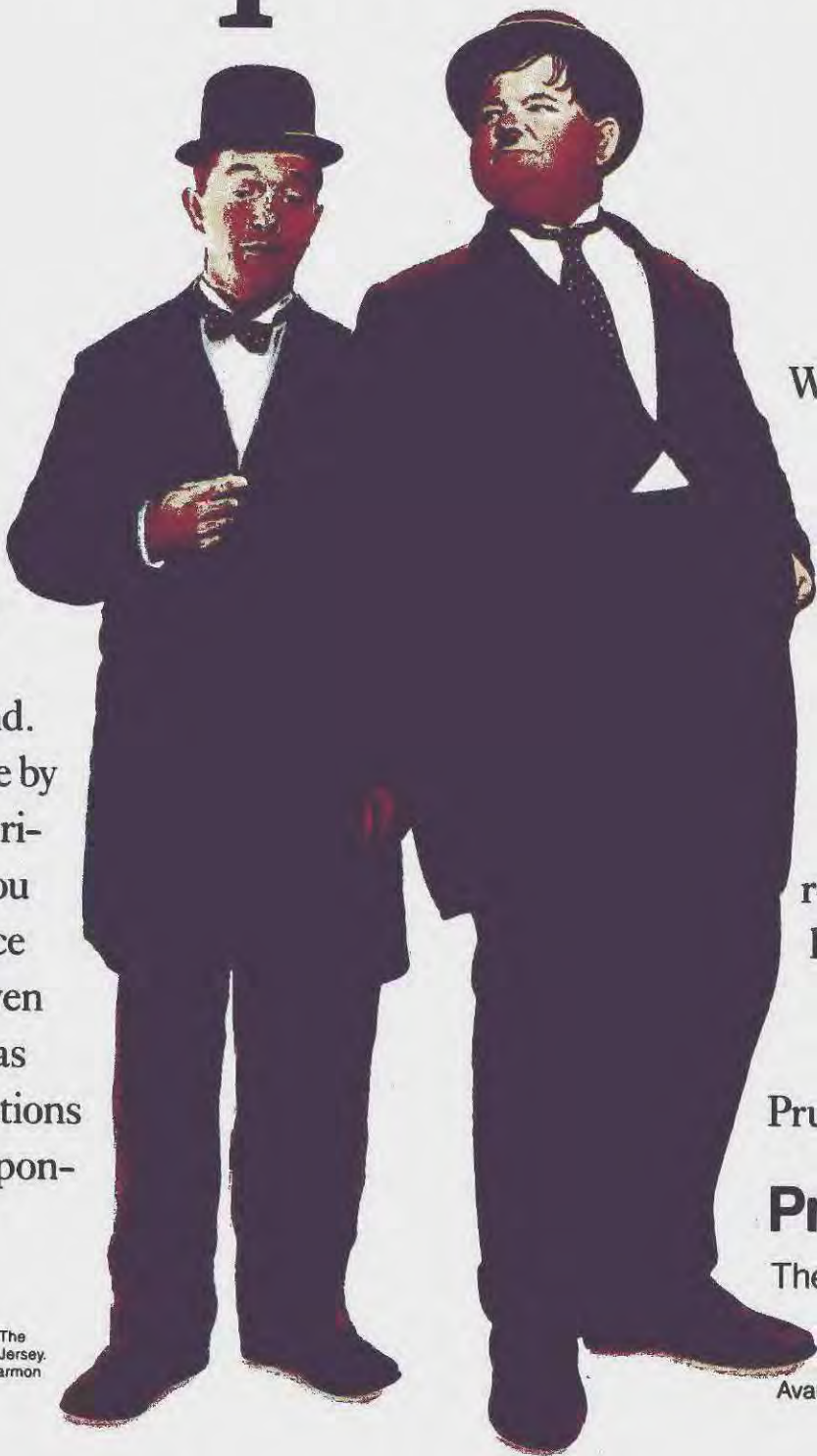
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throw our weight around.

Instead, we'll work side by  
side. We'll share our experi-  
ence with you. To help you  
fine tune your reinsurance  
program and make it even  
more profitable — just as  
we've refined our operations  
to make them more respon-  
sive to your needs.



Whatever your needs, we  
won't give you one-size-  
fits-all solutions.

We'll tailor solutions  
to fit you. We do this  
because we know we  
will both benefit from  
it in the long run.

And we're looking for  
relationships that will be  
long running.

So before you get into  
another fine mess, call  
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# A different marketing approach

## Vital to set a strategy for creative staff: Expert

By SARA MARLEY

ASHEVILLE, N.C.—Creative solutions to marketing and advertising problems should be encouraged, but they should also be directed.

**IMCA** "Creativity is a way of doing things differently," said author and former advertising executive Jack Keil at the Insurance Marketing Communications Assn. summer meeting held last month in Asheville, N.C.

"We have to train ourselves to look in the other direction, to zig when others zag."

Unchanneled creativity is not productive, however.

"The right brain is responsible for the creative effort," said Mr. Keil, a former executive creative director with Saatchi & Saatchi Advertising in New York and author of "The Creative Mystique" in 1985. "The left brain is responsible for the creative direction."

A creative strategy should be "a road map or a compass that points the way to go," said Mr. Keil, who is also the inventor and voice of McGruff, the crime dog, featured in the "Take a Bite out of Crime" public service campaign. "It tells you where you are going. It doesn't tell you how to get there."

Five questions can help develop a creative strategy to address virtually any problem, said Mr. Keil.

The same process can be used

to sell breakfast cereal, to tell children about the danger of drugs and to encourage homeowners to write to members of Congress to support the establishment of a national catastrophe reinsurance pool.

- What are the perceptions and beliefs concerning the subject?

It is important to identify the facts about a subject and what most people believe about it, he said.

In the catastrophe pool example, most people believe that insurance companies can pay claims, that they profit even in years with multiple losses and that they are obligated to pay claims under the terms of their contracts.

- Who are we talking to? The audience should be narrowed; in this example, to homeowners.

- What do we want these people to do?

A creative strategy should prompt action. Here it is to get people to write letters to their representatives and senators in Washington to encourage passage of a cat pool law.

- What is the one thing that will get them to do what we want them to do?

The core idea in this example is fear of losing coverage or of paying much more for it, Mr. Keil said. Homeowners should be presented with data on the percentage of policyholders who will lose access to affordable insurance if a cat pool isn't established.

- Why should anyone believe our

core idea?

In this case, the statistics will lend credibility to the campaign. Charts and figures go over well with the public, Mr. Keil said.

Information should also be provided on how the cat pool would be funded and how much an average homeowner would contribute.

"Nowhere does it say how (the advertising campaign) should be done," Mr. Keil noted.

"Execution is not a part of the strategy. You are making the creative side easier by focusing the direction, not by telling them how to do it. That's their job." **B**

## IMCA officers elected at meeting

ASHEVILLE, N.C.—More than 200 people attended the Insurance Marketing Communications Assn.'s summer meeting last month at the Grove Park Inn in Asheville, N.C.

**IMCA** William J. Spinner, manager-corporate relations of PHICO Insurance Co., was elected president for 1993-1994. Ronald J. Cooley, director-marketing communications for the commercial insurance division of Crum & Forster Inc., will serve as executive vp; Barbara Sinclair-Hembree, manager-corporate communications of Farm Bureau Insurance Cos. of Indiana, will serve as vp; Richard L. Wright, director of advertising of Farmers Insurance Group, will serve as executive vp; and Joel Kwas-kin, creative services director of Royal Insurance Co., will serve as secretary-treasurer.

In 1994, meetings will be held in San Diego on Jan. 15-18 and in Montreal on June 26-29.

For more information, contact William T. Hadley, IMCA Executive Director, 344 Commercial St., Boston, Mass. 02109; 617-266-8400.

## Study details preferred sources of insurance information

ASHEVILLE, N.C.—Specialized business publications and insurance salespeople provide the best information about insurance products and services, a study commissioned

**IMCA** by the publishing industry has found.

American Business Press, a New York-based trade association, added the insurance industry to its ongoing research on marketing effectiveness in 11 business and professional market segments.

ABP President John Emery presented the survey results at the Insurance Marketing Communications Assn. meeting here last month.

The study divided the insurance industry into: selling organizations, like agents and brokers, which numbered 121,840; insurance pro-

viders, which numbered 16,647; and commercial buyers, which numbered 52,624.

Agents and brokers ranked specialized business publications as their top source of buying-decision information, with a 71.5 rating out of 100. Salespeople were a close second, with a 71.4 rating. Other sources included: conventions and seminars, with a 60.2 rating; direct mail, 48; trade shows, 47; and general business publications, 45.

Insurance company personnel and insurance service providers ranked specialized business publications first with a 72 rating. Salespeople came in second with 68.

Insurance buyers, which includes risk managers and top financial officers, ranked salespeople ahead of specialized business publications—

66 to 61, respectively—for buying-decision information.

The size of the market for buying decision information was determined by combining the circulations of 13 insurance magazines and eliminating duplicates.

Participating publications were: American Agent & Broker, Best's Review, *Business Insurance*, Canadian Insurance, Canadian Underwriter, Independent Agent Magazine, Insurance Journal, National Underwriter, Professional Agent, Risk & Insurance, Risk Management, Rough Notes and Underwriters' Report.

Copies of the survey are available for \$2.75 from ABP Marketing Services, 675 Third Ave., New York, N.Y. 10017.



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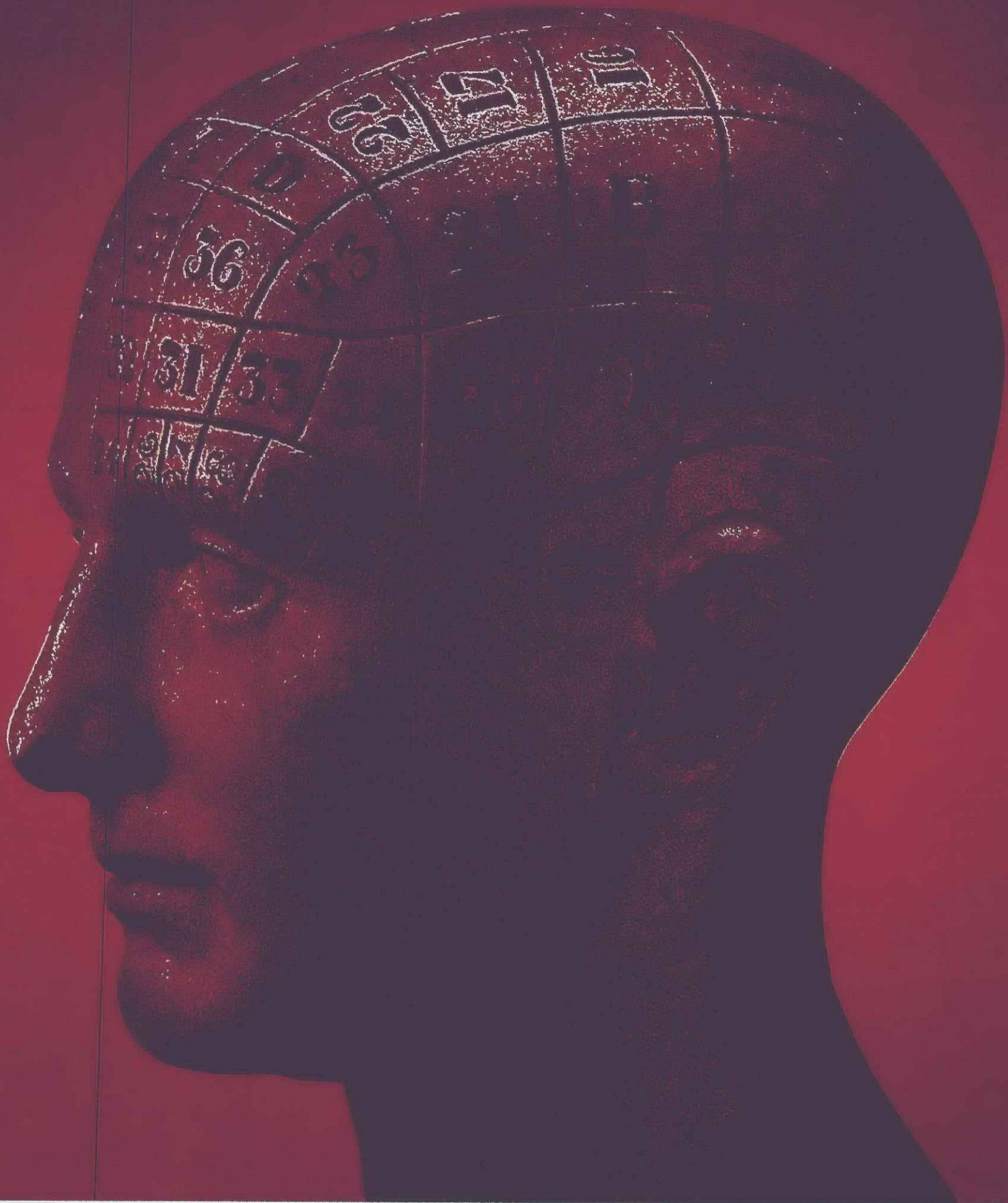
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# Fighting bogus health insurance claims

By Kirk J. Nahra

**H**EALTH INSURERS and other payers can effectively use the legal process to recover money lost to fraudulent health care claims.

Clearly, the most effective financial steps in fraud investigations are those that result in the denial of fraudulent claims. However, given the substantial legal and practical constraints on the ability of health care payers to deny claims, when fraudulent claims are paid payers can take several significant steps to recover these funds.

## Restitution

The principal vehicle for restitution in the federal criminal justice system is found in the Victim and Witness Protection Act. The VWPA provides that "the court, when sentencing a defendant convicted of an offense... may order, in addition to or, in the case of a misdemeanor, in lieu of any other penalty authorized by law, that the defendant make restitution to any victim of such offense."

Under the sentencing guidelines, restitution is mandatory, and may be denied only in limited circumstances. In fact, the purpose of the restitution provision of the VWPA is to require restitution whenever possible. The guidelines also provide for priority of restitution awards over fines. The VWPA places upon federal prosecutors the responsibility for proving victims' losses, and upon defendants the burden of establishing their own financial situation.

Because of an unfavorable 1990 U.S. Supreme Court decision under this statute, there was concern that the VWPA might provide restitution only to isolated victims, rather than to all victims of broad fraud schemes. However, Congress amended the VWPA later that year to provide that where a crime involves a scheme, a conspiracy, or a pattern of criminal activity (such as in a case alleging violations of the Racketeer Influenced and Corrupt Organizations Act), any person directly harmed by the defendant's criminal conduct would be considered a "victim" who could be awarded restitution.

It is important for private payers to support the consistent award of restitution to all payers. Recently, some efforts have been made to distinguish in restitution between private and government payers.

For example, the proposed Health Care Fraud Prosecution Acts introduced by Sen. Joseph Biden, D-Del., in the last Congress and passed by the Senate, would provide some important benefits in the fight against fraud, primarily by strengthening government enforcement resources. However, the bill makes restitution mandatory for submission of fraudulent health care claims only if the victim is the government or an individual. If a private insurer is the victim, restitution would be "discretionary."

This distinction makes no sense. Private insurers and others who pay health care claims suffer the same injury as the government or an individual. Fraud on private insurers harms the public interest. Moreover, employees and individuals ultimately pay for the losses suffered by private insurers through

## Legal steps for insurers to recover money lost through fraud

### IT Perspective

higher premiums or loss of coverage. Mandatory restitution should be available for all private losses attributable to health care fraud.

### Forfeited assets

In cases where the defendant has been convicted of a criminal violation under RICO, victims' claims may be satisfied not only out of the defendant's remaining assets and income, but also out of the property forfeited to the government as part of the criminal process.

There is no requirement that the defendants have been ordered to pay restitution. A victim making a claim upon forfeited property is entitled to prove the claim, including entitlement to restitution, even if the court sentencing the defendant failed to order restitution to that victim, or decided not to order any restitution at all. The attorney general independently may determine who are the victims of the offense for purposes of mitigation or remission of forfeiture.

Just as with restitution, insurers and other private payers should be compensated as the victims of fraud when the government has taken possession of criminal assets. These assets may be the only available means of compensating the victims of fraud. Right now, the government has virtually unchecked discretion to distribute the assets forfeited due to fraud. The only regulations currently used by the government are designed for "innocent" participants in the criminal process, for example, those who unknowingly purchased cars or boats from drug dealers.

This situation may have the ironic effect of depriving insurers that have facilitated the RICO prosecution of health care providers of any realistic means of recovering the money stolen from them. The Justice Department is preparing regulations to govern distribution of forfeited assets. These regulations should guarantee fundamental fairness to the victims of crime.

### RICO Act

The RICO statute provides a civil cause of action for organized fraud and allows for recovery of treble damages and attorneys' fees. RICO offers important advantages to insurers and other private payers. First, the prospect of treble damages increases the stakes for a defendant enormously. Second, because RICO allows for recovery of attorneys' fees, it can discourage dilatory tactics by defendants. Third, because it allows national service of process, RICO facilitates bringing all aspects of a national fraud case before a single court.

The most likely RICO claim for a health care fraud scheme involves a violation that occurs when a "person" is employed by or associated with an enterprise engaged in interstate commerce, and that person conducts or participates in the conduct of the enterprise's affairs through a pattern of racketeering activity.

The most contentious aspect of this claim is often proving the existence of an "enterprise." The Supreme Court has described an enterprise as "a group of persons associated together for a common purpose of engaging in a course of

conduct... (which) is proved by evidence of an ongoing organization, formal or informal, and by evidence that the various associates function as a continuing unit."

Under RICO case law, the "enterprise" must be separate from the "person" who is the defendant. Therefore, a hospital that is a defendant in a RICO case cannot be sued for operating the hospital as an enterprise.

The RICO statute also requires a "pattern of racketeering activity," which the statute defines as "at least two acts of racketeering activity, one of which occurred after (Oct. 15, 1990) and the last of which occurred within 10 years... after the commission of a prior act of racketeering activity."

To be a pattern, there must be proof that the "racketeering predicates are related, and that they amount to or pose a threat of continued criminal activity."

Continuity can be demonstrated "by proving a series of related predicates extending over a substantial period of time" or by "showing that the predicate acts or offenses are part of an ongoing entity's regular way of doing business."

Accordingly, an insurer must show that the criminal acts were related and either continue to date or extended over a reasonable period of time. While a damages calculation will be based only on losses suffered by a particular company, fraudulent claims submitted to other companies or false claims denied by your company also may be used to show this pattern.

### ERISA

In addition to the federal RICO statute, the primary federal statutory remedy for fraud cases will be through the Employee Retirement Income Security Act. The ERISA framework may provide specific remedies for alleged violations involving employee benefit plans.

Under the statute, if the payer is a fiduciary under an ERISA plan, then a suit may be brought by the payer to enforce the terms of the plan. If an ERISA action is appropriate, the payer would have a cause of action for "appropriate equitable relief" to recover sums wrongfully paid to a health care provider out of the plan assets or contrary to the coverage of the plan. Moreover, while punitive damages typically are not awarded for ERISA violations, the statute does allow for the recovery of "a reasonable attorney's fee" in the court's discretion.

ERISA also has certain defensive benefits related to potential tort liability. ERISA pre-emption will preclude many state-based claims that could be made against insurers, particularly those involving state bad faith or deceptive trade practices statutes. An ERISA case may allow recovery of sums improperly paid to health care providers, and may provide some defensive protection from counterclaims by providers.

However, the ERISA action may not always be useful, given its focus on individual claims and lack of a strong damages remedy. Accordingly, private payers should pursue the creation of additional statutory remedies. In particular, the private sector also should be put

on the same level as the government in pursuing civil remedies for fraudulent claims. Right now, there are more sanctions applicable to those who steal from the government than from private insurers. The full array of legal tools should be available where health care providers steal from private insurers, as well as from the government.

### State actions

In addition to these federal causes of action, there also are state common law causes of action. These claims may provide relief for a broader range of activities, particularly those where the behavior was abusive rather than fraudulent.

The typical elements of cause of action for fraud are: false representation involving a material fact made with knowledge of its falsity, made with the intent to deceive and action taken in justifiable reliance thereon. The elements of a common law fraud action do not generally differ from jurisdiction to jurisdiction. Most states hold, for example, that a cause of action does not accrue until the plaintiff knew or should have known of the fraud. Thus, insurers need only institute the lawsuit within the relevant limitation period, assuming the period begins to accrue when the fraud was discovered. Many states provide for the recovery of punitive damages for fraud.

Several states have enacted statutes specifically addressing insurance fraud. For example, New Jersey's Insurance Fraud Prevention Act makes it unlawful, among other things, for any person to present a false or misleading statement in support of a claim for payment pursuant to an insurance policy.

The New Jersey statute provides that any insurer damaged as a result of a violation may sue to recover compensatory damages, which may include investigation expense, costs of suit and attorney fees. Additionally, an insurer may recover treble damages if the court determines that the defendant has engaged in a pattern of violating the Act. The statute of limitations for bringing a cause of action is currently two years.

This state statute, and others like it, may provide additional avenues of relief for submission of fraudulent claims. They are intended as supplements to other causes of action, but may provide important additional remedies to insurers.

The variety of legal remedies available to fraud fighters is substantial.

While cutting off losses before claims are paid clearly is important, it may be necessary for private payers to institute recovery actions to receive the full financial benefit of fraud investigations. By understanding these options, private payers can pay for their own fraud programs and greatly assist in the battle against rising health care programs. **BI**

*Kirk J. Nahra is an attorney with Wiley, Rein & Fielding in Washington. He serves as counsel for the National Health Care Anti-Fraud Assn., the National Insurance Crime Bureau and individual insurers in health care and property/casualty fraud cases.*

# Chubb's ticket to support of the arts

## Insurer picks up tab for a new theater at the Smithsonian

By MARK A. HOFMANN

WASHINGTON—A new theater in the Smithsonian's National Museum of American History will give a New Jersey insurer the chance to have its name, if not exactly in lights, at least connected with a major permanent exhibition.

Warren, N.J.-based Chubb Corp. announced last month that it would donate \$300,000 toward the construction of a theater at the museum's "First Ladies: Political Role and Public Image" exhibit, which reopened to the public in 1992 after several years of renovation.

According to Chubb Chairman and Chief Executive Officer Dean O'Hare, who presented the first of three annual \$100,000 installments to the museum on June 22, "We are strong supporters of the arts, and we are certainly especially fond of seeing museums create this kind of message."

The message is dramatizing the increasingly important role of women in U.S. politics, said Mr. O'Hare. He added that the timing of Chubb's donation is particularly fitting given the prominence of Hillary Rodham Clinton in the health reform debate, as well as the election of record numbers of women candidates to the U.S. House, Senate and various governors' offices.

Although Chubb won't directly tie its donation into its museum insurance program, the insurer's connection with museums is not only as a supporter but also as a business partner, Mr. O'Hare noted.

Chubb does not insure the Smithsonian, but it has emerged in recent years as a major museum insurer. The insurer currently writes coverage for such institutions as New York's Metropolitan Museum of Art, the Art Institute of Chicago, the Franklin Institute in Philadelphia and the Boston Museum of Fine Arts.

Chubb learned of the opportunity to get involved with the theater through its Washington office. The idea went to the insurer's corporate contributions committee, which endorsed it soon afterward.

The theater, which currently exists as a shell near the entrance to the First Ladies exhibit, will seat about 50 people. Plans call for the theater to show a 10- to 12-minute film on the role of the First Lady, said Edith Mayo, who is curator of the exhibit. She said the film would be produced by an outside vendor on a concept devised by the museum.

Mr. O'Hare said the theater *Continued on next page*

Insurer Topics

Continued from previous page would include a plaque or similar indication of Chubb's role in creating the facility. The film also will note Chubb's contribution, he said.

Ms. Mayo predicted that the theater will open in 2½ to three years.

If the opening is delayed until 1996, it will be tied in to the presidential election, she said. But if it opens in 1995, the the-

# Insurers mull approaches to problems in real estate

By GAVIN SOUTER

The United States government and many of the nation's insurers have a common problem: distressed real estate.

But the solution to the problem might not be the same for both parties.

Like other insurers, The Prudential has had to endure the slump in the real estate market since 1990, said Kurt A. Reich, vp at Prudential Real Estate Investors, a unit of Prudential Corp. in Newark, N.J.

The reaction of insurers and other financial institutions to the problem has been mixed, Mr. Reich said.

"Some have been looking to hold and wait for the market to return back to health while others have unloaded their properties for anything between 30 and 50 cents on the dollar," Mr. Reich said.

In one recent deal, Anchor National Life, a subsidiary of Sun-America Corp. in Los Angeles, sold \$90 million in commercial mortgages and properties in four package deals. The company acquired the assets when it took over Integrated Resources in 1990.

One of the results of the fall in real estate prices has been the emergence of auctions as a tool for selling commercial properties efficiently, Mr. Reich said.

"The auctions that have worked the best have been those that set a minimum reserve price, as this gives the buying public a sense that the seller has a commitment," he said.

Another option for insurers is to follow Uncle Sam's lead.

The federal government inherited its land-and-property headache when it took on the responsibility of dealing with the savings and loan crisis. The failed institutions had billions of dollars of distressed real estate on their books, and the government is now trying to salvage funds from the land and properties.

Rather than just trying to sell the real estate through the traditional market, the government has in some cases sought deals with private investors who have real estate expertise.

Under a program called the National Land Fund, the government has rolled up parcels of real estate assets into series of limited partnerships and then invited private investors to bid for

Continued on next page

ater will open its doors during the 75th anniversary of the ratification of the 19th Amendment, which gave women the right to vote.

The film will complement the museum's existing exhibit, best known for its collection of First Ladies' gowns.

Another section of the exhibit, "First Ladies: Political Role," examines how the role of the president's wife has been defined and redefined over the past 200 years as First Ladies have become increasingly visible. It also examines how presidents' wives have become the spokeswomen for social causes as well as political campaigners.

The final section, "Shaping the Public Image," shows how First Ladies have responded to the de-

mands of their husbands' office and how they have dealt with the press. This section includes tapes of First Ladies Lou Hoover and Eleanor Roosevelt's radio broadcasts.

Ironically, the Chubb donation was made on the same day former First Lady Pat Nixon died. At the end of a VIP tour of the exhibit for Chubb officials, Ms. Mayo was informed of Mrs. Nixon's death by an aide, who said that a local radio station had already called for Ms. Mayo's comments. **BI**

**Chubb Corp.'s Dean O'Hare (right) and Spencer Crew of the Smithsonian discuss the exhibit that highlights the political role of women.**



Photo by Allan H. Shoemaker

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## Insurer Topics

## IT Briefs

## Auto claim automation

CHICAGO—Fireman's Fund Insurance Co. is testing a new service that speeds the settlement of automobile physical damage claims.

