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Updates

Louisiana to appeal ruling on risk retention groups

BATON ROUGE, La.—The Louisiana Department of Insurance will appeal to the 5th U.S. Circuit Court of Appeals a federal court ruling that dismissed a Louisiana law that set numerous standards for risk retention groups licensed in other states seeking to do business in Louisiana.

Under that law, Louisiana required RRGs licensed in other states to maintain at least $5 million in capital and surplus, post a $100,000 bond or cash deposit and pay a $1,000 fee before operating in Louisiana.

See **Updates** *on next page*

It's summertime and the buyin' is easy

By MICHAEL BRADFORD and MICHAEL SCHACHNER

Risk managers are finding some cool summertime deals on insurance renewals.

At midyear, prices for property/casualty coverages are slightly lower for many risks than in 1995. And where prices are higher, the increases generally are not enough for buyers to cry foul.

Risk managers report

"Insurers are trying to hold on to their market share and there's significant capacity," said Christopher I. Johnson, director-risk management with the Campbell Soup Co. in Camden, N.J.

"Overall," he added, "the market's softer than a year ago. There have been some important mergers and acquisitions and it seems like those involved want to make things work."

With insurers in the mood to make things pleasant for risk managers and hang onto their accounts, even the price for traditionally expensive earthquake insurance is starting to show some cracks.

Most prices lower than in '95

"It's still a seller's market and insurers are reserved in providing capacity," said Mr. Johnson. But, he added, the earthquake market is beginning to shake loose and "it's better than a year ago or two years ago when there was some capacity restrictions."

Other risk managers agree.

"From all indications, the market is softening, particularly for California earthquake," said David Hennes, manager-corporate risk and insurance at The Toro Co., the Bloomington, Minn.-based outdoor power equipment manufacturer.

For 10 of Toro's major locations nationwide, earthquake and other property renewals are due to be completed by Aug. 1 and Mr. Hennes said he expects the entire program to be around 20% cheaper than last year.

"Earthquake coverage tends to drive our program," he said, though it is unclear exactly how much of the 20% reduction is due to cheaper earthquake insurance.

Toro's property coverage currently is led by Industrial Risk Insurers and "that probably will continue," said Mr. Hennes.

Patrick Reid, supervisor of insurance and risk management at St. Louis Public Schools, worried that the threat of earthquakes and flooding, combined with $300 million of added values from renovations and new buildings, might drive the cost of property coverage much higher this year.

But, in the soft market, the cost rose only slightly for the coverage, he said. "I'm happy, reasonably."

The school system's boiler and machinery coverage, written by Commercial Union Insurance Co., also saw only a slight premium increase.

Bose Corp., the high-fidelity speaker and sound system

See **Buyers** *on page 15*

P/C insurers vie on rates, terms

Competition high for most lines

By MARK A. HOFMANN and ROBERTO CENICEROS

Heated competition isn't confined to the Olympic Games in Atlanta this summer.

There's also plenty of competition in a more familiar venue—the commercial property/casualty insurance market. Still mired in a soft market that's nearly a decade old and which stubbornly refuses to show any significant sign of hardening, insurers continue to slug it out like Olympic boxers.

Insurers report

With few exceptions, rates for most types of coverage remain flat or even slightly below those of a year ago, say underwriters. Risk managers continue to push for—and receive—more favorable terms and conditions, most notably multiyear programs.

It's "still extremely competitive," said John Cavorees, chief underwriting officer of Chubb Corp. in Warren, N.J.

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Soft market firmly in place

Buyers hold cards, brokers say

By RODD ZOLKOS and SALLY ROBERTS

With commercial property/casualty insurance markets as competitive as ever, customers hold the high cards in midyear renewal negotiations, brokers say.

Brokers report

But, while it may appear counterintuitive on the surface, even with a property/casualty market as soft as brokers say they've ever seen it, many clients still are examining alternative risk transfer arrangements or looking to craft multiyear, multiline programs.

"The only trend that I can see that is a little different is just about anything is on the table," said Charles L. Ruoff, executive vp at Sedgwick James Inc. in New York. "The market is as soft as I can recall it ever being."

"I think the market is softening in all areas faster than our expectations," said Rob Meyers, senior vp and property practice leader at Johnson & Higgins in New York.

"The competition has never been fiercer," said Lawrence

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Health market competitive, but rates varied

By ROBERT KAZEL and JUDY GREENWALD

As the health insurance market continues to consolidate, competition among the remaining players is turning feverish.

However, not all buyers are seeing those trends translate into immediate benefits in pricing, particularly employers that saw sizable rate decreases a year ago.

Health care report

Indeed, the combination of consolidation and competition is making health insurance prices highly variable by region—and even within markets—and therefore more difficult for employee benefit managers and consultants to track.

"It's all over the lot," Dr. David Friend, global director of health care consulting in the Wellesley Hills, Mass., office of Watson Wyatt Worldwide said of health insurance pricing. "There's no trend right now. Here's the trend: Better educated people are getting maximum value from the vendor."

Despite the difficulty in generalizing where rates are headed, several consultants see market conditions generally favoring corporate buyers, especially those employers offering tightly run managed care plans.

For companies renewing health policies at mid-year, Lyndhurst, N.J.-based Alexander & Alexander Consulting Group expects rates to remain flat for health maintenance organizations, and sees increases of 4% for point-of-service plans, 7% to 8% for preferred provider organizations, and 11% to 13% for unmanaged traditional indemnity plans.

"It's a very soft market and the vendors are working to keep the covered lives they've got, and they don't want to risk losing it by getting too greedy," said Randall Abbott, managing director of A&A

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Second-guessing over EMLICO move. Page 2

California bars a surplus lines insurer. Page 2

Domestic violence enters the workplace. Page 3

Updates

Louisiana appeals RRG ruling

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But U.S. District Court Judge John Parker struck down the law, as well as certain Louisiana RRG application procedures, saying they were pre-empted by the federal Risk Retention Act, which, he said, leaves regulation of the groups to the state in which they are chartered (*BI*, June 10).

RRG advocates say Louisiana's decision to appeal will give a higher court an opportunity to affirm the one-state licensing and regulatory framework established by the Risk Retention Act.

"We welcome the opportunity for a higher court to establish a precedent, which will provide an even stronger mandate for non-domiciliary states to obey in regulating risk retention groups," said Jon Harkavy, vp and general counsel with USA Risk Group in Washington, an RRG and captive manager.

But Louisiana Insurance Commissioner Jim Brown said if the lower court decision is allowed to stand, it would mean that other states would be "unduly dependent" on the regulation of the RRG's chartering state.

Massachusetts health reform

BOSTON—The Massachusetts Senate this week is expected to vote on a House-passed bill that would repeal the state's controversial—though never implemented—"pay or play" health care law.

Under that 1988 law, employers are liable each year for a $1,680 per employee tax. But that tax is offset by each dollar an employer spends on its group health insurance program. Legislators have delayed implementation of the law several times before because of opposition from small employer groups. Without another delay or repeal, the law is scheduled to go into effect on Aug. 1.

Aside from repealing the pay or play law, the measure before the Senate would also add a new prescription drug program for the low-income elderly and expand eligibility for Medicaid coverage for children in lower-income families. These new programs would be funded by a 25 cents per pack increase on cigarettes.

Firms to improve plan funding

WASHINGTON—Two merging companies—Hayes Wheels International Inc., of Romulus, Mich., and MWC Holdings Inc., parent of Motor Wheel Corp. of Okemos, Mich.—will contribute about $54 million over the next three years to their underfunded pension plans as part of an agreement with the Pension Benefit Guaranty Corp.

Using PBGC actuarial assumptions, the Hayes plans are about 52% funded with about $37 million in unfunded liabilities, while the Motor Wheel plans are about 59% funded with about $42 million in unfunded liabilities.

At the end of three years, the Hayes plans will be almost fully funded, while Motor Wheels' plans will be almost 70% funded.

In return for the contributions from the two companies, the PBGC agreed not to terminate the plans.

Reliance strengthens reserves

NEW YORK—Reliance Insurance Co. is adding to its asbestos and pollution loss reserves to bring its total net reserves for these losses up to $226 million.

The additional $134 million should place Reliance above most insurers struggling with old liability claims, a rating agency analyst said.

The addition was made after an extensive internal review of reserve levels, said Saul P. Steinberg, chairman and chief executive officer of Reliance Group Holdings in a statement.

"We want to put this issue, which has affected much of the property and casualty insurance industry, behind us," he said.

The extra reserves put Reliance in a better position than many of its competitors, said Jonathan Godown, an analyst at Standard & Poor's Corp. in New York.

S&P confirmed its A rating of Reliance.

DuPont loses Benlate verdict

MIAMI—A Florida state court judge last week entered a default judgment against E.I. du Pont de Nemours & Co. Inc. in a Benlate product liability trial, ruling that the chemical giant and its lawyers disregarded court orders and rules of evidence and ethics.

Circuit Judge Amy Steele Conner fined DuPont $20,000, the third time in the past two years that the company has been fined for allegedly suppressing evidence related to the testing of its Benlate DF fungicide.

The default judgment paves the way for a jury to consider damages due Davis Tree Farms, which used Benlate at two large nurseries it owned in Florida.

Frank R. Rodriguez, an attorney with Friedman, Rodriguez, Ferraro & St. Louis in Miami, which represents Davis Tree Farms, said it is seeking $54 million in actual damages, but because of the default ruling, is entitled to as much as $162 million more in punitive damages.

Mr. Rodriguez said he was informed by a Costa Rican botanist that DuPont performed tests in that country in 1992 that resulted in plants dying four weeks after Benlate exposure.

Mr. Rodriguez said DuPont thwarted his efforts to get more information about the tests.

For its part, DuPont denied performing such tests. A jury trial to determine damages should begin within the next month. DuPont said it will appeal at the appropriate time.

DuPont is currently appealing nearly $140 million in fines leveled by a federal judge in Georgia and a state court jury in Hawaii (*BI*, Aug. 28, 1995; Jan. 23, 1995).

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Regulator changes tune

EMLICO would have been blocked if full info provided: Official

By DOUGLAS McLEOD

BOSTON—The testimony could not have been what Electric Mutual Liability Insurance Co. wanted to hear: A Massachusetts Insurance Division official having second thoughts about approving EMLICO's controversial 1995 move to Bermuda.

In a statement that jolted a packed hearing room last week, Assistant Insurance Commissioner Kevin McAdoo said he probably would not have OK'd the move if he had known EMLICO planned to change its reserving practices for huge General Electric Co. pollution claims—a change that helped trigger EMLICO's $500 million insolvency only months after the move.

"Had I determined that EMLICO was insolvent prior to the redomestication," he added, "I would have recommended that the company be placed in liquidation. . . .(and) my support of the petition to redomesticate would have been withdrawn."

Lawyers for EMLICO and its reinsurers clashed over the impact of the testimony, as they did over virtually everything else in a bruising three-hour hearing on whether the insurance division should reconsider its approval of EMLICO's move.

Reinsurers charged that EMLICO knew it was insolvent long before the move and concealed the fact in a scheme to dump GE's massive asbestos and pollution losses on reinsurers under creditor friendly Bermuda liquidation laws.

Kemper Reinsurance Co. cited

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California bars surplus insurer after rejecting assets, reinsurance

By MEG FLETCHER and JOANNE WOJCIK

SAN FRANCISCO—California regulators have barred surplus lines brokers from placing business with Chicago-based Alpine Insurance Co. after finding the insurer technically insolvent.

That finding is based on a department audit that disallowed several of Alpine's assets, including reinsurance placed with its parent, a syndicate on the Illinois Insurance Exchange that ceased writing business last month. The audit was prompted by Alpine's request for authority to write additional lines of business in California.

Robert J. O'Shaughnessy, chairman and chief executive officer of Exstar Financial Corp. in Solvang, Calif., which owns Alpine and its immediate parent, Transco Syndicate #1 Ltd., said he believes the department's assessment of Alpine's financial health is "incorrect."

Alpine last week failed to obtain a temporary restraining order against California Insurance Commissioner Chuck Quackenbush after the department removed the company from the state's List of Eligible Surplus Lines Insurers, or LESLI, on June 24. The department subsequently asked the Surplus Line Assn. of California to advise all surplus lines brokers in the state not to place California business with the insurer.

At a hearing scheduled for July 3 in San Francisco Superior Court, the insurer will again seek to halt the department's action, said Mr. O'Shaughnessy.

Regulators in Illinois, where Al-

See **Alpine** *on page 47*

Court erodes product defense

By MARK A. HOFMANN

WASHINGTON—Manufacturers of certain medical devices will face expanded product liability exposures because of a U.S. Supreme Court decision issued last week.

But how much greater an exposure—and whether that expanded exposure will impact other industries subject to federal regulation—remains unclear and is unlikely to resolved for some time.

The court ruled unanimously in *Medtronic Inc. vs. Lohr* that the 1976 Medical Device Amendments to the Food, Drug and Cosmetics Act do not provide the makers of certain regulated medical devices blanket immunity from state product liability suits. Lower courts had offered conflicting interpretations of the amendments' pre-emption of state tort law.

The Health Industry Manufacturers Assn. issued a statement saying that the decision "may represent a potential step backwards for medical device innovation."

"Unfortunately, today's decision may have the immediate impact of subjecting medical device companies to a confusing maze of differing state product liability tort laws," said Alan H. Magazine, president of the Washington-based trade group.

The case began in 1990, when Lora Lohr's pacemaker failed and she underwent emergency surgery. Her doctors attributed the failure

See **Medtronic** *on page 4*

Clinton family leave proposal

More unpaid leave, comp time sought

By MARK A. HOFMANN

WASHINGTON—Borrowing ingredients from the Republicans and adding a sweetener of his own, President Clinton has come up with a new recipe for an improved Family and Medical Leave Act.

But various interest groups that have digested the proposal aren't certain it's entirely palatable.

President Clinton offered his refinements to the Family and Medical Leave Act early last week when he called on Congress to enact legislation that would grant employees an additional 24 hours of annual unpaid leave to tend to such matters as parent-teacher conferences. The president also called for changes in the Fair Labor Standards Act to permit hourly employees covered by the law to take up to 80 hours of compensatory time per year—in lieu of overtime pay—at the rate of 90 minutes of comp time to one hour of overtime worked.

Democrats issue "Families First" action plan.....Page 44

Meanwhile, the House Economic and Educational Opportunities Committee voted last week in favor of H.R. 2391—the Working Families Flexibility Act—which would provide much of the

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- "Living benefits" can be a comfort to employees, Dennis Nirtaut writes in Ask A Benefit Manager. **PAGE 28**
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Battling the odds to prove fraud in work comp case

By MEG FLETCHER

McHENRY, Ill.—Was Robert Scott Schemmel of McHenry, Ill., riding in a dune buggy or moving boxes at his father's worksite when he nearly severed the ring finger of his left hand in an April 1994 accident?

Those inconsistent stories are at the heart of a workers compensation fraud case that was recently settled after two years, with his father pleading guilty to misdemeanor insurance fraud.

This case—which could have cost the insurer $250,000 and hiked workers comp premiums for the employer—illustrates many of the issues that can make workers comp fraud so challenging for insurers to prosecute.

Fraud is a big-ticket item for the insurance industry, costing about $5 billion annually, according to the National Insurance Crime Bureau in Palos Hills, Ill.

Fraud can be perpetrated by claimants who file bogus claims, by employers who falsely report lower payroll to reduce their premiums and by doctors or lawyers who conspire to bill insurers for nonexistent or exaggerated medical treatments.

Obtaining a negotiated guilty plea in this claimant-related case took commitment from insurer representatives, law enforcement personnel and local prosecutors, who worked together to obtain what was the first felony indictment under Illinois' 3-year-old insurance fraud law.

It also took the support of the public—in the form of the grand jury—to help an insurer faced with an unjustified claim to pursue justice, rather than just foot the bills. That doesn't always happen because insurers aren't often viewed sympathetically as victims.

Illinois law enforcement officials' growing sophistication with workers comp fraud cases has led to additional indictments in McHenry, Kane and McLean counties, which have been coordinated by the National Insurance Crime Bureau, said Samantha R. VanDenburg, an NICB special agent based in Naperville.

This case began because Robert Scott Schemmel, 20, told medical personnel at two hospitals that his injury occurred in a rollover of an all-terrain vehicle, several investigators alleged.

He told that story at Northern Illinois Medical Center in McHenry, where he was first treated for an "avulsion," in which extreme pressure on a large, high school ring caused it to cut through a finger, nearly tearing it from his left hand, they allege. Investigators allege he repeated the same story to hospital personnel at Froedert Hospital in Milwaukee, where he was airlifted by

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Measuring quality of care

Ellwood group creates new tools to compare treatments

By ROBERT KAZEL

PORTLAND, Ore.—A year after its creation, the Foundation for Accountability, a group created by managed care pioneer Dr. Paul Ellwood and spearheaded by employers, last month presented its first set of health care quality measures.

FACCT also created some discord, as executives of a leading health plan accreditation organization asked if the year-old Portland, Ore.-based foundation planned to compete or cooperate with the agency's own quality-rating activities.

FACCT released three preliminary lists of performance measures for three specific illnesses: diabetes, breast cancer and major depression. FACCT's leaders say their intention was to present standards that are simple and straightforward.

For breast cancer, six quality measures are to be collected solely based on responses women would make on yearly questionnaires. Areas to be queried are satisfaction in getting an appointment for care and actually getting care, satisfaction with providers' skills and choice of doctors, satisfaction with treatment, willingness to recommend the health plan to others and overall satisfaction.

In the case of major depression, patients would complete a questionnaire when diagnosed and again six months afterward. Areas of inquiry would be patients' feeling of rapport with the provider and ability to get care, satisfaction with the respect shown to the patient by providers, providers' skill and responsiveness, satisfaction with treatment, whether the depression has improved significantly after six months and how well they are coping socially and emotionally after treatment.

These are early, general guidelines, for which detailed technical specifications will be released this summer, said Dr. Larry Hipp, corporate medical director of Basking Ridge, N.J.-based telecommunications giant AT&T, who serves on the FACCT board.

"This is the first step and it's a good step," Dr. Hipp said.

The foundation is considering several other medical conditions for which it would release quality

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Employers see value in work/family benefits

By SALLY ROBERTS

Employers cannot successfully compete in the '90s without addressing work/life needs and diversity issues.

That conclusion was reached by 86% of more than 800 employers responding to a new work/life and diversity initiatives survey to be released later this month by New York-based benefit consulting firm William M. Mercer Inc. Eighty percent of the employers surveyed have more than 1,000 employees.

While unable to quantify any findings, more than 50% of the responding employers also said they believe work/life programs have a positive impact on employee morale, attendance and productivity.

Additionally, the employers said work/life programs are an important benefit that aids in recruiting new employees. Among the most important issues for recruiting is flexible scheduling, employers said.

As the workforce becomes more diverse and as employers continue to seek to recruit qualified employees who are not available to work traditional hours, flexible arrangements have become more important, said Rich Federico, a Mercer associate in Stamford, Conn.

Employees also are demanding flexible scheduling, he said. "Once people are introduced to it and change jobs, they want the same benefit from their new employers."

According to the survey, 79% of the respondents have a formal part-time scheduling program as part of their standard written policies. Thirty-eight percent offer flex time, 34% offer compressed work weeks, 26% offer job sharing and 17% offer telecommuting.

As an informal program—or on a case-by-case basis—17% said they offer part-time schedules, 53% offer flex time, 26% offer compressed work weeks, 24% offer job sharing and 32% offer telecommuting.

The survey found a "slow but steady growth" in other work/life initiatives, Mr. Federico said.

For instance, 73% of the survey

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Insurer under fire for private investigation of JUA chief

By MICHAEL BRADFORD

TALLAHASSEE, Fla.—Executives of a Florida insurer that hired an investigator to look for dirt on a state regulator have to explain their actions to the Florida Insurance Department.

Florida Treasurer and Insurance Commissioner Bill Nelson ordered the July 15 hearing and issued a subpoena for all records related to Bankers Insurance Co.'s use of a private investigator to shadow Kevin McCarty, the former supervisor of the state's Joint Underwriting Assn. for homeowners.

Separately, the JUA is reconsidering bids from reinsurance brokers after the facility's initial choice was challenged.

St. Petersburg, Fla.-based Bankers Insurance has acknowledged that it asked an outside attorney to hire a private investigator to gather information on Mr. McCarty in the hopes that the insurance commissioner could be convinced to fire the head of the homeowners JUA.

"We were looking for any information that might support conflicts of interest or any illegal activity" on Mr. McCarty's part with regard to how he dealt with Bankers, said David K. Meehan, Bankers' president.

To gather the information, Bankers general counsel Chris Delano directed an attorney to hire a private investigator to place Mr. McCarty under surveillance, Mr. Meehan said.

No illegal activity was uncovered, Mr. Meehan said.

Meanwhile, private investigator Peter Ray Rayner pleaded guilty last month in U.S. District Court to using an illegal wiretap to bug Mr. McCarty's home phone. Mr. Rayner indicated that no one else knew of or was involved in the illegal activity.

The plea, along with polygraph test results that indicated the attorney who hired Mr. Rayner did not know of the

See **Florida** *on page 43*

When violence follows employees to work

Domestic violence creates exposures for employers

By JUDY GREENWALD

Men who stalk and ultimately kill their girlfriends or wives are a potential workplace threat that is increasingly being recognized by employers, but there is still a long way to go to adequately address the issue.

Some employers still appear unaware of the danger of personal domestic problems spilling over into the workplace, while others are unduly concerned about invading their employees' privacy, experts say.

But there is a real need for employers to help employees in this area. Thirty-five women were killed by a husband, ex-husband, boyfriend or ex-boyfriend while at work in 1994, up from 26 in 1993, according to the most recent data available from the Bureau of Labor Statistics. And this does not reflect non-fatal assaults.

"We're seeing a growing number of domestic problems spilling into the workplace," said Gene Sawyer, director of security for Motorola Inc.'s semiconductor products unit in Phoenix. "That, I think, is just a reflection of society itself."

In many cases, this threat arises simply because the workplace is where the targeted women can be found, according to experts. A woman in an abusive situation can move into a shelter or change her phone number, but she still spends eight hours a day in the workplace. For that reason, "the spouse will focus a lot of the time on the workplace because they know that's where they can locate the other party," said Robert Sypult, corporate security director for Edison International Co., based in Rosemead, Calif.

While domestic violence by women against men and by those in single-sex relationships is possible, as well, the vast majority of incidents involve women who are

See **Violence** *on page 35*

Keeping personal perils out of the workplace

Stay alert: Train supervisors to spot signs of domestic abuse, unusual absenteeism, tardiness, or inappropriate clothing, like long sleeves in hot weather.

Be informed: Encourage employees to make a company official aware of restraining orders and other domestic abuse situations.

Guard the premises: Restrict access and implement closed-circuit television or other security systems.

Offer extra protection: Escort at-risk employees to their cars and provide other enhanced safety measures for those workers.

Do anything necessary: In extreme cases, arrange for an employee's transfer to another location.

GRAPHIC BY JERRY PARKS

Medtronic

Continued from page 2

to a defect in the lead wire that delivered an electrical impulse to her heart. She and her husband sued Minneapolis-based Medtronic, which had manufactured both the pacemaker and the lead wire, under Florida product liability law.

But a federal district court judge ruled that the Florida law was pre-empted by the 1976 Medical Device Amendments to the Food, Drug and Cosmetics Act. The amendments were designed to provide a balance between public health and the possibility that unnecessary state regulations would stymie medical innovation.

In the amendments, medical devices fall into three categories, based on the risk they present. Class III devices, which include pacemakers, are subject to a rigorous premarket approval process. But products in use before 1976 are allowed to remain on the market without going through the Food and Drug Administration's most rigorous testing process, as are devices deemed to be "substantially equivalent" to existing devices. The pacemaker in question was considered to be "substantially equivalent."

The amendments hold that "no state or political subdivision of a state may establish or continue in effect with respect to a device intended for human use any requirement (1) which is different from, or in addition to, any requirement applicable under (the amendments) to the device, and (2) which relates to the safety or effectiveness of the device or to any other matter included in a requirement applicable to the device under (the act)."

The 11th Circuit U.S. Court of Appeals reinstated part of the Lohrs' suit, holding that the amendments did not pre-empt the Lohrs' claims that the product suffered from a defective design, though their claims that the manufacturer had failed to provide adequate warning of the product's risks and that the product suffered from faulty manufacture were pre-empted.

Both sides petitioned the Supreme Court for review.

The Supreme Court held unanimously that the amendments did not pre-empt the design defect claims but split 5-to-4 on the pre-emption of the other claims, with the majority holding that they were not pre-empted.

"Under Medtronic's view of the statute, Congress effectively precluded state courts from affording state consumers any protection from injuries resulting from defective medical devices," wrote Justice John Paul Stevens for the court. He called that argument "implausible."

Justice Stevens further noted that the presence of a damage remedy in state law does not constitute an additional or different "requirement," such as that prohibited by the amendments. Instead, "it merely provides another reason for manufacturers to comply with identical existing 'requirements' under federal law," he wrote.

The court of appeals also should have rejected Medtronic's pre-emption claims regarding manufacturing and labeling, wrote Justice Stevens.

In a dissent in which she was joined by Chief Justice William Rehnquist, and Justices Antonin Scalia and Clarence Thomas, Justice Sandra Day O'Connor held that the "term 'requirement' encompasses state common-law claims. Because the statutory language does not indicate that a requirement must be 'specific,' either to pre-empt or be pre-empted, I conclude that a state common-law claim is pre-empted if it would impose 'any requirement' 'which is different from, or in addition to,' any requirement applicable to the device under the FDCA," adding that she agreed that the design claim was not pre-empted.

"It clearly holds that for these types of devices, namely those that have been grandfathered or 'cleared' by the FDA, there is no pre-emption. However, there are categories of devices for which there will probably be limited pre-emption," said Bob Charrow, a former federal official and expert on medical device law who is currently of counsel to the Washington law firm Crowell & Moring.

"For example, if a device is approved by the FDA and as part of that approval the FDA requires the manufacturer to use specific words in its label, as is frequently the case, then a failure to warn claim would likely be pre-empted," said Mr. Charrow, who'd written a brief in favor of Medtronic's position.

Mr. Charrow cautioned against reading the decision too broadly, particularly in regard to other industries that enjoy some federal protection from state product liability laws.

"Each statute has to be taken on its own. You have to do it case by case. Obviously Supreme Court decisions, like the Bible, are frequently given an expansive reading, but I think in this case, a more rigid gloss is warranted," he said.

Ann Gosier, executive director of the Arlington, Va.-based Product Liability Coordinating Committee, which supports enacting a uniform federal product liability code, also advised caution. The decision "needs further clarification about what they mean about specific regulation governing a specific product" before the scope of the ruling is clear.

But an attorney who helped prepare the Lohrs' case has little doubt that the decision's impact will be felt beyond pacemakers. For example, "breast implants are directly affected because they are medical devices," subject to FDA regulation, said Allison Zieve, staff attorney with Public Citizen Litigation Group in Washington.

"As for other products, there are products that are regulated by other statutes that have pre-emption provisions similar to the provision of the medical device law. Those are the statute, for instance, that covers pesticides, or the statute that covers hazardous substances. Manufacturers of those products have been making over the past few years the same argument that the manufacturer in Medtronic made, and they have been largely successful in the lower courts. I would expect that the Lohr decision will have an effect on the success of the pre-emption argument in those cases," she said.

In another risk management-related case, the justices ruled that federal judges can reduce state jury awards under certain circumstances without violating the Constitution's Seventh Amendment guarantee of jury trials.

The case, *Gasperini vs. Center for Humanities Inc.*, involved a New York jury's decision to award Bill Gasperini, an independent journalist at the time, $1,500 each for 300 photographic slides—or a total of $450,000—that the center lost. In a 5-to-4 decision, the court said that federal judges, like state judges, have the power to reduce jury awards they regard as excessive.

•

Medtronic vs. Lora Lohr et vir, U.S. Supreme Court; No. 95-754. Decided June 26, 1996.

Gasperini vs. Center for Humanities Inc., U.S. Supreme Court; No. 95-719. Decided June 24, 1996.

...for assuring quality care and controlling the costs of Workers' Compensation, Group Health, Disability and Casualty claims.

GENEX SM

Managed Care Solutions

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ProVention Services
Injury Management Program
Pre-Certification
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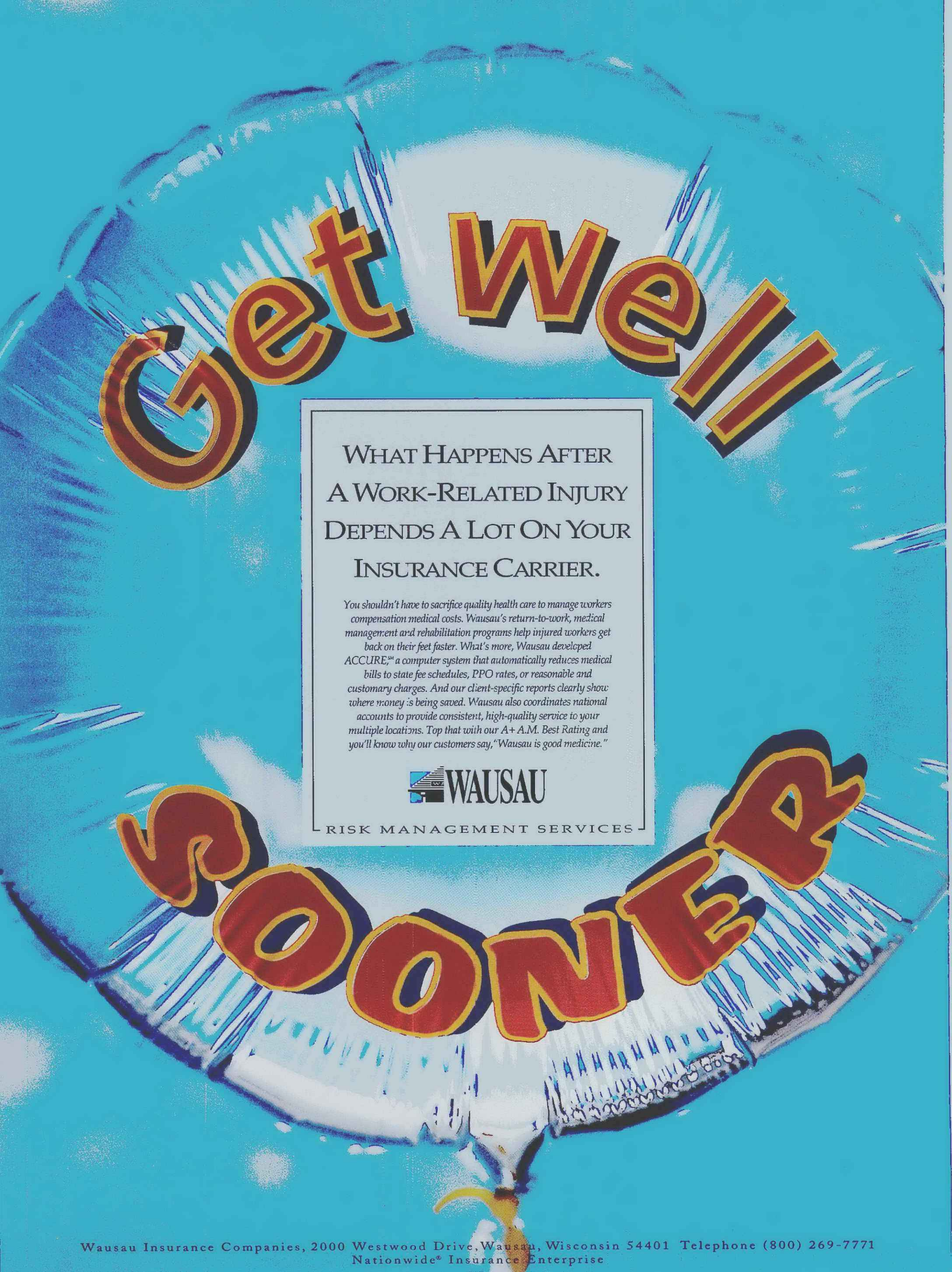
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California HMOs net good report cards

Benefit Beat

SAN FRANCISCO—The performance of 24 California health maintenance organizations has improved over last year, demonstrating the effectiveness of HEDIS report cards, a California health care purchasing coalition reports.

Those HMOs, which represent more than 95% of the commercial HMO membership in the state, improved in five key areas: childhood immunizations, cholesterol screening, breast cancer screening, diabetic retinal exams and first-trimester prenatal care.

The sixth area, cervical cancer screening, could not be compared with prior years because different methods were used to measure performance in this category, according to the report cards' sponsor, the California Cooperative HEDIS Reporting Initiative.

CCHRI is the first initiative in the nation to involve health care purchasers, health plans and providers in collecting and reporting health care quality data. For the past three years, these three groups have worked together to create health plan report cards using indicators from the Health Plan Employer Data and Information Set developed by the National Committee for Quality Assurance.

Data for the report, gathered by the MEDSTAT Group, an Ann Arbor, Mich.-based independent consulting organization with offices in San Francisco, was obtained by a review of about 32,000 medical charts from several thousand physician office locations around the state.

The report cards do not give actual rates of performance but instead rate plans as "above average," "average" or "below average." The plans' performance is compared with public health goals set by the federal government for the year 2000.

Aetna Northern California, Lifeguard and Kaiser Permanente of Northern California were among the plans with the most "above-average" ratings.

Both Aetna and Lifeguard were rated above average in childhood immunization, cholesterol screening and breast cancer screening, and average for prenatal care and diabetic retinal exams.

In the 1995 report card, Aetna North received above-average ratings for cholesterol screening and diabetic retinal exams but only average ratings in the other categories.

Lifeguard's 1995 report card included only average ratings for childhood immunization, cholesterol screening, prenatal care and diabetic retinal exams and below-average ratings for breast cancer screenings.

In the 1996 ratings, Kaiser North received above-average ratings in childhood immunizations, prenatal care and diabetic retinal exams.

But in the 1995 ratings, Kaiser received above-average ratings only for childhood immunizations and diabetic retinal exams, and only average ratings for cholesterol screening, breast cancer screening and prenatal care.

Other highly rated plans were:

- Health Net, which received above-average ratings for cholesterol screening, cervical cancer screening and prenatal care and average ratings for childhood immunization, breast cancer screening and diabetic retinal exams.

In 1995, Health Net received an above-average rating for diabetic retinal exams but only average ratings in the other categories.

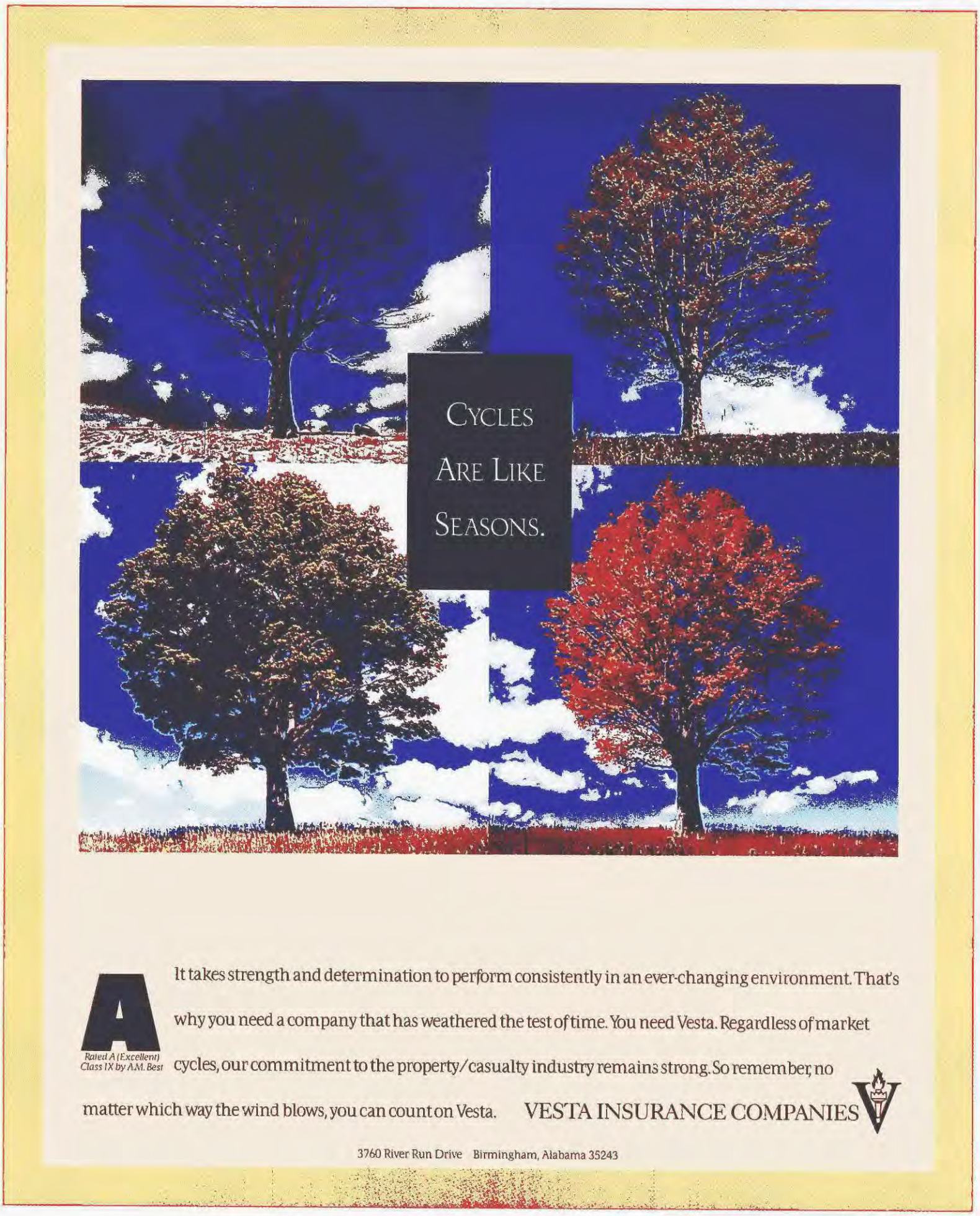
- Kaiser Permanente of Southern California, which received above-average ratings for childhood immunization and diabetic retinal exams and average ratings for the other categories.