The new program, being tested in Chicago, is called Integrated Claims Services and is a product of CCC Information Services Inc. of Chicago. The program aims to lower an insurer's costs by coordinating a wide array of automated systems, including EZNet—which is CCC's electronic communications network—and an electronic auditing data base that verifies repair costs at participating facilities.

Integrated Claims Services is designed to lower the costs of automobile claims processing by:

- Electronic dispatching of repair assignments through a nationwide communications network.
- Computerized collision repair appraisals.
- Total loss warning notification during the appraisal process.
- Electronic audits of all completed appraisals to ensure adherence to an insurer's appraisal guidelines.
- Immediate recall of any appraisal—whether completed or in progress.

• Detailed management reports designed to provide insights into areas warranting attention during the settlement process.

Each participating repair facility completes an information application and subscribes to an agreement to uphold a professional and ethical approach to the repair process.

After testing the product in Chicago and other cities, CCC plans to make service available nationwide in 1994.

For more information about Integrated Claims Services, contact Jack Billington, Senior Vp, CCC Information Services Inc., 800-621-8070, ext. 2273. In Illinois, the number is 312-787-2640, ext. 2273.

—By Nancy P. Johnson

## Hurricane program

SAN FRANCISCO—A computer program that assesses insurers' potential exposures to future hurricane losses has been launched by consultants EQE International.

Based on weather information provided by the National Hurricane

Center in Miami and historical claims information from three insurers, the USWIND program predicts the possible maximum loss for a portfolio of risks organized by ZIP code in hurricane-prone areas.

Possible losses can also be predicted by state and EQE is currently refining the program to predict losses on a street-by-street basis, said an EQE spokesman.

"You can draw the hurricane path through the worst area for you and then decide whether you need to buy more reinsurance or take any other measures to cover your exposure," he said.

EQE launched a similar windstorm program in Britain last year.

For more information, contact EQE, 44 Montgomery St., Suite 3200, San Francisco, Calif. 94104; 415-989-2000.

—By Gavin Souter

## IIC addition, election

WASHINGTON—Provident Life & Accident Insurance Co. has joined the International Insurance Council. The Chattanooga, Tenn.-based insurer offers health, life, group pension, long-term disability and individual disability income products.

Separately, H. Edward Hanway, president of CIGNA Worldwide Inc., has been elected chairman of the IIC. He succeeds Ronald J. Anderson, senior vp-external affairs of American International Underwriters, who held the post for two consecutive one-year terms.

In addition, Houghton Freeman, vice chairman-foreign general insurance for American International Group Inc., has been awarded the International Insurance Award for 1993 by the IIC.

Mr. Freeman has had a 46-year career with AIG companies and currently is AIG's senior executive in Tokyo for China, Japan and Korea.

The award was created in 1976 to honor individuals for distinguished service to the international insurance and reinsurance industries.

The IIC is a Washington-based trade association that speaks for and coordinates the international non-commercial activities of U.S. insurance and reinsurance companies.

—By Nancy P. Johnson

## S&amp;P solvency ratings

NEW YORK—About half the 1,242 property/casualty and life/health insurers evaluated received the highest rating in the new Standard & Poor's Corp. qualified solvency ratings based on 1992 performance.

Overall, 613 insurers were rated BBBq, representing "adequate or better" security; 412 were rated BBq, "may be adequate"; and 217 were rated Bq, or "vulnerable."

Rating upgrades outnumbered downgrades 223 to 66, or more than 3-to-1. Life insurers, many of which showed balance sheet improvements, accounted for 177 of the upgrades and 37 of the downgrades, while property/casualty companies accounted for 46 upgrades and 29 downgrades.

Among the companies downgraded to BBq from BBBq were National Indemnity Co. and Columbia Insurance Co., both units of Berkshire Hathaway Group. S&P cited the companies' high level of incurred losses—exceeding 95% of earned premiums—and large common stock portfolios.

Donald Wurster, president of National Indemnity, would not comment on the downgrade.

—By Douglas McLeod

## Nationwide's food drive

COLUMBUS, Ohio—Nationwide Life Insurance Co.'s program of summer fun and games has raised enough money to buy 333,763 meals for the needy.

The Columbus, Ohio-based insurer kicked off its 12th annual Operation Feed campaign last month as its top executives challenged employees to various athletic contests designed to earn donations.

Nationwide President Peter F. Frenzer was the key challenger in a tennis tournament, while Chief Executive Officer D. Richard McFerson—a former college all-star pitcher—threw fast-pitch softballs to employees at the bat.

Employees paid an entry fee in order to compete against the executives.

Nationwide officers also made a relay race out of the task of bagging bulk pasta in more than 1,650 family-size portions. The officers bid for teammates and devised ways to carry the pasta bags on their backs so they could dribble and shoot basketballs to earn points.

The pasta was later donated to

food pantries throughout the Columbus area.

"Dress-down day" was another money-raising event, in which managers worked in casual attire for donations ranging from \$2 to \$30, depending on the employee and the rank.

Other Operation Feed events included tricycle races, karaoke, carnival games, golf outings and Elvis sightings.

—By Nancy P. Johnson

## Pacific States rehab

LOS ANGELES—A rehabilitation plan for Pacific States Casualty Co., a Los Angeles-based workers compensation insurer that was declared insolvent and placed in conservation by the Department of Insurance in March, has been approved by Los Angeles Superior Court.

The court's approval clears the way for the sale of the company to Ulico Casualty Co., an affiliate of the Baltimore-based Union Labor Life Insurance Co. Ulico, which will form a new company to take on Pacific States' business, will assume all of Pacific States' assets, estimated to be \$15 million to \$20 million.

At the time Pacific States was placed into conservation, it had about 1,200 policyholders.

—By Louise Kertesz

## Assault claim denied

NEW YORK—A federal appeals court in New York has ruled that an assault and battery clause contained in a nightclub's general liability policy relieves the club's insurer from the duty of reimbursing the club for \$1 million in damages it paid to a woman who was raped on the club's premises.

The June 2 decision by the 2nd U.S. Circuit Court of Appeals in New York reverses a lower court ruling that stated a liability policy written by Philadelphia-based United National Insurance Co. required the insurer to indemnify Waterfront New York Realty Corp. and The Tunnel nightclub, where the rape occurred.

Under the court's ruling, United National has no duty to pay the \$1.05 million settlement The Tunnel and its landlord reached with the family of a 16-year-old girl who was raped in one of the club's restrooms. The court cited a specific assault and battery clause contained in The Tunnel's policy, which specifically

excludes: "claims arising out of an assault and/or battery."

Following the 2nd Circuit ruling, United National will recover from the policyholder \$1.05 million it paid in 1992 under a reservation of rights.

—By Michael Schachner

## Child abuse prevention

ORANGE, Calif.—Leaders of life, health, property and casualty insurance companies in Southern California have announced a new program to lend support to established child abuse shelters and services relating to prevention of child abuse.

The program—part of the insurers' ongoing efforts to fight child abuse—has selected a committee to solicit donations of time, talent and in-kind gifts toward children's causes.

Titled "Insuring the Children," the program focuses on raising awareness of child abuse and providing effective solutions through fund raising, volunteer work and foster-family recruitment.

"It's our business to protect valuables from harm or loss, so it's appropriate that we, the insurance industry, join forces to help victims and those potential victims of child abuse," said Mike Heywood, division vp of American States Life Insurance Co. in Indianapolis.

For more information on the project, contact Donna Kukura at Armstrong/Robitaille Insurance Services, 800-339-2083.

—By Nancy P. Johnson

## Insurer wins fraud suit

NOVATO, Calif.—Fireman's Fund Insurance Co. won a \$3.5 million judgment against a Los Angeles man who was convicted of torching his own furniture store in 1988 and collecting almost \$1.2 million in insurance payments.

Los Angeles Superior Court Judge Lillian M. Stevens last month ordered Sanford Lazarus and Van Dyver Furniture to pay \$3.5 million plus interest and attorney's fees of \$500,000 to reimburse Fireman's Fund for the phony claim. The case was brought under the Racketeer Influenced and Corrupt Organizations Act.

Mr. Lazarus was convicted of three felony counts of arson, grand theft of property and fraudulent insurance claims for the fire, which destroyed the store.

—By Nancy P. Johnson

## Real estate

Continued from previous page an interest in the partnerships.

The assets include commercial loans, undeveloped land and partially constructed projects located primarily in Arizona, California, Florida and Texas.

The private investors become responsible for selling or developing the real estate and any future profits are split proportionally with the Resolution Trust Corp., the government agency responsible for the S&L cleanup program.

So far, the RTC has completed six deals with private investors involving real estate with a book value of \$1.8 billion, said Gordon Alpert, a real estate partner at Rosenman & Colin, the New York law firm that acted as an adviser on the deals.

The structure of the National Land Fund could be adapted to help insurance companies unload their distressed real estate, Mr. Alpert said.

"You could have an insurance

company in partnership with a land-development business who could use their experience in developing land," he said.

The insurer could hold onto perhaps a 75% interest in the land, and reap its portion of the benefits when the real estate is sold or leased, Mr. Alpert said.

The benefit for the insurers is that they would be collecting money for land development during a time when there is little appetite for such investment in the market, Mr. Alpert said.

But insurers are not convinced. "Packaging properties for sale is something we've done in the past, but we don't need to bring outside expertise to do it because we have the expertise," said Prudential's Mr. Reich.

The Prudential would only consider using outside expertise to sell its distressed real estate on properties that are under foreclosure, Mr. Reich said.

"It might behoove us to sell them as a whole or as part of a

portfolio and pay a fee to a third party to do it, as they are such time-consuming deals," he said.

Aetna Life & Casualty Group also would likely not be interested in seeking an outside partner and offering them the chance to make money on the property it owned, a spokesman said.

"We take quite a traditional approach, and if it is property that we own and our clients have invested in, then we have to make sure that they get a consistent return for the money," he said.

Travelers Corp. in Hartford, Conn., also did not see many attractions in following the RTC lead, a spokesman said.

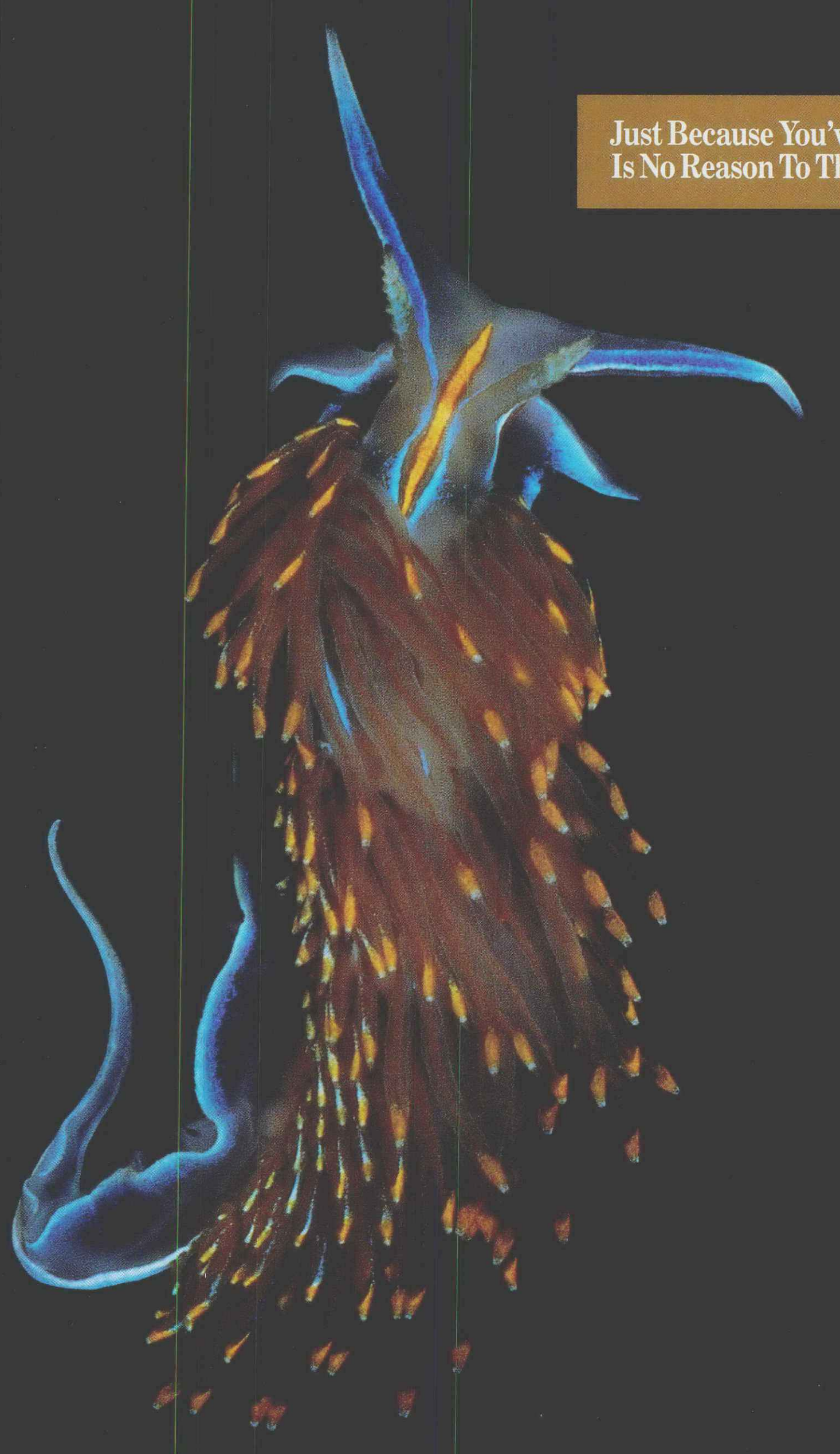
Many intermediaries in the market already offer services to sell real estate through a variety of means, and a variation on the RTC model would not offer an insurer any significant advantages over other means of disposing of real estate, he said. **EI**

## Insurer Topics

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# European market trends

By Thomas J. Drag  
and Tony Burns

FOR EUROPE, 1991 began more or less the same way 1990 ended. It saw no radical changes to the European way of life, and no perceptible changes to the way insurance was sold. If anything, insurers were prepared to be more flexible than ever. More coverage was available at lower prices, with no major resistance on the part of holding insurers, especially if they perceived that their actions would keep the client and broker satisfied—assuming there had been no major losses.

Competition was, after all, beginning to intensify. Insurance buyers and brokers were getting more sophisticated in their insurance program design. Cross-border insurance purchasing was easier than ever with the inception of the European Community Freedom of Services Act on July 1, 1990. The major differences in average rate levels throughout Europe were more apparent. In countries where professional insurance brokers did not have a major market penetration, the direct writing insurers saw more reasons to cut premiums.

With market pressures on insurers and brokers alike, early 1991 allowed us all to conduct business as usual, with insurers prepared to provide more coverage at a lower cost. The renewal season for 1992, which began in September 1991, marked the beginning of a change.

The professional reinsurers had woken up to the fact that they were financing the poor loss results of insurers in markets that showed little sign of improving. The reinsurers had not been exercising control of the rates they had, de facto, accepted.

Many European countries are now going through a market hardening process, including France, Germany, Italy and the United Kingdom, and in the early stages, Spain and Turkey. On the other hand, Switzerland has so far resisted a market turn.

Following is a look at conditions in these markets.

• **Germany.**

The hardening process in Germany has been particularly severe, especially for jumbo risks.

Through summer 1991, the tariff book was only used to reference the percentage that the client's rate was to the tariff, such as 30% of tariff, 35% of tariff and so on. The 1991 German industrial insurance market balance sheet showed a total premium income of approximately 3 billion marks (\$1.98 billion), and total losses of approximately 5 billion marks (\$3.3 billion). As of September 1991, "business as usual" was over.

Thus began the era of the Koko in Germany. The Konsortial Kommission is the successor to a similar body, called the Tarko, or Tariff Kommission, which had not been very active for some time.

Made up of representatives of the major professional reinsurers and the involved primary insurers, the Koko—as the Tarko before it—decides upon the level of rating to apply to the property damage and business interruption coverage of the German jumbo risks. These risks are known as "Spitzenrisiken," or peak risks—defined as policyholders with combined property and business interruption insurance limits of 1 billion marks (\$587.9 million) or more—and number more than 450 in Germany.

The Koko reviews the risk submission that the first insurer must supply and decides whether or not to support the technical evaluation of the risk and rating calculations. If it does not support the analysis, it may decline to provide reinsurance coverage.

Most peak risk rates have now been increased up to the tariff level. Such peak risks had been insured at rate levels of as low as 40% to 50% of the tariff for some years, with no objections on the part of the insurers; so some of them saw their rates more than double by the end of 1992 renewals.

The level of rate increase is directly dependent on

## More coverage at lower prices a thing of the past

what has been paid in the past. Clients not handled by professional brokers, paying rates at perhaps about 80% of tariff, have only been faced with a 25% increase, to bring them up to about 100%.

Industrial segments, such as foundries, chemical companies, paper manufacturers and wood working companies are experiencing major problems obtaining desired insurance coverage at cost levels they can afford. Insurers are applying pressure to companies in these industries to invest in a well-defined risk management approach to controlling their loss potential as a precondition to obtaining insurance.

The renewal season for 1993 brought increases in the rate levels of clients in the size category below peak risks, those with total property and business interruptions sums insured ranging from 500 million marks (\$294 million) to 1 billion marks (\$587.9 million). With respect to these risks, the insurers are prepared to agree to a step-by-step increase of premiums to tariff level, over a period of several years.

The outlook for 1993 and 1994 is more of the same. We can expect to see all policyholders pushed up to full tariff rates as time goes on. So far, there is no overall tendency in evidence to restrict policy coverage, but this cannot be excluded as a possibility.

• **United Kingdom.**

The downward trend in rates witnessed in the late 1980s and in 1990 was reversed toward the end of 1991. During 1992, there were definite increases in rates for some types of cover and also for risks with high loss ratios. This trend continued for December 1992/January 1993 renewals, with higher rates resulting from a significant increase in the cost of treaty reinsurance for most major insurers in the United Kingdom.

It is believed that pressure for increased premiums will continue in 1993.

Property/business interruption risks with satisfactory loss experience have been facing rate increases of 10% to 15%, and up to twice these percentage increases have been applied to others. Market capacity generally is falling.

Accounts with exposures in "natural catastrophe" areas such as U.S. earthquake zones and Japan and Taiwan flood areas have encountered particularly sharp increases and lower limits. These reflect the dramatic reduction in capacity and increases in premium at the end of 1992 from the London excess of loss market.

General liability/products liability rates have increased 10% to 15%. Market capacity has been reduced. Employers liability has also experienced large increases, rising 30% or more. Market capacity is falling.

The marine market has hardened in two ways:

✓ **Pricing.** While most brokers recognize that some increase is necessary in response to recent major losses, there has been a trend in the market to raise every premium by a set percentage regardless of the loss experience on the case.

✓ **Conditions.** Brokers' wordings are no longer freely accepted; underwriters are examining each wording carefully and seek to eliminate what they believe to be a too generous scope of cover.

While automobile premiums have risen as much as 20% per year in the past two years, mainly due to a steep rise in vehicle theft claims, smaller increases are expected in 1993, perhaps about 15%.

• **Spain.**

In the last year, industrial risks have experienced an overall rate increase of approximately 10%. According to the official figures, the industrial insurance sector in 1991 made a loss of 6.6 billion pesetas (\$89.4 million at year-end 1991 exchange rates) on premiums of 40 billion pesetas (\$414.2 million). Studies done by insurance analysts indicate that rates in Spain must still increase 40% to reach a break-even point.

Underwriters are now applying stricter selection criteria, and it is now almost impossible to get a quote without a full survey report, previous claims experience, a product recall plan, etc.

The casualty market is restrictive in that there is no coverage available on a claims-made basis; new contracts must be arranged on an occurrence basis.

Marine insurance has experienced a significant premium increase, mainly because with local retentions being minimal, the rates are directly affected by the reinsurance market.

The automobile market is in the process of consolidation. The number of auto insurers has decreased by 25% in the past ten years. According to official statistics, 80% of the auto market is controlled by the top 50 insurers.

We have experienced annual automobile rate increases of about 15% during the past few years, due to higher court awards for bodily injury incidents and the increase in repair costs.

• **Switzerland.**

Switzerland uniquely would appear to be outside the market-hardening trend.

For large business, the tendency is for property rates to be up slightly if losses have occurred. In the absence of losses, premium rates are stable. Although the tariff has not been in effect since July 1990, it is taking some time for insurers and policyholders alike to adjust to the post-tariff market. As a result, property premiums for medium-sized businesses are still on the downtrend.

Premiums for small businesses and individuals might undergo changes due to the increase in competition, with premiums going down in the medium term.

Casualty premiums have not yet stopped their general downtrend in no-claims situations. However, large industrial risks have sharply increased in particular branches like chemicals and where larger claims have occurred. For medium-sized business, there is a downtrend in rates. For small businesses, rates are stable.

In marine insurance, large business is on a downtrend with respect to both volume and rates. The rest is relatively stable. Automobile tariff rates are approved by government authorities. If Switzerland had joined the European Community, premiums would have dropped sharply.

We must not forget that Switzerland was a high-tariff country for many years and that the present developments are just an adaptation to the standards of foreign (non-tariff) countries.

The future development of premiums however, is likely to be influenced strongly by the reinsurance market. As this market is hardening in Europe as a whole, we do not exclude the possibility of rising premium levels as we approach 1994. BI

Thomas J. Drag is director of Alexander & Alexander Services Inc.'s



Mr. Drag



Mr. Burns

Global Client Service Group. Tony Burns is manager of the Global Business Unit at Jaspers Industrie Assekuranz GmbH & Co. KG, A&A's German affiliate.

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AND BENEFITS PROFESSIONALS****Primex Ltd.***Continued from page 36*  
limits excess of Primex's \$5 million.

Weavers' demise could have strained Primex if its policyholders had suffered extensive losses while covered by Weavers. Primex considered extending coverage to policyholders to fill any gaps that may have been created by Weavers' collapse. "But, it was never necessary," Mr. Turner said.

Primex also has kept premiums relatively stable. Although they have varied somewhat over the years, the swings have not been significant,

policyholders say.

"There may have been some years when we could have purchased cheaper coverage on the outside, but overall it's easier to manage your budget when you know what you're going to pay year after year," Angus' Mr. Carpenter said.

Facility members recently voted to lower rates 20% under a new three-year policy because of several years of good loss experience.

Policyholders and facility managers say Primex has functioned just about as envisioned in its feasibility study.

Based on the 10-year loss experience of the chemical companies that

wanted to form the facility, J&amp;H projected that claims would be few, but severe.

Primex members and managers wanted to capitalize the facility so it could cover about one full-limits loss every three years.

Original members contributed \$500,000 of capital and another \$500,000 on average came from premiums—based on a point system that takes into account a policyholder's payroll and revenues, Mr. Turner explained.

However, Primex had enough capital in its first year to cover only a \$7.5 million loss, Mr. Turner said.

The facility could have covered a full-limits loss after that first year. But, if there had been additional severe losses in the same year, only the first loss would have been paid in full. Subsequent full-limits losses would have been paid on a prorated basis under a shared-facility loss limit. That measure also was used by some other policyholder-owned facilities in their early years, including ACE Ltd. and X.L. Insurance Co. Ltd.

Primex did not suffer its first full-limits loss until year-end 1989, a year after it had ended its shared-facility loss limit.

Primex was able to end that limit in part because of the Weavers arrangement and because capital and surplus had increased to \$20.9 million by December 1988.

Angus reported the largest loss. A May 1991 explosion at its Sterlington, La., nitroparaffin plant killed eight people, injured 120 and damaged surrounding homes. The plant also was severely damaged. The loss gobbled up all of Angus' \$15 million of Primex limits.

IMC Fertilizer Inc., which operated the plant, in April agreed to pay Angus \$180 million to settle some litigation stemming from the explosion (BI, April 12).

About \$10 million of that will go to liability insurers. Of that amount, \$7.5 million will go to Primex, Mr. Carpenter said.

And, pending the outcome of further litigation between Angus and IMC, liability insurers may be able to recover more, he said.

The other full-limits loss was reported by Inspiration Resources Corp., now known as Terra Industries Inc., in late 1989. That \$5 million loss to Primex stemmed from the policyholder's alleged misapplication of the fungicide Benlate DF, which is manufactured by Wilmington, Del.-based E.I. du Pont de Nemours &amp; Co. Inc.

Weavers paid its share of the total loss before it went under in 1990.

However, hundreds of farmers and nurseries have filed suit against Du Pont, claiming that the antifungal chemical damaged their plants (BI, June 21). It is not clear whether Primex can recover any of the loss it paid to Terra.

Some other pending claims filed by Primex members involve product contamination, employee discrimination and injured contractors, said Mr. Turner, who would not elaborate.

Primex has not had a significant auto claim because most members do not have auto fleets, he said.

And, no pollution claims have been filed, he said.

Policyholders generally are pleased with Primex's claims-payment system, though they say it was somewhat cumbersome initially.

"When and if you do have a claim, you get more even-handed treatment from Primex than you would from commercial insurers," said Ernie Danner, chief financial officer for INDSPEC Chemical Corp. of Pittsburgh and Primex's previous chairman.

"That's because everyone there  
*Continued on page 42*

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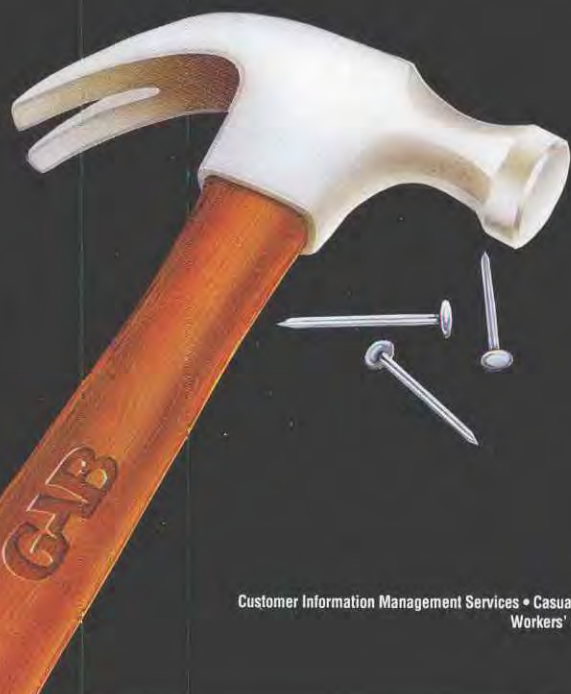
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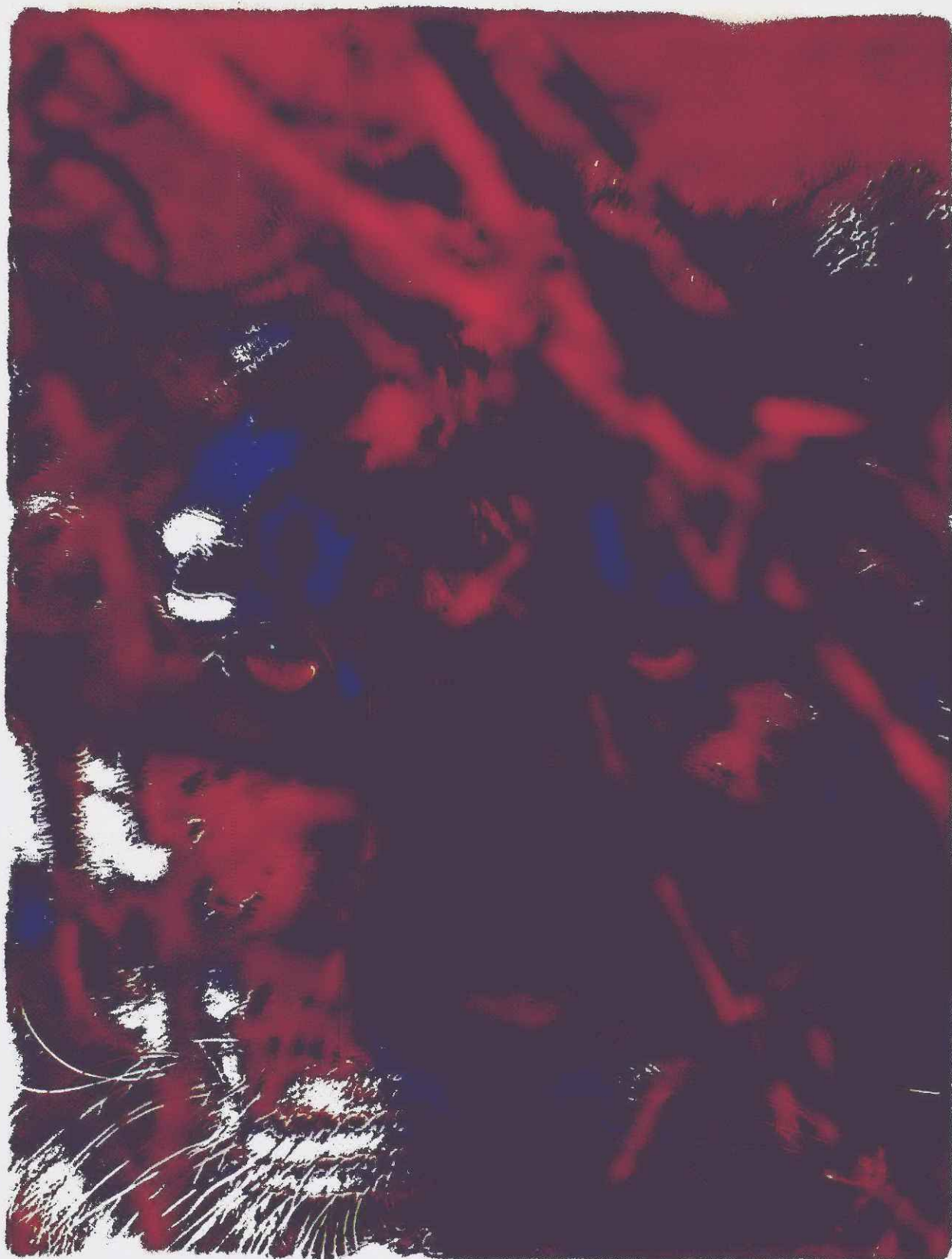
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## Primex Ltd.

Continued from page 40  
could be in the same boat," he said.

Initially, the facility's board maintained tight control over claims payments.

But, as claims grew more frequent, the board's tight control grew cumbersome. Directors met only twice a year and policyholders wanted claims paid more often than that.

Not until Primex's third year was the claims-payment committee's authority expanded.

"They didn't know each other and wanted to be cautious," J&H's Mr. Turner said.

"I think we were acting like any normal group of new people" in handling claims payments, Quaker's Mr. Hamilton said.

The claims-payment process was further complicated initially by a

lack of both uniform claim forms and set operating procedures, said Ted Ruddock, a Primex manager in J&H's New Orleans office.

Primex's claims-payment procedure was not completely without hitches for Angus, Mr. Carpenter said. But it was "much better to deal with them than with any commercial insurance company that would have written the business," he said, adding that the claim was paid quickly.

Now, the board sets reserves for losses, based on recommendations from claims manager and consultant Sutherland Page & Co. Inc. of Chicago. The claims committee then is authorized to settle and pay claims within the reserve amount.

With its growing capital base and its financial reinsurance arrangement with Centre Reinsurance (Bermuda) Ltd., Primex can now withstand one full-limits loss each year.

The facility renewed its financial reinsurance program with Centre Re a half-year early in January.

Primex members and managers would not elaborate on the new 3½-year arrangement with Centre Re. They only would say the program involves some risk transfer and meets the requirements of Financial Accounting Standard 113, though Primex would cover most of the losses it reinsures.

Under FAS 113, financial reinsurance is valid only if the contract transfers "significant" risk to the reinsurer and if a "significant" loss to the reinsurer is "reasonably possible" (BI, Jan. 11).

Center Re reinsures \$10 million of losses excess of \$5 million for Primex, with a cumulative \$55 million limit over the length of the contract.

The financial reinsurance arrangement primarily gives Primex the cash flow to withstand more than one full-limits loss in a year.

"For us, it solves the problem if three limits losses occur in one year," Mr. Danner said. "It gives us three years to pay that back."

Primex's future growth directly depends on whether the casualty market hardens. Few companies in a soft market will want to submit to Primex's rigorous underwriting requirements and commit capital to the facility, Mr. Turner said.

The capital contribution requirement, though, was halved a few years ago to \$250,000. Founding members were issued \$750,000 of preferred stock to compensate them for the increase in value of their original investment in the facility.

The preferred shares provide those shareholders a priority position for recapturing the facility's equity if it ever dissolves. It also allows them to recover their investment if they pull out.

Facility membership has hovered near 16 since its inception, as one or two members leave and an equal number join each year. Members that have left typically have been acquired by a company that folds the acquired firm's risks into its own risk financing program, say facility members and managers.

"We always have to be interested in identifying new potential members," Mr. Ruddock said. "That always bodes well for the financial health" of the facility if members drop out after being acquired, he said. "It also adds to the spread of risk."

One marketing effort that did not work as well as hoped was a two-year fronting arrangement with United National Insurance Co. of Bala Cynwyd, Pa., a subsidiary of The American Manufacturing Corp.

Primex earlier this month ended the fronting arrangement, under which Primex fully reinsured United National, even though the arrangement allowed the facility to market itself in the United States.

"As long as the market is relatively calm, then the pain threshold is not bad enough for potential Primex members to make the jump," Quaker's Mr. Hamilton said.

And, tremendous growth is not a goal for Primex policyholders, Mr. Turner noted. "As shareholders, we want the facility to be solvent, but we don't want it to grow so that we're in the insurance business rather than the chemical business."

The success of Primex has touched off some discussions among facility members of possibly setting up another facility to cover primary property risks, Mr. Carpenter said. "Clearly, a lot of Primex members might have an interest in such a facility." **BI**

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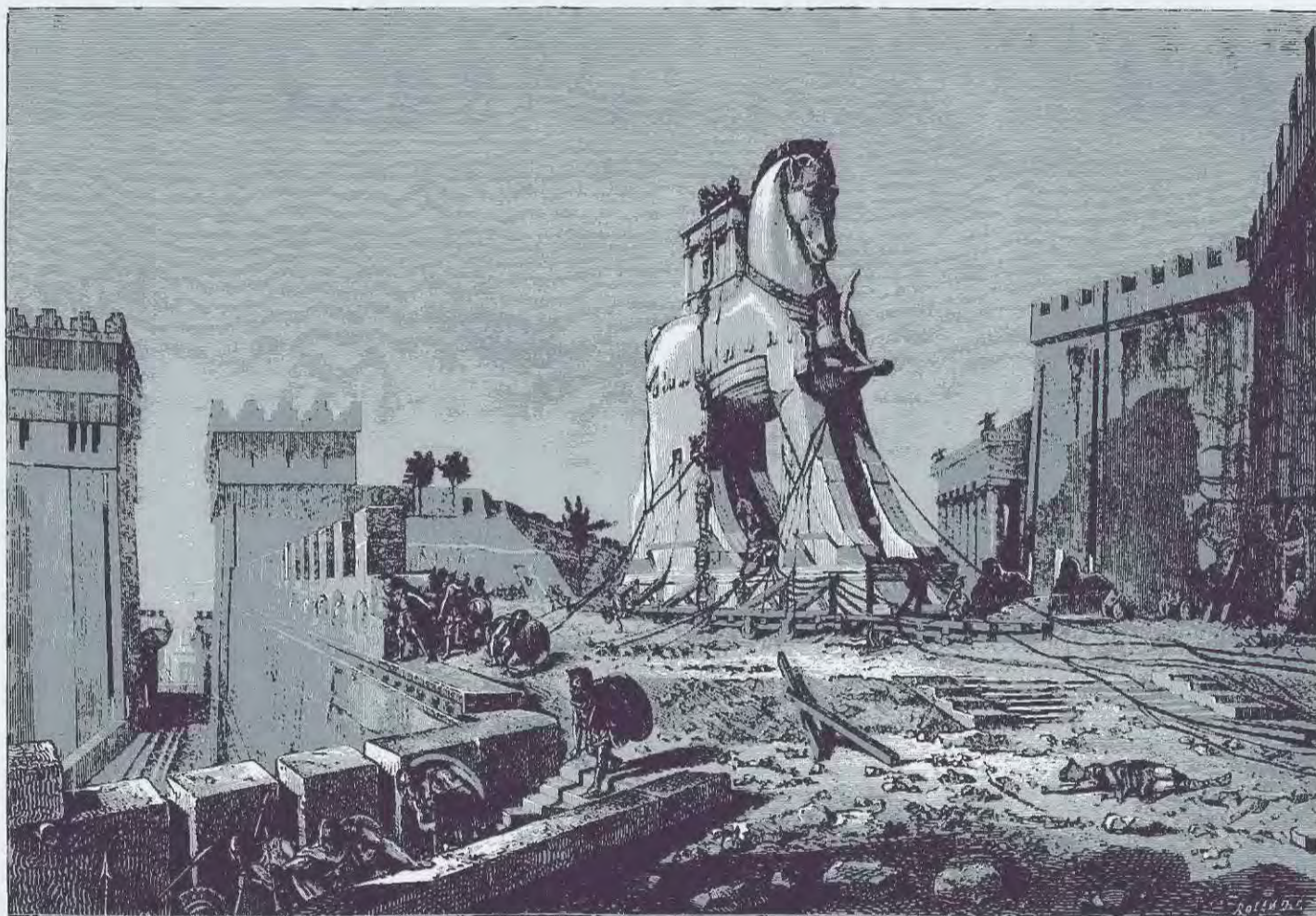
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# Surplus lines report property rate hikes, flat casualty prices

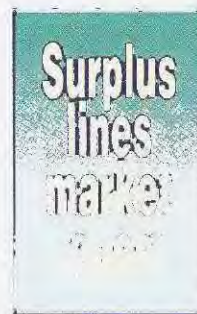
DEBORAH SHALOWITZ

Catastrophic losses and a tightening reinsurance market are sending prices soaring for catastrophe-prone property coverage written by surplus lines insurers.

Price increases of more than 100% were not uncommon during July renewals for catastrophe-prone property coverage, surplus lines insurers and brokers said.

However, prices for other property risks are stable or moving moderately up or down.

Meanwhile, rates for casualty



coverage written on a non-admitted basis are remaining steady or falling moderately.

The two sides of the surplus lines market "are not moving in

tandem," commented Warren Stanley, president of Swett & Crawford Group in Los Angeles, the nation's largest wholesaler.

Property price increases "are reflecting the significant losses and catastrophes of the last several years and a tightening reinsurance market," he explained.

On the other hand, casualty price drops "reflect the high degree of surplus and capacity in the market" and abundant reinsurance.

"There's no question that there's a shortage in the property treaty reinsurance market," agreed Seth Freudberg, president and chief executive officer of United National Insurance Co. in Bala Cynwyd, Pa.

"The property market continues to evolve and harden... predominantly in coastal areas or areas with catastrophic exposure," said Kevin Kelley, president of Lexington Insurance Co., an American International Group Inc. unit in Boston and the largest U.S. surplus lines insurer.

The areas hardest hit by property rate increases are California, Florida, Hawaii, Texas, the Gulf Coast, areas along the New Madrid fault and all the states along the Atlantic Coast, Mr. Freudberg said.

Most estimates on how much prices are rising for property coverage for catastrophe-prone areas ranged from 25% to 100%.

However, Paul McCain, a property manager with wholesaler Crump Insurance Services of Dallas, said that in some cases property insurance rates have skyrocketed as much as 400% or 500% for risks that are right on the Florida coast. "We are seeing some dramatic changes there," he noted.

Marcus Payne, president of Crump Insurance Services, said that to keep the changes in perspective, it is necessary to remember that rates decreased significantly over a seven- to eight-year period before turning.

Mr. McCain noted that property coverage for catastrophe-prone risks often is being written on a much more restricted basis.

For example, before Hurricane Andrew hit Florida, a condominium complex there worth \$25 million had a \$5,000 to \$10,000 property deductible, he said. This same complex now would have to retain a \$250,000, \$500,000 or even a \$1 million windstorm deductible, he added.

Furthermore, Mr. Stanley said, "There's a far greater awareness of exposures today than existed before Andrew." Underwriters are looking more closely at each insured property and applying more stringent underwriting standards than they did pre-

Continued on page 46

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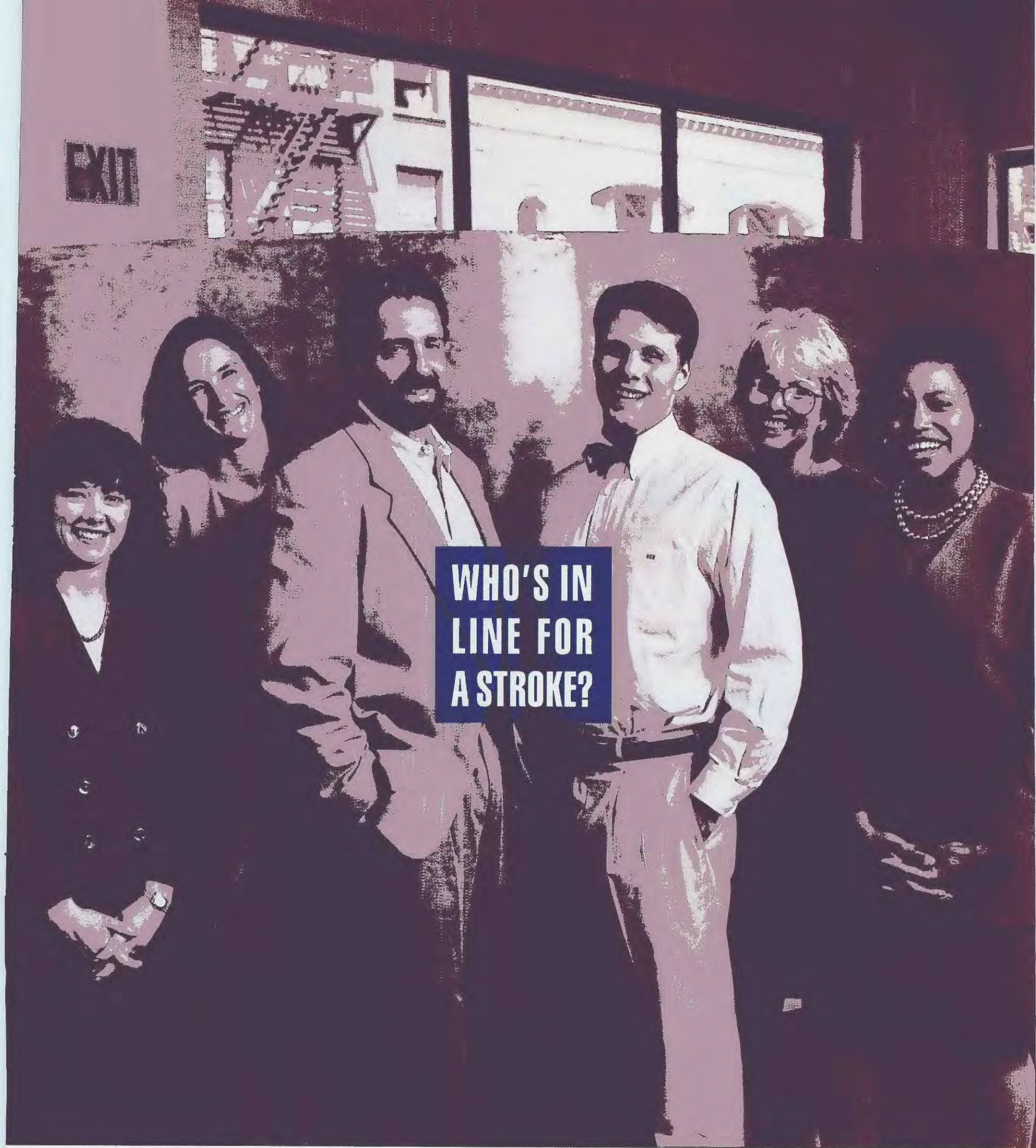
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## Surplus lines

Continued from page 44  
viously, he said.

Some companies have turned away from writing catastrophe-prone property coverage and are concentrating on less risky property coverage, thereby increasing competition in other areas of the property market.

As a result, prices have dropped about 10% for less risky property coverage, said Walter Snyder, president of American Empire Surplus Lines Insurance Co. in Cincinnati.

Next year, price increases for property coverage are expected to moderate and even stabilize, barring any major losses.

However, "If there's another catastrophe out there, you definitely would see pricing go up" again, Mr. McCain predicted.

In casualty lines in the sur-

**'If there's another catastrophe... you definitely would see pricing go up,' predicts Crump's Mr. McCain.**

plus lines market, competition is holding prices steady or exerting some downward pressure, the experts agreed.

"The general casualty business is, we feel, at least as competitive, if not more competitive, than six months ago," commented Mr. Snyder. He estimates that, across the board, casualty rates are down 10% to 35% from a year ago.

There are "folks just groveling to write business and they'll write it at any price," said Kevin

Brooks, president of General Star Indemnity Co. in Stamford, Conn., a surplus lines unit of General Re Corp. "The historian in me—maybe the child in me—wants to believe we're seeing something akin to what happened in 1984 with kind of a last gasp" before prices finally begin to increase, he mused.

Competition in the casualty arena has intensified for several reasons.

Some insurers are turning to the liability lines to replace the property business they no longer want to write, Mr. Snyder said.

And, some insurers also have excess capacity from pulling out of the troubled workers compensation and personal lines markets, Mr. Stanley said.

Prices are falling approximately 5% to 15% for general liability coverage for medium-size to large accounts—those generating annual premiums of between \$25,000 and \$100,000, Mr. Stanley said. Prices are more stable for smaller accounts, he added.

Excess liability coverage "in particular is seeing the sharpest competition," Mr. Brooks said. "Across the board, it has been relatively easy on the excess side to find a 10% to 15% reduction."

In many of the professional liability lines, there are "minimal price changes, if any," stated Paul Genecki, senior vp of The Schinnerer Group Inc. in Chevy Chase, Md.

He noted that prices for hospital medical malpractice, real estate brokers errors and omissions, educators legal liability and employers liability are all stable.

There have been some price increases for mortgage brokers errors and omissions coverage and directors and officers coverage for financial institutions, but "that's the exception rather than the rule," Mr. Genecki said.

In some cases, casualty coverage is being enhanced for the same premium.

For example, Mr. Snyder noted that a liability risk that had been written with a \$100,000 self-insured retention during the last renewal period might now be written for the same premium but with a \$50,000 self-insured retention instead.

And, generally all liability lines except professional liability are being written on an occurrence instead of a claims-made basis, said Mr. Freudberg.

Mr. Genecki noted that pollution coverage is now available for architects and engineers professional liability coverage for only a small additional premium.

There are some isolated reports of price increases on the liability side.

For example, prices are rising 10% to 15% for directors and officers coverage for companies involved in initial public offerings and leveraged buyouts, said Paul Springman, president of Evanston Insurance Co. in Evanston, Ill. And, prices are up about 20% to 25% for professional liability coverage for large law firms, he added.

Most observers said they think the liability market has finally bottomed out, but none wanted to predict when the casualty market would turn. Instead, they expressed resigned acceptance.

"The market's the market, and all we can do is hope some sanity comes into it," said Mr. Snyder.

Mr. Brooks summed it up this way: "I don't know where it's going or why."

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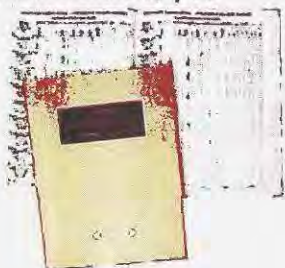
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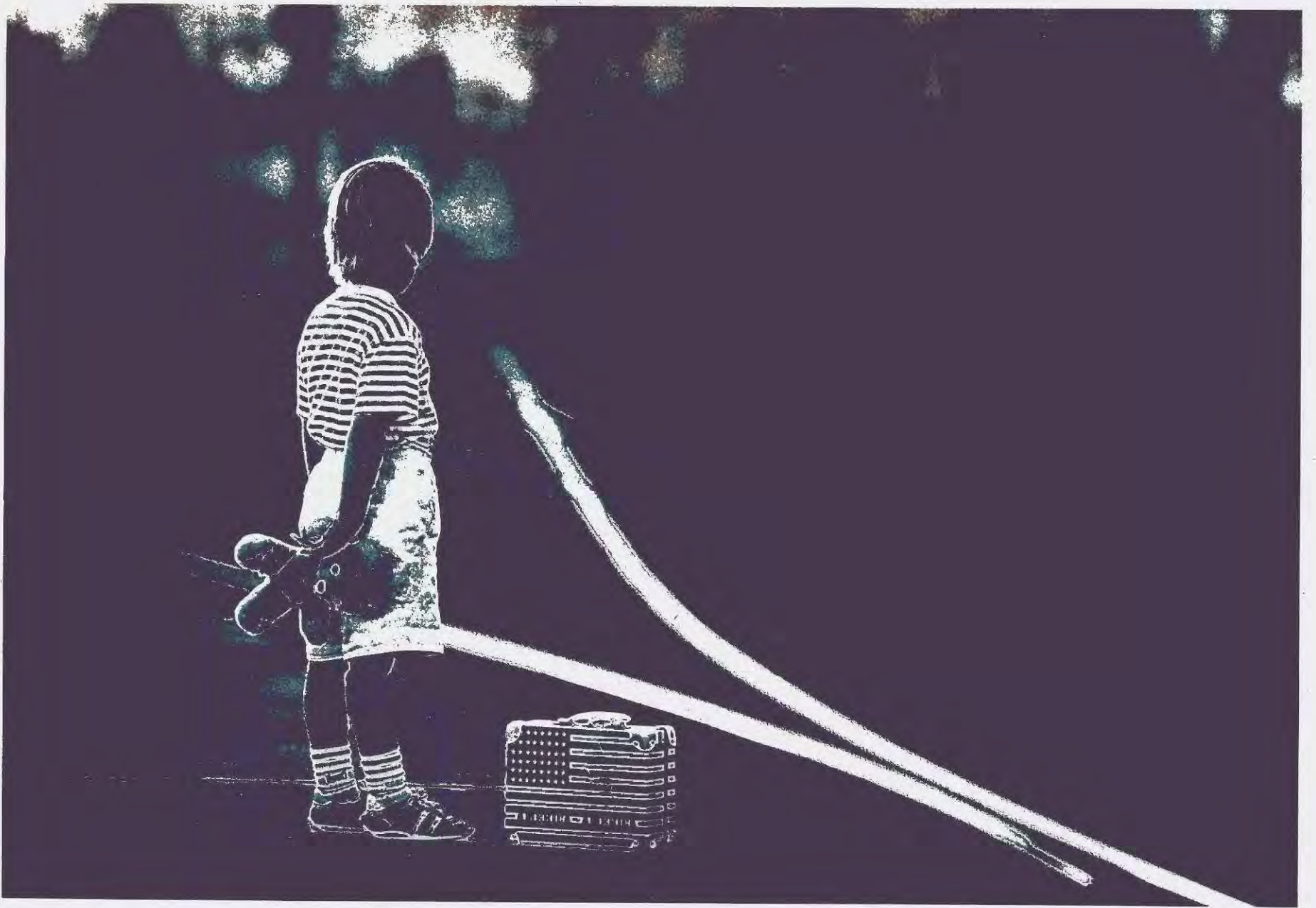


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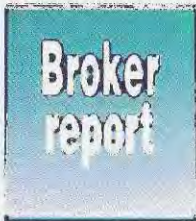
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## Brokers report a mixed bag for buyers at midyear

By GAVIN SOUTER and SALLY ROBERTS

Property insurance rates in coastal areas of the United States are shooting up at midyear renewals as underwriters rigidly demand more money to cover catastrophe exposures. Brokers say that the nearly \$20 billion lost to hurricanes last year, the fear of potential earthquake losses and steeper reinsurance costs have in-



stilled a determination among insurers to raise prices and deductibles for coastal property risks, even at the cost of losing business.

In addition, large property accounts nationwide are costing more to insure.

But for medium-size and small property risks outside of catastrophe-prone areas, property rates are flat or slightly down at renewals.

And on the casualty side, insurers' still unsated appetite for this business continues to ensure falling rates in many areas and broader coverage in others, according to brokers.

The prospect of continued competition in most areas of the U.S. property and casualty markets means

that many risk managers can look forward to low rates for some time to come, brokers report.

But not everyone encountered that rosy scenario at midyear.

Premiums are doubling for many property risks in coastal regions, said Glen Welch, chief operating officer at broker Bowers, Schuman & Welch in Washington, N.J.

In particular, Florida has seen a dramatic increase in commercial property insurance rates, especially for hotels, motels and condominiums, said Hyatt Brown, president and chief executive officer of Poe & Brown Inc. in Daytona Beach, Fla.

Property insurance policies are being renewed with increases of anywhere from 10% to 300%, depending on location and the size of risk, he said.

The largest increases are for high-layer property coverage, said Alicia O'Donnell, senior vp and property department manager at Johnson & Higgins in New York.

"Last year, you could buy \$1 million of coverage (for high property layers) for \$250, but this year some carriers are asking for \$500," she said.