In 1995, Kaiser South received above-average ratings for childhood immunization and diabetic retinal exams, average ratings for cholesterol screening and prenatal care, and below-average ratings for breast cancer screening.

- OMNI Healthcare, which received above-average ratings for cholesterol and breast cancer screening and average ratings for the other categories.

On the 1995 report card, OMNI received above-average ratings only for cholesterol screening, a below-average rating for childhood immunizations and average ratings in the other categories.

—By Joanne Wojcik



401(k) credit cards

COLUMBUS, Ohio—A trial program that will allow employees with a 401(k) plan to borrow from their accounts with a credit card is expected to be started this fall by Columbus, Ohio-based Banc One Corp., with an insurer waiting in the wings to market the program to benefit managers.

The bank, which announced it was exploring the idea last year, will let holders of the One Trust Card borrow up to 40% of their 401(k) plan vested balance, up to $10,000, said Karen Barrett, trust cards manager. A minimum of $1,000 must be in the account.

Cardholders could repay their balances to their 401(k) plans at the prime rate, with an additional 3% to 4% going to Banc One as an annual fee. To facilitate fast access to funds, the participant's line of credit will be kept in a separate money market or fixed-income fund.

Indianapolis-based American United Life Insurance, a leading manager of 401(k) plans, is preparing to make the cards available to participants in 9,000 plans this fall. Banc One will introduce the cards to its own employees in January.

The Internal Revenue Service still must give final approval to the program.

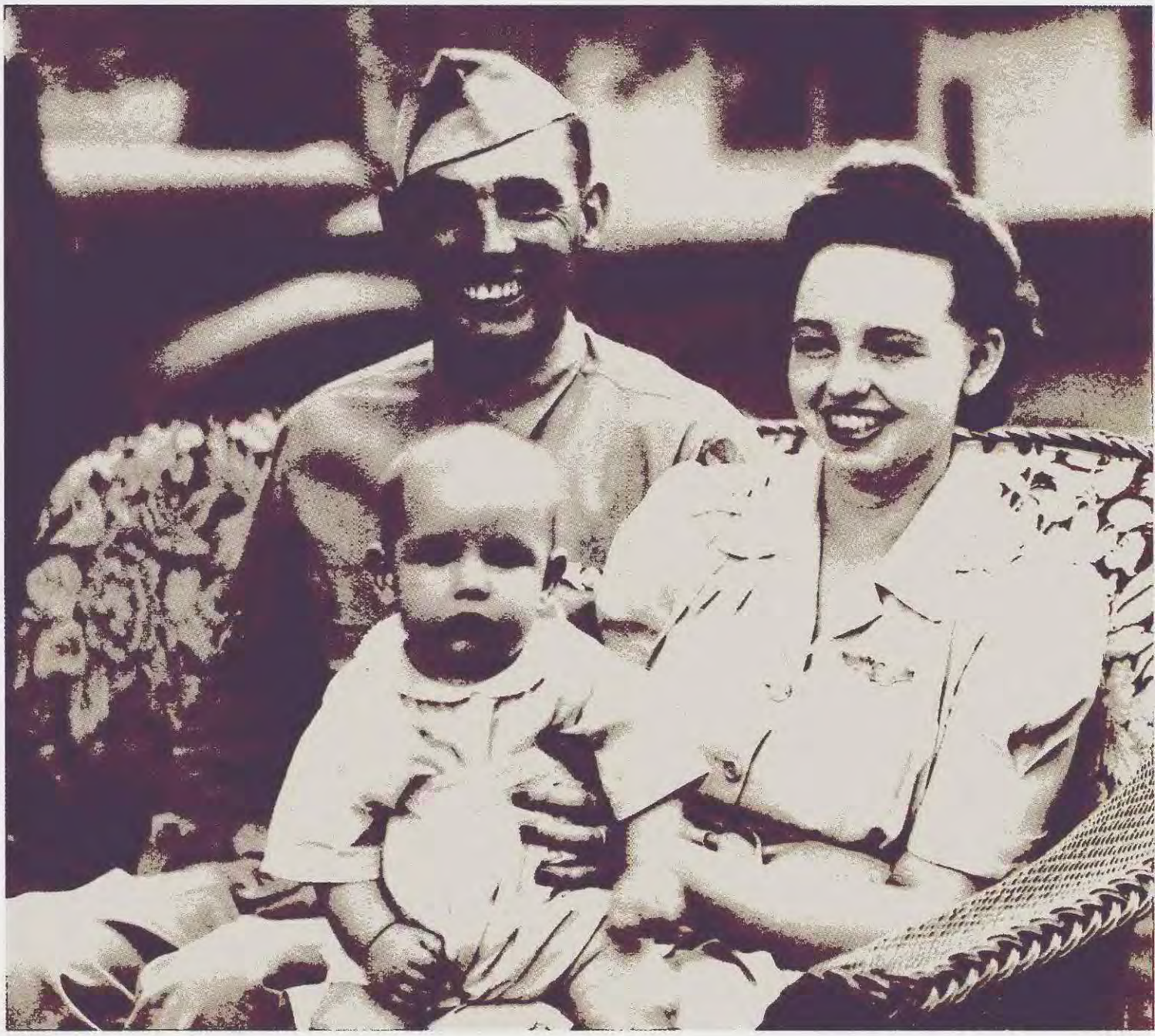
But approval is expected because the bank believes that it is not different from a 401(k) plan loan.

The proposed card has been criticized both by consumer advocates and financial analysts as opening retirement accounts to dangerously easy withdrawals.

However, Ms. Barrett said it will encourage young, lower-paid workers to save money. "It's a very strong product for increasing contribution participation levels," she said.

—By Robert Kazel

The **explosion** started *50* years ago.



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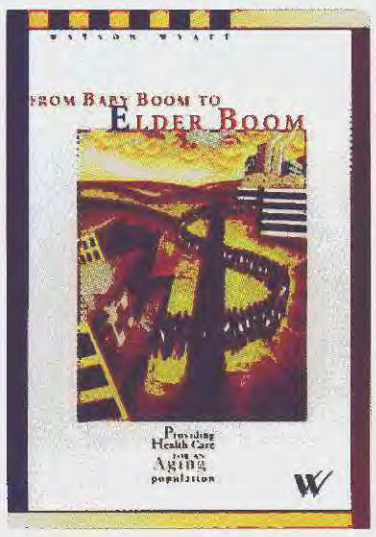
Fortunately, Watson Wyatt can help you take steps to offset this demographic shock wave.

Our new study, *From Baby Boom to Elder Boom,* is a good start. It looks closely at the factors behind rising health care costs and offers a range of solutions. We can also offer diagnostic tools that measure the elder boomers' impact on your company's bottom line, as well as entirely new ways of thinking about retirement strategies, plan designs, and funding methods.

For more information, call Watson Wyatt at 1-800-851-4346 and find out what you can do to keep the elder boom from turning into a bust for your company.



Learn why health care costs are rising and find out what your company can do about them in Watson Wyatt's newest 128-page study, *From Baby Boom to Elder Boom: Providing Health Care for an Aging Population*. The cost is $125 and comes with a free copy of *The Sleeping Giant Awakens*, our pioneering study about the impact that our aging workforce will have on retirement policy. To order, call 1-800-851-4346.

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Opinions

Outsourcing poses hazards

THE GROUNDING of ValuJet Airlines late last month is a grim illustration of the worst that can happen when a company outsources critical aspects of its business.

ValuJet, like many other airlines, hired outside contractors to perform its aircraft maintenance. This strategy was a key reason that the airline was able to keep its costs down and profits high.

But, while the cause of the airline's crash in the Everglades last month has not been firmly established, there is plenty of finger-pointing going on, including some aimed at the airline and its outsourcing arrangements.

Outsourcing, in which a company relies on outside contractors to provide certain services, is an increasingly popular strategy with U.S. businesses and is likely to continue to grow. It can include a hospital system contracting with a fast-food chain to provide arguably better food in its cafeteria, an automaker outsourcing various aspects of parts production or even an employer outsourcing pension plan administration.

The impetus for this sort of arrangement is lower costs and also much greater flexibility to adapt to market demands. Outsourcing can free up a company to concentrate on its core functions, but it doesn't free it from risk management duties.

When a company relies on an outside party for a service or product, then it has much less control over how that is delivered than if it performs the function itself. But it is still responsible for work performed on its behalf.

Therefore, it is necessary to exercise proper risk management to ensure any activity by the outside contractor doesn't blow up in the outsourcing company's face. This requires proper oversight of the contractor's activities by the company, constant communication between the two and adequate protection in case something goes wrong.

One of the biggest exposures created by these arrangements is, arguably, vicarious liability, in which a firm is held liable for losses caused by the outsourcing contractor.

In the event of a loss linked to an outside contractor, a company also can face D&O liability from its shareholders. A common claim might be that the company management was negligent for hiring the outside contractor or provided inadequate oversight. Just last week, ValuJet shareholders filed a lawsuit in Georgia state court against the airline and certain officers and directors, and SabreTech Inc., an outside maintenance contractor, alleging that the airline deceived shareholders about maintenance and safety issues. A similar lawsuit was previously filed following the May 11 crash.

A less tangible but potentially more devastating loss that could be created by outsourcing is a loss of reputation. In a disaster like a fire or tainted product, blaming a contractor will do little to allay public perceptions that your company is to blame. This could quickly translate into a lack of client and shareholder confidence.

This is what is happening to ValuJet. Even if the crash ultimately is proved to be an outside contractor's fault, the damage is done to ValuJet, since its name is on the planes. In fact, this is having a spillover effect on other airlines that outsource maintenance, as they are coming under increased scrutiny from the government.

There is nothing wrong with allocating corporate resources in the most efficient manner and saving money by using outsourcing to perform functions that are not part of its core business.

But it's still the company's name on its product, so companies must closely manage their outside contractors. If they don't, any savings derived from outsourcing could quickly evaporate.

Letters

Name's woes due to poor judgment

To the editor: The June 17 article on Robert Flesvig, "Name Takes His Case to Public," though sad, illustrates poor judgment gone wrong seeking someone else to bail him out.

Mr. Flesvig was seeking a higher return on his money through the process of becoming a Lloyd's of London name. When his losses outshined his return, he cried fraud.

This illustrates how easily members of our society sue each other when "something happens." People are quick to point at and blame others for their own stupidity or accidents.

Mr. Flesvig states that he is a MassMutual life insurance agent. MassMutual agents are very professional and I am sure that Mr. Flesvig is no exception.

My question to this professional insurance agent is: What part of the term "unlimited liability" did you not understand?

Mr. Flesvig then says that the hardship committee is a joke, yet he admits that he still has $20,000 in assets. I believe most people would understand the word "unlimited" to include that $20,000. It seems to me that the hardship committee was very kind.

There are two reasons that people become names at Lloyd's: a great return of money and/or the fanfare that comes from telling people that you are a name.

Mr. Flesvig says he was only after a 7% return. This could have been accomplished in many savings or money market accounts. Lloyd's names have in the past received as much as 30% return. Therefore, he was either after a much higher yield than he admitted or his vanity got in the way.

Any high-yielding investment can sour. That is what happened to junk bonds and other speculative investments.

With all of the current discussions about Lloyd's, there is another point to remember. As a name, you are more than an investor; you are an insurer. The real story is how these insurers are trying everything to get out of paying claims.

Don't get me wrong. I do feel bad for Mr. Flesvig. However, I cannot accept that he must be bailed out of his situation by everyone else.

Thomas R. Petersen
Petersen International
Insurance Brokers
Valencia, Calif.

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Brokers

Continued from page 1

L. Drake, managing director at Marsh & McLennan Inc. in New York.

In that sort of environment, what are insurers willing to do to keep an account?

"Anything legal, moral and nonfattening," quipped Jim Cunningham, senior vp-financial engineering for Near North Insurance Brokers Inc. in Chicago.

"I've had calls from insurers saying 'Eric, we'll do anything it takes to keep this account,' " said Eric Hein, president of Baltimore-based Willis Corroon of Maryland.

J. Hyatt Brown, president and chief executive officer of Tampa, Fla.,-based Poe & Brown Inc., said he sees insurance companies responding to the soft market by hunting for areas where they might find profits.

"They're trying to be very 'nichey,' more focused on specific market segments where there are potential profits," Mr. Brown said.

Overall, the difficulties risk managers faced the past two years obtaining certain property coverages is largely eliminated, Mr. Ruoff said. "All lines are competitive as ever."

"It's been a lackluster mid-year situation," he said. "That wasn't the case two years ago when the Northridge earthquake made the market a little antsy."

Although the first quarter of 1996 is on the record books for the highest frequency of catastrophes ever, with 11, the level of insured damages was kept to a minimal $2.5 billion.

"You can have catastrophes accumulate one at a time like (Hurricane) Andrew, or you can add up little catastrophes," Mr. Ruoff said. However, "it's the bigger events that tend to unsettle underwriters" rather than the smaller more frequent ones, he said.

"There have been catastrophes, but the lack of significant catastrophes have given (insurers) more comfort," said Johnson & Higgins' Mr. Meyers. "Secondly, the investment marketplace has been incredible."

That combination of the lack of a Northridge earthquake/Hurricane Andrew-type catastrophe coupled with strong investment returns has positioned insurers to cut prices.

In fact, property coverage prices are flat to down "almost in spite of loss activity," said Joseph L. Lombardo, executive vp-corporate marketing for Aon Risk Services Cos. Inc. in New York.

"Prices are starting to go down and capacity is opening up on catastrophe coverage," agreed Mike Hudson, senior vp in the Los Angeles office of Johnson & Higgins. "Earthquake capacity is going up."

"From a reinsurance standpoint, there seems to be more reinsurance capacity and that's being passed on through the primary market," Mr. Hudson said.

For now, the better risks are most likely to be the ones benefiting from the improved access to earthquake coverage, Mr. Hudson said. Customers that can come to renewal negotiations with good portfolios, good loss histories and solid property protection in place are seeing either lower premiums or increased coverage for the same premium.

For customers that have had earthquake losses, "let's say the underwriting treatment is more favorable than it was a year ago," Mr. Hudson said.

The improved pricing of earthquake coverage also reflects an initial overreaction to the Northridge quake, Mr. Hudson said.

"Right after Northridge, prices went up a little bit more than they should have," he said. Now insurers are adjusting quake coverage prices to more appropriate levels.

Windstorm is one property area where coverage is still somewhat tight. "It's not firming, but it's not coming down either. It's stabilizing," said Mr. Meyers.

The Johnson & Higgins property practice leader attributes that to insurers' memories of 1995 hurricane activity. "There were 13 pretty strong possibilities that they could've gotten smacked last year," he said.

Poe & Associates' Mr. Brown said he believes the windstorm coverage problem is more acute for residential properties than industrial properties in the Southeast "because the risk bearers on apartment buildings and condominiums have such a huge exposure that they just have to back off on this."

Unlike industrial properties, the large residential properties tend to be located right on the beach, he said, "as opposed to a triple-A manufacturing facility that might be four miles back."

Last year's tropical storms also have prompted more costly marine coverage in the Caribbean, Mr. Brown said.

Even while the property catastrophe market softens overall, the largest companies still face some concern that they can't tap sufficient capacity to cover all the exposures they might have.

"That's where all the alternative programs are beginning to show their hand," Mr. Meyers said. "They're looking at alternative arrangements to buy larger limits of cover, maybe in the non-traditional market. That's what's driving all these multiyear, single-limit programs, all these combined lines facilities. All of a sudden you're seeing a whole new marketplace spring up."

The multiyear, multiline programs offer businesses a chance to get greater capacity and, Mr. Hudson noted, a way to stabilize price over a long period of time.

"That completely goes against what you would assume in a soft market," Mr. Meyers said. "But I think what's going on is people are looking to lock in a stable price for a long period of time."

He said that he believes that the Bermuda-based insurance facilities' willingness to offer multiyear, multiline programs, along with that of many European-based reinsurers, is a key factor driving other insurers to offer those products. "We're seeing more latitude on the multiyear deals out of the Bermuda market," he said.

Multiyear, multiline contracts "seem to be standard options," agreed Willis Corroon's Mr. Hein. "You can get multiyear programs on primary and excess coverage from virtually anyone. I've even seen insurers remove the cancellation clause (from the contract)."

Mr. Ruoff agreed that more and more segments of the market are willing to offer multiyear, multiline agreements, but said Sedgwick has had "more inquiries than activity."

More risk managers look to these agreements as an option and of those options, half are exercised, he said. However, "there is something to say for the fact that as we've made this business an annual process, we've built more cost into the process that does not need to be there," he said.