And insurers are also sharply increasing deductibles for windstorm and earthquake risks, Ms. O'Donnell said. Instead of imposing flat dollar deductibles, some insurers are asking for a percentage of the insured value to substantially increase the policyholder's retention, she said.

"For example, you might have a pharmaceutical company in Puerto Rico which previously had a deductible of \$100,000 for a property worth \$250 million. Now the deductible might be 3% of the value," or \$7.5 million, she said.

Policyholders can to some extent mitigate increased deductibles if more protective measures are added to insured buildings, Ms. O'Donnell said.

Such measures can be as simple as bolting down a roof in a windstorm-prone area, she said.

The highest property insurance premiums are being charged for catastrophe-prone areas like California, Florida and Puerto Rico, Ms. O'Donnell said. And large property accounts throughout the country are seeing rate increases of between 5% and 50% at midyear renewals, she added.

Most insurers are standing firm: They will walk away from property accounts if clients do not accept the higher rates and deductibles, according to Ms. O'Donnell.

At the same time, increasing rates for large property accounts have encouraged some insurers to aggressively seek more of the business.

Fireman's Fund Insurance Co. and The Home Insurance Co., for example, confirm broker reports that they are focusing much more on large accounts.

And risk managers might see large increases for property insurance again at the next renewal, said Frank White, president and CEO of Willis Corroon America in Nashville, Tenn.

Large property accounts and excess package policies have gone up generally due to the higher cost of reinsurance treaties, Mr. White said.

Reinsurance is going to be the biggest driver in the marketplace, agreed Mr. Welch of Bowers, Schuman & Welch. "We haven't felt the full impact yet."

Shrinking catastrophe reinsurance capacity has not only had a dollar impact on rates. It has also

Continued on next page

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Continued from previous page had a psychological impact, Mr. Welch said. In the wake of Hurricane Andrew, insurers are much more aware of their catastrophe exposures, he explained.

Insurers also are becoming more wary of covering property risks in areas that a few years ago were not regarded as prone to windstorms, said Charles Ruoff, senior vp with Sedgwick James Inc. in New York.

"Some underwriters are looking at Connecticut, Long Island, N.Y., and New Jersey as hurricane-prone, whereas before they were just hurricane susceptible," he said.

Several insurers are restricting their windstorm coverage in the New York area. Travelers Corp., in particular, is severely reducing its windstorm exposures in metropolitan New York and coastal Connecticut (BI, Dec. 28, 1992).

And several insurers hope to reduce their exposure in the Florida market, though the state has issued a moratorium on non-renewal of homeowners policies until November (BI, July 12; May 31).

Rate increases for windstorm risks are in direct response to the heavy 1992 and 1993 storm losses, but rates for earthquake coverage are also rising sharply, even though there were few major quakes in 1992.

"In California, earthquake rates are increasing by anything between 25% and 50%," said Don Weber, chief operating officer with JIB Inc. in San Francisco.

The increases stem from reduced capacity in the market for earthquake coverage, he said.

Although there have been no large quakes recently, insurers have grown more wary of catastrophe risks in general, Mr. Weber said.

Despite the increased rates and reduced capacity in the catastrophe market, clients are still willing to buy catastrophe coverages, said Bruce D. Guthart, executive vp with Kaye Insurance Associates L.P. in New York. "Some clients have increased their limits even with the higher costs because they are aware of the higher risks," he said.

Some of the capacity that is being withdrawn from catastrophe-prone areas is being channeled into the property/casualty market for small and medium-size risks, brokers say. The result is that the market for most accounts in "Main Street America" remains soft.

"Average rating levels for property business have remained flat with some accounts increasing by maybe 5%," said Joe Fitzpatrick, vp with Alexander & Alexander Inc. in New York. Competition for the business has kept capacity high and prices low, he said.

The market for general property business remains soft, agreed Mr. White of Willis Corroon. "The market is very soft, and we are continuing to see reductions."

The casualty market is also largely soft, he said.

"The market remains very competitive. But the rates are only dropping 2% to 3% as opposed to the 5% to 10% reductions we were seeing last year," Mr. White said.

Primary general liability and municipal liability lines remain competitive and rates are stagnant or falling, other brokers agreed.

"There are still plenty of carriers offering a large amount of umbrella coverage," said Mr. Guthart of Kaye.

Liability insurance renewals are going through unchanged or with rate reductions of up to 10%, said Mr. Weber of JIB. And to gain new business, some insurers are willing to undercut last year's rates by between 25% and 50%, he said.

In an effort to attract more casualty business, some insurers are

competing by offering more favorable coverage terms.

For example, some insurers are broadening their conditions to, in effect, include sudden and accidental pollution coverage within general liability coverage, according to Tom Norton, senior vp with J&H in Pittsburgh.

"They're not calling it sudden and accidental (pollution coverage), but they are offering it on a named peril or timing basis," he said.

American International Group Inc. and Crum & Forster Insurance Cos. in particular are using this technique to broaden liability coverage for some of their clients, Mr. Norton said.

Despite the competitive market for most lines of casualty coverage, prices are increasing for a few lines.

Casualty accounts with bad loss ratios—in excess of 75%—over the last three years are seeing prices rise because insurance companies have "no appetite to pick up a bad account," said Mr. Brown of Poe & Brown.

And brokers have seen some slight rate increases in directors and officers liability rates—about 5%—as well as professional liability rates.

Professional liability rates for lawyers and accountants generally are increasing by between 10% and 25%, said J&H's Mr. Norton.

"The underwriting experience is abominable in these areas," he said.

One of the main causes for the large losses has been court rulings finding lawyers and accountants liable for claims related to the failures of banks and savings and loans, Mr. Norton said.

Regional variations in liability rates also exist.

In New Mexico, for example, rates for property/casualty packages for hospitals and apartment buildings are increasing by around 35% due to poor loss experience, said Rob Machacek, president of Talbot Agency in Albuquerque N.M., which is a unit of American Business Insurance Inc.

"There have been \$10 million judgments against hotel and apartment complexes after rapes and shootings," he said. The owners have been found liable for providing inadequate security.

Workers compensation rates also vary greatly from state to state.

In some, like Texas, rising costs have been curtailed by legal and regulatory reforms, said Mr. Guthart. "Other states like Rhode Island and Louisiana still have a lot of problems," he said.

"Workers comp has improved a great deal in the Southwest because of regulatory reforms... but in Southern California it is deteriorating because of the involvement of attorneys," said Talbot's Mr. Machacek.

In problem states, many employers are exploring workers comp self-insurance options, brokers say.

In New Jersey, for example, most self-insurance activity is in workers comp, where "the environment is ripe," said Mr. Welch of Bowers, Schuman & Welch.

Brokers say that as long as much of the market remains competitive, insurers are doing as much as they can to reduce costs.

"Insurers are becoming much more cost conscious," said Frank C. Witthun, executive vp at Acordia Inc. in Indianapolis.

The overall economic recession is the market driver right now, said Mr. Witthun. "We're not in a high growth economy."

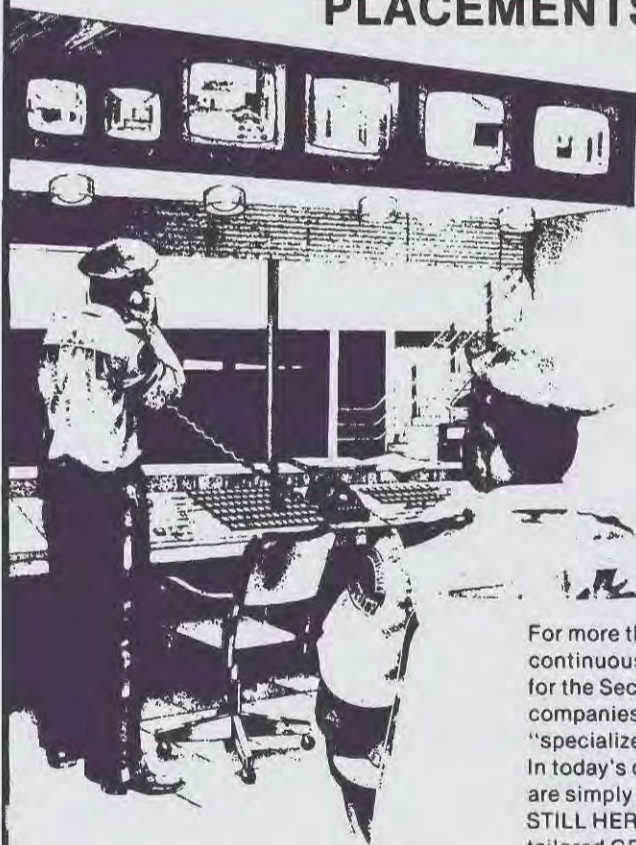
Insurance companies are devoting more time to loss control services, agreed Mr. Welch. For example, he said, they are coming up with inno-

Continued on next page

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## Brokers

*Continued from previous page*  
vative ways to help policyholders reduce workers comp losses.

Despite observing efforts by insurers to contain costs, most brokers do not anticipate a hardening market any time soon.

Last year's catastrophes had a direct impact on shrinking reinsurance capacity, but was not enough to cause an overall market change.

There is a tremendous amount of capital out in the marketplace, said Acordia's Mr. Witthun.

"This is the reason why the market hasn't changed yet," contends Mr. Welch of Bowers, Schuman & Welch. Only a very well capitalized market could withstand the catastrophes over the past three years and still operate in the same environment, he said.

Even another loss the size of Hurricane Andrew, which caused \$15.5

billion in insured losses, would not be enough to turn the market, contends Mr. Fitzpatrick of A&A. "The industry has a surplus of over \$160 billion. Another \$15 billion loss would hurt, but it would be able to absorb it."

However, a storm of Andrew's magnitude could produce a major insolvency, said J&H's Ms. O'Donnell.

"It's conceivable that a major insurer would go into liquidation if we had another Andrew and Iniki this year," agreed Sedgwick's Mr. Ruoff.

Eleven minor insurers failed due to last year's hurricane losses, and Allstate Insurance Co. had to raise extra capital in response to its hurricane losses, he noted.

Not everyone, though, believes insurers are flush with capital.

Appearances can be deceiving, warned John F. O'Sullivan, managing director of Marsh & McLennan Cos. Inc. in New York. "People may not be adequately reserving."

There is a historical correlation between phases of the market cycle and under- and overreserving, he explained. During a soft market, insurers tend to underreserve and during hard markets, they tend to overreserve. The soft market has lasted seven years now and, based on historical patterns, insurers may be underreserved, which could give the appearance of too much capital.

Nevertheless, capacity does seem to be increasing rather than declining, said Mr. Norton of J&H.

For example, several new catastrophe reinsurance facilities being set up in Bermuda (*BI*, June 21) will introduce more capacity for underwriting higher layers of reinsurance.

However, most of the new property and casualty facilities in Bermuda were not established in time to affect this midyear renewal, brokers add.

Many say that the soft casualty and general property market will turn, but few have a firm feel for when that will happen.

"I would have thought that it should have happened already," said Mr. Guthart of Kaye. "It will change, it's just a matter of when."

Although there are few signs of hardening in the casualty market, in particular, when it does occur it is unlikely to be an abrupt turn, said Mr. Fitzpatrick of A&A.

"I don't think we will have a repeat of what happened in the 1980s; instead we will see the market tightening gradually," he said.

The property/casualty insurance industry will continue in a soft market until combined loss and expense ratios increase hit 115% to 117%, said Mr. Brown. Currently, insurers have combined ratios of 109% to 110%.

For the next six months, "it's business as usual" except in coastal areas where prices will continue to rise, Mr. Brown said.

The belief now is that this is the market, said Mr. Welch of Bowers, Schuman & Welch. "If we've weathered these storms with no spasms, there will likely not be the wrenching that once happened."

Mr. Witthun of Acordia suggested there may have been a fundamental change in the insurance market.

"Clearly" the market has changed, he said. Hard markets have not come around as often or lasted as long as they used to, he said.

The traditional hard and soft markets "are no longer valid," Mr. Witthun said. At Acordia, "we run like this is the market and will always be the market."

"This market place is going to be with us for some time to come," agreed Irwin Sklar, chairman of Robert F. Driver Co. in San Diego, who predicts no change for at least two to three years. **BI**

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## Risk managers

Continued from page 1

Kemper Smith, director of risk management with Reynolds Metals Co. in Richmond, Va.

Two Florida risk managers said their companies' renewals fall into that range.

Frank Polatty, risk manager for First Union National Bank's Florida operations in Jacksonville, said premiums for the national master policy on the bank's 470 locations increased by about 10%. "We had about 50 branches damaged by the hurricane last year, so I'm not surprised. If it weren't for the fact that our Carolina and Georgia operations are considered safe risks, it might have been more," said Mr. Polatty.

Jim Dineen, risk manager with Barnett Banks Inc. in Jacksonville, said he recently renewed the bank's property policy with a 7% premium increase. About half of Barnett's 634 statewide locations are in coastal areas, and 10% of those coastal locations are high risk, he said. Barnett's direct damage from Hurricane Andrew was \$2.6 million, but in total, costs associated with the hurricane exceeded \$5 million.

"Considering we had a fair amount of losses from Andrew, I was expecting something along the lines of a 50% hike. But our negotiations went very smoothly. Our carrier didn't even raise an issue with our coastal properties."

Mr. Dineen said the fact that Barnett has maintained a steady five-year relationship with its property insurer helped secure a favorable renewal. "They seemed willing to impose just enough of an increase to get back" their increased cost of reinsurance and to cover their increased risk under larger retentions, he said.

In fact, Reynold's Mr. Smith said, while property rates throughout the country "are on the rise," the hikes are "not to the degree many feared."

Outside of the hurricane belt, increases depend on recent loss experience and premium increases in recent years, Mr. Smith said. "If you took a rate hit two or three years ago, you may be all right today. It seems to depend on the benchmark being used."

One area of coverage did create particular difficulties, however. Obtaining ample and affordable California earthquake coverage was a tough task for many risk managers this renewal period.

"We used to pay a \$100,000 deductible for our quake policy," said Gregory Hidden, director of risk and insurance services at American General Hospitality Inc., a Dallas hotel management company. "The deductible is now 2.5% of property value, which for a large piece of property is much greater than \$100,000."

Mr. Hidden has nine hotels in earthquake zones, eight in hurricane areas and another six north of Florida along the Atlantic Coast.

"It was a two-month effort for our broker to get all the earthquake coverage we need," said the risk manager of a California-based retailer. "Aetna used to write it all for us. Now they'll only write our primary layer."

The company's property premiums climbed about 20% this renewal period, she said. Several of the 1,300 stores nationwide were hit by the catastrophes of 1992 and early 1993.

In addition to natural disasters, the retailer also suffered property losses from man-made calamities.

"We seemed to get hit in every way. If it wasn't a storm, it was the L.A. riots or Chicago Bulls fans celebrating. Carriers used to think that spreading the risk was a good idea. Now they shudder at exposures in many places," she said.

And, more major catastrophes this year could cause further hardening in the property market, diminishing capacity.

"We could be facing even higher deductibles and self-insured retentions next year," she said. "We now purchase \$500 million in property limits. I wouldn't be surprised if all we can get is \$300 million next year."

Continuing catastrophes this year, including the Mississippi River flooding, could make upcoming renewals more difficult, though not for his company specifically, noted Harold Lang, director of insurance and risk management at Kohler Co. in Kohler, Wis.

"Any further erosion of capital and surplus can only result in premium increases, which will lead to layered deductibles and more self-insurance," he said.

However, risk managers outside disaster-prone areas and without hazardous risks found this renewal season more business-as-usual.

With properties only in Colorado and upstate New York, the U.S. Olympic Committee renewed its property insurance at expiring rates and terms, said Risk Manager David Mair.

The locations "haven't encountered the weather-related disasters that plagued some other areas," Mr. Mair said. "We also haven't had any adverse loss experience that would cause a dramatic change."

As a result, he said he sought three-year policies from his insurers in order to prevent any sudden change next year. "I'm hedging that things may not remain so good. I don't see how the market can stay this flat. All the negative trend factors have mixed to the point that the trigger must be pulled. It's just that now nobody wants to be first."

Rates and terms for property coverage depend largely on a risk's recent experience and what type of relationship the risk manager has developed with insurers, Kohler's Mr. Lang said.

"If you're a reliable, long-term policyholder with good experience, you can still obtain very favorable terms and rates. But if you're a bad guy who filed claims for a few roofs that collapsed this past winter, you're definitely looking at constriction of limits and sizable price increases."

The market, particularly for highly protected risks, is still "buyer-friendly," he said. "With favorable loss experience, we're still in control of the market."

A long-term relationship with its insurer helped keep Mississippi Chemical Co.'s property rate increase to about 10%, said Tim Sterling, director of risk management for the Yazoo City, Mo.-based company.

"It was nothing unexpected," Mr. Sterling said. "We communicate well with our property insurer, so there are no surprises."

Terms and conditions for the policy with Arkwright Mutual Insurance Co. also remained the same, he said.

"Experience and commitment are much more important now than three years ago," said AGH's Mr. Hidden. "But another terrible year for catastrophic losses will knock off capacity, even for friends."

Mr. Hidden also lamented the fact that he no longer has the Lloyd's of London market to use as a bargaining chip with U.S. insurers.

"Lloyd's capacity is way down and the domestic companies know it. The cheap deals I used to get over there are gone. I used to use that as leverage here, but I can't get the syndicates there to bite any more," he said.

Nestle Beverage Co. in San Fran-

Continued on next page

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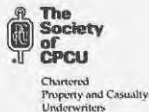
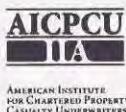
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**Risk managers**

*Continued from previous page*  
 cisco is dealing with a new underwriter at Lloyd's of London after Sturge Holdings P.L.C. decided to close Syndicate 210 and lay off underwriter Alan Lee. Sturge also closed seven other syndicates (BI, May 10).

"We certainly don't have the flexibility or the negotiating power we had just a year ago," said Della Berger, director of risk, compensation and benefits. "Last year we could name our number and we would get it."

This year, the company is paying 6% more for its property insurance.

Some companies renewing their liability coverage are paying less.

Mississippi Chemical made significant changes in its liability program, including raising retentions on some coverages and lowering them on others, Mr. Sterling said.

The company had separate primary liability insurers for its fertilizer and newspaper divisions, but

this year it unified the program. The two incumbents both bid on the combined business, but lost to Mutual Service Casualty Co., an insurer that specializes in agriculture and food processors, Mr. Sterling said.

"We didn't save money, but we were more interested in the quality of the cover than price," he said.

Idaho Power Co. in Boise renewed primary liability and workers comp as expiring with Associated Electric & Gas Insurance Services Ltd., a Bermuda-based mutual for utilities.

"There were no noted changes in our exposures or sales," Mr. Meyer said. "AEGIS is more sensitive to loss history. We've maintained a low loss ratio."

The only liability coverages the U.S. Olympic Committee purchases are general and travel coverage for committee members and athletes, Mr. Mair said. "GL was stable, and we got a 20% rate reduction on travel, which was more than I expected."

"There doesn't appear to be any

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ripple effect from the catastrophes" on liability rates, Mr. Smith of Reynolds said.

"The general casualty market is still seeing some slight reductions in pricing," Mr. Lang said. "The large carrier markets are capable of absorbing those property losses without passing it on to the casualty side."

Tom Seuntjens, director of risk management for Honeywell Inc. in Minneapolis, agrees that the casualty market is stable. "Terms and conditions were consistent. There was an opportunity to expand coverage and eliminate some limitations and conditions."

Honeywell renewed its primary liability policy that covers general liability, auto liability and products liability at the expiring rate.

The company remained with incumbent insurer IIT Hartford Insurance Group despite soliciting bids from five other insurers. Hartford also writes Honeywell's first excess layer.

"We saw that there are other markets, which is encouraging," Mr. Seuntjens said. "When we went out for bids, it helped us to get an even better policy because of the competition. It helps to hold prices at a stable level."

Paul Sprague, insurance director with Ciba-Geigy Corp. in Ardsley, N.Y., labeled his recent renewal of \$25 million in primary casualty coverage "unremarkable."

"It was a flat renewal that took absolutely no effort. In a sense, you could say we slept through it."

Meanwhile, excess liability cover-

age was another story, he said, declining to comment on how much premiums increased.

"About 35% of our liability exposure is in pharmaceuticals, and we also have a high exposure in agricultural chemicals," he said. "The awareness of the potential exposure here is very heightened now, especially with the DuPont situation involving Benlate."

DuPont is facing billions of dollars in potential liability losses related to damage from its Benlate fungicide (BI, June 21; June 28).

"Suffice it to say that if you're part of the Big Four (oil and gas, petrochemical, chemicals or phar-

maceuticals) you're not going to see a flat renewal this year. This was the first time in a while we took a hit here and it was expected. It was disappointing, but definitely planned for," Mr. Sprague said.

Ciba-Geigy renewed its coverage on \$7 billion worth of property with only "single-digit" premium increases, said Mr. Sprague. "We're not oil and gas, petrochemical or in Texas, which are the three areas of trouble for property."

He called the single-digit premium hike "a win considering all the catastrophes of 1992 and 1993 and the reinsurance losses that have accompanied those disasters."

Mr. Sprague was also pleased with the fact that Ciba-Geigy's flood and earthquake coverages were renewed with full limits. "I had been hearing about \$75 million and \$100 million limits being reduced to \$25 million. I'm happy to say that didn't happen to us."

The only other commercial coverage Ciba-Geigy renewed was its contingent business interruption coverage, which responds to cases when the company's suppliers fail to make necessary deliveries, thus causing Ciba-Geigy to lose production. "Limits and capacity are both down in this area, but we survived without a problem."

Casualty lines are "incredibly soft," said the risk manager for the California-based retailer. "With all the losses on the property side, insurers haven't been hit on the casualty side at all. I think their confidence level on casualty is very high."

"It's no problem getting breaks on casualty pricing, especially on the fixed cost items like general liability, professional liability, D&O and fiduciary liability," the risk manager said. "Carriers used to run away from casualty and cut each other's throats on property. That approach has come back to haunt them severely." **B1**

# Meet The People Who Reinvented Reinsurance.

## Florida utility overpowered by rate increase

Summer renewals were just too much for one Florida company.

Florida Power & Light was facing a 557% increase in its insurance costs, for far less coverage than it had previously purchased.



A \$350 million limit excess of a \$20 million deductible covered almost all of the \$400 million in damage the utility suffered during Hurricane Andrew, all for a \$3.5 million premium.

At its June 1 renewal, however, Florida Power & Light was hit with a \$23 million premium for just \$100 million in transmission and distribution coverage from Arkwright Mutual Insurance Co. of Waltham, Mass.

The West Palm Beach-based utility obtained approval from the state Public Service Commission to self-insure using a \$70 million storm fund that it had set up previously, a spokesman said.

Florida Power & Light had contributed \$3 million annually to the fund until 1991. The commission approved resuming the contributions in the amount of \$7 million annually. It also gave the go-ahead for the utility to petition for an increase in base rates should it be hit by another major hurricane.

The utility also obtained from various banks a \$300 million line of credit that can be used in case of emergency.

Andrew caused \$270 million in damage to transmission and distribution lines and \$130 million to two power plants.

Florida Power & Light continues to purchase property coverage for its power plants and general facilities, the spokesman said.

—By Sara Marley



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## London market

*Continued from page 1*  
signs that rates for these coverages are hardening, particularly for risks in the coastal United States.

But there was aggressive competition for U.S. casualty business, with London underwriters losing some risks to the U.S. market.

July 1 renewals occurred before floods hit the Midwest and an earthquake was felt in Northern Japan. But underwriters and brokers in London last week did not believe either disaster would hurt their reinsurance market.

"We are continuing to see increases in price in (U.S.) reinsurance, but we are not seeing any rate increases on the regular U.S. property/casualty insurance programs with no major exposures," summed up Dennis Mahoney, chairman of Alexander Howden Ltd.

From the underwriters' perspective, the midyear renewal season was "very good," added John Wetherell, underwriter for Lloyd's of London syndicate 190, managed by Cator Allen Syndicate Management Ltd.

Rates increased for U.S.-based excess property coverages, energy risks and some specialist liability coverages like errors and omissions and directors and officers liability, Mr. Wetherell said. The "sad exception" was U.S. property insurance rates, where "there were not sufficient increases," he said.

The area hit hardest by rate hikes during midyear renewals in London was property catastrophe reinsurance, which suffered from a serious lack of capacity.

The aggregate cost of catastrophes from 1987 to the beginning of 1993 is estimated at \$70 billion, "and those are paid losses," said Howden's Mr. Mahoney.

Several companies are boosting their capital in London and new ventures have been launched in Bermuda to tap the demand for catastrophe reinsurance capacity (see story, page 56).

But Mr. Mahoney estimates that not even a tenth of the money paid out in recent catastrophe losses has been replaced in the worldwide markets by the new capital. "There's a big hole," he said.

As a result, property catastrophe reinsurance programs remained difficult to place and expensive during midyear renewals.

Nevertheless, some U.S. ceding companies that didn't buy catastrophe reinsurance in London last year came back to the market following Hurricane Andrew.

The London market offered about \$50 million in capacity, half of the \$100 million available worldwide, said one catastrophe reinsurance underwriter.

"In light of Hurricane Andrew, rates and deductibles have gone right up. It's probably reached a point where pricing for buyers has just peaked," said Paul Philo, deputy chairman of Sphere Drake Insurance Co. P.L.C.

"Rates have flown through the roof with increases of 50% over last year being common," echoed Paul Stallon, catastrophe underwriter at Sphere Drake.

He also confirmed that the cost of first reinstatements in property catastrophe reinsurance has stayed at 100% of the original premium.

This practice began in January, when catastrophe reinsurers began to charge as much premium for the first reinstatement as for the original policy (BI, Jan. 4). Each catastrophe policy normally has a limit for one catastrophe plus one reinstatement. Now reinsurers are demanding that if a single catastrophe exhausts the limit, the ceding company must pay 100% of the original

premium for the first reinstatement.

David Mann, underwriter of Lloyd's syndicate 435, managed by DP Mann Underwriting Agency Ltd., believes catastrophe rates in London are now about right.

"After Hurricane Andrew, the key to whether the right rates had been set depended on whether new capital arrived, and that certainly has happened," said Mr. Mann. "Therefore, we have achieved a rate level which is attractive to new capital, and we are taking advantage of that."

Midyear property catastrophe reinsurance rates "were the same as Jan. 1, but they certainly didn't go down. Rates are possibly as high as they can go without retentions going up," added Phillip Marcell, chairman and chief executive of Unionamerica Insurance Co. Ltd. in London.

The scarcity of catastrophe reinsurance is the main reason parts of the U.S. property insurance market are starting to show signs of hardening, underwriters and brokers in London agree.

But they disagree on whether the hardening of the overall U.S. property insurance market has arrived or will take place in 1994.

"Despite Hurricane Andrew, you are not seeing the hardening of (property insurance) rates in the U.S.," said Mr. Mahoney of Howden. He believes the U.S. property/casualty insurance market may be stuck in a prolonged soft market that began eight years ago.

"Primary property rates are certainly going up in the U.S.," but mostly in coastal areas, said Barry Dean, managing director of the North American department of Hogg Insurance Brokers Ltd.

Keith Sheridan, a broker with Bain Clarkson Ltd.'s North American division, also sees a geographical bias in the primary property market. "We don't have a huge renewal book on the July 1 renewals, but where we did see significant increases was in property catastrophe in the big value areas such as California or Florida. The straightforward Midwest business did not appear to change," he said.

U.S. policyholders paid more in London for excess property coverages, however, according to some underwriters.

For example, Mr. Wetherell said rate increase resulted in a 15% to 50% increase in written premiums for U.S. property coverage excess of \$50 million and up to \$250 million.

The increases were "even higher" for non-U.S. property programs, he added.

One Lloyd's underwriter who writes most types of U.S. business said that he believes some U.S. risk managers are "paying through the nose" to keep their property insurance programs in the London market.

"Everywhere outside The States rates are going up, and they needed to," he said. "But the U.S. core buyers also have paid the increases to stay in the market. Clients recognize that they need the capacity and that if there isn't a problem now, there certainly will be. They are trying to secure their markets" for the future, the underwriter said.

However, while property underwriters may be rubbing their hands with glee at higher rates, casualty underwriters are simply hanging in there in a tough market.

For specialist liability coverages, "it's business as usual," said Mr. Mann, the Lloyd's underwriter. "Some syndicates have increased lines, others reduced them. The good customers are finding markets unchanged," he added.

Hogg's Mr. Dean agreed. "Errors  
*Continued on next page*

Continued from previous page and omissions cover is steady, trucking rates are finally picking up—but not fast—medical stop loss underwriters are still trying to push the rates up," he said. However, "domestic competition is still fierce," he said of the U.S. market.

Mr. Wetherell added that his syndicate saw 10% to 20% premium in-

## London markets for energy, marine more expensive

LONDON—Limits are shrinking and rates continue to rise in the energy and marine insurance markets.

Twelve to 18 months ago, an oil company could find \$750 million to

**1993  
MIDYEAR  
RENEWALS**

\$1 billion worldwide in capacity for an energy insurance program, but today "you'd be pushed to find half a billion," said John Wetherell, Lloyd's of London un-

derwriter for syndicate 190, managed by Cater Allen Syndicate Management Ltd.

An oil company would now pay 20% to 100% more in premiums than 12 months ago, he added.

This is good news to underwriters. "The energy market has gone through some difficulties, but now it's going very well," said Richard Youell, Lloyd's underwriter for syndicates managed by Janson Green Ltd. "The market is not as big or flexible as it was, but that is a good thing. Terms and conditions have been tightened up, and commissions on profits have been cut right back, and brokers are finding it more difficult to layer programs," he said.

The Institute of London Underwriters' marine insurance market experienced mixed fortunes this summer, but all rates moved upward. One ILU underwriter pegged hull rate increases at midyear at between 10% and 15% compared with January renewals, while cargo rates were up 5% to 7.5%.

"We were very busy trying to get cargo insurance rates up—and we were quite successful—but there was a lot of competition coming from the U.S. and the rates are not going up so fast there," an ILU spokesman said. The ILU adopted a much stricter classification clause in April, which was the main reason for the difference in U.S. and London cargo rates, he noted.

The clause includes two new categories—one for high-density cargos, such as iron ore and coal, and another for mineral oil—carried by tankers more than 10 years old.

An ILU committee recommends modest premium increases for 10-year-old vessels with such cargos, and bigger increases for tankers more than 15 years old. The ILU recommends additional premiums for all bulk and combination carriers more than 10 years old.

"We are prepared to lose the (U.S.) business if we don't get the rates or conditions," he said.

The ILU spokesman said hull underwriters were more successful at raising rates at midyear. "Cargo is not moving as fast as hull, where much bigger increases have been seen. One reason for this is because in hull you're dealing with one buyer—the shipowner—whereas in cargo you deal with a variety of buyers and sellers," he said.

Because London underwriters are paying more for their own reduced reinsurance programs, "the average ILU underwriter has to be lot tougher and ask a lot more questions of the broker," he said.

—By Adrian Ladbury

creases this July for E&O coverage and D&O liability insurance for the first \$10 million to \$20 million before they are placed with Bermuda's high-layer excess facilities, ACE Ltd. and X.L. Insurance Co. Ltd.

However, U.S. general liability programs are seeing rate reductions of 5% to 10% in London because of stiff competition from U.S. insurers, said a Lloyd's casualty broker. This is largely due to the fact that the U.S. casualty market is "growing, probably because the property market is so disastrous," he said.

One Lloyd's underwriter sug-

gested that the drop in capacity in the London market could mean London underwriters will play a more influential role in the casualty market in the future. "London casualty accounts have consolidated into only the areas it wishes to operate within. The old Lloyd's of writing 10% on the end of any old slip (is) dead. People are writing more selective shares and taking an interest," the underwriter said.

Generally, though, there is little sign of a meaningful change in casualty pricing in the near future.

Unionamerica's Mr. Marcell,

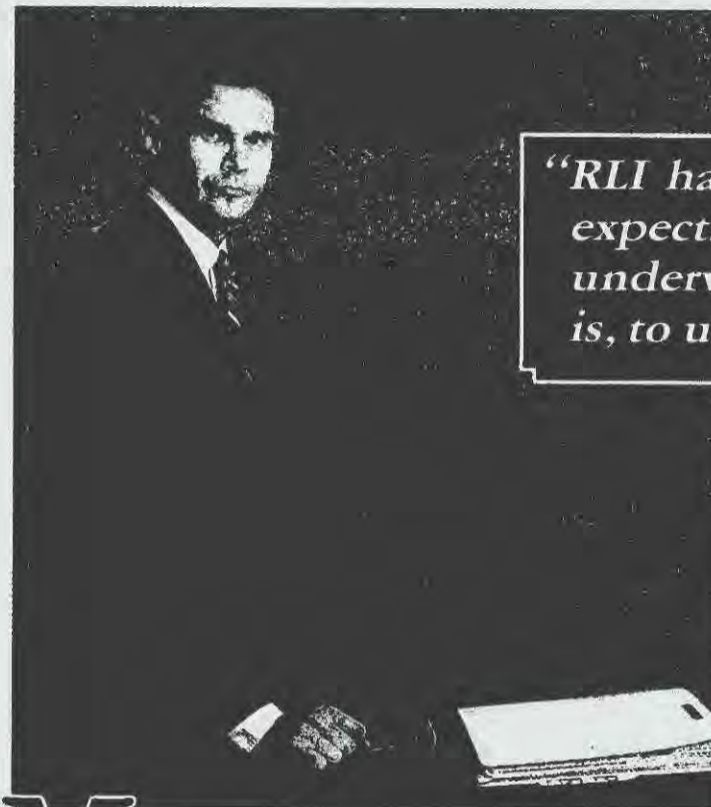
though, was a little more optimistic than most. "The (casualty) rate reductions of 5% to 10% per annum over the last few years finally came to an end, and with this came stability, but there is still a lot of competition. . . . Rate reductions were certainly no better than Jan. 1."

Mr. Marcell blamed much of the competition on an exodus of U.S. insurers from property classes into casualty as underwriters try to bolster falling premium volumes.

"There has been a move away from property classes. To maintain income, the companies have moved

into more specialist lines such as casualty, and that is why it remains competitive," he said.

Meanwhile, "accident and health" insurance rates in the London market are firm. "Accident and health rates were pretty firm. They were not going up anyway because of the basic profitability of the business. It's status quo," said Tim Hughes, director of broker Lovat International. "Clients do appear to be accepting slight changes in terms and conditions, but if rates were raised they would seek cover elsewhere," he said. **B**



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## Insurers see opportunity in filling capacity void

LONDON—New capital is entering the London and Bermuda insurance markets, but many are skeptical it will spur renewed competition in hardening lines.

Sphere Drake Insurance Co. P.L.C. last month registered with the Securities and Exchange Commission for an initial public offering, the proceeds of which

will go to support underwriting activities in both London and Bermuda.

The insurer plans to register 9.8 million shares, of which 1.3 million will be sold to underwriters. The proposed maximum price per share was \$24, which would generate about \$235 million if the offering is fully subscribed. The stock will be listed on the New York Stock Exchange once the SEC gives its OK.

"We want to use this capital to take advantage of the market now," said Paul Philo, deputy chairman of the London-based insurer.

"We want to use the capital in our U.K. company to take advantage of certain lines of business which are already showing signs of improvement. Specifically, rates are hardening in marine and non-marine reinsurance and also in a number of direct lines such as cargo, hull, specie and energy," he said.

"Opportunities are opening up for insurers and reinsurers, and what we are saying is that we have to compete with the biggest and the best to be there. The IPO is really to enable us to take this next step forward and compete in the big league," Mr. Philo said.

Anglo American Insurance Co., the London-based insurance company owned by John Head & Partners, also has filed with the SEC for an initial offering.

According to the June 30 filing, Anglo American intends to offer 5.8 million shares at a proposed maximum price of \$18 per share, which would yield \$103.5 million if fully subscribed.

Anglo American has rented a box in the Lloyd's building and last year wrote a book of liability, property and marine business. Of \$209 million in gross premiums written, 52% was in casualty lines, 30% marine

liability and 18% from auto physical damage and property catastrophe reinsurance, according to the filing.

And, just last month, U.S. reinsurer NAC Re Corp. announced plans to set up a new London-based reinsurance subsidiary with initial capital of 50 million pounds (\$73.9 million).

Greenwich, Conn.-based NAC Re said that the new company, when it receives regulatory approval, will take advantage of the current shortage of catastrophe capacity in London and will write non-U.S. reinsurance business.

This new capital coming into the London market follows closely a surge of new reinsurance company formations in Bermuda (BI, June 21). Nevertheless, Sphere Drake's Mr. Philo and others in the London market do not expect the arrival of this new capacity to rekindle competitive pricing, or for Bermuda to push London into the background.

"There will undoubtedly be some competition, but (London and Bermuda) will work fairly closely in tandem," according to Mr. Philo.

However, he observed, "A lot of the new capital (in Bermuda) is in catastrophe lines and they will not be able to buy reinsurance, so a lot of it will be net of reinsurance. Considering the frequency of catastrophes over the last few years, it will be interesting to see what the position of these companies will be this time next year."

Indeed, some in the London market are downright skeptical of the new Bermuda capital and see it as no threat to the London market.

Because the new facilities are writing catastrophe reinsurance without retrocessional cover, they could "probably cover one major loss," said one London underwriter. "But if we get two big catastrophes in one year, the sums will not look so attractive."

"Some of the money people are certainly committed, others are more short-term in their outlook. A lot of people are looking forward to seeing what happens over there," he said.

"If the wind doesn't blow, they won't get the claims. But, it would be a brave man who'd say in the light of (European windstorms), Hugo, Exxon Valdez and Piper Alpha, that it won't," he said.

—By Adrian Ladbury

## Lloyd's underwriters wait for U.S. market to harden

By CAROLYN ALDRED

LONDON—All the signs are in place for the U.S. property insurance market to harden next year,

Lloyd's of London underwriters are telling their syndicate members.

Property catastrophe reinsurance is scarce and U.S. ceding companies are paying more for less, giving them a greater incentive to charge their policyholders higher property insurance premiums.

But a recent influx of capital into the U.S. insurance market by investors could thwart this turnaround, Lloyd's underwriters note.

Meanwhile, international property rates have already increased, they claim.

And the U.S. casualty market

has softened as insurers offer more coverage to boost their premium income (see story, page 1).

These comments come from the latest syndicate results of Lloyd's of London's non-marine underwriters, which were published and sent to members recently.

"The U.S. market still does not appear to be responding in a widespread fashion to the loss of billions of dollars in Hurricane Andrew and the closing down of much reinsurance capacity," said Nicholas Thomson, underwriter for non-marine syndicate 33, managed by Hiscox Syndicates Ltd.

"I continue to believe that we are now on the threshold of a real change, but had expected it to have become evident by now. I am also a little discouraged by the amount of new capital that is being raised for the insurance industry in the U.S.A., which seems unlikely to speed the hardening of the mar-

Continued on next page

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Continued from previous page ket," he said.

"The important U.S. market is in a pivotal state," said R.J. Hunter, underwriter for syndicate 122, managed by Sturge Reinsurance Syndicate Management Ltd. "Insurance companies have suffered severely from catastrophe losses but forces are still in place which prevent the much-needed strengthening of terms."

But the investment markets have been "buoyant," which has mitigated the insurance losses in the United States and allowed some big insurers to compete for market share, added Mr. Hunter.

"It will not be until the (U.S.) companies experience a reduction in surplus, which still increased during 1992, and negative cash flow that we will see an overall change in the market," wrote R.G.M. Finn, underwriter for syndicate 219, managed by Sturge Reinsurance. "The general feeling is that the upturn should be in the not-too-distant future, perhaps by 1994."

Property insurance rates often depend on the price that ceding companies pay for reinsurance.

U.S. and Canadian ceding companies are paying the most for property catastrophe reinsurance treaties, according to Richard Keeling, a Lloyd's Council member and underwriter for syndicate 362, managed by Murray Lawrence & Partners. He estimates rate increases of 130% per exposure since 1989 in this category.

"The effects of Hurricane Hugo and Andrew have been profound," Mr. Keeling said. "A rapidly contracting market has enabled us to be robust in quoting renewal terms which have translated to our clients, on average, keeping double the deductible. We believe that further contraction will occur which will present further opportunities."

"Capacity for U.S. catastrophe (reinsurance) exposures has finally dried up," added Malcolm Beacham, underwriter for syndicate 624, managed by Hiscox Syndicates Ltd. "Demand, we are happy to say, now exceeds supply and rates have risen to two or three times their previous levels, and in some cases more."

"We have now seen significant rate increases on the U.S.A. catastrophe rates, often up to 100% of the 1992 prices," agreed N.C. Marsh, underwriter for syndicate 570, managed by M.H. Cockell & Partners. "These rate increases, on top of the already depressed American company loss ratios, are leading to a turning in the (U.S.) property (insurance) market."

G.D. Gilchrist, underwriter for non-marine syndicate 557, managed by R.J. Kiln & Co. Ltd., also increased his rates for U.S. policyholders.

"We can report that in the U.S.A. in the five years from 1987 to 1992 the amount of any one loss retained by clients rose by 12%, but if we include (1987 to 1993), the increase is 72%. The premium for these contracts rose by 52% from 1989 to 1992, but this increase has widened to 176% when the 1993 renewals are taken into account," Mr. Gilchrist said.

Outside the United States, though, the property market has already hardened.

Since 1989, there have been huge rate increases per exposure for international property catastrophe excess reinsurance treaties, according to Mr. Keeling: In the United Kingdom, rates per

exposure increased 450% since 1989; in Australasia 400%; in Japan 750%; in the Caribbean 500%; and in continental Europe 200%.

A. Taylor, underwriter for syndicate 51, managed by Taylor Clayton (Underwriting Agencies) Ltd., adds that while property treaty reinsurance rates in the United States have increased 216% since 1989, they have increased by 539% in Japan and 469% in the United Kingdom during the same time.

International property "rates have climbed to previously unforeseen levels and we are also able to demand terms and conditions that were unheard of a year ago," said T.W. Brien, underwriter for syndicate 12, managed by Stewart & Hughman Ltd.

"Worldwide rates are very definitely on the move upwards,"

added Sturge's Mr. Finn.

"The rest of the world (outside the United States) is generally achieving good rate increases" in facultative property reinsurance, added J.H. Venton, underwriter for syndicate 376, managed by Stewart & Hughman Ltd.

"In the U.K., rates are up by 25% and deductibles are being increased. Most (continental) European rates are showing higher increases. . . Following Hurricane Hugo and Andrew there has been a complete re-rating of the business emanating from the West Indies and the Caribbean, and capacity is now expensive in this area," he said.

In Australasia, Central and Latin America and South Africa, there are also "substantial price increases, coverage is restricted and earthquake limits imposed and commission reduced," Mr. Venton said. **BI**

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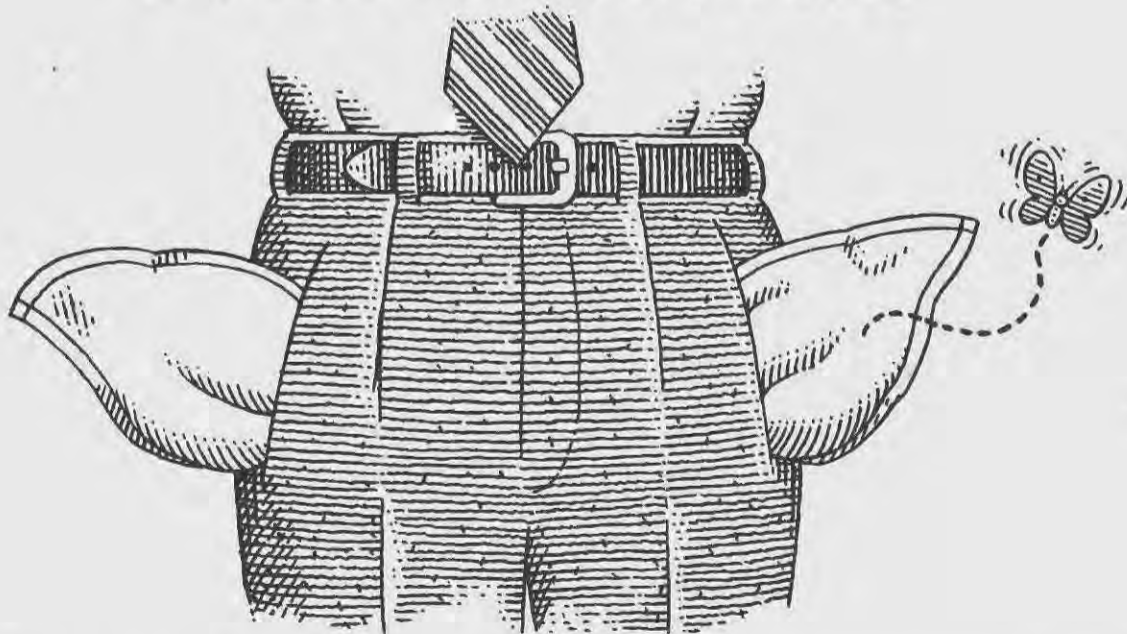
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## Reinsurers

Continued from page 1  
executive vp with G.L. Hodson & Son Inc. in New York. "It's what we saw at year end, plus."

Catastrophe reinsurance prices have risen 30% to 50% across the board, with retentions doubling in many cases, he said.

Ceding insurers with heavy exposures to coastal storm or earthquake losses could see increases of up to 100% for some parts of their programs, with smaller hikes for less-exposed companies, said Thomas J. Gallagher, senior vp with Prudential Reinsurance Co. in Newark, N.J.

Many reinsurers have added provisions barring reinstatement of limits for losses arising from the same event, he added.

The actual rates on line for national ceding insurers may amount

to 25% to 35% for the first layer of cat coverage, up from perhaps 20% to 25% last July, with the effect of the increase compounded by dramatic increases in attachment points. For regional ceding companies, first-layer rates on line are as low as 15%.

Rates for midyear renewals are actually 5% to 10% higher than rates charged for comparable covers at year end, said Steven K. Bolland, senior vp with Gill & Roeser Inc. in New York. He added, though, that prices have now reached a plateau from which they probably can't rise much further.

London underwriters have led many of the increases and, in some cases, have priced themselves out of programs for smaller U.S. ceding insurers looking for \$15 million to \$30 million in limits, according to John W. Smithson, chairman and president of PMA Reinsurance Corp.

in Philadelphia.

A PMA affiliate with minimal hurricane losses sought to renew \$15 million in limits and found London underwriters quoting rates three times higher than those in the United States, which themselves were up 15% over the previous year's price, Mr. Smithson said.

Catastrophe capacity remains tight: Reinsurance observers estimated total worldwide capacity at between \$120 million and \$150 million, possibly slightly lower than the capacity available for January renewals.

Some help is coming from several new Bermuda-based catastrophe facilities, including: Mid Ocean Reinsurance Co. Ltd., formed by Marsh & McLennan Cos. Inc. and J.P. Morgan; Renaissance Reinsurance Ltd., formed by USF&G Corp. and other investors; International Property Catastrophe Reinsurance Co. Ltd., formed by American International Group Inc.; and Tempest Reinsurance Co. Ltd., formed by General Re Corp. and AIG.

In addition, some existing markets have become more active underwriters of catastrophe risks, reinsurance observers report.

For example, Fortress Re Inc., a Burlington, N.C., underwriting manager, has provided lines of up to \$20 million on cat programs for large ceding companies, according to Chairman Chuck Sabbah. Fortress underwrites for Japanese insurers Chiyoda Fire & Marine Insurance Co. Ltd., Nissan Fire & Marine Insurance Co. Ltd. and Taisei Fire & Marine Insurance Co. Ltd.

Direct writing reinsurers have also expanded their catastrophe underwriting, especially when they can also pick up other lines of a ceding company's non-catastrophe property or casualty business, said Mark Mosca, senior vp and chief underwriting officer of Zurich Reinsurance Centre Inc. in Stamford, Conn.

All of this "doesn't mean there is not still a crisis in catastrophe capacity. There still is," Mr. Mosca said. "But the new offshore capacity and increased willingness of direct writers to put down bigger lines has made a difference."

ZRC itself is writing limited amounts of catastrophe business for clients that also cede non-catastrophe property or casualty risks to the reinsurer, Mr. Mosca added.

With several of the new facilities just coming on line, the full impact of the added capacity is not expected to be felt until later this year.

While worldwide capacity totaled about \$140 million going into July

renewals, the total should expand to \$200 million or more for new programs and renewals this fall and beyond, said Ajit Jain, president of the reinsurance division of Berkshire Hathaway Inc. in Stamford.

If reinsurers get through the rest of this year without major losses, the new capacity could even lead to some softening of catastrophe reinsurance pricing, especially if the new facilities start leading cat covers rather than following London leads.

"If you don't have any major cats over the next three months, I'm sure you will see some softening of prices," Mr. Jain predicted. If storms hit, however, "you cannot be sure who's going to be around and who's not going to be around."

Another string of cat losses would mean that "all bets are off," agreed Steven J. Bensinger, president of Chartwell Reinsurance Co. in Stamford. "I wouldn't be surprised to see more tightening."

Meanwhile, catastrophe reinsurance buyers may be losing one of

**'If you don't have any major cats over the next three months,' prices will soften, says Ajit Jain.**

the products that has helped them cope with the capacity crunch: Funded catastrophe covers, which have lost much of their allure in light of an SEC-backed plan by FASB to impose new accounting procedures for the covers.

Ceding companies used funded covers extensively to fill gaps in cat programs. Under the multiyear funded deals, the reinsurer typically places ceded premiums into a separate account and the ceding company agrees to repay a reinsurer if losses create a negative balance in the account.

Earlier this year, FASB announced plans to require ceding insurers to report obligations under funded covers as liabilities on their balance sheets, essentially wiping out any advantage of the covers (BI, April 5). July 1 saw a significant drop in interest in funded covers among U.S. ceding companies, reinsurance observers say.

"People aren't interested in buying something that's not going to work for them," said one reinsurer executive who asked not to be identified. "Funded covers are in limbo."

Instead, some ceding companies have shifted to what reinsurance officials have dubbed "trust me" covers.

Like funded covers, these deals are based on an understanding that the ceding company will make the reinsurer whole for losses in future years. Unlike the funded deals, though, "trust me" covers drop contractual provisions spelling out the pay-back mechanism, presumably freeing them from FASB accounting restrictions.

"There's an understanding behind the scenes that the ceding company will pay (reinsurers) back," the reinsurer explained.

While a number of ceding insurers were making "trust me" deals at midyear, the covers may not become as widespread as funded covers, some observers suggest.

"There is a limit to the number of 'trust me' covers because there is a limit to the number of people who trust you," Mr. Bolland observed.

Even if they are not subject to the FASB funded cover rule, "trust me" covers also raise the question of when disclosure to auditors and

the SEC would be required.

Ceding companies would have to judge for themselves when a "trust me" agreement becomes a material item that should be disclosed in representation letters to auditors and in filings with the SEC.

"When do you cross the line from an expectation to an obligation based on an oral agreement" that requires disclosure, Mr. Bensinger asked rhetorically.

"There are levels of 'trust me' that would be reasonable and not subject to disclosure" and others that are significant enough to require reporting, said Jay A. Novik, president of Atrium Corp., a financial reinsurance brokerage unit of Swiss Re Group.

Mr. Novik, meanwhile, lamented FASB's decision to tighten accounting for funded covers, explaining that the covers probably only would have been needed for another year before being rendered obsolete by new capacity entering the market.

"I wish (FASB) had waited one more year," he said.

As the catastrophe market turmoil continues, ceding insurers are still seeking a measure of catastrophe protection through pro-rata property reinsurance, though this market has also tightened significantly since last year.

Hurricane Andrew devastated many pro-rata treaties, which at the time typically did not include any per occurrence limits and therefore continued to pay losses without any cap.

That situation has changed: Reinsurers have not only imposed occurrence limits but have added a number of other restrictions, noted Paul Ingrey, president of F&G Re, a Morristown, N.J.-based unit of USF&G.

These have included loss ratio caps; "loss corridor" provisions, under which the ceding insurer must pick up losses that fall within a defined loss ratio range; and loss ratio triggers that start reinsurance coverage when losses hit a defined point, Mr. Ingrey and other reinsurance officials said.

Pro-rata coverage is also being broken up into treaties covering certain states or geographical areas and certain lines of business.

Reinsurers' margins on this business have also risen dramatically, now amounting to 15% to 20% compared with 5% to 10% a year ago and 1% or 2% three years ago, reinsurers report.

Pro-rata business now carries margins "like I've never seen before," observed Paul D. Hawksworth, president and chief executive of Mercantile & General Reinsurance Co. of America in Morristown, N.J.

Heavy demand for these treaties has made them tougher to complete than in past years.

"It's not as stringent as cats," but pro-rata coverage is still not an easy placement, Pru Re's Mr. Gallagher said.

Property per risk excess reinsurance for ceding insurers with catastrophe exposures has also become harder to place, Mr. Mosca said. "For the first time, I'm seeing risk excesses that are difficult to fill," he said.

However, non-catastrophe property and casualty reinsurance remain the easy sells in the reinsurance market, observers agree.

"Casualty is getting distinctly softer," with terms improving, ceding commissions rising and many placements oversubscribed, according to Mr. Mosca.