"I think the driver there is the cost associated with going through this process each and every year," Mr. Meyers said. Looking at the process from a total cost of risk

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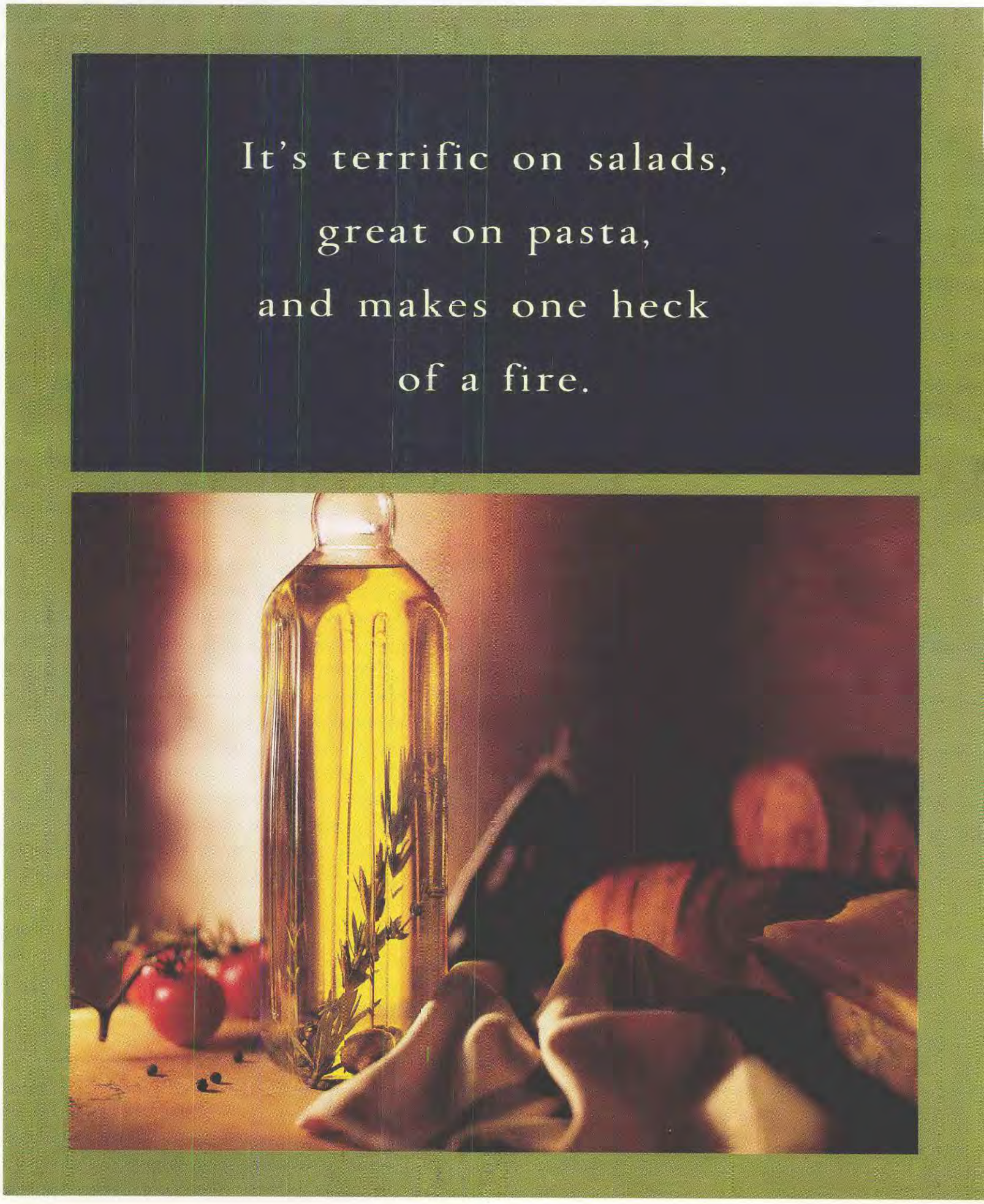

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perspective reveals opportunities to reduce that cost by finding efficiencies, he said, one of which can be eliminating annual renewals through multiyear programs.

"That's first prize," Mr. Meyers said.

Insurers also are offering other flexible program options, with options customers were asking for in 1994 becoming commonplace in 1996.

"Virtually anyone who wants a cash-flow, loss sensitive program can get one," Mr. Hein said.

Another program option insurers are beginning to offer is what Mr. Hein calls "disappearing deductibles."

Under most liability deductible programs, if a loss occurs, the customer pays the deductible and the insurer pays anything beyond that. If another loss occurs that year, the risk manager is again responsible for the same level of deductible.

Insurers are now more willing to reduce the level of deductible after a loss has occurred, Mr. Hein said.

"There are lots of ways to structure these," he said. The key concept is the more losses one company sustains, the greater the impact on the company's capacity to withstand additional losses, and insurers are offering ways to offset that diminishing capacity.

"We're selling the hell out of these things," Mr. Hein said.

Another "cutting edge" trend occurring with underwriters is letting buyers retroactively change their deductibles, Mr. Hein said.

Under this type of option, for example, a company with a $500,000 deductible could pay a small premium to buy an option to reduce its deductible, if needed, to $250,000 later in the coverage period.

In general, as customers renew coverages they are taking larger deductibles. "If a risk manager had a $25 million deductible, they're looking at retaining $50 million or if they had $100 million retention, they're now looking at $250 million," Mr. Hein said.

The trend stems from risk managers having better data to predict losses, he said.

Again, even though the market is soft, an increasing number of businesses are looking to risk financing alternatives or self-insurance. "Even smaller employers are looking to self-insure," Mr. Hein said.

Near North's Mr. Cunningham said many risk managers are looking to create a funding mechanism up to an aggregate amount, then insure losses above that aggregate.

"Aggregate retention is much more common today than a couple of years ago," he said, because of the availability of the aggregate coverage. Just a few years ago, very few insurers were willing to provide aggregate coverages of any level, unless "it was up in the ozone" layer, he said.

Mr. Ruoff said he is seeing employers that do not have a full-time risk manager—those paying $1 million to $2 million in annual premiums—becoming more and more interested in risk management programs normally the purview of larger companies.

For instance, these employers are looking to such alternatives as rent-a-captives and self-insuring their workers compensation in a particular state, Mr. Ruoff said. "They want us to explain more about how some of these methods would enhance their position."

"With more sophisticated programs, one tends to think of larger companies, but it's caught the attention of smaller companies," he said.

Marsh & McLennan's Mr. Drake agreed. "We're seeing in the high end of the middle market increased interest in risk financing alternatives like captives, cost containment programs and more complex risk financing," he said.

In many of those companies, treasury or financial officers are making the insurance buying decisions, "and those can be some pretty large clients."

Meanwhile, in larger companies the risk manager's role is expanding, as they increasingly look at risks across the entire spectrum of the business, said Ruth Tave, executive vp and managing director of national accounts for Near North in Chicago.

That has resulted in an increased financial engineering approach to retaining risk, she said.

For instance, "there is interest in blending finite risk programs and a pretty good interest in captives," Near North's Mr. Cunningham said.

Even smaller employers are looking at finite risk programs, he added. When finite risk programs first became popular, most companies were looking to cover loss layers in the $5 million to $20 million range, he said. Now they are looking at $3 million and even as low as $1 million, Mr. Cunningham said.

Still, the soft market is holding many back from actually engaging in alternative risk transfer programs, Mr. Cunningham said. "Why do employers need to self-fund their loss exposures when the traditional market can take it on?" he asked.

But, as businesses increase deductibles, self-insured retentions and their use of alternative risk transfer techniques, it takes premium out of the traditional market, leaving insurers competing for shares of a smaller pie.

What results is "more insurers chasing a smaller pool of premium. . .and that's what's driving the soft market," Mr. Hein said. "Underwriters have as much influence over pricing renewals as a farmer has with pricing a barrel of corn."

Electronic technology continues to play an ever greater role in the insurance broking process, though it still isn't a key element of renewals themselves.

"I'd thought I'd read about this after my retirement," Mr. Ruoff said of electronic renewals. While renewals are not currently transmitted over computers, Sedgwick now has its renewal presentations on disks rather than a three-ring binder, he said.

"We hope ultimately to do the renewal process over the WIN network," Mr. Ruoff said, referring to the World Insurance Network, funded by the world's six largest brokers (*BI*, Sept. 11, 1995). Within five years "we expect we're going to have one-third of our business" transacted electronically, Mr. Ruoff said. "Paper will not be transmitted, data will be."

Johnson & Higgins also is part of the WIN system, Mr. Meyers noted, and J&H's Mr. Hudson said the broker is online with many insurance companies and clients and does exchange information electronically. But, "On a large account basis we're still negotiating our renewals face-to-face with the underwriter," he said.

July 1 remains a significant renewal date, though "that 1/1, 7/1 environment is not as critical as it used to be," Mr. Meyers said.

"I don't think there's any groundswell to move renewal dates one way or another," he said adding customers see pros and cons to any renewal date.

At Allendale Insurance, we believe that most property loss can be prevented. But that means asking some very tough questions, and looking for risk in some unlikely places. For example, take vegetable oil in plastic bottles. Conventional wisdom has been that warehousing this very high flashpoint liquid presented no more of a hazard than storing ordinary combustibles. Yet tests conducted through our ownership of Factory Mutual Research revealed that even sprinkler systems arranged for high hazard commodities could not control fires of this type. Further tests revealed that this was no ordinary combustible. Once heated by the fire in their cardboard packaging, the plastic bottles leaked and the preheated vegetable oil burned with the intensity of a flammable liquid. And once the fire spread from the cardboard to the liquid, the fire was uncontrollable. This led to the development of a strategy aimed at replacing conventional in-rack sprinklers with the quick response model, and spacing them closer together. As a result the fire is suppressed in its earliest stages when it's limited to the cardboard. This solution is easy to implement and uses the sprinkler piping and water supplies normally in place in grocery warehouses. Plus, it doesn't interfere with normal warehouse materials handling. The truth is, this is but one example of how we never stop looking at commodities and the hazards they pose. In fact, for over a century and a half, we've never stopped asking the kind of difficult questions that lead to the cost-effective solutions our clients need to minimize risk. Even if that means looking in places as surprising as, yes, a salad.

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Insurers

Continued from page 1

"A lot of brokers and a lot of companies are going after very few insureds" among the Fortune 500 companies, he said.

"All things being equal in the risk, we are seeing decreases," said William J. Loschert, executive vp-underwriting for ACE Ltd. in Hamilton, Bermuda.

Insurers' reading of the state of the primary liability market varied little by company or region. "Flat" or down by single-digits was how most underwriters assessed liability rates at midyear. No one mentioned even a small upward tick.

The low-layer excess liability has even softened somewhat, said Ed Hancock, vp-underwriting for Employers Insurance of Wausau in Wausau, Wis. Rates have fallen by the single digits, he said. This assessment was repeated by other underwriters.

If anything, the market for high-layer or catastrophe excess liability is even more competitive than the primary layer, said Fred Mina, president-national accounts, Zurich-American Insurance Group in Schaumburg, Ill. High-hazard liability is also quite competitive, he said.

The liability insurance market for smaller or mid-sized municipalities is a "pretty solid market" marked by flat rather than declining rates, in part because there's still some concern about liabilities like environmental discharge, said Richard W. Wratten, president of Commercial Insurance Services, a division of CIGNA Property & Casualty Co. in Philadelphia. Mr. Wratten noted that many large municipalities have remained in the self-insured market.

For specialized liability lines, the story varies. According to ACE's Mr. Loschert, rates for directors and officers liability insurance have dropped 5% to 10%.

"On some liability accounts we are seeing reductions of the same magnitude."

One of the more competitive areas is the financial services industry, particularly D&O and bond coverage for banking risks.

Mergers in the banking industry mean there is a smaller market, yet it is a specialty market with the same specialty underwriters chasing less business more aggressively, explained Janet Nelson, president-custom markets for St. Paul Fire & Marine Insurance Co. in St. Paul, Minn.

"As the mergers and acquisitions take place they become bigger entities and then they buy differently which means they buy less insurance because they can retain more risk," she said.

Workers compensation is another line with increased competition and lower rates all over the country, especially in the states that are perceived as better to do business in, including Arizona, California, Colorado, Georgia, Idaho, Michigan, Minnesota, Montana, Oregon and Texas, said Dale Lauer, vp-commercial lines for SAFECO Corp. in Seattle.

"In just about all those states, from a work comp standpoint, the market seems to be increasing in competitiveness with the exception of California. It seems to have stabilized," he said.

"If I had to pick a state where I think the competition has gone further than perhaps we would have expected it would be Illinois," he added.

The property market also remains highly competitive, noted Michael McIntyre, senior vp at Allendale Mutual Insurance Co. in Johnstown, R.I. New entrants into the highly protected risk marketplace have increased the competitive pressures, he said.

'A lot of brokers and a lot of companies are going after very few insureds' among the Fortune 500 companies, says Chubb Corp.'s John Cavorees.

Mr. McIntyre likened the situation to a dance, where "the ballroom floor is shrinking and more people are showing up."

"The risk managers are in a similar position to managers in other departments in corporations, and that position is to reduce costs in whatever way they can, whether through reduced premiums or outsourcing the business if it's cheaper," said Mr. McIntyre.

CIGNA's Mr. Wratten agreed, calling HPR "very competitive" adding that there "seems to be more capacity than is needed" Rates have stabilized for certain classes such as petrochemicals, he said.

But for standard commercial property risks, rates continue to drop, noted Wausau's Mr. Hancock. He estimated that rates have declined 8% to 12% for such risks in the past year.

"There's no hardening. For a time, it appeared that coastal exposures for property were holding their own, but even now my sense is that in certain locales they're heading south," said Dave McDonald, chief underwriting officer for Royal Insurance Group in Charlotte. He said that an unusually high amount of catastrophe-related damage during the first three months of 1996 had no impact on property market conditions.

One exception to the market's rule of flat rates is commercial machinery breakdown coverage, according to Rick Kinner, second vp-marketing of Hartford Steam Boiler Inspection & Insurance Co. in its Basking Ridge, N.J., office.

In the commercial machinery breakdown market for "Main Street" and "middle market" accounts, the average customer is seeing "relatively small increases," up 2% to 5% from a year ago, he said. Accounts that have had multiple losses in the last two to three years are probably feeling more sizable increases of 5% to 7%.

Mr. Kinner said the increases also are due to growth in total insured values. Companies have purchased more equipment or upgraded as a result of business expansion. Additionally, newer equipment is generally in the form of integrated systems which means a higher concentration of exposures.

For the same reasons, business interruption exposures from machinery breakdown are also rising, he added.

"The economy is percolating around most of the country, so businesses are doing a little bit better, so their business income exposure is going up," he said. In New England, there is not much change in business interruption values because business is stagnant. Therefore rates are flat.

"Larger customers are seeing a much wider swing (in rates)," he said. Those companies that restructure or reorganized are purchasing on a larger deductible basis and, as a result, they are seeing some decreases.

Mr. Kinner said that a trend to purchase machinery breakdown coverage as part of a package, rather than as a monoline coverage, is gaining momentum. Hartford Steam Boiler's participation in the commercial package market is growing at 14% annually. That means standard insurers like Fireman's Fund Insurance Co. and St. Paul are now including machinery breakdown from Hartford Steam Boiler as part of a package, either as an endorsement or as part of their coverage.

Another line where there is still some price firming is the marine market, according to St. Paul's Ms. Nelson. Fallout in that market continues from troubles in the London market with more buyers putting pressure on U.S. marine underwriters, she said.

See **Insurers** *on page 14*

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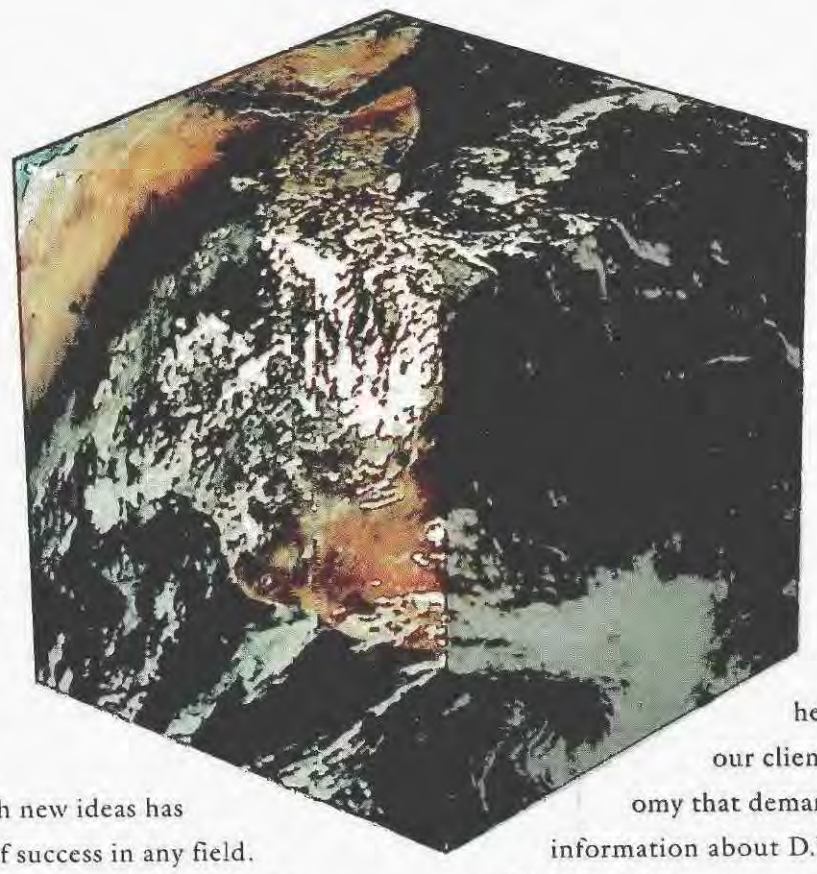

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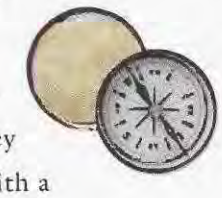

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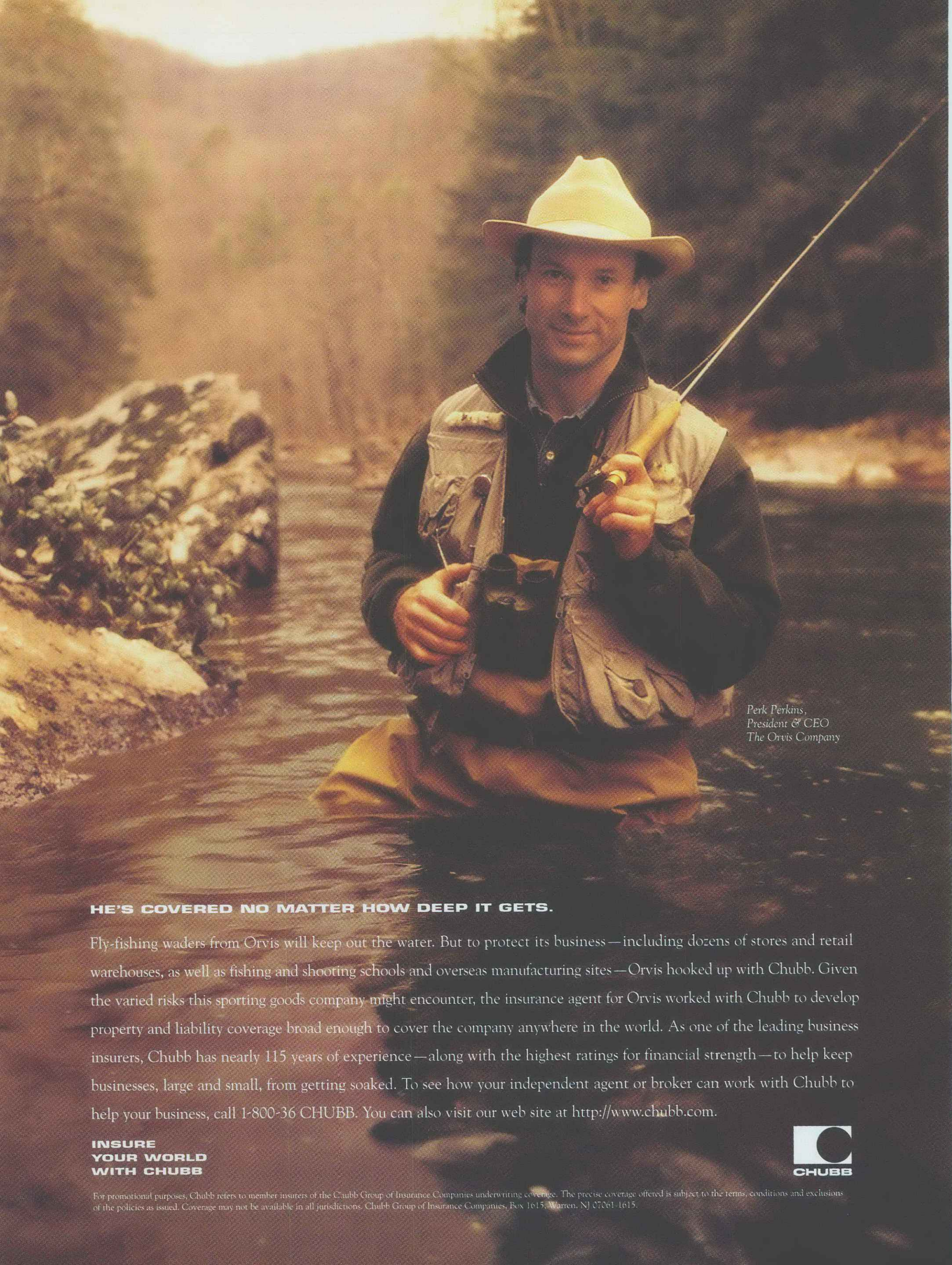

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Insurers

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"There is not as much price strengthening going on as there was a couple of years ago, but it is not as soft a market as the rest of the market," she said.