"It's really quite spectacular. These are covers that (reinsurers) would not touch five years ago when they were hugely profitable," he observed. "There's a lot of willing, hungry capacity for this kind of business." **BI**

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## Insurers

*Continued from page 1*

rity. They are willing to take increases" to obtain coverage from a secure insurer, he said. "Facultative reinsurance markets have also tightened," Mr. Greenberg said.

"In most instances," the picture is a change from 12 months ago, he said.

Change is occurring at Arkwright Mutual Insurance Co. in Waltham, Mass., said William E. Moriarty Jr., vp and staff officer-marketing.

"We've had some deductible changes in the wind area," said Mr. Moriarty. Coastal property accounts that had a straight-dollar deductible have been shifted to a percentage deductible, typically 2% to 3% of premium, he said.

"We're paying closer attention to all weather-related risks," noting that Arkwright had a \$63.5 million net loss from Andrew.

Property rates are rising on an account-by-account basis, and those with catastrophe exposures are rising by 10% to 20%, he said. In some unusual cases, rates have risen 100%, he acknowledged.

Employers Mutual Insurance of Wausau is beginning to obtain price increases for larger property accounts. The market "seems to have some sanity," said Bruce Smith, senior vp of the Wausau, Wis.-based insurer. Rate increases have been running in the "double digits," he said.

"I won't say that it has turned, but it looks better than it has" for several years, said Mr. Smith.

Hurricane Andrew allowed Continental Insurance Co. to register modest price increases for property coverage on a nationwide basis, but the upticks are not as significant as might have been expected last year, said Fred Marziano, president of the New York-based insurer.

Continental's average property insurance rates, including both new and renewal business, have increased about a percentage point a month since the first of the year, he said. By the end of June, the rates had increased 5.5%. In comparison, the increase for all of 1992 was 1.1%, he said.

Mr. Marziano noted that in addition to coastal areas, the Great Lakes region seems to be undergoing some hardening in property insurance rates. Rates are also hardening in Kansas, Missouri and Nebraska, he said.

"Any property risk that requires any significant capacity is having difficulty in the marketplace," said Terry Van Gilder, executive vp and underwriting officer for Chubb & Son Inc. in Warren, N.J.

Property insurance prices are up more than they were at the beginning of the year—driven both by individual risk underwriting and the cost of reinsurance, said Robert Trainer, senior vp at The Hartford Steam Boiler Inspection & Insurance Co.

"We have a July 1 treaty renewal, so we're now paying increased reinsurance costs that others began to pay earlier," he noted.

For large property risks renewing in July through September, rates "are up at least 10% to 20%," and there might be an individual risk whose rates will double, Mr. Trainer said. That's because "everybody now has a handle on the real live hurricane claims"—and on last winter's storm claims—"and we're coming into the time of year when everybody could get surprised again," he explained.

"The industry also has its arms around fire losses and machinery operating losses. It understands it can't continue to collect this kind of premium and pay out those kinds of claims," Mr. Trainer added. "How

you rebalance the scales is another question."

Mr. Trainer said the Hartford, Conn.-based insurer looks at customers' individual loss experiences, not just the losses of the industry they're in. "We keep trying to stress that individual risks and individual insureds are what drive the prices."

In the past year, for example, chemical industry policyholders experienced the greatest property rate increases, and currently some manufacturing and mining risks are getting hit with the biggest hikes, he said. "We don't write some mining risks we used to because the changes we asked for were larger than the customer was willing to pay. They went to someone else.

"I wish them luck," he quipped.

Industrial Risk Insurers in Hartford, Conn., a specialty player in large property accounts, is "definitely seeing a firming trend in the

*Continued on next page*

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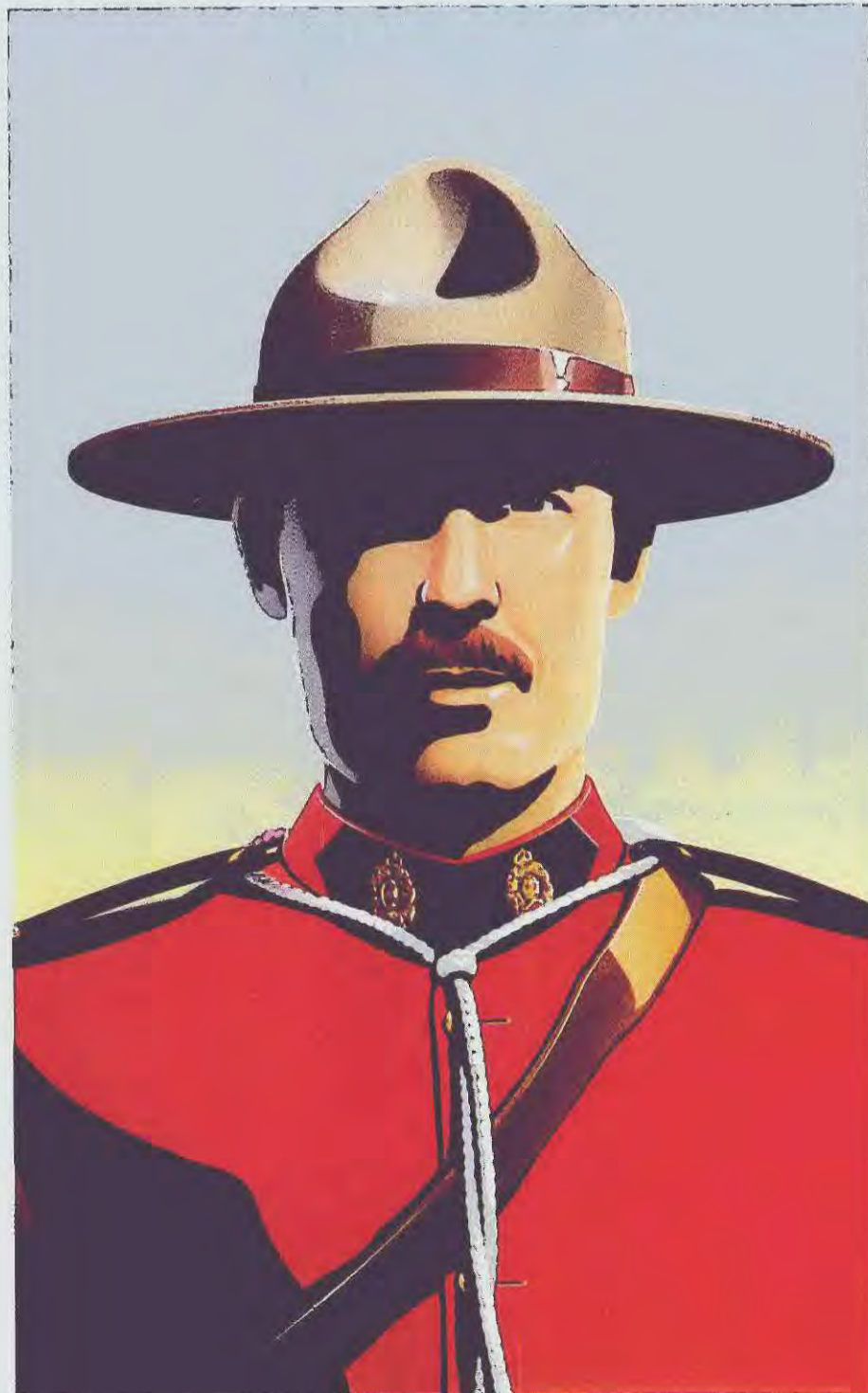


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## Insurers

Continued from previous page marketplace that has been accelerating throughout the year," said Gail P. Norstrom Jr., senior vp.

Rates "started virtually flat early in the year. Now, in our third quarter, the trend is very much upward, as it must be. All of us have just been clobbered by large property losses and catastrophe losses. There's no substitute for price improvement. If we don't see it, we're just not going to write" the business, he said.

"Basically, what we're saying is we can only do so much with selec-

tivity and loss prevention. There comes a certain point where there just needs to be more income for our product. We're just pushing at it in every possible way.

"Frankly, we're losing business at a greater rate than a year ago. We're prepared to lose business" rather than write at an inadequate price. But rate increases obtained by IRI are "kind of a mixed bag," Mr. Norstrom said. "We're doing better in the catastrophe-subject areas, particularly on the West Coast and the Southeast wind areas."

In the wind areas, "people now understand the catastrophic loss potential. There is less resistance" to

price increases, Mr. Norstrom said.

Property insurance rates are firming the most in classes of business that have large expected-loss potential, such as chemical, paper and certain heavy industries. Although increases are "all over the lot," risks with "the very highest hazard," such as the oil and chemical industries, have seen 25% to 30% increases.

"For our whole book of business, (rates are up) a shade under 10%," Mr. Norstrom said.

Reinsurance costs have increased, he noted. "And limits have impeded over the last couple of years. We're placing only about 60% of the limit we placed two years ago," which af-

fects IRI's costs and "how we select risks."

All property coverages "will have to go up, because of the underlying cost of catastrophe reinsurance. Insurers can't absorb those costs and hope to remain solvent," said David Rolwing, president and CEO of Montgomery Mutual Insurance Co., a mid-Atlantic insurer based in Sandy Spring, Md.

Mr. Rolwing expects an increase of "anywhere from 8% to 12% on average on property lines."

"Apartment houses, mercantile risks—anything with wind exposures—is going to go up. That's really where the primary insurer is

seeing an increase in their costs, particularly in the catastrophic side," he explained.

"We've changed our reinsurance program around some, but however we change it, it's still going to cost dramatically more than it has in the past," Mr. Rolwing said.

Rates will go up in non-coastal areas, as well, he added. "Those storms have shown they don't just hit the coast—they move inland" and spawn tornadoes and hail.

"If I have a building with a concrete roof that's sprinkled with all-brick construction, (rates) might go up 4% to 5%. But for a frame building with a composition roof that's 50 years old—that might go up 25% or whatever they let me take it up to."

"Five to 10 percent of the universe of property/casualty insurance is moving," said Dennis Busti, president and CEO of Reliance National Insurance Co.

For some "esoteric property lines, including some ocean marine and boiler and machinery coverages," increases can be 20% to 25%, he said.

And for volatile wind areas, such as Hawaii and Florida, Reliance is seeing "some substantial rate increases" of up to 50%, he said.

Property "rates are going up a little bit" for large accounts, said Richard Wratten, president-commercial services for Philadelphia-based CIGNA Corp. "But on middle-size stuff, it's a nickel here, a nickel there," he said.

Some insurers don't see much movement at all.

"There's no significant movement up or down. Most of the numbers I see show commercial lines modestly up two to three percentage points in total," said Bill Bray, senior vp of product management and head underwriter at American States Insurance Group in Indianapolis.

"We are anxious to try to in-

Continued on next page

### Service remains important part of insurer's 'ministry'

Fred Marziano, president of Continental Insurance Co. of New York, is convinced by experience that service is an increasingly important factor in many clients' choice of insurer.

A few weeks ago, Mr. Marziano made a presentation to the United Methodist Church at a meeting in Chicago. Continental was competing with two other national insurers for a combined property/casualty package to cover individual churches nationwide that subscribe to United Methodist's insurance program.

"We pitched services," primarily the ability to respond to claims handling needs and safety engineering needs, said Mr. Marziano. He also stressed customer satisfaction surveys showing that 94% of the insurer's policyholders would recommend Continental to a friend or neighbor.

"We also told the church we'd probably be 10% to 15% higher than expiring price," said Mr. Marziano, adding that Continental was not the incumbent carrier.

Continental got the account. Although Mr. Marziano stopped short of saying that price-shopping has ended, he said his recent experience in Chicago is yet another sign that insurer expertise and services, rather than price alone, are becoming increasingly important issues for sophisticated buyers.

—By Mark A. Hofmann

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crease our premiums by an overall 5%, and that's pretty tough in this competitive marketplace," he said.

However, American States will "probably move toward" increasing commercial property insurance rates by at least 5% to 9% in Florida.

"I don't think we've seen all or the major portion of the effects of the cost of reinsurance," Mr. Bray added. The cost of catastrophe reinsurance "has nearly doubled and net retentions on the parts of carriers have gone up significantly. But I don't believe those numbers have worked their way into property rates as we speak. I think we'll see some of that maybe next year," he said.

Specific large property risks "might see some impact" of the cost of catastrophic reinsurance, "but we mainly serve the uncomplicated short-tail Main Street types of businesses" in 40 states, Mr. Bray said.

The most competitive areas are in the Midwest and Northwest, which are "very profitable areas. Everyone wants to write business there," Mr. Bray said.

Also, "recently we've seen a number of carriers move to small and medium-size risks. Many players that have shunned that marketplace before seem to have become recently enamored of it. That's not to say rates are falling there, but it's hard to get an increase unless you write at premiums inadequate for the exposure," Mr. Bray said.

Except for the cost of property catastrophe reinsurance, which is "escalating," reinsurance rates are flat. And "the direct market is spotty," emphasized Reliance's Mr. Busti.

On the casualty side, "we're still seeing market share concerns," he said. As a result, rates continue to fall in some areas. "Excess casualty continues to be a horror show," with rates falling a little more, Mr. Busti said.

Reliance is seeing "small increases in ocean marine, aviation and certain professional liability" coverages — up 10% to 15% for lawyers professional liability, for example, he said.

Wausau's Mr. Smith characterized the midmarket arena as "chaotic," with already depressed general liability rates continuing to drop. He, too, blamed the drop on competition for market share.

The casualty market is the "softest I have ever seen it, and I see absolutely no signs that it's going to change," Mr. Smith said. He sees an abundance of capacity for such business.

"I don't see much sign that there's much hardening" in the casualty market, said Chubb's Mr. Van Gilder.

"Casualty stuff isn't moving at all upwards, but it's not going down," said CIGNA's Mr. Wratten.

General liability rates have increased by between 3% and 3.5% over the past year, said Continental's Mr. Marziano. Low growth rates reflect a shift of capacity from coastal property business to casualty business and inland property exposures, he said.

And casualty lines are "not impacted as heavily" by reinsurance costs, but "they will (eventually) have to be impacted," Montgomery Mutual's Mr. Rolwing predicted.

Chubb's Mr. Van Gilder called directors and officers liability insurance "kind of an interesting class these days." While "a lot of new carriers" have entered the business recently, most of them have "relatively limited aspirations, it would appear," he said.

For general commercial D&O accounts, "We're a little light on pricing, but not hugely. On an account-by-account basis, we're seeking to

increase certain rates," he said.

But for some financial institutions, Chubb is looking for significant increases, said Mr. Van Gilder, adding that some financial D&O risks are currently priced 25% to 40% below where they should be.

On the market in general, the view of Hartford Steam Boiler's Mr. Trainer is that "the market is continuing its firming. Last fall was the bottom, last spring was the beginning of the turn, and we're pushing it a little further now."

The market has changed "significantly" from a year ago, and there has been "some change" from six months ago, Montgomery Mutual's Mr. Rolwing said. "The lack of capacity in the catastrophe market drives up the cost" of reinsurance. "Our reinsurance costs have increased someplace in the neighborhood of 8% to 12%. Some insurers'

Continued on next page

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## Insurers

Continued from previous page  
reinsurance costs have increased up to 16%," he said.

On the other hand, Arkwright's Mr. Moriarty said that with interest rates down, one would think the market would turn quickly, but it hasn't.

He contends that new capital invested in the property reinsurance market is "serving to sustain a slower change in the market."

"The market is for the most part relatively the same market as it has been, with perhaps some moderation—except for coastal exposures where the market in those states, particularly for property, is changing. But it hasn't all been sorted out yet," American States' Mr. Bray said.

"However, I suspect that the market will change in the next several months," he said.

"In total, there's no major shift in the market. It's the same as six months to a year ago, except for a couple of areas of sharp increases," Reliance's Mr. Busti said.

"There's too much competition, too much capacity. Generally, the broad market can be characterized as continuing to be flat—which is unbelievable considering the puny (returns on equity)," he said.

CIGNA's Mr. Wratten blames "cash drain" and the refusal of some insurers to recognize their exposures for the continued competition. Some insurers' Andrew losses have drained their working capital, so they're seeking to replenish it by aggressively seeking new business, he explained.

Insurers also say they are focusing on increasing customer service.

Clients have said "the reason they do business with us" is the loss-prevention engineering, said Mr. Moriarty.

"When you deal in the size business we deal in, service is absolutely critical," said Wausau's Mr. Smith. He said that "claims service is the No. 1 service," desired by clients, followed by loss control.

Mr. Wratten agreed customers are focusing more on managing loss

costs than simply on pricing.

That has spurred insurers to consider providing more services. "We have contemplated increasing our services," said Montgomery Mutual's Mr. Rolwing. "We continue to look at the possibility of loss control activity, but we're also looking at the possibility of doing some claims service," such as third-party administrative work for self-insured clients, he added.

"The possibility of making a profit at that is greater than put-

ting your capital at risk in the property/casualty business—or can be."

Allendale's Mr. McIntyre said the insurer "inundated the South Florida area to see what damages were to industrial buildings and see where we could bring our engineering to bear" in response to Hurricane Andrew.

"We feel we have found areas in which we could really make a dent" in regard to hurricane damage, particularly in improving roofing, he said. **B**

## Crager leaves PNC Bank Corp.

Suzanne H. Crager, assistant vp-risk management and insurance at PNC Bank Corp. in Pittsburgh, has left the company to pursue other interests. Bill McAllister, who also has the title of assistant vp-risk management and insurance, is handling her duties until a successor is named. Ms. Crager is the immediate past president of the Risk & Insurance Management Society Inc.

Mark F. Wilson, 37, has been named assistant treasurer and manager of risk management at Lyondell Petrochemical Co. in Houston. In this newly created position, he is responsible for all risk management functions, including the property/casualty and insured employee benefit programs. Mr. Wilson reports to Russell S. Young, senior vp/chief financial officer. Prior to joining Lyondell, Mr. Wilson was corporate risk manager at First Mississippi Corp., a chemical company in Jackson. During his tenure there, he spearheaded the 1986 founding and served as the first financial chairman of Primex Ltd., a Barbados-domiciled group captive for chemical companies (see story, page 36). From 1980 to 1984, he held risk management positions at Houston Lighting & Power. In 1987, Mr. Wilson became the youngest person ever named to *Business Insurance's* Risk Management Honor roll, representing corporations with less than \$300 million in annual revenues (*BI*, March 30, 1987). Mr. Wilson holds a bachelor's degree in management and a master of business administration in finance, both from Mississippi State University in Starkville. He participates on the Risk Management and Insurance Committee of the American Petroleum Institute. His professional affiliations also

## Comings & Goings: Buyers

have included the Special Committee on Insurance for the Chemical Manufacturers Assn.

George E. Davis, 50, has been named senior vp/director of human resources for Lincoln National Corp. in Fort Wayne, Ind. In this newly created position, Mr. Davis is responsible for the development of human resource strategies, including benefit planning, executive compensation and management development, for the corporation and its affiliates. He reports to Executive Vp Kenneth Dunsire. Prior to joining Lincoln National, Mr. Davis spent 28 years with Eastman Kodak Co. in Rochester, N.Y., most recently as director of executive resources and corporate human resource strategy. Mr. Davis received a bachelor's degree in economics from Boston College and participated in the advanced management program at Harvard Business School in Cambridge, Mass.

Tanya Karn has been promoted to director-entertainment risk management for The Walt Disney Co. in Burbank, Calif. She will continue to oversee all of Disney's production-related risk management activities, including motion-picture, television and theatrical operations. Ms. Karn reports to Stephen M. Wilder, assistant treasurer-risk management. Prior to joining Disney in 1989 as risk manager of entertainment insurance, Ms. Karn was risk manager for Columbia Pictures. Her professional career includes positions at enter-

tainment conglomerate MCA Inc. and American National General Agencies. Ms. Karn earned a bachelor's degree in theater arts from the University of Idaho in Moscow. She is a deputy member of the Risk & Insurance Management Society Inc. and a member of Women in Film. She holds the Associate in Risk Management and Associate in Loss Control Management designations.

Diane Gawle, 33, has been promoted to benefits manager at Ace Hardware Corp. in Oak Brook, Ill. Ms. Gawle, who previously was benefits supervisor, remains responsible for the management and administration of Ace's employee benefit program, including human resources information systems, monthly benefit communications and the wellness program. Ms. Gawle reports to Kevin Cogan, employee relations manager. She joined Ace in 1981 as a data coordinator and held the position of personnel assistant before being promoted to benefits supervisor in 1986. Ms. Gawle earned a bachelor of science degree in business management from the University of Illinois at Chicago.

We'd like to report on staff changes in your company's risk management, safety and employee benefit departments. Just drop a note to Roseanne White, Copy Editor, *Business Insurance*, 740 N. Rush St., Chicago, Ill. 60611-2590, or call 312-649-7785. Please send a photograph.

## Ruling favors pensioners

PHILADELPHIA—A federal appeals court decision will make it harder for companies selling subsidiaries or divisions with underfunded pension plans to escape paying the units' pension obligations if the plans are later terminated.

Under the Employee Retirement Income Security Act, a seller is liable for a unit's pension liabilities if the underfunded plans are terminated within five years of the transaction.

But the 3rd U.S. Circuit Court of Appeals says the five-year time period does not apply if a seller continues to make "substantial" contributions to the pension plans after the transaction.

The ruling involves the 1985 sale by Cleveland-based White Consolidated Industries Inc. of a group of unprofitable business and several underfunded pension plans to Blaw Knox Corp., a newly formed company.

As part of the agreement, White Consolidated agreed to contribute \$4 million annually for five years to the plans, while Blaw Knox agreed to contribute \$1.2 million annually.

In February 1992, the Pension Benefit Guaranty Corp. terminated

a Blaw Knox plan after the plan, which has \$82 million in unfunded liabilities, went broke. The PBGC then sought recovery from White Consolidated.

White said it was not liable, citing the five-year ERISA window on seller liability.

But the appeals court said the clock on White Consolidated's liability to the pension plans was still running because it was continuing to make most of the contributions to the plans.

"A transaction does not become effective for purposes of Section 1369 (setting the five-year limit on seller liability) until the company that transferred a pension plan no longer makes substantial pension contributions," the court ruled.

"Only then is the financial strength of the new employer tested. If the new employer, primarily on its own, is able to sustain the pension plan obligations for five years, then Section 1369 immunizes the previous employer from ERISA liability," the court said.

The court's decision reinstates the PBGC's suit against White Consolidated.

—By Jerry Geisel



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# INTERNATIONAL

## Japan quake crushes insurance capacity

By JAMES M. BURCKE

TOKYO—The powerful earthquake and subsequent tidal waves that battered two Japanese islands last week caused only moderate insured losses, but the aftershocks will be felt in the insurance market for some time.

Brokers and others in Japan expect Japanese non-life insurers to face less than \$10 million in insured losses due to the quake and the tsunami waves the temblor created. And losses are not expected to exceed insurers' retentions.

The quake, which registered 7.8 on the Richter scale, devastated Okushiri Island, located about 35 miles west of the large northern Japanese island of Hokkaido. A 30-foot tidal wave created by the quake then swept over the Okushiri, caus-

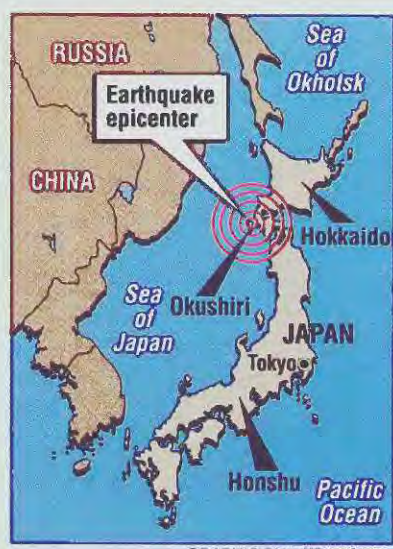
ing still more damage. Homes on the southwest coast of Hokkaido also suffered heavy damage.

Japanese government agencies late last week said the quake and tsunamis killed 126 people and another 85 were missing.

Total insured losses paid by Japanese non-life insurers likely will not exceed 900 million yen (\$8.3 million), estimates Sedgwick Risk Management (Japan).

That's a tiny amount compared with the \$4.4 billion paid by Japanese insurers after Typhoon Mireille in September 1991 (BI, Nov. 18, 1991), but the quake is not leaving the Japanese insurance market unscathed.

"The big story is what the quake has done to earthquake insurance  
*Continued on next page*



GRAPHIC BY A. TRANCHITA



AP/Wide World Photo

Soldiers walk through ruins on the Japanese island of Okushiri.

### Insurers sued to cover losses of affiliated credit insurer

By MARIA KIELMAS

STOCKHOLM, Sweden—Seven banks and the receiver for bankrupt Swedish insurer International Credit Insurance are suing Skandia Insurance Co., Trygg-Hansa SPP Holding A.B. and Svenska Kreditforsakring A.B. to help cover losses incurred by the failed credit insurer.

The banks and the receiver contend that the losses should be paid by the three insurers because their large shareholdings in ICI make it a de facto subsidiary and the insurers agreed to meet ICI losses in a letter they signed in November 1991.

Skandia and Trygg-Hansa hold direct and indirect stakes in ICI. They together own 47% of Svenska Kredit, which in turn holds 48.6% of ICI. And Skandia and Trygg-Hansa together hold a direct 25.7% stake in ICI.

ICI's bankruptcy, as well Svenska Kredit's own financial troubles, were precipitated by massive losses on mortgages and various loans secured on real estate in Sweden, Western Europe and the United States. The loans were issued by the seven banks and backed by the credit insurers.

The collapse of real estate prices in the late 1980s triggered a spiral of loan defaults and insurance claims, which could be a "black hole," said Acko Schager, head of Stockholm-based law firm Schagers, which is acting as the official receiver for ICI.

The intertwining of the loans and the credit insurance is so complicated that no one knows what the real figure for the losses for either the banks or the insurers will be, said Mr. Schager.

So far, Mr. Schager has received 47 individual proofs of claims on ICI's assets. The claims total 3.3 billion Swedish kronor (\$416.5 million), which, when subtracted from ICI's assets, leave a net loss of 1.5 billion Swedish kronor (\$189.3 million).

ICI's assets are mainly mortgages, personal guarantees and securities, as well as real estate holdings in  
*Continued on page 65*

## More signs of Lloyd's tough times

### Top underwriter to defect from Merrett

By STACY SHAPIRO

LONDON—The resignation last week of Stephen Burnhope, a successful Lloyd's of London non-marine underwriter, is not expected to affect the business plan that Merrett Holdings P.L.C. published earlier this month.

Mr. Burnhope, who is expected to join underwriting agency Spreckley Villers Hunt & Co. Ltd., told Merrett executives last week that he wished to leave the group.

Mr. Burnhope would not comment on his departure from Merrett or where he was going, but Merrett's Chief Executive Dennis Purkiss confirmed that Mr. Burnhope had resigned and will continue working for a few months under his contract.

"We are working on his replacement," said Mr. Purkiss. "We have a few serious candidates in mind."

Mr. Purkiss said that Mr. Burnhope's syndicate 1067 would continue to be one of the group's two main syndicates in 1994, as stated in the business plan.

"It's a question of replacing Stephen," Mr. Purkiss said.

Mr. Burnhope is considered to be one of Lloyd's leading underwriters in general liability business, particularly for financial institutions.

Syndicate 1067 is one of three successor syndicates that once comprised the now closed syndicate 799, formerly underwritten by Robin Jackson.

Mr. Burnhope's syndicate earned the biggest profit among the 16 syndicates in the Merrett group in 1990, a year in which many of the syndicates suffered losses. Syndicate 1067 earned a 1990 profit of 13.3 million pounds (\$25.7 at the appropriate exchange rate) on an allocated capacity of 85 million pounds (\$136.9 million at the appropriate exchange rate). It had 4,778 members for the 1990 underwriting year.

Its "sister," syndicate 1066, earned a 1990 profit of 4.3 million pounds (\$8.3 million) and syndicate 1068 produced a loss of 3.7 million pounds (\$7.1 million).

But all three syndicates left their 1990 accounts open in light of Lloyd's decision to segregate pre-1986 syndicate losses into a new reinsurance company known as NewCo (BI, May 10). Merrett is waiting for the Lloyd's Council to respond to its request to close the

three syndicates' 1986 to 1990 accounts and open the pre-1986 accounts.

Merrett is one of the largest underwriting groups at Lloyd's. Merrett's 38-page business plan proposes a new syndicate structure for the group in which the two main "composite" syndicates would be underwritten by Barnabas Hurst-Bannister and Mr. Burnhope.

Mr. Hurst-Bannister, who will re-

place Merrett Holdings Chairman Stephen Merrett as underwriter for syndicate 418 next year, will have a syndicate with a projected capacity of 150 million pounds (\$224.6 million at current exchange rate).

Mr. Burnhope's replacement will have a syndicate with a projected capacity of 100 million pounds (\$149.7 million), according to the business plan.

Four "specialty" syndicates will have capacities next year far smaller than the composite syndicates: A

reinsurance syndicate, underwritten by syndicate 1066 underwriter Ken Barrett, will have a projected capacity of 65 million pounds (\$97.3 million); a motor syndicate, underwritten by M.D. Gibbins, will have 45 million pounds capacity (\$67.4 million); a U.K. motor excess of loss syndicate, underwritten by R.W.S. Lark, will have a capacity of 45 million pounds; and a life syndicate, underwritten by S. Benham, will have a capacity of 10 million  
*Continued on next page*

## Lloyd's marine XL syndicates took the biggest lumps in 1990

By ADRIAN LADBURY

LONDON—Lloyd's members on marine excess-of-loss syndicates fared worse in 1990 than those on most other syndicates, according to Limelight, the second annual list of individual syndicate results.

Leading the 20 worst performing syndicates, according to their return on members' investment, was stop-loss syndicate 387, currently managed by G.W. Run-Off Ltd. The syndicate lost 87,314 pounds (\$132,237 at the appropriate exchange rate) for every 10,000 pounds (\$16,140) of allocated capacity. The syndicate's total 1990 loss was 50.7 million pounds (\$76.8 million) on an allocated capacity of 7.3 million pounds (\$11.8 million).

The second-worst performer was marine excess-of-loss syndicate 745, managed by K.P.H. Underwriting Agencies Ltd. The syndicate lost 29,437 pounds (\$44,582) for every 10,000 pounds in allocated capacity. The syndicate's total 1990 capacity was 43.3 million pounds (\$69.9 million).

However, syndicate 387's 1990 loss of 50.7 million pounds (\$76.8 million) was divided among 384 members, while 745's 126.5 million pounds (\$191.6 million) loss was carved up among 1,743 members.

All of the Top 20 money-losing syndicates are currently in runoff, and virtually all wrote primarily marine excess-of-loss and/or retrocessional business.

Topping off the list of the 20 largest profit makers is a property excess-of-loss specialist. Syndicate 952, managed by A.J. Archer & Co. Ltd., made a profit of 5,854 pounds

(\$8,866) for each 10,000 pounds in allocated capacity. The syndicate's total profit for the 1990 underwriting year was 281,000 pounds (\$425,575) on an allocated capacity of 480,000 pounds (\$774,720). The syndicate had 45 members in 1990.

The second-best results were re-

ported by aviation syndicate 318, managed by Bankside Syndicates Ltd., which made a profit of 3,170 pounds (\$4,801) for every 10,000 pounds of allocated capacity. Its total profit for 1990 was 2.6 million pounds (\$3.9 million). The syndicate  
*Continued on next page*

### Lloyd's syndicate returns

The best and worst performing syndicates in 1990 based on average returns for £10,000 (\$15,145) in allocated capacity.

HIGHEST REPORTED RESULTS		
Syndicate	Managing agent	Results
952	A. J. Archer & Co. Ltd.	\$8,866
318	Bankside Syndicates Ltd.	4,801
957	Wendover Underwriting Agency Ltd.	4,775
429	Sturge Motor & Personal Risks Ltd.	4,494
672	Wellington Underwriting Agencies Ltd.	4,257

LOWEST REPORTED RESULTS		
Syndicate	Managing agent	Results
387	G.W. Run-Off Ltd.	\$(132,237)
745	K.P.H. Underwriting Agencies Ltd.	(44,582)
540	Additional Underwriting Agencies (No. 7) Ltd.	(26,988)
527	Devonshire Underwriting Agencies Ltd.	(26,876)
847	Additional Underwriting Agencies (No. 7) Ltd.	(26,523)

\* Converted from pounds at the appropriate exchange rate  
Source: Limelight, Lloyd's syndicate results

## INTERNATIONAL

## Earthquake

Continued from previous page capacity. Any capacity for earthquake in Japan has dried up overnight," said Richard Ambrose, country manager for Johnson & Higgins in Japan. Both Japanese insurers and international insurers writing there pulled their capacity the morning after the quake, he said.

"I don't know if this will be a long-term problem or is just a knee-jerk reaction," Mr. Ambrose said.

However, others note that even before the quake there had not been much capacity for some time.

"This has not stemmed just from the earthquake," said Henry White-Smith, the London-based chairman of Willis Corroon International, who was in Tokyo last week. "Companies really clamped down on capacity" for earthquake risks after Typhoon Mireille.

Insurers agree. American International Underwriters is writing no

new earthquake business, said Tap-sunori Nagasawa, an agent for the unit of American International Group Inc. in Tokyo.

Insurers in Japan generally will no longer write new earthquake risks, though some Japanese insurers will insure new risks owned by related companies or key clients, said Taro Kiriya, underwriting manager for Chubb Corp. in Tokyo.

Insured losses from last week's quake will be relatively small because only 4% of the homeowners in the region purchased earthquake coverage, estimated the Marine & Fire Insurance Assn. of Japan.

In addition, there are few commercial risks on Okushiri and in the section of Hokkaido that was rocked by the quake, said J&H's Mr. Ambrose.

And many of the fishing boats and other commercial property in the area that are covered for earthquake risk are insured by fishing and agricultural cooperatives, rather

than commercial insurers, although the co-ops purchase a limited amount of reinsurance.

While most policies do not include earthquake coverage, Japanese insurers will have to pay some claims: Standard property insurance policies will cover the loss of a building due to fire following a quake. However, the policies only will pay 5% of the loss up to a maximum of 3 million yen (\$27,777) per building.

Japanese officials estimate 400 buildings caught fire following the quake, but some of these were not total losses and, thus, are ineligible for coverage. Overall, about 650 homes and buildings were destroyed, and 1,331 were severely damaged.

Insurance industry officials pointed out that Okushiri and Hokkaido are located in earthquake zone No. 1, the least risky of Japan's dozen earthquake zones. Fewer than normal home and business owners

in the region likely bought earthquake coverage because they thought there was little chance that a devastating quake like last week's would hit the region.

Tokio Marine & Fire Insurance Co. Ltd. does not expect losses from the quake to exceed 810 million yen (\$7.5 million), said Itsuro Igaraski, deputy underwriting manager.

Mr. Igaraski said Tokio Marine may re-examine conditions in renewing earthquake policies, including lowering limits, depending on "the cover they are seeking... and how important the client is for our company."

The London market expects minimal losses from the catastrophe.

Howard Cheatham, broker with Leslie & Godwin Insurance Brokers Ltd. in London, said that he expected only "minimal exposure" in the London market.

Okushiri's Yoyoso Hotel "and some other properties were damaged, but I believe it's covered

by the domestic (program). On the marine side, there are losses but it seems to be only fishing vessels and other smaller craft. At this stage, there doesn't seem to be any major tonnage affected," he said.

About 375 fishing boats were destroyed, according to reports from the Hokkaido Government Office.

Overall losses from the quake are not expected to exceed the Japanese industry's retention.

Japan's approximately 20 non-life insurers this year retain a total of 37 billion yen (\$342.6 million) for property catastrophe risks and reinsure about 74 billion yen (\$685.2 million), according to a Lloyd's of London underwriter. The reinsurance was renewed April 1 and Japanese ceding companies paid between 200% and 300% more than the expiring premiums, he said.

Stacy Shapiro, Adrian Ladbury and Kate McIlwaine contributed to this report.

## Merrett business plan

Continued from previous page pounds (\$14.9 million).

The plan also calls for three Merrett syndicates to discontinue underwriting next year: syndicate 264, underwritten by Clive Watson; syndicate 1030, underwritten by John Fenn; and syndicate 1068, underwritten by Richard Lawrence. But the plan includes unspecified roles for the underwriters "who are affected by the restructuring," it says.

The group's syndicates also will have exclusive access to a new reinsurance company called Underwriters Capital (Merrett) Ltd., which has been established specifically to write an additional 25% of gross premium via quota share reinsurance (BI, Jan. 18).

U.C.M., which is sponsored by international investment bankers J.P. Morgan and Marsh & McLennan Risk Capital Corp., is capitalized at

\$70 million. Both sponsors have invested \$7 million in the venture. This year, U.C.M. provided 20% whole account quota share reinsurance to seven of the group's nine syndicates, 10% for syndicate 179 and 25% for syndicate 1184.

Merrett's business plan and syndicate restructuring is designed to boost the confidence of the group's existing members after a year of controversy, uncertainty and loss.

"We are not proud of the predicament in which Lloyd's currently finds itself," the plan states in bold letters. "We have experienced more than our fair share of the difficulties currently facing Lloyd's, and we deeply regret our own failure to generate adequate profits of late."

Among the difficulties facing Merrett Holdings, its flagship marine syndicate 418 lost 66.9 million pounds (\$129.1 million at the appro-

propriate exchange rate) and has been kept open for 1990. Syndicate 418, with 6,429 members in 1990, had an allocated capacity of 213.5 million pounds (\$344.6 million) (BI, May 10). Syndicate 418 also has its 1985 year open with a total loss of 136.1 million pounds (\$197.3 million) resulting from 11 run-off reinsurance contracts. More than 2,000 of the members of syndicate 418 in 1985 are suing Merrett and members agencies claiming that the syndicate should have remained open in 1982 rather than in 1985.

Mr. Merrett is currently under siege, chiefly from members. In addition to stepping down as underwriter for syndicate 418, disgruntled members have called for his resignation as Lloyd's deputy chairman, though Chairman David Rowland restated his support for the Lloyd's Council at the recent annual general meeting (BI, July 12).

Meanwhile, the Merrett group is embroiled in other litigation with members belonging to other loss-riddled syndicates with underwriting accounts left open. The members belong to the 1983 year of syndicate 421 with total losses at the end of 1992 of 24.6 million pounds (\$36.8 million at current exchange rate); the 1982 year of syndicate 90 with total losses of 80.7 million pounds (\$120.8 million at current exchange rate) and the 1985 year of syndicate 334 with losses of 39 million pounds (\$58.4 million at current exchange rate). Syndicate 90 and 334 were formerly managed by Pulbrook Underwriting Agencies Ltd.

The Merrett group also has been

criticized for poor forecasting of syndicate results, which the business plan acknowledges.

"Whilst there are many reasons for this, we are not in any way complacent, and we are naturally extremely uncomfortable with our abysmal performance in this regard," the group said in the plan.

"We are truly sorry for the additional stress this causes members agents and names. However, there is a very firm resolve to greatly improve this aspect of our business."

Merrett's plan also acknowledges the respect over the years that its clients have had for the underwriters in the group.

"The challenge for the Merrett group in 1994 is to demonstrate that the customer relationships that have been developed are consolidated to assist in providing the necessary core on which niche operations will flourish to benefit names on the

syndicates."

And the document spelled out how Merrett plans to be profitable in the future. Beyond the syndicate restructuring, the plan calls for:

- The establishment of a central Merrett claims unit for all syndicates.

- Setting up Creechurch Syndicate Run-Off Services as a run-off management company for syndicates other than Merrett syndicates.

- The appointment of Group Finance Director Ian Menzies, former finance director and general manager of General Accident P.L.C.

- The launch of Creechurch Technology Services Ltd. to offer electronic systems consulting to other syndicates.

Merrett's plan outlines "the steps we will be taking to play our part in the future success of what is still the leading insurance institution in the world," the document states. BI

## UNITED STATES BANKRUPTCY COURT Southern District of New York 93-B-42685 (CB)

### IN THE MATTER OF ENGLISH & AMERICAN COMPANY LIMITED

NOTICE IS HEREBY GIVEN that Anthony James McMahon and Roger Smith, as Joint Provisional Liquidators of English & American Insurance Company Limited, have obtained a Preliminary Injunction from the United States Bankruptcy Court for the Southern District of New York, directing that all persons are enjoined from: (1) commencing or continuing any judicial, administrative or regulatory action or proceeding against the Company or any of its property in the United States; and (2) enforcing or commencing any judicial, administrative or regulatory judgment, assessment or order to create, perfect or enforce any lien or other claim against the Company or any of its property in the United States; and are further required to turn over and account to the Joint Provisional Liquidators for all funds resulting from the drawdown of letters of credit in excess of what is expressly authorized by the terms of the contracts and any related trust or other agreements. All issues with respect to turnover and accounting shall be subject to further order of this Court, upon filing a motion by either party. Copies of the Preliminary Injunction have been provided to all known parties in the United States. Any party who has not received one should contact counsel for the Joint Provisional Liquidators at the following address:

Pamela Webster, Esq.  
Buchalter, Nemer, Fields & Younger  
601 S. Figueroa Street, Suite 2500  
Los Angeles, CA 90017

## Lloyd's syndicates

Continued from previous page had 460 members in 1990 and an allocated capacity of 8.3 million pounds (\$13.4 million).

Aviation excess-of-loss syndicate 957, managed by Wendover Underwriting Agencies Ltd., produced a profit of 3,153 pounds (\$4,775) per 10,000 pounds of capacity. The total profit for its 1,329 members was 7.7 million pounds (\$11.7 million) on an allocated capacity of 24.4 million pounds (\$39.4 million).

Overall, the worst-hit Lloyd's members in 1990 lost nine times their original investment, Limglight

reports.

The profits and losses, however, were not evenly distributed between the working and non-working member: 21% of the members on the top 20 syndicates in 1990 were working names; while only 9.4% of the members of the 20 syndicates with the worst results, were working names.

On the No. 1 profit maker, syndicate 952, 50% of the members were working names. On the poorest performer, syndicate 387, only 4% of the members were working.

An average of 18% of members were working names in 1990. BI



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## INTERNATIONAL

## ICI litigation

Continued from page 63

Sweden, the Netherlands, Britain, Italy and the United States. The company has two foreign subsidiaries: International Credit North America Reinsurance Co. and Milan-based Crefi, a finance company that issues insurance on behalf of ICI.

On June 11, five Swedish banks—Gota Bank, J.P. Bank, Sparbanken Sverige, Svenska Handelsbanken and Ostgota Enskilda Bank—together with two foreign banks, Securum Luxembourg S.A. and Securum U.K. Ltd., sued Skandia, Trygg-Hansa and Svenska Kredit.

Bo Nilsson, an attorney with Stockholm law firm Rydin & Carstens, which represents the banks, said the lawsuit is based on a "letter of comfort," similar to an agreement in principle, signed by the three insurers in November 1991 when ICI's losses were emerging. "For the banks, the letter of comfort constitutes binding obligations." He would not comment further.

News of the lawsuit was published in the Swedish press on July 7 and prompted statements from both Skandia and Trygg-Hansa the following day, though both insurers said they had not yet been served with the suit.

"The basis of the legal action is a letter of comfort issued in general terms in which no guarantees of any kind have been given," Trygg-Hansa said.

"We contest all claims in respect of the letter of comfort as there are no grounds for such claims," Skandia said.

ICI's receiver, Mr. Schager, said he also is considering filing an action against Skandia, Trygg-Hansa and Svenska Kredit based on claims possible under his interpretation of the same letter of comfort. Mr. Schager said the three insurers stated in this letter that if ICI would need additional funds to meet losses exceeding 200 million kronor (\$25.2 million), the limit of ICI's stop-loss insurance, they would pay them.

"The question is whether this letter is morally binding or legally binding," the receiver said. "I think it is legally binding."

Mr. Schager has already filed a separate action against Skandia and Trygg-Hansa regarding ICI's stop-loss coverage. He said the stop-loss coverage was underwritten by Svenska Kredit, which then reinsured 140 million Swedish kronor (\$17.7 million) of it with Skandia and Trygg-Hansa. Mr. Schager said that he has filed a claim for the 140 million kronor because he believes this money should go directly to ICI's estate and not the receiver of Svenska Kredit.

Mr. Schager said he expects to spend the rest of the summer trying to negotiate with Skandia, Trygg-Hansa and Svenska Kredit over claims exceeding the 200 million Swedish kronor limits of ICI's stop loss coverage, but he is doubtful that he will be successful. "If we do not succeed, then we will start a legal action."

But given the complications of a case in which no one knows the number of claimants or has any notion as to the eventual losses, "this can go on for years," Mr. Schager said. **B**

## GLOBAL BRIEFS

## Munich Re shifting business

MUNICH—Munich Reinsurance Co. is shifting some of its international treaty reinsurance underwriting from London into local markets.

Non-U.K. treaty business as of July 1 is being underwritten by Munich Re's local subsidiaries and branches in the countries of origin or at the head office in Munich.

The U.K. general branch will concentrate on the underwriting of U.K. and Irish treaty business, "which is of increasing importance to our group," the company said in a recent notice to London brokers that was obtained by *Business Insurance*. However, the London office will continue to be the only Munich Re office to write bankers blanket treaty reinsurance, and it will continue to write international facultative reinsurance.

"We will act more on a local basis. This is an advantage for the ceding company, the broker and for us," a spokesman said.

The spokesman insisted that the move is not intended to cut out the broker's role. "Contacts will be local, which means brokers have the possibility to address our offices in respective countries."

"Direct contact with the ceding company means a better transfer of our know-how. After all, reinsurance is a people business."

Munich Re hopes the decentralization will give it a "better feel" for international treaty business "where it occurs," said the spokesman.

Munich Re said it no longer needs a central location for writ-

ing treaty reinsurance. "With 70 foreign offices, we have a stronger international presence than other international reinsurance companies," the spokesman said.

In London, brokers have speculated that Munich Re was withdrawing from international treaty business altogether.

"Just the opposite is true," said the spokesman. "We are not withdrawing. It may appear that way from a London view, but in fact we are just writing business where the risk and our clients are located and are using our international network for better advantage for everyone concerned," the spokesman said. Meanwhile, Standard & Poor's Corp. has affirmed its AAA claims-paying ability of Munich Reinsurance Co. "The rating reflects the company's powerful market position, good capital strength, acceptable operating performance and solid financial flexibility," S&P said.

While S&P expects Munich Re's results to decline further from its 1992 pretax loss of 5 million deutsche marks (\$3.1 million), it sees partial recovery in 1994. "Munich Re is well-positioned to rebound as conditions improve," S&P said. Munich Re's capital position remains solid despite earnings pressures, according to the ratings agency.

—By Don Lewis Kirk

## Swiss Re rating caveat

Standard & Poor's Insurance Rating Services last month added a warning to its affirma-

Continued on page 67

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<b>Financial:</b>	
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<b>Risk/Employee Benefits:</b>	
Vice-presidents, directors, managers, and other related department personnel of insurance, risk, employee benefits, personnel, compensation, pension, safety, security, industrial relations, human resources and employee/labor relations	15,035
<b>Sub-total</b>	<b>28,114</b>
Associations	392
Government, Unions and Educational Institutions	1,120
<b>Commercial Consumers</b>	
<b>Sub-total</b>	<b>29,626</b>
Insurance Agents and Brokers	8,788
Insurance Companies	7,977
Accountants, Actuaries, Attorneys & Consultants	3,572
Adjusters, Appraisers, TPA's, Captive Managers & Health Care Providers	1,849
Others Allied to the Field	968
Single Copies	52,785
<b>TOTAL</b>	<b>122,785</b>

\* Source: Business/Occupational breakdown of qualified circulation, November 30, 1992 issue, as submitted to BPA for December 1992 BPA Publisher's Statement.

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# INTERNATIONAL GLOBAL BRIEFS

Continued from page 65  
tion of Swiss Reinsurance Co.'s AAA claims-paying ability rating.

Swiss Re's capital strength has "become stretched, due to weakened earnings in core reinsurance and direct-writing non-life operations and the need to support growth," said the ratings agency.

"S&P believes underwriting conditions will remain difficult for the foreseeable future with Swiss Re's capital strength coming under further pressure," the agency said.

Swiss Re, the world's second-largest reinsurer, showed stable profits through 1989, "partly due to favorable regulatory and tax regimes that have allowed Swiss Re to build a strong loss-reserve position," S&P added.

But in 1990 and 1991, pretax profits declined sharply to about 100 million Swiss francs (\$66.8 million at current exchange rate), said the rating agency, "reflecting large losses from storms, Scandinavian credit insurers, a financial guarantee for a subsidiary company and general underwriting weakness."

S&P believes profits will remain depressed, but over time Swiss Re will benefit from insurers' search for capacity and quality reinsurers.

"Despite its near-term challenges, Swiss Re's strong balance sheet and worldwide reputation should continue to support favorable financial flexibility," S&P concluded.

Richard Lieberman, executive vp of Swiss Reinsurance Co. in Zurich, said, "It's a fact that our profits in the last year or so have been weak."

The reduced profits were caused by claims from the 1990 European windstorms and the 1990 typhoon in Japan; and also the "unusual losses" from the group's direct underwriting operations, specifically at Switzerland General Insurance Co., Mr. Lieberman acknowledged.

Those losses, totaling 338 million Swiss francs in 1990 and 1991 (\$223.8 million at current exchange rate), came from financial guarantee business that Switzerland General wrote, Mr. Lieberman said.

However, "reinsurance business is improving in Europe and is starting to improve in the U.S., and we believe we will benefit," he said.

Also, Swiss Re will reduce expenses following its restructuring of its direct underwriting, said Mr. Lieberman. Switzerland General has pulled out of financial guarantee business and two German subsidiaries have been merged.

"So our expectations differ from S&P, and we'll see," he said.

—By Stacy Shapiro

## J&H buys Transglobe

ST. PETER PORT, Guernsey—Johnson & Higgins has acquired captive manager Transglobe (Guernsey) Ltd., which gives it a captive management presence in the domicile for the first time.

Transglobe, which currently manages approximately 10 captives, was formerly owned by now-defunct British insurer English & American Insurance Co. Ltd.

After E&A entered liquidation, Transglobe's future was uncertain and it lost its largest captive client, aviation captive Polygon Insurance Co. Ltd. (BI, April 26).

Its sister company, Transglobe Underwriting Management (Guernsey) Ltd., was sold in April and earlier this month changed its name to Helveticum Management Services Limited. It is majority owned by investment bank Credit Suisse.

—By Gavin Souter

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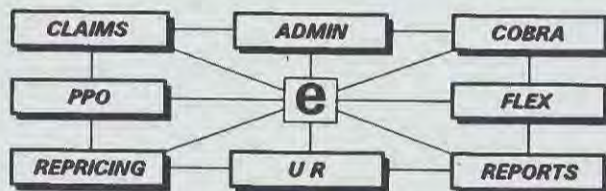
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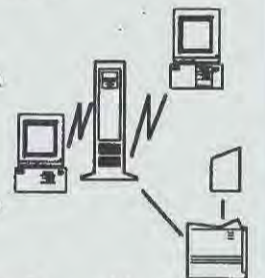
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# Smith to succeed Davis at Wyatt

A.W. "Pete" Smith Jr., manager of The Wyatt Co.'s Washington office, will become chief executive officer and president of the consulting firm effective Jan. 1.

He will succeed **Michael H. Davis**, who is retiring at year end. **Paul R. Daoust**, manager of the New York region, will become Wyatt's chief operating officer and executive vp. He succeeds **Leroy B. Parks Jr.**, who also is retiring.

## Comings & Goings: Industry

In changes at other suppliers: **Mike Dunigan** named managing vp of the Philadelphia office of Noble Lowndes and will specialize in retirement benefits. Also at Noble Lowndes, **Madeleine Fleckenstein** joined the Washington office as an associate consultant responsible for managing existing third-party

administration client relationships as well as participating in health and welfare consulting projects.

**Bill Geddings** joined FOCUS Healthcare Management Inc. as vp-clinical operations in Brentwood, Tenn.

**Lisa M. Raiti** named managing director of Centre Financial

Products, a unit of Centre Reinsurance Cos. in New York.

**Pamela Daugherty** joined the Los Angeles office of Buck Consultants Inc. as a benefit consultant.

**Robert C. Wellman Jr.** named a vp of American Risk Services Corp., a unit of American Risk Group Inc. in Cleveland.

**Beverly M. Ma** and **David G. Valdez** joined the law office of Fisher & Hurst in San Francisco as associates practicing in the

area of insurance coverage and related litigation.

## Reinsurance

**Robin H. Etheridge** joined Liberty National Fire Insurance Co. as vp-reinsurance in Birmingham, Ala.

**Paul R. McDermott** joined American Re-Insurance Co. as a vp in the financial services department in Princeton, N.J.

**Jacobus Van de Graaf** promoted to the newly created position of chief operating officer of Towers Perrin Reinsurance, the reinsurance intermediary subsidiary of Towers Perrin in Stamford, Conn.

**John D. Vollaro** named president and CEO of Signet Star Holdings Inc., a holding company recently formed by W.R. Berkley Corp. and General Re Corp.