One bright spot for insurers is that with most of the market as soft as ever, risk managers aren't as interested in alternative risk mechanisms as they were in the past, said Royal's Mr. McDonald. "Insureds are asking us why should I go self-insured when the general market is now willing to provide the market? Right now, the alternative risk marketplace is kind of treading water," he said.

The continuing soft market also means that risk managers are pushing for multiyear contracts, pointed out Wolfgang Friedel, senior vp of Arkwright Mutual Insurance Co. in Waltham, Mass.

There's a "renewed trend for locking in for a long-term perspective, which is very predictable" since many people believe the market has gone down as far as it can and will move, said Mr. Friedel. As a result, risk managers are looking for three-year policies to lock in the current, favorable rates, he said.

"I think we are seeing a significant movement toward multiyear approaches that span a spectrum from casualty programs to a few multiyear aggregate programs to financial lines programs. There has been something of a movement toward multiyear policies or programs over the last three or four years and I believe it is accelerating. This is almost entirely a Fortune 1000 phenomena," said William Smith, executive vp of American International Group Inc. in New York.

"They're pushing for more than multiyear contracts," said Zurich-American's Mr. Mina. "They want an integrated approach. They want to have an account advocate, a senior executive. This is a departure from the past when the brokers had to go to different departments."

This insistence on long-term policies can be a sticking point between underwriter and policyholder, said ACE's Mr. Loschert.

During the last year, an increasing number of risk managers have asked for three year aggregates rather than one year. They may be getting some discounts, but not as large as they are led to believe, he said.

"The perception on the part of the buyer is that there is a substantial savings by buying three year aggregate vs. one year aggregate," he said. "I think that is the biggest contention this last period of time; it's a different premium situation from what the buyer expects and what the actuarial calculations should be."

If you price for an expected loss once every 100 years, "then a three-year aggregate from a statistical standpoint should be worth no discount," Mr. Loschert said. If you are pricing for a loss once every five years, then the reduction should be greater, he said.

"The risk manager says 'Well I don't expect a loss every year, so why should I buy a separate aggregate for each year?' but the underwriter says 'I'm only pricing for one loss every 100 years.' "

Losses that still lurk somewhere over the horizon have raised underwriters' concerns.

While continuing liability over breast implants remains the biggest headache, "tobacco could have some impact on not just ACE but anybody who wrote D&O insurance for those companies," said ACE's Mr. Loschert. "What knowledge did the directors and officers have when they made business decisions on the D&O side?"

"The issue we are wresting with is how to deal with some of our major clients' ever-increasing potential legal liabilities," said AIG's Mr. Smith. "They are wrestling with it and we are wrestling with it. Some of these are potentially very serious class action claims that are starting to emerge that require limits in the millions of dollars. That is probably the only thing that is different in the last couple of years."

The industries affected by these developments include tobacco, pharmaceuticals and companies facing toxic tort exposures, he said.

"I think the question is are we really going to see the plaintiff's bar sustain a new technique of bringing major class actions as a major type of litigation? I think if that happens then it's very hard to predict. These class actions could apply all over the place. The obvious starting place is chemicals and pharmaceuticals. It's hard to project where that could go if these things really take root," said Mr. Smith.

However, he added, "I have been pleasantly surprised at the judicial restraint so far."

The biggest challenge facing underwriters remains fierce and in some cases economically irrational competition, said several insurers.

"When you see an account being renewed for less than expected losses, that's irresponsible pricing. We have a hard time competing about that," said Zurich-American's Mr. Mina. "I've seen several accounts like this."

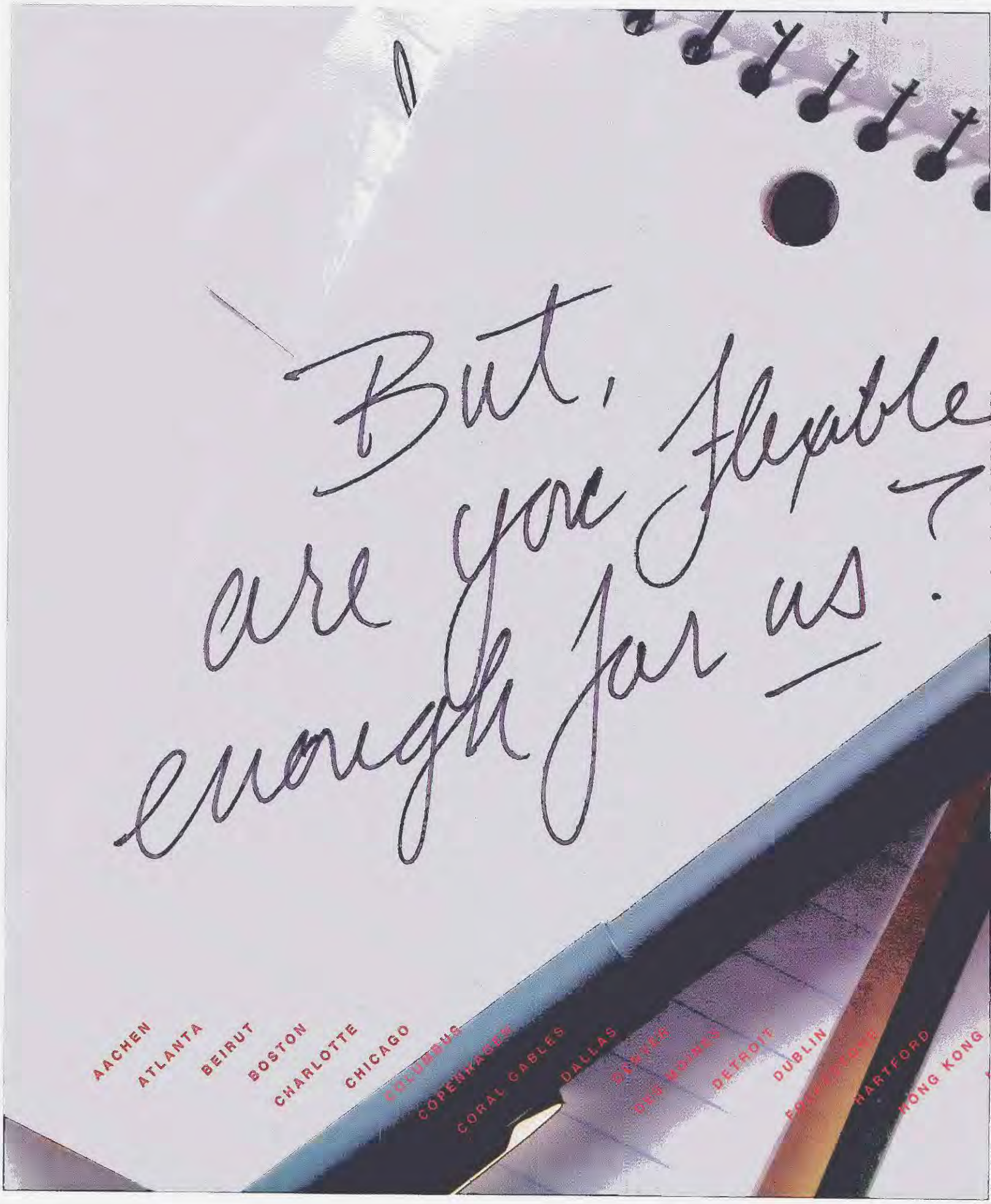
"Individuals are still competing on rates that have gone beyond going down to the bone and have gone down to the marrow," agreed Edward G. Troy, executive vp of national markets for Liberty Mutual Group in Boston. He noted that a competitor for a workers comp account in California quoted a program on a guaranteed cost basis for a premium that was less than actual losses and guaranteed it for three years.

"Barring any kind of major unprecedented catastrophe, it's more of the same. The companies that will do well are those that continue to reduce their costs and add value to the transaction. The organizations that compete solely on price I think long term will not survive," said Mr. McDonald of Royal.

Looking further ahead, AIG's Mr. Smith cited what he called "a very positive" phenomenon that has occurred in the last 12 months with some risk managers.

"We are seeing a growing sophistication in what we are being asked to look at, combining, for example, typical insurance-related risk management techniques with currency hedges, interest rate hedges and other blending of different kinds of financial strategies. We are seeing a fairly significant number of risk managers stepping into this arena and starting to ask for much more significant approaches. That is a very positive sign.

"I don't think that we have actually written a lot of business that way yet, nor is anybody else. Because this is just where the business is starting to move. But we are certainly being asked for it and we are starting to provide a whole range of alternatives that no one asked about two years ago," Mr. Smith said. BI



Buyers

Continued from page 1

manufacturer in Framingham, Mass., is hoping for around a 10% rate reduction on its property program that covers more than 20 countries, said Kathryn Bowers, risk manager.

"We've had strong growth and it's all (highly protected risks)," she explained. "There's also a good spread of risk and not that much California earthquake. All our Japanese property is tariff-rated, so we should be in good shape."

A major area of concern for Bose is "cleaning up our ancillary coverages," primarily for business interruption risks, said Ms. Bowers.

"Much of this revolves around Japan and Japanese earthquake," she explained. "We supply several Japanese automakers with sound systems, and you can't just not make a delivery. But we rely on a lot of parts to be sent to us from smaller Japanese companies. We're looking into secondary suppliers, but we still have to protect ourselves financially if we can't get our materials."

"We'd like to get this coverage rolled into our property blanket, but from what we hear, we're not a big enough player to influence reinsurance for our primary company," Ms. Bowers said.

Duracell International Inc., based in Bethel, Conn., also made improvements to property worldwide and the changes helped bring insurance costs down.

"For property, our insured values are up almost 25%, but rates decreased by 20%," said Joseph R. Gullo, director-risk management at Duracell. "It's all HPR with state-of-the art safety," he said of the changes. "We're going like topsy to improve our facilities. We put in about $40 million this year."

Hormel Foods Corp. in Austin, Minn., is considering changes to its property program that would hold down premium increases, according to Grant L. Johnson, risk manager.

"All the HPR markets want an increase in premiums, but it's up to us to try to keep things the same," said Mr. Johnson. To do that, he is considering a loss-sharing program with his property insurer.

"Unless I want to remove a couple properties from the program, I could lower our deductible and then share in the losses," he explained. "It's a new idea that's floating around that I haven't seen before, but it's interesting.

"But let's say I lowered my deductible by 5% and agreed to take 5% of the loss. It could work in our favor if it enhances awareness of our engineers and safety people."

Briggs & Stratton Corp. had to fiddle with its retentions but was able to secure property coverages from Industrial Risk Insurers for U.S. and Canadian risks at the same price as last year, said Frank Sprtel, director-risk management of the Milwaukee-based company.

Briggs & Stratton has added several new plants and expanded production in the last year, he pointed out. "To keep premiums stable, we had to work on deductibles. We agreed to take a higher retention to preserve premiums and there weren't any donnybrooks involved. We just sat down and talked it out and concluded to take a higher deductible."

"I think they did a nice job for us," he said of IRI.

Risk managers with companies that have suffered losses in the past year aren't finding insurers as cooperative.

Burlington Industries Inc., the Greensboro, N.C.-based textile company, may be looking at an increase in property rates after recent losses, said Gerard McCabe, director-risk management.

"It's forcing us to weigh our options," he said. "We're soliciting competitive bids and we're considering putting the risk through our captive."

Quotes from Burlington's insurer indicate property rates could rise as much as 20%, tough to swallow in a soft market but in some ways understandable, Mr. McCabe said.

"It's all based on loss experience in the textile industry," he acknowledged. "We've had an $8 million roof collapse loss and an $11.5 million flood loss just in the last two years, and other companies have had their problems, too."

Mr. McCabe said insurers also are pushing for plant upgrades. "They're looking for us to upgrade our sprinklers and put in additional water pumps. This is going to cost money. The bright side, I guess, is that it could result in rate decreases down the line."

On the liability side, risk managers are reporting much the same conditions as for property renewals: price cuts or only marginal increases.

Oklahoma Natural Gas Co. in Tulsa was able to negotiate a 15% decrease in the cost of its excess liability coverage while extending the policy term, said Frank E. Locke, administrator-risk and insurance.

The utility was seeking changes after the first year of the two-year policy written by National Union Fire Insurance Co. of Pittsburgh, Pa. The insurer agreed to rewrite the coverage and not only cut the cost but added $10 million in limits and extended the coverage for an additional two years.

"We're very, very pleased," Mr. Locke said of his excess liability and other casualty renewals.

Liability renewals at Sara Lee Corp. in Chicago went "very well," said Vincent F. Coffey, director of risk management. "The market continues to be soft."

The consumer-products manufacturer found prices "down a little" for excess liability coverages, said Mr. Coffey.

"Everything else was flat," he added, including aircraft liability on the company's planes, D&O coverage and fiduciary liability insurance.

Mr. Locke said Oklahoma Natural Gas renewed its D&O liability coverage with Chubb Corp. at the same limits and cost and paid a slightly more for fiduciary liability coverage written by Travelers/Aetna Property Casualty Corp. That coverage previously was written by AEGIS Ltd.

Bowater Inc., a Greenville, S.C.-based timber products company, renewed its D&O liability program at roughly the same price as the previous year. "I wasn't real pleased with that," said Georges Balcer, director of risk management. "I wanted more because of our experience, but (Bowater's insurer) just didn't respond. We got some competitive numbers, which were higher."

General liability insurance at Bowater was 15% cheaper when renewed this summer, said Mr. Balcer.

"That's a significant percentage but it didn't translate into a large break on costs," said Mr. Balcer. "I was definitely seeking more

See **Buyers** *on next page*

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Buyers

Continued from previous page

but there's only so far you can go." He said Bowater carries a $1 million deductible in order to keep the general liability premiums manageable.

Bowater's commercial auto liability premiums dropped by about 6%, he said, while workers compensation rates experienced a "significant decrease."

"Our experience has improved but there were market pressures as well," Mr. Balcer explained, noting that the workers compensation insurance market posted very strong results last year and was in no position to play hardball with policyholders.

Mr. Balcer was able to convince Bowater's pollution liability insurers to hold the line on pricing and include previously uninsured sites. "The price came back as is, but they did what we asked for by insuring previously uninsured properties. It took some time and they did all their site surveys, but they threw them in with no price increase, so you'd have to call that a plus."

Bowater's excess liability layers were about 8% to 10% cheaper to insure, he said.

Increased exposure at Duracell didn't translate into higher costs at this year's renewal, according to Mr. Gullo.

He said the company's global liability program includes about 15% to 20% more exposure than last year but rates fell 11% at renewal. "But we take a $250,000 per claim deductible, so what we're really after is claims service and catastrophic coverage."

Duracell restructured its D&O coverage so that the top layer now includes coverage for employment practices liability risks. Mr. Gullo explained that the layer functions as a blanket over underlying layers and is in place in case one of the other insurers becomes insolvent.

"Oddly enough, these elements weren't very expensive, and the axiom in this business is, 'If it's reasonably priced, buy it,' " Mr. Gullo remarked.

Hormel Foods is enjoying a 10% drop in its crime bond premiums, said Mr. Johnson. "We carry enough of a deductible that it shouldn't have been a problem. In the nine years I've been here, there has been nothing approaching the policy."

The food company's umbrella layers, which Mr. Johnson said carry a "hefty deductible," were renewed at a price 20% cheaper than a year ago. "There's a very competitive market out there, with everyone wanting a piece of the action," he said. BI

London market faces stiff competition

Market cutting rates to keep good risks and attract new business to London

By SARAH GODDARD

London underwriters continue to offer rate reductions as the market continues to soften.

Insurance buyers with good loss experience are getting the best deals, though, as insurers increasingly discriminate between good and bad risks.

Insurers and brokers alike are loathe to give exact figures for the degree to which rates are dropping, but the general consensus is that rates at midyear renewals are between 10% and 15% lower than a year ago for all non-marine classes of business.

Marine risks are seeing even greater rate reductions. Some marine risks are seeing rate reductions of as much as 40% at midyear, though cuts of 25% are the average.

"Nothing is going up. Absolutely nothing," commented Peter Somerville, managing director-casualty for the North American division of broker Lowndes Lambert International Ltd. in London. In part, this is because of "more savage" competition coming from the U.S. market, particularly in general and products liability, he said. "U.S. companies had good results and are chasing after market share," he said.

"The U.S. reinsurance market pulled back from international business after 1992 and missed out on some clearly vintage years," said Tony Taylor, underwriter for Wellington Underwriting Agencies Ltd. syndicate 51/1095. Now, he said, the U.S. companies are aiming for a broader geographic spread of business, while his own book is showing more U.S. than non-U.S. business for the first time in four years.

But London insurers also are chasing market share.

In particular, London underwriters are cutting rates for clients that have been with the market for many years, but a number of those same clients are seeing more competitive quotes from their domestic market, Mr. Somerville said.

"U.S. buyers are finding it more difficult to justify staying in London and paying slightly more for the ephemeral aspect of continuity," he said.

Although rates are at the point where some underwriters would prefer the business went elsewhere rather than be written at such low prices, few observers think the London market has reached the bottom of its insurance cycle.

"An intelligent observer could say there has to be a bottom soon, but experience says there are yet more depths to be plumbed," observed Mr. Somerville.

Wellington's Mr. Taylor sees no end to the fall in rates until the market faces "more than one major loss, or one mega-U.S. loss."

Given the recent string of relatively loss-free years, "there is a good chance of (insurers) having a relatively nasty loss somewhere this year," he predicted.

Mark Brockbank, group chief executive for Brockbank Syndicate Management Ltd. and underwriter for syndicate 861, said he sees no change in London pricing over at least the next two years, though a lot depends on the performance of the financial markets, which have been shoring up the London market's results. Reg Brown, liability underwriter for Lloyd's syndicate 702, managed by Octavian Syndicate Management Ltd., said there is "nothing extraordinary in what is happening" in the competitive London market. It is the worldwide glut of capacity that is keeping the

Continued on next page

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Continued from previous page

market soft, he said, as well as new capacity from markets like Bermuda.

"The market is softer than it was two or three years ago, but that was always expected. It's a softening cycle," he said.

Capacity in the London company market increased at the beginning of the year, as existing players put more cash into their businesses.

During the first half of the year new branch operations have been set up in London by: Belgium's Compagnie Internationale d'Assurances et de Reassurances; Swedish insurer Skandia International Insurance Corp.; Mid-Ocean Reinsurance Co. Ltd. of Bermuda; and TIG Reinsurance Co. from the United States. In addition to the capital the branches have on hand, they also have access to the capacity of their overseas parents.

Meanwhile, capacity at Lloyd's of London is down only slightly, given all the changes in the market, to £9.99 billion ($15.51 billion) this year compared with £10.19 billion ($15.95 billion) in 1995. But, a larger share of its capital is now provided by corporate investors, who supplied 30.5% of the 1996 capacity.

New names among corporate investors include U.S. and Bermudian insurers, among them United States Fidelity & Guaranty Co. and Terra Nova Insurance Co. Ltd.

Recently released figures from the Assn. of British Insurers show that U.K. insurers posted worldwide profits of 10.7% of net premium income in 1995, or £3.93 billion ($6.1 billion).

But those results were due largely to investment income of £4.51 billion ($7 billion). Underwriting actually produced a loss of £577 million ($896.1 million), compared with a loss of £143 million ($223.8 million) in 1994.

"There are instances of people writing for premium income," said Dominic Simpson, a director of London-based Syndicate Underwriting Research Ltd., a Lloyd's syndicate analysis company. "But I'm reluctant to say that it is widespread."

Mr. Somerville is less reticent. "Underwriters have major budgets to achieve, and some will go all out to achieve them," he said. "All underwriters on occasion are going to write business at rates that their peers would say is foolish."

Others, however, are content to leave excess capacity unused. "Underutilization isn't all bad," commented SURL's Mr. Simpson. "Many underwriters would rather have lower utilization (of capacity) than write business at inadequate rates."

Wellington's Mr. Taylor is responding to the soft market by lowering his capacity for 1997 by 10%. Between 1995 and 1997 he said he will have seen his book shrink by almost 45%, mainly because he has declined to renew business in a rate-cutting war.

Rates for liability insurance are down between 5% to 10% at midyear, according to Mr. Brown. In many areas, pricing for liability risks has fallen beneath break-even, he said, though that is putting added pressure on underwriters to raise rates for certain lines.

For example, rates for U.K. lawyers professional indemnity coverage have recently risen 4.5%, he noted.

The anticipated hardening of rates in employers' liability business still hasn't come about. Instead, the debate over whether such business should be written on an occurrence rather than claims-made basis rages around the London market.

From Mr. Brown's point of view, the long-tail nature of the business prevents underwriters from knowing the true position of losses—a problem that would be overcome by the move to claims-made wordings. After all, he said, "most compulsory types of insurance are on a claims-made basis."

'All underwriters on occasion are going to write business at rates that their peers would say is foolish,' says Peter Somerville of Lowndes Lambert.

As for catastrophe reinsurance business, SURL's Mr. Simpson said rates for U.S. risks coming into London are holding steady compared with other international business, which has seen rate reductions of 10% and 20%.

What turned out to be a less-than-tranquil but relatively mild Caribbean hurricane season for London insurers has also kept these catastrophe rates ever-softening.

In light of the continued competition, London market observers expect the next six months may see a deterioration of underwriting results that could prompt consolidation in the market. This has already been seen in the Lloyd's market, where syndicates are continuing to combine, forming so-called composite syndicates that write a wide spectrum of business.

But to date, even in light of competitive pressures, there still haven't been any insurers withdrawing from London. Insurers also haven't recorded any significant downturns in premiums written.

But while rates are soft, buyers are not seeing the giveaways in coverage terms and conditions that have typified other soft markets.

"There has been the removal of certain exclusions," acknowledged Lowndes Lambert's Mr. Somerville, "but it tends to be nuances rather than giveaways."

Accounts that have had good claims records are seeing reduced deductibles for little change in pricing, he said, though "loss-sensitive" accounts are still being approached with caution.

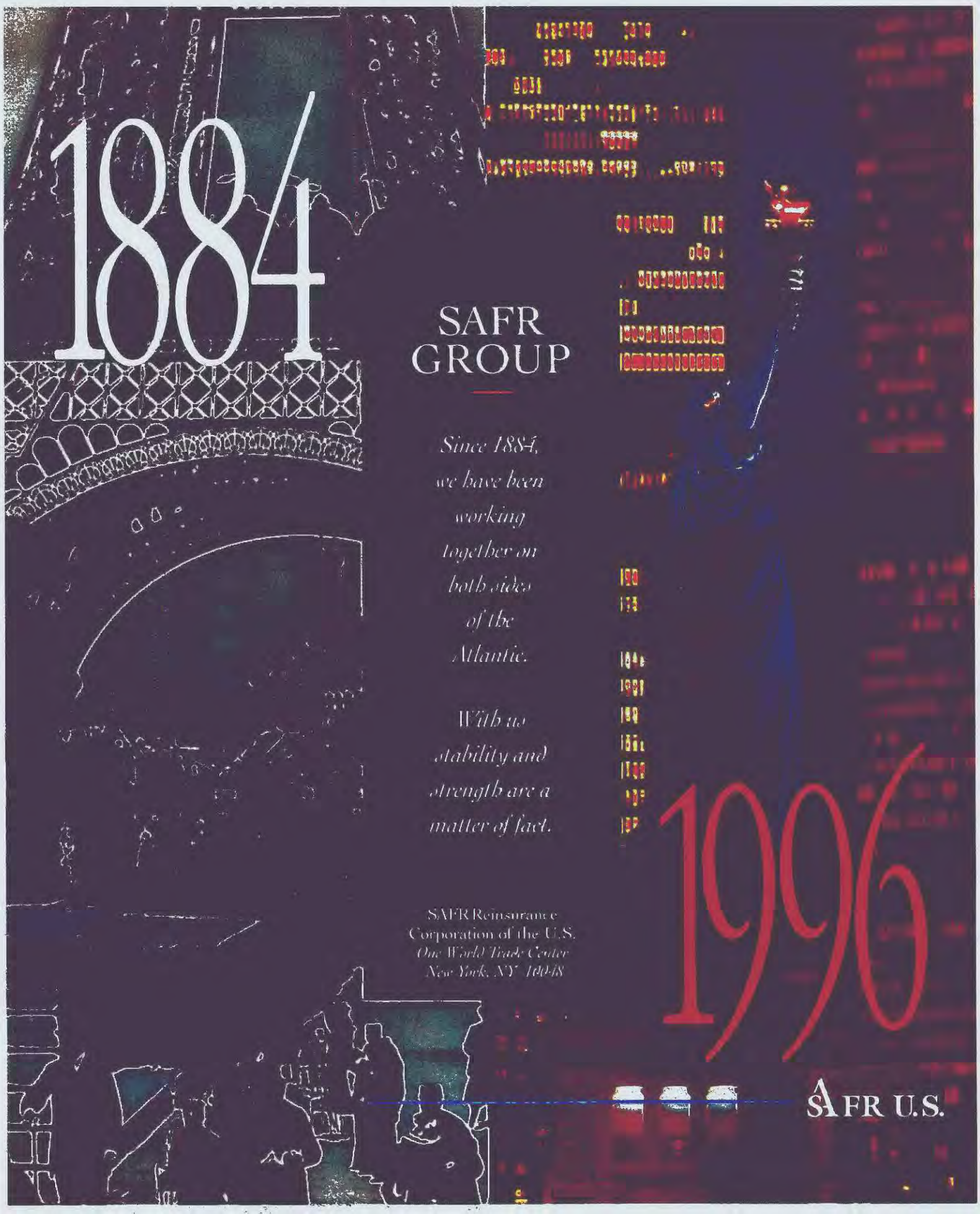
Meanwhile, Lloyd's well-publicized struggles with its individual investors is not having a deleterious effect on the volume of business coming to London.

It is the less-informed buyer who is withdrawing business from London because of the Lloyd's scenario, Mr. Somerville said.

SURL's Mr. Simpson agreed. "It would be naive to say Lloyd's hasn't lost any business," Mr. Simpson said.

"But the extent isn't too serious. And if the reconstruction and renewal plan is successful, there should be an end to some of the discrimination against Lloyd's security."

The continued influx of U.S. insurance money into a London market that is dominated by the news about Lloyd's problems is a clear sign that buyers in the United States and other overseas markets have faith in the institution, pointed out Mr. Somerville. BI



Surplus market sees slight improvement

By DAVE LENCKUS and DEBORAH SHALOWITZ COWANS

Surplus lines report

"It's not the best of times, but it's not the worst of times, either," for the surplus lines market, observes Ralph J. Palmieri, president and chief executive officer of underwriting manager First State Management Group.

For risk managers, that means rates continue to fall for many property and casualty coverages, though generally not as much as they declined during the past several midyear and year-end renewals, market executives say.

There even is some additional capacity for property catastrophe exposures, like California earthquake risks.

Perhaps most noteworthy on the casualty side is the directors and officers liability insurance market continues to soften appreciably six months after Congress passed a law designed to limit frivolous D&O lawsuits over President Clinton's veto (*BI*, Jan. 8).

Wholesale brokers agree that retaining accounts is challenging, though several said that overall business has improved because of some new services they are offering and a lot of scratching and digging for business.

For example, wholesaler Schinnerer Group Inc. is working with three large construction industry accounts to place their currently self-insured professional liability risks with a commercial market, according to Paul Genecki, senior vp for the Chevy Chase, Md.-based underwriting manager.

'The winners are (brokers and insurers) that have the right blend of products, services and security," said Mr. Palmieri of Boston-based First State.

But, some pockets of difficult-to-place risks remain.

And, some surplus lines markets continue to see buyers defecting from Lloyd's of London, though others say there has been less concern about the viability of Lloyd's over the past 12 months.

Overall, only risk managers with minimum-premium programs, poor loss experience and exotic risks should expect to encounter placement or cost problems.

"Our renewal business is simply a piece of new business over which we have a slight advantage," said Marcus Payne, president and chief operating officer of Dallas-based wholesaler Crump Insurance Services Inc., a unit of Price Forbes North America.

Even the constricted property catastrophe market is not as tough as it has been.

"There's still a need for capacity, but compared to 12 months ago, the market has eased up a bit" as new and old players pour in more capacity, said Warren S. Stanley, president and CEO of wholesale broker Swett & Crawford Group, a Los Angeles-based unit of The St. Paul Cos. Inc.

Even with the $12.5 billion of insured damage in the January 1994 Northridge, Calif., earthquake, "people's memory tends to go dim," said Britton Glisson, president and chief operating officer of Essex Insurance Co. in Glen Allen, Va.

Risk managers' concerns that they still are not adequately protected may be allayed even more over the next six to 12 months. Even more new property catastrophe capacity should flow into the non-admitted market then, said Paul McCain, vp of Crump subsidiary Crump Insurance Services of Texas Inc.

Some risk managers with large companies also are negotiating 5% to 10% rate cuts, according to wholesale brokers.

The non-catastrophe property market, meanwhile, continues to soften.

"The standard market might cut the premium by one-third," Mr. McCain said. "There's no rhyme or reason to it. It's just competition for dollars right now." Surplus lines insurers do not compete to that extent, he said.

But First State's Mr. Palmieri labeled the property market as reasonably stable, though it is "somewhat more competitive than the non-admitted market." Any rate decreases are less than 5% for the most part, he said.

A notable geographic pocket of competition is in the New York metropolitan area, he said. "There's just so many markets and producers located or interested in that area, that the supply side of the equation works somewhat to the benefit of the insured," he said.

Only risks in hail-prone Texas and Oklahoma may find the market relatively tougher, which means stable, Mr. McCain said.

The casualty market, meanwhile, shows no sign of any letup in its years-long softening.

"Casualty in general has dropped significantly in pricing on larger and medium-size accounts," said Swett & Crawford's Mr. Stanley. He estimated rate cuts at "no less than 10% to 15%."

"The last question from many underwriters is, 'What does it take

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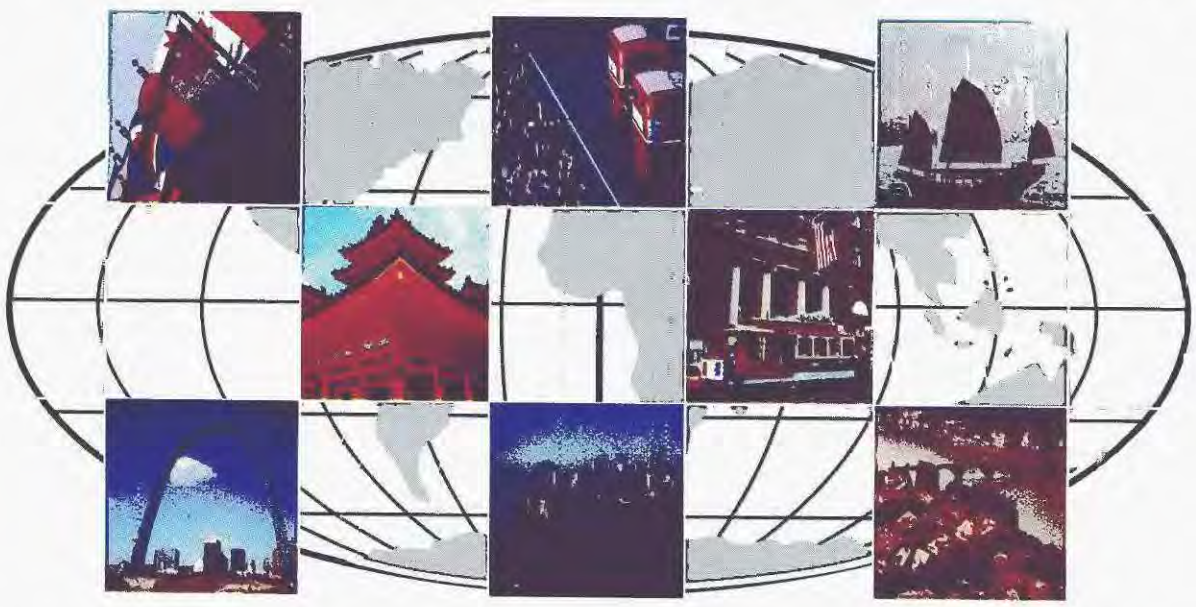

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Continued from previous page
to get the order?' " he said.

But, the competition "really varies by individual risks," Crump's Mr. Payne observed. While some risk managers have negotiated cuts as deep as 25%, rates for many others have plateaued, he said.

Perhaps most notable is the softness of the D&O market.

"The D&O area has probably been one of the more intensely competed-for classes of business," Mr. Stanley said. Rates have dropped and coverage has expanded as the number of D&O markets has "expanded almost geometrically" in the past 12 to 36 months, he said.

There is "a lot more capacity" for risk managers as both surplus lines and admitted insurers go after this business, said Paul Springman, president of Evanston Insurance Co. in Evanston, Ill.

D&O markets are competing for even high-tech firms and companies recently involved in initial public offerings, Mr. Stanley said.

Risk managers are negotiating 10% to 20% decreases in D&O rates, said David Hartoch, president of wholesaler Sherwood Insurance Services, a San Francisco-based Aon Corp. subsidiary.

Underwriters also are offering additional coverage and frills. For example, within policies, they are apportioning a much greater allocation of liability to corporate officials in securities-related cases. That means risk managers should have fewer problems obtaining a greater portion of their limits to cover securities-related D&O losses when the uninsured corporate entity also may have contributed to the underlying loss.

Risk management victories in three federal appellate court cases last year spurred this change (*BI*, Nov. 13, 1995; Sept. 4, 1995; Aug. 21, 1995; April 14, 1995).

On the primary liability side, rates are falling 5% to 10%, Mr. Palmieri said.

Mr. Glisson of Essex sees an even more free-wheeling market for buyers obtaining primary limits. Price cuts from admitted insurers range from 25% to 40% in some cases, and admitted insurers are offering "a broader form to boot," he said.

The excess liability market is so soft that it essentially is an admitted market risk now.

Risk managers are paying as little as $500 to $750 per $1 million of coverage on high excess liability layers, Mr. Hartoch said. But, that still is at least double the amount that risk managers were paying during the soft market of the early 1980s, he observed.

Dennis Reding, CEO of Westchester Specialty Group in Atlanta, a subsidiary of Talegen Holdings Inc., described how heated the competition is for excess liability business. A competitor offered to cut a Westchester policyholder's premiums in half while boosting its umbrella liability limits to $25 million from $10 million.

When this kind of thing happens, "usually it's a company trying to leverage an entire account, or they're a new entrant in the market trying to reach a premium goal set for them," he said.

A "byproduct of the overheated market" for excess liability business is the reappearance in the admitted as well as the non-admitted markets of some limited environmental coverage. The coverage is available to even some oil and gas risks, said Mr. Palmieri of First State, which does not offer the coverage.

Some insurers are offering "blended pollution coverage" to retain or win an account, Mr. Reding said. The product, unheard of in the non-admitted market a few years ago, covers a pollution event that both occurs and is identified within a specified time frame.

California homebuilders are one of the few groups having trouble finding coverage.

The general liability insurance market "is almost non-existent" for those homebuilders, who in recent years have faced numerous lawsuits over alleged building defects, Crump's Mr. Payne said.

Included in that group are residential roofers, electricians and plumbers, Sherwood's Mr. Hartoch said.