**Colin Fitt** joined reinsurance intermediary E.W. Blanch Co. as a vp in Dallas.

General Reinsurance Corp. recently announced three vp appointments: **Vincent P. Connor** in Stamford, Conn.; **Steven N. Franklin** in Boston; and **Greig W. Rance** in Atlanta.

## Insurers

**Gregory H. Wolf** promoted to executive vp at Employers Health Insurance Co., a subsidiary of Lincoln National Corp. in Green Bay, Wis.

**J. Douglas Robinson** promoted to executive vp of Utica Mutual Insurance Co. in New Hartford, N.Y.

**Brian Duperrault**, president of American International Underwriters, the overseas property/casualty insurance subsidiary of American International Group Inc., has been elected to the additional position of AIG executive vp-foreign general insurance in New York.

**John H. Flittie**, chief operating officer of holding company NWNL Cos. in Minneapolis, has added the position of president.

**Stephen M. Christopher** named president of Southland Life Insurance Co. in Atlanta.

**John F. Woods** named vp and deputy general counsel of Connie Lee Insurance Co. in Washington.

**Orion "Skip" Whitlock** has been named senior vp-ABIC/ABLAC claims at the American Bankers Insurance Group in Miami.

Nationwide Insurance Co. recently made several promotions in Columbus, Ohio: **Eldon Ziegler** named vp-industry affairs; **Thomas L. Crumrine** named vp-claims; and **James O. Emert** named vp-agency sales.

Arkwright Mutual Insurance Co. recently announced several elections in Waltham, Mass.: **Jonathan C. Wright** named senior vp-finance; **Patrick J. Pollard** named vp-strategic and operational planning; and **Enzo Rebula** named vp and manager of human resources.

## Agents/brokers

**Kenneth J. Sciara** appointed president and chief operating officer of Hogg Robinson of New York Inc. Mr. Sciara succeeds **William Eckstein**, who was promoted to chairman and CEO.

**Peter S. Pauley** named chairman of the recently formed Rollins Hudig Hall of Connecticut Inc. in Greenwich.

**Roger J. Imfeld** named a vp of O'Gorman & Young Inc. in Chatham, N.J. **BI**

*The IRI Difference:*

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### Infrared Scanning Finds "Hot Spots," Avoids Disasters

HARTFORD, CT—For nearly two years, IRI has been loaning its customers an easy-to-use, high-tech tool for evaluating the condition of plantwide electrical and mechanical equipment. The result: we discovered that 12 percent of the locations inspected had conditions that could have created a loss, dis-

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# IRI

can make a difference

## Flooding

Continued from page 3

less they also are covered for the underlying property loss.

Some businesses without flood insurance or damage, though, may be able to make business interruption claims under their property policies if civil authorities ordered them to cease or curtail operations, said Marc H. Rosenberg, vp-federal affairs for the Insurance Information Institute.

Comprehensive auto policies do generally cover flood damage, but few claims are expected because the flooding was gradual.

"We've never had anything like this," said Ken Bilbrey, president of Bilbrey Insurance Services Inc. in Johnston, Iowa. He administers the Iowa Communities Assurance Pool, which offers flood insurance to 180 mostly small public entities. Few purchase it.

"This flood is referred to as a 500-year event," he said.

Des Moines, one of the worst hit cities, has \$20 million in flood coverage limits for buildings and contents as part of a \$320 million all-risk property policy written by Chubb Corp. Flood-related coverages have \$100,000 deductibles.

The city switched property insurers after 20 years, effective July 1, said Eric Larson, the city's risk manager. Ten days later, two Mississippi River tributaries began to overflow their banks and flood the central business district, forcing officials to vacate city hall and move to a nearby high school.

Des Moines' premium for property coverage was the lowest since 1975, though the value of city property had doubled to \$320 million for buildings and contents, Mr. Larson said.

City officials have identified 25 locations with flood damage, including four or five buildings with "extensive" damage.

"There are many locations we can't get to to assess damage," including an \$11 million pumping station, he said.

One of the worst problems facing Des Moines' businesses and its 250,000 residents is the lack of clean water since the main water treatment plant was overwhelmed by the flooding. The plant—which is operated by the Des Moines Waterworks, an independent public entity—is not within the city government's purview, said Mr. Larson.

Flooding also created problems for local businesses.

"We closed production Saturday night because there was no potable water," said a spokeswoman for Monfort Inc., which operates a slaughter and processing plant in Des Moines.

Closing the plant, which kills and processes 2,800 cattle per day, idled 1,400 workers.

Monfort will have "substantial" business interruption losses at that plant, said Monfort's risk manager, Lucille Gallagher.

Greeley, Colo.-based Monfort is insured by CIGNA Corp. for flood-related coverages, including business interruption, with a large deductible, she said. "Right now we've been able to salvage the majority of the product—live cattle and processed meat—by moving it to higher ground."

Monfort owns a long-haul trucking firm, which made that task somewhat easier, but it will still incur extra expenses, such as shipping costs, and damages, including the cattle's anticipated weight loss, she said.

Flood waters are also threatening a Monfort facility in St. Joseph, Mo., where 3 million pounds of processed meat sit in a freezer.

Workers have sandbagged the building and "are bunkered down there," said Ms. Gallagher.

IBP Inc. suffered at least \$1 million in flood damage at its Des Moines slaughterhouse, said Craig Manker, corporate insurance administrator.

Water filled the basement and several feet of the ground floor. Water also threatened about 600 cattle in a holding pen, but the pen was opened, and all but five swam to higher ground, he added.

IBP has some flood and business interruption coverage as part of an all-risk property policy from Arkwright Mutual Insurance Co. It has a \$100,000 combined deductible on both flood and business interruption.

IBP expects to resume operations Monday. Its business interruption losses will be less than other companies' because it can use water from its own wells rather than relying on the public water supply, said Mr. Manker.

Drinking water, rationed at the daily rate of five gallons per person, is being sent in by milk truck and tankers from neighboring communities. It's available from at least 55 sites.

Things are not going so well in downtown Des Moines, where there is no water for flushing toilets, fighting fires and cooling air conditioning units. Rows of portable toilets now line downtown streets. City officials have ordered that only skeleton crews work downtown, where many insurers are based.

Many insurers were able to resume a significant level of operations as early as Monday night, said Iowa Insurance Commissioner David Lyons.

Principal Financial Group suffered no flood damage. It has adopted a flexible work schedule of four-hour shifts so it can daily bring in up to 3,000 of its 6,600 employees, a spokesman said.

Computer technicians set up a child's swimming pool outside as part of a jerry-rigged—but effective—system to cool company computers, which are running at near-normal levels, he said.

Elsewhere, the casino riverboat industry is managing to stay afloat.

"We've seen our business slightly fall off by around 10% during the week, but we are doing just fine during the weekends," said Jim Edlund of the St. Louis-based Casino Queen Riverboat.

Business has picked up steadily since flood waters forced the riverboat to shut down for two days, said Mr. Edlund. Now docked in St. Louis, the Casino Queen is not expected to resume normal river travel until at least Aug. 15.

At the Casino Rock Island riverboat, business is doing as well as usual, maybe better, in fact. Although the boat remains docked, passenger totals are expected to exceed last year's level of 750,000, said Nancy Donovan, director of

sales and marketing.

Elsewhere, the news was grim.

"Right now, property and crop damage is totaling anywhere from \$1 billion to \$3 billion," said David Lawson, program specialist for the U.S. Agricultural Stabilization and Conservation Service. "It looks like it's getting worse." Preliminary loss estimates include \$721 million



AP/Wide World Photo

Flooding from a tributary of the Des Moines River last week closed this road north of Des Moines, Iowa, as well as an 11-mile stretch of I-80 west of the city.

for crop losses. The Department of Agriculture estimates that only one-third of the affected farm land is covered by crop insurance.

Some 1,237 flood insurance claims totaling unspecified amounts have been filed from Illinois, Indiana, Iowa, Missouri, Minnesota, and Wisconsin.

Nationally, about 20% of the people in flood-prone areas buy the coverage. But only about 10% of those hurt in the recent flooding are expected to be covered, because much of the damage occurred away from flood-prone areas, said Mr. Rosenberg of the III. According to the National Flood Insurance Program, about 18,000 flood insurance policies are in force in the affected area.

Commercial insurers estimated \$100 million in privately insured losses from wind, hail and tornado damage June 17-19. They also estimated \$125 million from wind, hail, tornado and flood damage July 8 to 11 in Nebraska, Illinois, Kansas, Iowa and Ohio, said Jim Welsch of the Property Claim Services division of the American Insurance Services Group.

Many flood victims are looking for federal relief. President Clinton has asked Congress for \$2.5 billion in disaster relief, including \$700 million available immediately for farmers.

Losses are expected to mount.

"Right now, we have water levels either at record levels or projected to reach record levels in coming days all the way up from Iowa down through St. Louis and all along the Missouri border," said Ernie Goetsch, department meteorologist at the National Weather Service in St. Louis.

Extensive stretches of vital waterways are closed and are expected to remain so for weeks. The Army Corps of Engineers expects that it will at least three to four weeks before locks and dams resume operation and riverways are completely open for travel.

Joanne Wojcik contributed to this story.

## Fee multiplier

Continued from page 3

sel when coverage is denied.

"We hope this type of decision, if accepted in other states that allow attorneys fees to be part of the judgment, will provide an incentive to policyholder attorneys to take cases where the policyholder clearly doesn't have the financial resources to litigate against more powerful insurers," said Thomas C. Mielenhausen of Popham Haik, who represents Schloff.

"It really removes the disincentive of taking cases like this on a straight or modified contingency basis. It could go a long way toward leveling the playing field between environmental insurers and their policyholders," he said.

In his 70-page ruling, Judge Howard said he chose to honor Popham Haik's request for multiplied hourly fees because of the complexity of the case and because Popham Haik trimmed fees to help out Schloff, which no longer had adequate corporate assets to continue its coverage battle.

"While multipliers are used sparingly by courts, their purpose is to allow the prevailing party's counsel to recover a fully compensatory fee. . . . Plaintiff was put on trial by the insurance companies. . . . The cards were definitely stacked against the plaintiff when this coverage action was started. Through the proficiency of its counsel, plaintiff somehow prevailed. The court holds that plaintiff is entitled to have a 1.5 multiplier," Judge Howard wrote.

"To understand the importance of this ruling, you must also understand the difficulty policyholders have in obtaining both counsel and coverage," said Bill Greaney, a policyholder attorney with Covington & Burling in Washington. "In 90% of the cases where insurers deny pollution liability coverage, it's to a small polluter that's a perfect target to be worn down through protracted litigation."

## British fund to cover claims of some U.S. policyholders

LONDON—North American professionals who bought policies from five insolvent insurers owned by London United Investments P.L.C. will have 90% of their losses paid by a British guaranty fund, Britain's highest court has ruled.

British insurers, which had challenged those claims, now expect to seek legislation to restrict future guaranty fund protection to policyholders in the European Community.

The ruling last week by the House of Lords means that the Policyholders Protection Act of 1975 covers claims by Canadian and U.S. doctors, lawyers and accountants who bought professional liability coverage from the five insurers, which include Walbrook Insurance Co. Ltd. and the so-called KELM companies.

The House of Lords upheld a Court of Appeals decision that the professionals held "U.K. policies," as defined by the act. The Lords defined a "U.K. policy" as one that is issued by an authorized insurer in the United Kingdom, regardless of where the obligations under the policy are performed (BI, March 29; July 13, 1992).

The act allows the Policyholders Protection Board to pay 90% of all claims to "U.K. policyholders," which the court also said includes individuals in a partnership.

The Policyholders Protection Board could be liable to pay gross claims of 670 million pounds (\$998.3

million) as a result of this decision, said PPB Secretary Derek Wright, who also is financial reporting manager for the Assn. of British Insurers.

The net cost is likely to be about 250 million pounds (\$372.5 million) after recoveries from the insolvent insurers' provisional liquidators, said Mr. Wright.

The money to pay PPB claims comes from levies on all authorized U.K. insurers, including foreign insurers in the United Kingdom, based on premium volume. So far, the PPB has raised 118 million pounds (\$175.8 million) in two levies, said Mr. Wright.

Meanwhile, the ABI said it is "very concerned" about the decision. "We are discussing with the government how the act might be amended to restrict its coverage," said Mike Jones, chief executive.

ABI members had argued that the act was meant to cover only domestic policyholders in the United Kingdom. The ABI now would like the act to be reworded to include only U.K. and European Community citizens and exclude professional partnerships, an ABI spokesman said.

Following the House of Lords ruling, Chris Hughes, the provisional liquidator of the insolvent LUI insurers, said he hopes to send proposals for schemes of arrangement by the end of August.

David Herr of Maslon Edelman Borman & Brand in Minneapolis, who testified in the case on behalf of Popham Haik's request for multiplied fees, said the ruling "removes the defense strategy of making litigation prohibitively expensive for the plaintiff."

He also asserted that, as a result of the augmented fees, policyholder lawyers might now be more willing to take cases they might otherwise have rejected.

However, insurer attorneys say Judge Howard's decision to award Popham Haik 1.5 times its hourly rate has the air of a punitive award for the insurers' denial of coverage to Schloff.

"This can't be construed as anything but a penalty," for the insurers' stance pertaining to coverage, said Thomas Brunner of Wiley, Rein & Fielding in Washington. "It's not only unique, it's unjust and promotes litigation."

Other insurer attorneys took issue with the common policyholder assertion that stalling and extending litigation is a prized insurer tactic.

"We don't drag out cases just to generate fees or to make it harder for the other side to continue. I can't help but say that this move sounds like a form of punitive damages," said Michael Aylward of Morrison, Mahoney & Miller in Boston.

And, Mary Kay Vyskocil of Simpson Thacher & Bartlett in New York, said insurers—unlike the individual policyholder—have "portfolios" of lawsuits to defend against. Thus, it's "in their interest to promptly resolve cases. The war of attrition goes both ways."

The coverage ruling and enhanced attorney fees are already on appeal to the Minnesota Court of Appeals.

Counsel for the insurers declined to comment.

SCSC Corp. vs. Allied Mutual Insurance Co., Minnesota District Court, Hennepin County, No. 90-021573.

—By Stacy Shapiro

## For the Record

### SIIA group aims to save self-funded health plans

IRVINE, Calif.—The Self-Insurance Institute of America is launching a new coalition of self-funded employers and others to try to persuade Congress to preserve all self-funded health plans under any health care reforms.

With an expected budget of \$750,000 to \$1 million in its first six months of operation, the Coalition to Preserve Self-Insurance will press its case on two fronts. It will:

- Provide several dozen key House and Senate members with information on how self-funded employers have controlled their health costs.

- Hold town hall meetings to educate employees about self-funding and to encourage them and employers to ask lawmakers to preserve self-funding.

The SIIA fears that health system reforms could force self-funded employers with up to 10,000 employees to scrap their proven cost-efficient plans and join unproven health care purchasing alliances.

Preliminary results of an SIIA survey of people covered by employer-sponsored self-funded plans and of health care providers show both are largely satisfied with such plans.

The CPSI is open to self-insured employers, trade and professional associations, third-party administrators, excess-of-loss insurers, brokers and agents, consultants, providers, and individuals covered by self-funded plans. More information is available by calling 800-870-8070.

### State court approves Warwick liquidation

MORRISTOWN, N.J.—The New Jersey Superior Court recently approved a liquidation petition filed against the Morris Plains-based Warwick Insurance Co. by New Jersey's Insurance Department.

The company is insolvent, and continued efforts to rehabilitate it would prove useless and substantially increase the risk of loss to creditors, policyholders and the general public, court papers say.

Warwick, which did the majority of its property and casualty-writing business in New Jersey, has been in financial trouble since June 1990, when it was taken over by the state. In 1989, its last full year of business before being seized by the state, the insurer wrote \$88 million in premiums.

In 1992, while under state control, the insurer wrote \$4.6 million in direct premiums, while at the same time accumulating a negative policyholder surplus of \$29.5 million and a net loss of \$23.1 million.

### Tractor maker to appeal \$6.6 million liability hit

TULSA, Okla.—A Japanese tractor manufacturer and several other companies will appeal a \$6.6 million product liability award to the family of an Oklahoma man who was killed when the tractor rolled over onto him.

The trial judge last month refused to grant a new trial in the case, which the plaintiffs' attorney says is one of the largest wrongful death jury verdicts in Oklahoma.

The jury returned the damages, which now total about \$7.1 million with prejudgment interest, on April 27 against tractor manufacturer Kubota Corp. of Osaka, Japan,

its U.S. distribution unit, and the tractors' exporter and importer.

Half of the original award, or \$3.3 million, was for punitive damages, which cannot exceed compensatory damages under Oklahoma law.

In the case, a 64-year-old Enid, Okla., man suffocated in 1989 when his 1982 Kubota tractor rolled over upside down and trapped him.

The tractor, which was sold new in 1987, lacked a rollover protective structure. The plaintiffs argued the tractor should have been equipped with the structure because agricultural engineers in 1985 recommended the safety feature for tractors.

The victim's family also charged that the tractor's front axle design made the machine even more susceptible to rollovers than normal and that Kubota failed to warn customers about the tractor's risks.

### Grand jury indicts Helm on benefit fraud charges

LOS ANGELES—A Los Angeles County grand jury has indicted James B. Helm, former president and CEO of broker Rubell Helm Insurance Services Inc., and two other company officers on charges that they embezzled more than \$3.6 million in premiums from employers' health plans and multiple employer trusts covering 8,500 California and Florida employees.

Four other RHIS officials have already pleaded guilty to similar charges, including Michael A. Rubell, former chairman (BI, Aug. 26, 1991; March 20, 1989).

In addition to Mr. Helm, the indictment also names Scott K. Clawson and Douglas L. Taylor, former RHIS vps, and charges all three with conspiracy, mail fraud and embezzlement.

The indictment charges the officers with using millions in diverted premiums "to buy and remodel homes, for ski vacations, trips to Hawaii and a Caribbean cruise, for custom tailored clothes and expensive jewelry and to lease luxury cars."

Mr. Helm is also charged with "tax fraud and with paying kickbacks to influence the administration of the employee benefit plan," according to the indictment.

The indictment of the RHIS officers was not swiftly accomplished. The California Department of Insurance "did the investigation, then we tried to sell it to a prosecutor. We must have tried 15 agencies before one would take it," said Jan Nemert, supervising investigator with the Insurance Department in Los Angeles.

The case was held up, among other things, by Mr. Helms' claims that ERISA pre-empted state regulation of self-funded METs, Ms. Nemert said.

The investigation of RHIS was ultimately conducted jointly by the U.S. Labor Department's Office of Labor Racketeering, the U.S. Postal Inspection Service and the Criminal Investigation Division of the Internal Revenue Service.

### Insurer rebuts charge of redlining in state

SAN FRANCISCO—California Insurance Commissioner John Garamendi is seeking a penalty of \$2.52 million against California Insurance Group and its subsidiaries for alleged redlining practices.

Monterey, Calif.-based CIG includes California Capital Insurance Co., Eagle West Insurance Co. and Monterey Insurance Co., which

write insurance on apartment houses and businesses.

The department alleges CIG violated the law by refusing to write policies in areas of San Francisco and Los Angeles on the basis of sexual preference, race or ethnicity and geographic location.

The department said it began its investigation of CIG in March when a former employee charged the insurer with redlining.

The department also alleges the insurer destroyed documents—including highlighted street maps—that might provide evidence of redlining.

"We do not and never have sold insurance on the basis of racial or personal characteristics," said Peter Cazzolla, president and CEO of CIG, who added the charges "result from the claims of a disgruntled former employee."

"CIG writes business inside the area alleged to be redlined. The geographic areas identified by the department do not follow any racial or ethnic boundaries," he said.

"Declining insurance coverage or using a rate schedule is not illegal, providing it is done on the basis of the risks involved. . . . Location is definitely a risk characteristic" if the location includes "slope or unstable land, poor construction or maintenance, poor security, high congestion, etc.," Mr. Cazzolla added.

### Information in brief

State lawmakers amended the **New Jersey Environmental Cleanup and Responsibility Act** to make insurance an accepted method of funding cleanup projects (BI, June 14). . . . The California Insurance Department has banned British West Indies insurer **Western Star Insurance Co.**, which the department says is insolvent, from doing business in the state. . . . The Florida Insurance Department last month took over the assets of insolvent malpractice insurer **Manatee Insurance Co.** of Orlando. Manatee, which wrote malpractice insurance for doctors, lawyers and other professionals in Florida only, saw capital and surplus drop to \$12,500 early this year, falling far short of the \$1.5 million required. . . .

**Coopers & Lybrand** has agreed to pay the Massachusetts Insurance Department \$3.75 million to settle all potential claims against the accounting firm arising from the failure of two American Mutual Insurance Cos. units, which it audited for eight years prior to the insurers entering into receivership in 1989. . . . **Skandia Insurance Co. Ltd.** has agreed to sell its Belgian subsidiary, L'Ardenne Prevoyante S.A. D'Assurances, to the Royale Belge insurance group. The sale price of the multiline insurer, which specializes in automobile insurance, was not disclosed. . . . **Milwaukee Insurance Group Inc.** intends to use the proceeds from a public offering of 1 million common shares at \$12.75 each to increase the capital and surplus of its property/casualty subsidiaries. . . . Lawmakers hammering out **workers comp reform legislation** in California, have voted to limit costly medical-legal reports to one performed by the treating physician and one on appeal. That decision will be sent to Gov. Pete Wilson's desk when the committee agrees on a comprehensive package. . . . A **severe weather system** generating wind, hail and tornadoes wrought an estimated \$55 million in insured property damage to portions of Kansas, Nebraska, Oklahoma and South Dakota June 23-24. It was assigned Catastrophe No. 59 by the Property Claim Services division of the American Insurance Services Group. **BI**

## Update

### Speculation over Pru Re buyer

Continued from page 2

one's talking about the fact that Employers Re is in there doing due diligence," said one observer.

Tom Case, chairman, president and CEO of Employers Re, which is a General Electric Co. unit, said, "Even if I were involved in something, I couldn't make any comment on that." A Pru Re spokesman also had no comment.

Pru Re is largely a broker market, while Employers Re is primarily a direct market. There is speculation that GE may be interested in a role in both aspects of the business.

### Fraud probe of Gooda Walker

LONDON—The United Kingdom's Serious Fraud Office is investigating allegations of fraud at managing agency Gooda Walker Ltd.

The fraud office will probe allegations that Gooda Walker misused time-and-distance reinsurance policies to overstate profits. Exaggerated profits allegedly enabled the syndicates to expand their capacity in the 1980s and are partially blamed for Gooda Walker syndicates' combined losses between 1987 and 1990 of about 900 million pounds (\$1.35 billion).

The probe was prompted by an earlier report by Randall Insurance Services Ltd. about the syndicates' use of time-and-distance policies. Lloyd's, which had requested the Randall report, also will give investigators the findings of its own investigation of Gooda Walker.

Gooda Walker names who are suing over their losses have been invited, along with other members' action groups, to submit their claims by July 23 to a Lloyd's panel that is investigating a possible solution to marketwide litigation.

### Judge denies PRUPAC motion

TALLAHASSEE, Fla.—Prudential Property & Casualty Insurance Co. has lost the first round of its fight to be exempted from a Florida moratorium on non-renewing homeowners insurance policies.

PRUPAC claimed that another storm of the magnitude of Hurricane Andrew—which cost the insurer \$1.3 billion—would wipe out the company (BI, July 5).

U.S. District Judge Maurice Paul wrote in his July 15 ruling that the insurer "has not demonstrated that Andrew II will occur at any time in the foreseeable future."

Rather than non-renew 25,000 homeowners policies in South Florida, PRUPAC should shift money from other states to absorb losses from another storm, Judge Paul wrote.

His denial of PRUPAC's emergency motion paves the way for a full trial. He gave the parties until July 23 to submit suggested resolutions to the dispute.

PRUPAC's petition to be exempted from the moratorium by the Department of Insurance is still pending, along with dozens of other insurers' petitions. Florida Insurance Commissioner Tom Gallagher recently granted PRUPAC a 21% rate increase.

### Briefly noted

**Empire Blue Cross & Blue Shield** last week dismissed Jerry Weissman as chief financial officer, David Sanders as chief actuary and Sharon Schermer as director of statistical analysis for their role in destroying documents related to false state filings (BI, June 21). . . . Four farmers and growers suing DuPont for damage allegedly caused by **fungicide Benlate DF** disclosed at trial in Columbus, Ga., that they are seeking total damages of \$450 million, including \$400 million in punitive damages (BI, June 28; June 21). . . . The Clinton administration last week approved a demonstration project that will integrate the Medicaid program in Hawaii with two state-funded programs for the uninsured to form a giant **health care purchasing pool**. The pool will seek bids from managed care plans. . . . Northrop Corp. was awarded \$18.7 million in damages after a Los Angeles Superior Court jury last week found that American Motorists Insurance Co. acted in **bad faith in denying pollution coverage** for a Norwood, Mass., site. American Motorists, a Kemper Corp. unit, says it will appeal. . . . The Connecticut Insurance Department has approved **workers comp premium reductions** of 17.5% for the voluntary market and 20.9% for the assigned risk market effective July 1. . . . The Alyeska Pipeline Service Co., a consortium of seven oil companies that operates the Trans-Alaska pipeline, will pay \$98 million to thousands of villagers and fishermen in compensation for pollution damage after the 1989 **Exxon Valdez oil spill**. Exxon Corp., one of Alyeska's owners, still faces litigation stemming from the spill. Plaintiffs claimed Alyeska's response to the spill was inadequate. . . . **FMC Corp.** has won a \$1.4 million bad faith judgment in California state court against Liberty Mutual Insurance Co., plus coverage for environmental cleanup at three sites. . . . A federal judge in Rochester, N.Y., last week reduced a jury award against **Teledyne Inc.** to \$1.1 million from \$107.3 million for damages in a 1986 airplane crash that killed a family of four (BI, March 1). . . . In a decision seen as a blow to businesses and insurers seeking caps on punitive damage awards, the California Supreme Court last week unanimously dismissed two cases **challenging punitive damage awards**. . . . A Los Angeles Superior Court judge dismissed a felony charge against **Links Marine Inc.** in the first prosecution under California's Oil Spill Prevention and Response Act (BI, Jan. 13, 1992). . . . Norwegian insurer **UNI Storebrand** began writing insurance July 13 after being provisionally released from government administration. . . . **Gerard T. Tanella** has joined G.L. Hodson & Son Inc. as senior vp. He previously was managing director of Guy Carpenter & Co. Inc. . . . **PepsiCo Inc.**, uninsured for losses from a product tamper scare last month (BI, June 21), saw higher sales in the week after the scare was discredited than before tampering reports arose.





*Each year, in late October, Canada Geese sense the onset of winter and begin their seasonal migration southward. This journey takes some of the geese over 2,000 miles in search of the warm marshes that will sustain them through the winter.*

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