Surplus lines executives blame the tight market for that risk on the California Supreme Court's July 3, 1995, decision in *Montrose Chemical Corp. vs. Admiral Insurance Co.* That ruling adopted the "continuous trigger" of coverage in cases of continuing or progressively deteriorating injury or damage (*BI*, July 10, 1995).

California also is a somewhat difficult general liability market—that is, stable to tight—for commercial developers, according to Mr. Palmieri. Elsewhere, commercial developers are able to negotiate 10% rate cuts for primary coverage, he said.

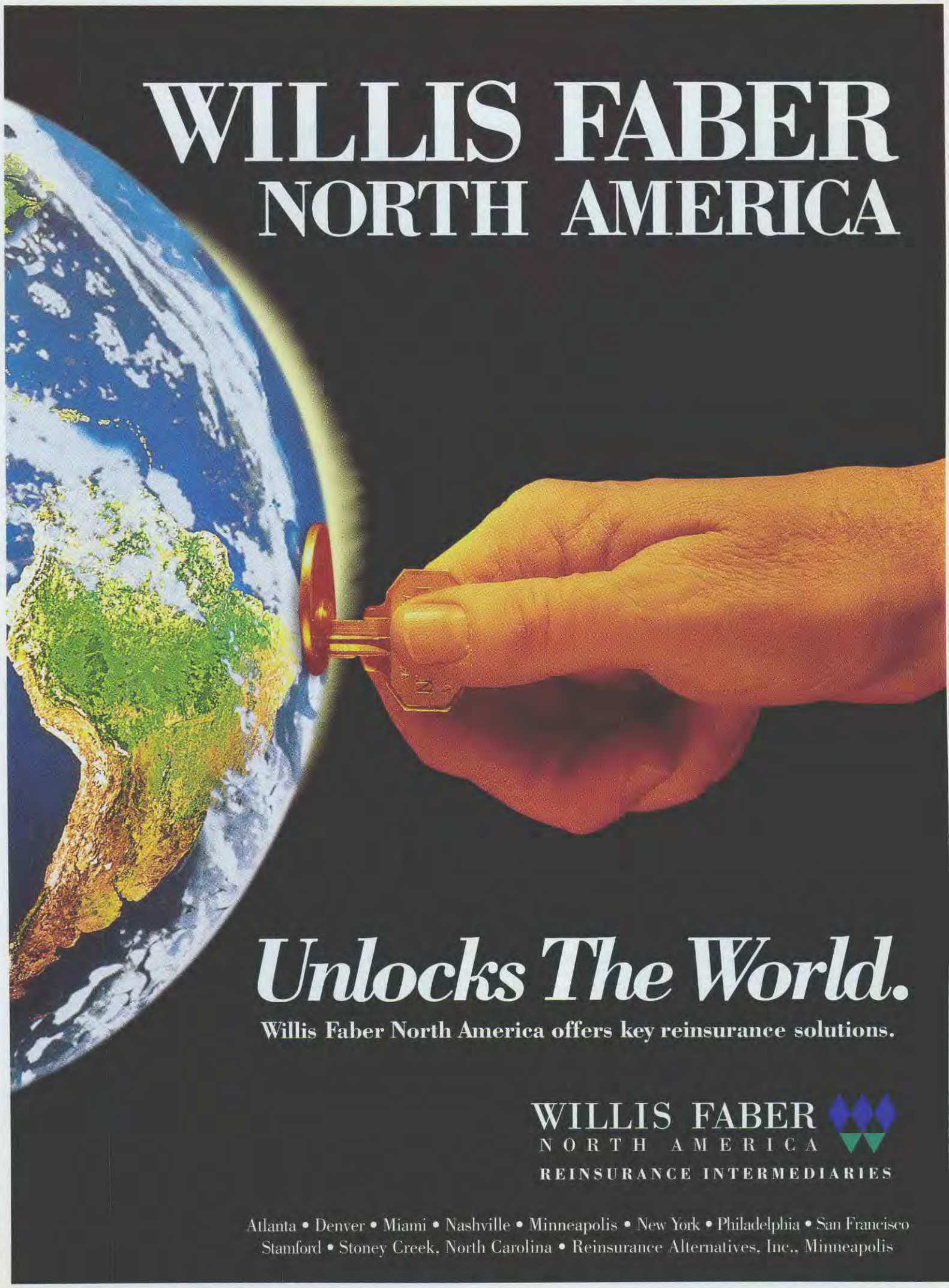
Meanwhile, rates for errors and omissions coverage for real estate agents are stable this renewal season after rising 5% to 12% during 1995, Schinnerer's Mr. Genecki noted.

On the regulatory front, wholesalers in California support legislation, A.B. 2869, designed to circumvent a recent insurance department bulletin that prohibits them from issuing surplus lines insurance contracts to California insurance buyers.

The department issued the May 30 bulletin after concluding during an ongoing review of the industry that such activity is part of a surplus lines insurer's core operations. Under current California law, such core activity cannot be done in the state, explained Dennis Ward, chief of the department's enforcement division.

If the bill is not enacted, issuing surplus lines policies in California will be more costly and inconvenient for surplus lines insurers and could lead to staff cutbacks at wholesalers, said Dick Bouhan, executive director of the National Assn. of Professional Surplus Lines Offices in Kansas City, Mo.

The bill, which Assemblywoman Marilyn C. Brewer, R-Irvine, wrote after consulting with the department, awaits action in the Senate. The Assembly already has approved it. BI



Reinsurance buyers like the current climate

Rates down and capacity up, even for some cat cover

By GAVIN SOUTER
and DOUGLAS McLEOD

Reinsurers report

Increased capacity and lower prices are combining to produce a sweet summer renewal season for most reinsurance buyers.

Only catastrophe rates in high-risk areas appear to be holding up.

Other cat rates are falling as an increasing number of reinsurers get into what has been a richly rewarding line of business over the past three years.

But buyers of cat cover aren't the only ones that are enjoying July 1 renewals—proportional treaty reinsurers and facultative reinsurers also are offering cheaper and expanded coverage.

Most property catastrophe reinsurance rates are falling, said Paul Ingrey, chairman of F&G Re Inc. in Morristown, N.J.

"There are some decent deals coming out of Florida and California but, other than that, the best case is the occasional risk that renews as expiring," he said.

Generally, rates for nationwide risks are falling by about 10% and regional risks are falling by between 15% to 20%, Mr. Ingrey said.

Barring a catastrophe, those reductions are likely to continue over the next several months, he said.

"They will continue until companies really start to lose money," Mr. Ingrey said.

Edmund Megna Jr., executive vp with Guy Carpenter & Co. Inc. in New York, said he has not seen prices rising on any cat renewals; the only question is the extent of the reduction, he said.

For large ceding insurers buying high limits, though, the softening prices won't last forever, he added.

"There will be a time sooner or later when overall pricing will see a minimum level," according to Mr. Megna.

Florida and California, the areas in the United States most prone to catastrophes, generally are renewing on the same terms and conditions as last year, reinsurers say.

"Catastrophe prices in Florida and California appear to be holding up because there is still a shortage of capacity," said Ajit Jain, president of the reinsurance division at Berkshire Hathaway Inc. in Stamford, Conn.

Elsewhere, rates are falling by up to 10%, depending on loss experience, he said.

In some areas of the Midwest, some reinsurance rates are holding steady or declining only slightly due to concern about the earthquake exposure near the New Madrid fault, Mr. Jain said.

Computer catastrophe models are demonstrating that many companies have severe exposures near the fault, agreed Neil Currie, senior vp at Renaissance Reinsurance Ltd. in Hamilton, Bermuda.

"People are taking the New Madrid fault much more seriously," he said.

Despite that concern, the chance to make money is attracting more reinsurers to the U.S. catastrophe reinsurance market.

European reinsurers are pursuing more U.S. business eagerly and some Lloyd's of London syndicates also are trying to re-establish themselves in the U.S. cat reinsurance market, Mr. Ingrey said.

Capacity in the cat reinsurance market at midyear renewals has increased to $500 million to $550 million for a given risk, compared with $400 million a year ago, he said.

Cat capacity is growing, prices are weakening and coverage is getting broader, brokers agree.

Available catastrophe limits are up about 30% from this time last year, with $500 million to $600 million in conventional cat reinsurance attainable on a given account, said Willis T. King Jr., chairman and CEO of Willcox Inc. Reinsurance Intermediaries in New York.

At the same time that capacity is increasing and prices are falling, reinsurance buyers are negotiating improved conditions. In some cases, for example, ceding insurers are lengthening the standard "72-hour clause," which defines losses occurring within a 72-hour period as a single occurrence subject to a single ceding insurer retention. Lengthening the period cuts the chances that losses toward the end of a long storm would be considered a second event, triggering a second ceding insurer retention.

Cat reinsurers' desire to spread their risk worldwide also is creating a reinsurance buyer's market in lower-risk regions where reinsurers are scrambling to pick up business, said Steven Bolland, senior vp with Gill & Roeser Inc. in New York.

"Everyone wants to be there all of a sudden to spread their risk," he observed.

In some cases, that can lead to dramatic price reductions, said F&G Re's Mr. Ingrey.

For an account covering the Dominican Republic that renewed last month, the retention was reduced to $10 million from $15 million, the limit was increased to $50 million from $40 million and the premium was reduced by one-third, he said.

"Smaller countries and zones are areas where people want to increase or retain the cat business they are writing," Mr. Ingrey said.

Catastrophe products increasingly are being tailored to meet specific needs of ceding insurers. In cases where a ceding company is concerned about protecting its balance sheet, for example, it may take a larger retention and use the premium savings to buy larger limits, said Mr. Megna.

"The whole name of the game is customization," he said.

One of the customizations is layers for individual states or counties rather than a uniform program covering the whole country, said Renaissance Re's Mr. Currie.

For example, a buyer may have a substantial portfolio in a Texas county that is in a high-risk area. If the buyer obtains top-layer coverage for that risk on a nation-

See **Reinsure** *on page 22*

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BIWCFP

Reinsure

Continued from page 20

wide basis, it might cost 8% rate on line, whereas if it is bought just to cover one county the rate might by 3.5%, Mr. Currie said.

Both the reinsurer and reinsurance buyer benefit from the arrangement as the buyer pays a lower rate and the reinsurer frees up capacity to write other risks, he said.

Proportional treaty reinsurers continue to offer lower rates and expanded coverage in a competitive market, reinsurers and brokers say.

Willcox's Mr. King sees continued softening in virtually all property/casualty reinsurance lines, with competition growing in specialty lines like directors and officers liability, errors and omissions and professional liability.

Rate reductions of 10% to 20% are common for property/casualty reinsurance renewals, with larger reductions for desirable risks, he said.

"There's no giveaways in this market, but there isn't any precipitous drop in pricing, either," said George H. Roberts, president of Reliance Reinsurance Corp. in Philadelphia.

Treaty reinsurers are seeking to increase their premium volume and that is leading to some pressure on pricing, he said.

But mostly the treaties are renewing at close to the same terms as last year, said William L. Munson, president and CEO of Mercantile & General Reinsurance Co. of America in Morristown, N.J.

"Generally it's been a ho-hum July," he said.

Reductions in rates have been "minor slippages" and rate increases have only been imposed on accounts that have suffered significant losses, Mr. Munson said.

"It's a very reasonable market for the buyer of reinsurance at the moment," he said.

Often the competition takes the form of coverage expansions for little or no additional premium, said Edward Noonan, president of domestic insurance company business at American Re-Insurance Co. in Princeton, N.J.

"Some people are taking extremely large risks. For example, some reinsurers are writing pro rata property business in Florida without occurrence caps," he said.

Prior to 1992, pro rata reinsurers usually followed the fortunes of the insurers they reinsured. However, after suffering large losses as a result of Hurricane Andrew, most reinsurers insisted on a loss cap in their treaties to limit their exposure.

"Now there are a few programs which don't have those caps. When we see them we just move on," Mr. Noonan said.

"It's death by 1,000 cuts," Gill & Roeser's Mr. Bolland said of the universally competitive marketplace. "You can actually do almost anything you want" in renewing a program.

Casualty reinsurance pricing continues to be soft, but Mr. Bolland said he isn't seeing many other changes in terms, largely because most ceding insurers already have won all the concessions they've sought.

"You've probably got all the changes you need," Mr. Bolland said.

Guy Carpenter's Mr. Megna said he has seen some expansion of casualty terms, including limited coverage for pollution risks.

Coverages are being expanded as reinsurers relax exclusions in reinsurance contracts, agreed Mr. Roberts of Reliance.

"Primary insurers are under pressure themselves and they then seek to expand the level of their reinsurance coverage," he said.

Most commonly, pollution exclusions are being relaxed or withdrawn, Mr. Roberts said.

Large ceding insurers also are increasing their retentions and buying higher limits. In part, this is a move by cedants to bolster their premium volume in the face of declining casualty insurance rates, brokers explain.

One reinsurance broker who requested anonymity said he could understand the softness in the property pricing but not in general liability and umbrella.

With property, "it doesn't take you 20 years to figure out whether you're making money or not," he said.

On casualty risks, "I find it difficult to see how people are going to make a profit on that business at the current rates," he said. "I would say the casualty business is as soft as I've ever seen it."

Several observers pointed to the paradox of continued deterioration in reinsurance pricing accompanied by no deterioration in reinsurers' results.

"It's amazing," Mr. Bolland said. "You wonder how people can do that. It's magic I wish I could perform with my own bank account."

The results may be explained by a combination of good catastrophe loss experience in 1995, the release of redundant reserves from prior years and "optimistic" assumptions about incurred-but-not-reported loss development on current business, brokers suggested.

Reserving levels haven't provoked big worries in the marketplace yet, some report.

"We have tended to ignore that in the past, and we'll probably ignore it this go around," Willcox's Mr. King said.

The facultative reinsurance market is also competitive, said American Re's Mr. Noonan.

Some casualty facultative programs are seeing rate reductions of 20% from smaller reinsurers trying to build up market share, he said.

Some of those reinsurers are undercutting competitors by so much that they are "leaving money on the table," Mr. Noonan said. In other words, they are sometimes dropping their price by significantly more than they need to win the business, he explained.

"Facultative business has performed very well, so there are reinsurers out there trying to expand their facultative business as a result of that performance," Mr. Noonan said.

While there have been few fireworks during 1996 midyear renewals, some changes in the market are showing through.

More reinsurers are following a strategy announced by the recently formed Risk Capital Re and using their own capital to supply financing to ceding companies.

Reinsurers, for example, may take an equity interest in a ceding insurer or negotiate a sale of surplus notes, brokers say.

Reinsurers' principal motive in these deals, one broker noted, is to secure the cedant's business.

Reinsurance relationships' expansion into investment relationships is not a function of the market being soft but more an outgrowth of changes in the market that have put smaller ceding insurers that have a harder time raising capital at a competitive disadvantage.

"All of these things are a manifestation of the change in the market," one broker said. BI

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Health

Continued from page 1

Consulting. "There's simply less pressure on prices, and utilization appears to be down slightly. That's good news for plan sponsors."

On average, HMO rates are fairly flat with occasional decreases, while most PPO and indemnity plans are coming in with single-digit increases, said Alice Rosenblatt, a principal in Coopers & Lybrand L.L.P.'s Boston office.

Factors that are keeping renewal rate increases fairly low this year include the proliferation of managed care programs, wider use of gatekeepers in both managed care and traditional plans, better monitoring of lengths of stay, the acceptance of discounted fees by physicians, and continuing low inflation, consultants say. The medical component of the Consumer Price Index increased by a modest 3.7% for the 12 months ending May 1.

In addition, competition for employers' Medicare risk HMO policies is strong in some areas of the country, and this is starting to also affect rates for group health plans.

"A lot of the health plans are either holding their prices steady or cutting prices," said Watson Wyatt's Dr. Friend. Competition in the Medicare risk HMO market has become so energetic that some HMOs are vying to sign cut-rate group health policies for a chance to also offer coverage to those companies' retirees, he said.

Even without vying for Medicare business, competition is fierce, health insurers say.

There is a tremendous amount of effort on the part of the major health insurers to increase market share, said Al Szabo, vp-sales and marketing for Chicago-based Rush Prudential Health Plans, an HMO. There are still more players that do not have much of a presence in managed care but that are trying to create one, "so the level of price competition is fierce, and I don't see it getting any better," he said.

Industry consolidation will maintain the level of competition in the market for the foreseeable future, said Jeffrey Verney, senior vp-sales process at CIGNA HealthCare Inc. in Bloomfield, Conn. In the early to mid-'90s, the West Coast was clearly the most competitive market, he said. That intensity of competition has now spread across the country, driven by marketplace pressures and customers' expectations that managed care should lower their medical costs.

"I think the big consolidations are not a threat to competition at this point," said Jack Doerr, group benefits practice leader at Sedgwick Noble Lowndes in Chicago. Although attention has been focused on the merger of large national players, there still exists a great deal of competition on the local and regional level. "We've not seen any indication of rates increasing as a result of decreased competition from managed care providers," he said.

Arnold Hebert, vp-commercial sales and marketing for Pacificare Health Systems' western region, based in Cypress, Calif., said that consolidation over the long-term will drive costs down "by its very nature." Companies consolidate to improve efficiency and to spread their cost of investment and technology over a broader base, which decreases costs, he said. It also provides greater leverage with providers.

Despite competition and consolidation, some benefit consultants predict slightly higher price increases for mid-year and 1997 renewals.

Tom Beauregard, a principal at Hewitt Associates L.L.C. in Rowayton, Conn., forecasts an average upward trend of 3% to 4% in rates for managed care plans, and 6% to 12% for fee-for-service plans as companies head into 1997.

"The last two years, there was a trend down, so this is the first uptick in two years," he said. "But long-term health care trend predictions are almost impossible to make at this point."

Others see wide variations in rates at midyear.

Increases in health insurance rates are ranging "wildly," said Bruce Schlesinger, president of Schlesinger & Associates Inc., a Chicago insurance broker and consulting firm.

Although there appears to be a general tightening in the market, there are plenty of exceptions in markets where competition is forcing insurers to expand customer bases and safeguard provider networks, he said.

"Even where rates are increasing, we are seeing pressure in the marketplace to moderate (increases) to maintain market share," he said. "What we're seeing is the consolidated players compete vociferously."

In evaluating health plans, however, Mr. Schlesinger stressed that the mere increase or decrease of a rate doesn't give a clear picture of how fairly the insurer is treating the plan sponsor. "The real issue isn't whether the rates are going up," he said. "What we are seeing is that relative to claims experience, we're seeing rates that are frequently less than expected."

Depending on the plan sponsor, there may be a 20% variance in pricing even for the same coverage, Watson Wyatt's Dr. Friend said.

Some price increases may surprise benefit managers who had expected to be the beneficiaries of the supposed heightened efficiency and competition of leading insurers.

Helen Darling, manager of health care strategy and programs at Stamford, Conn.-based Xerox Corp., is annoyed about her 1997 HMO rates, which are slated to rise an average of 3% to 5% for 1997, compared with a 2% decrease last year and a 1.9% decrease in 1995.

"They can control their premiums better than they're doing," said Ms. Darling, arguing that recent acquisitions among managed care systems have created unnecessary financial burdens for plan sponsors. "It's hard for me to be sympathetic. Are they just spending a lot of money to make another company's shareholders wealthy? We've always been a company that's not been into nickel-and-diming HMOs, but we're also not willing to be chumped."

One health care consultant said small rate increases are not unexpected and that most HMOs have held larger increases at bay with good utilization review procedures.

"Overall, the managed care market has taken out a lot of the fat that existed in health care, and once that was accomplished you were bound to see some modest increases," said Bill Falk, a principal with Towers Perrin in Chicago. Mr. Falk predicts a 2% average increase next year for managed care rates, with individual pricing changes ranging from slight decreases to increases of up to 5%. Traditional indemnity plan rates probably will rise by 11% to 13%, he said.

Some new rates appear higher than usual, he said, because many companies negotiated especially good rates for 1996 and those decreases were tough to sustain.

One way employers are starting to combat rising prices is to negotiate aggressively for contracts that cover two, three or even more years.

Plan sponsors that lock in reason-

See **Health** *on next page*

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Health

Continued from previous page

able rates can ride out the uncertainty of the immediate future. Also, frequently more insurers are willing to take the risk for a longer-term commitment. Some employers also are going beyond basic pricing in specifying their expectations in multiyear contracts: Watson Wyatt is encouraging its clients to negotiate with insurers for a five-year deal, with a 5% cut in administrative overhead and improvement in health outcomes guaranteed yearly.

In addition to longer contract periods, employers in many communities are continuing to form group purchasing arrangements. Many observers say these employer coalitions are beginning to affect rates.

"I think it's having an impact," said Frank Keenan, vp and actuary with NYLCare Corp., the health care subsidiary of New York Life Insurance Co. The larger and midsize coalitions "have always been very good at negotiating good deals with the insurers and the HMOs," he said.

"I think they're just coming into their own," said Richard Belloff, president of Private Healthcare Systems in Waltham, Mass., a PPO.

Rush Prudential's Mr. Szabo said that while coalitions are having a greater impact nationwide, and some are very effective, many others "say they are coalitions, but they don't act like coalitions. . . .They get out and say 'Here's what we want, but we reserve the right to make individual decisions as to whether or not we participate once we get it.' "

For these arrangements to be most effective, individual employers have to be willing to sacrifice their own plan design and insurer selections and to go along with what the majority of the coalition wants, Mr. Szabo said.

Although there have been cases where they have obtained slightly better rates for their members, employer coalitions overall have had only a marginal impact, according to Gary Lake, a principal and actuary in the Washington office of A. Foster Higgins & Co. Inc.

The rates of companies that are in coalitions are comparable to those that are not, said CIGNA's Mr. Verney. The challenge they face, he said, is maintaining the integrity of the coalition if those with good experience feel they are subsidizing those with bad experience. "I think the jury's still out on the overall impact of the coalitions," he said.

Purchasing coalitions still are at an early stage because of the lack of readily usable data on health outcomes, though in some markets, such as Minneapolis, it has been proved that unified purchasing can head off price increases, said Sean Sullivan, president of the Washington-based National Business Coalition on Health. And while group purchasing efforts have in part been slowed by a perception that costs aren't rising much, Mr. Sullivan cautioned against such assumptions.

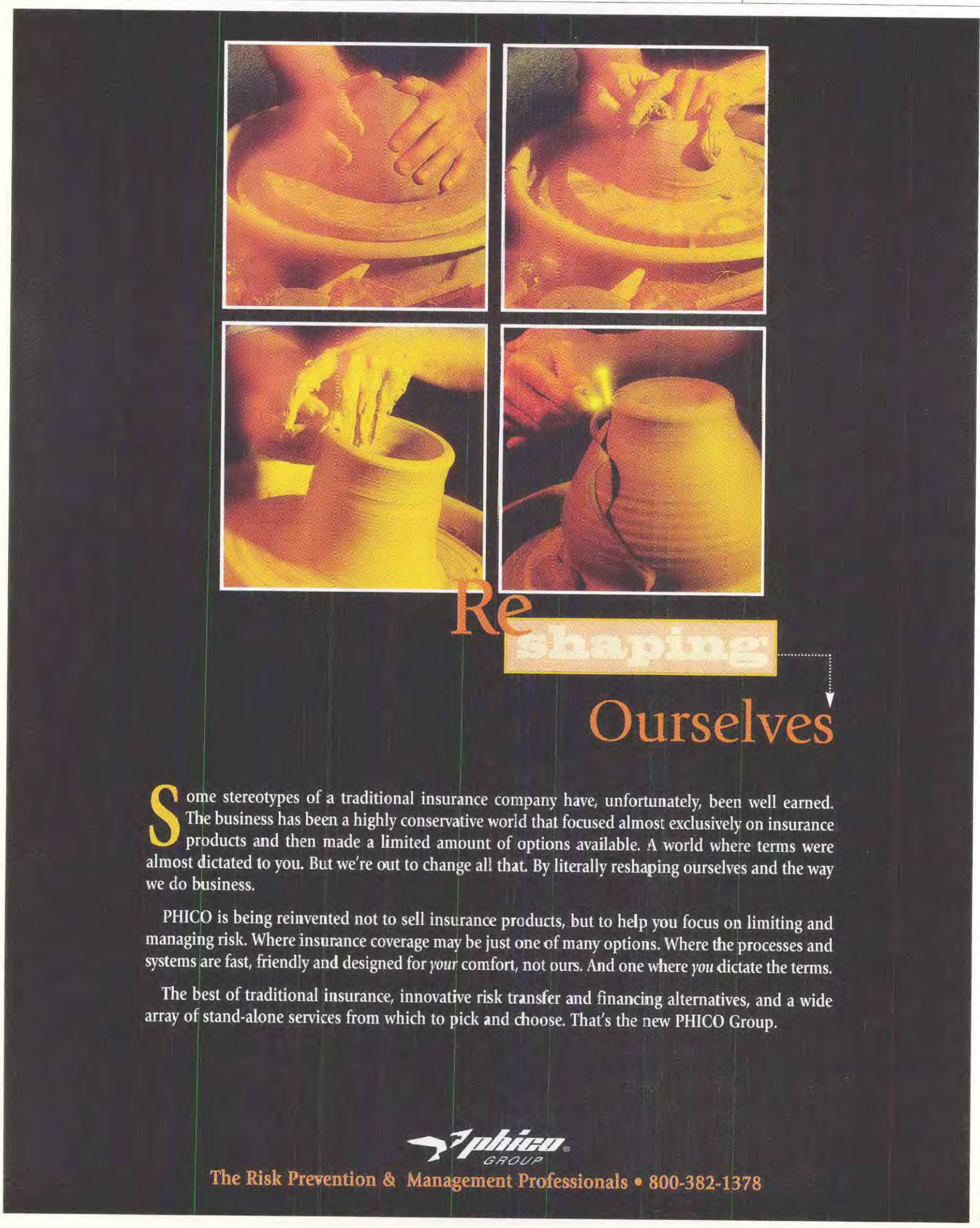
"For employees who think they've got the cost problem licked, they're living in a fool's paradise," he said. About 50 of the coalition's 95 member groups are engaged in some type of insurance purchasing.

A study by the Washington-based Center for Studying Health System Change, a non-profit policy analysis group, recently found that of 15 communities studied, very few had employer groups collectively buying health care from insurers and managed care groups. Although many groups are gathering data on health care plan quality and prices, price cuts generally haven't happened until the groups have taken the next leap to direct price negotiation with plans, the study found.

In a few cases, coalition activity has been more effective for groups of very small employers rather than the largest companies in a market.

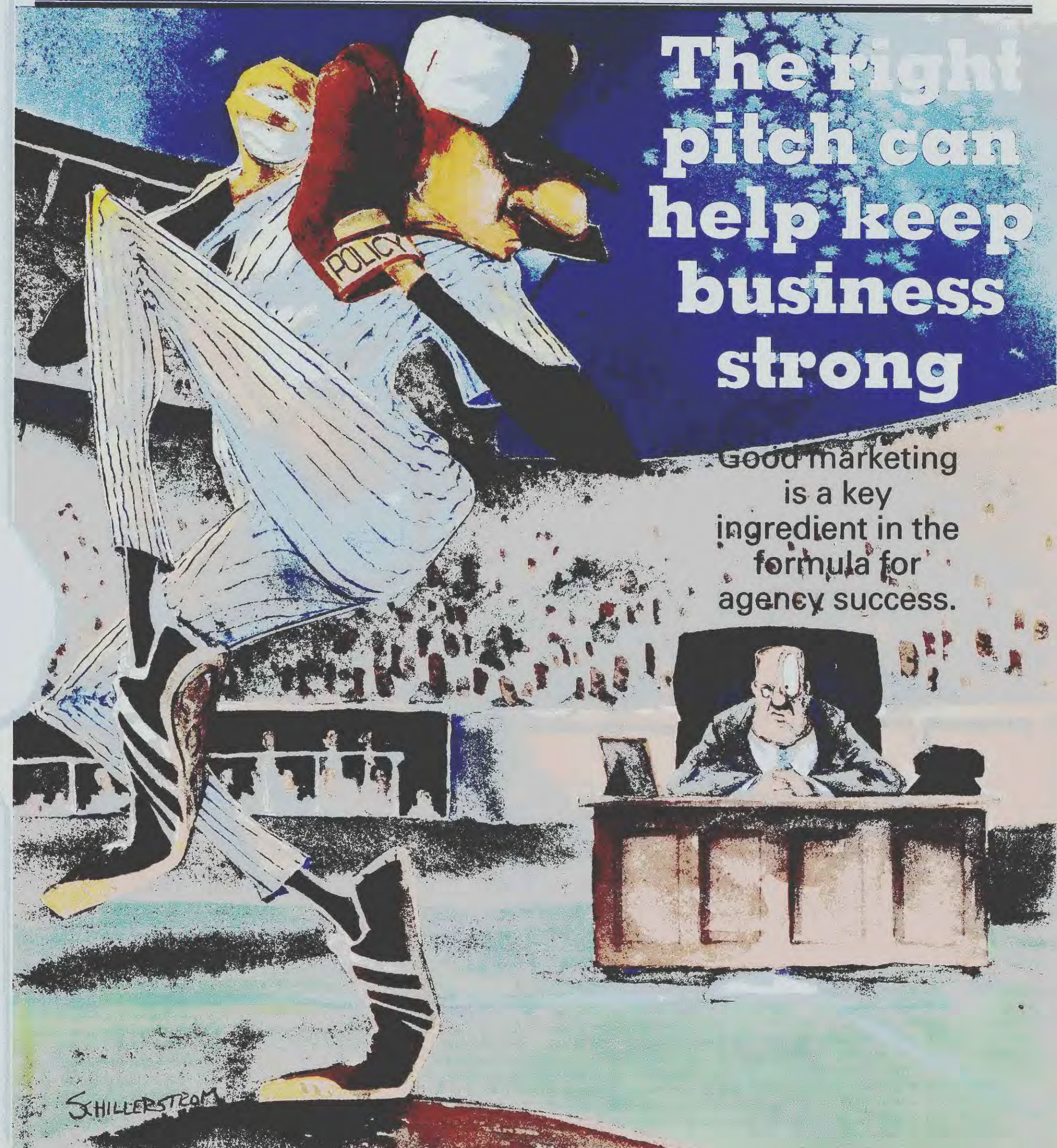
The Cleveland-based Council of Small Enterprises, which is part of the area's Chamber of Commerce and has 12,300 member companies ranging in size from 1 to 249 employees, recently negotiated a July renewal of its managed care contract with Blue Cross & Blue Shield of Ohio, which includes a PPO, HMO and traditional indemnity plan options. The average rate increase for the two managed care options was 2.2%, down from increases of 2.5% in 1995 and 2.9% in 1994. There was a 4.5% increase for the traditional indemnity plan.

The group also negotiated an 8% decrease in rates for a smaller group of employees enrolled in a Kaiser Permanente HMO, attributing the savings to greater efficiency and lower utilization rates. BI



Agent/Broker Topics

A monthly editorial section sent exclusively to agents and brokers



The right pitch can help keep business strong

Good marketing is a key ingredient in the formula for agency success.

Agent/Broker Topics

Agents can make their mark by what, where they market

By SALLY ROBERTS

The distribution system is rapidly changing and if agents want to play the game successfully, they need to differentiate themselves from the competition.

This was the main message for agents at the annual Insurance Marketing & Management Services conference, held in Phoenix May 9-11.

In a format patterned after the Late Show with David Letterman—with a Top 10 list and similar music and set—moderators played the role of Mr. Letterman by calling up and interviewing different guests. While each guest had a different message, the theme was the same.

"Change is constant and rapid," said Jack Fries, president of Fries & Fries Consulting in Morgan Hill, Calif., and one of the moderators. "Your challenge is to go out and look for ways to stumble over innovations your customers are looking for in the future," he said.

"There are different ways of working with distribution change," echoed John Jaques, president of consulting firm John H. Jaques Inc. in Petaluma, Calif., and another moderator. "There is not one answer for every agent or broker. You need to take your strengths and leverage them," he said.

Two agent opportunities highlighted by "guests" on the show included marketing lines of credit and commercial loans and marketing the agency over the Internet.

One way to combat the threat of competition from small-town banks distributing insurance products is to join them at their game, explained Dick Herriott, president of Independent Financial Services Inc. in Westerly, R.I.

ADvertising & PROMOtions

To do so, Mr. Herriott is helping AMS and IMMS members market personal credit plans and lines of credit to medical and legal professionals, as well as offer aircraft financing and commercial loans.

Independent Financial Services has financial relationships with NationsBank to provide consumer loans and New England Capital Corp., a Mitsubishi Bank Ltd. affiliate, to provide commercial loans.

Through the loan program, agents can introduce the loans as part of their regular sales calls. Independent Advantage also will either mail the marketing materials at no charge to an agency's customers or will supply the agency with the materials to be sent out directly.

"Many customers could use a loan," Mr. Herriott said. Agents can help because customers often come to them for insurance before their ventures get off the ground.

In addition, offering loans and credit plans gives agents the opportunity to cross-sell. For instance, a personal lines customer may need help obtaining a loan for a commercial venture, Mr. Herriott said.

Marketing loans not only will open new windows of opportunity for new clients but also will improve agents' bottom-line results, he said. "It will save an agency's client base, and better retentions yield you more gross premium volume and more commissions."

Banks entering the insurance distribution system is only one trend in the industry.

The Internet also is changing distribution, and agents need "to establish your own unique presence," said Dan Carmichael, president and chief executive officer of the Insurance Value Added Network Services in Greenwich, Conn.

But, the Internet and its World Wide Web is not yet ready for commerce, he warned.

"The marketplace is still emerging," he said. Currently, between 1% and 4% of Internet users buy something monthly via the Internet and 60% of those people on the West Coast.

Internet security is "fair to p[oor]," he said. One in three compa[nies] despite security measures, [was] hacked.

Because of security problems and potential viruses, Mr. Carmichael advised agents to wait until improvements are made before sending important information over the information superhighway.

What the Internet is ready for is electronic communications between agents, clients and insurers.

"The value of the Internet now is communication with customers. The communications potential is unlimited," Mr. Carmichael said.

While he does not recommend sending sensitive information over the Internet now, agents should not sit back and wait.

Instead, agents should determine potential returns for promoting and advertising over the Internet, he said. First, the agency should decide if existing and potential clients are out there on the Internet and if they are interacting on it. Secondly, agents should consider a World Wide Web presence. "The cost of a home page is small," he said.

By staying abreast of the new technology, agents will be prepared for the future and will be able to "skate to where the puck will be," he said. BI

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Agent/Broker Topics

Communication in disaster is key to service success

By MICHAEL PRINCE

AD vertising & PROMO tions

The 17th of January, 1994 was not a good day for insurance agent Mario Guerra.

His Northridge, Calif., agency, Scanlon-Guerra-Jacobsen, was devastated by the powerful pre-dawn earthquake, whose epicenter was nearby.

Visiting his offices, Mr. Guerra found the ceiling had collapsed, the phone lines were knocked out and the computers containing the names and phone numbers of his clients were destroyed. He poked around the rubble for a few minutes until an aftershock made him head for the parking lot.

Working from his personal cellular phone and some numbers he had with him, he started the long task of contacting his clients to help them file claims. Despite the many obstacles he had to overcome to service his clients, one stood out.

"Communication was the biggest problem we had," Mr. Guerra said.

His work was further hampered because most of his clients lacked phone service. When he did reach one by cellular phone, "they were absolutely amazed I got in touch with them," he recalled.

Mr. Guerra converted his undamaged house and cellular phone into his office, but it still took more than two weeks to contact all of his clients.

To help reach policyholders, Mr. Guerra placed an advertisement in the Los Angeles Times. It didn't help. He estimates only about 10 clients saw his one-square-inch ad, which cost him $1,500.

After Florida's devastation by Hurricane Andrew in August 1992 and the Northridge quake two years ago, Mr. Guerra and other agents sought a better way to reach clients following a disaster. A better way has arrived.

A new program went into effect June 1, coinciding with the start of hurricane season, to help insurance agents like Mr. Guerra contact policyholders after a natural disaster.

Created jointly by the Independent Insurance Agents of America Inc. and the Property Claim Services division of the American Insurance Services Group, the new program will swing into action after a disaster, placing radio and newspaper ads containing the phone numbers of local insurance agents and insurance companies.

"Our cooperative program will make it easier to respond quickly and notify policyholders of how to file claims and protect property from further damage," said Gary Kerney, assistant vp of PCS in Rahway, N.J.

The program will benefit policyholders, agents and insurance companies. Not only will it provide important information to policyholders suffering from property damage, but it will lower the direct cost of advertising by the insurance companies and agents in reaching their policyholders.

"The idea is we can give them the opportunity to reach policyholders and at the same time reduce advertisement costs for newspaper and radio ads," he said.

"Our plan is to aggregate in one place all the ads so that when people open the newspaper the ad will catch their eye. It will be like a little directory in the newspaper that people can take out and keep handy," he said.

The ads also will provide information to policyholders on how to protect their homes from further damage and what documents they should save so insurance companies can pay claims.

"It's sort of a catastrophe plan for advertising," said a spokesman for the Alexandria, Va.-based IIAA.

After a disaster strikes, PCS will contact its insurer members and IIAA will contact local independent agents to find out which ones will participate.

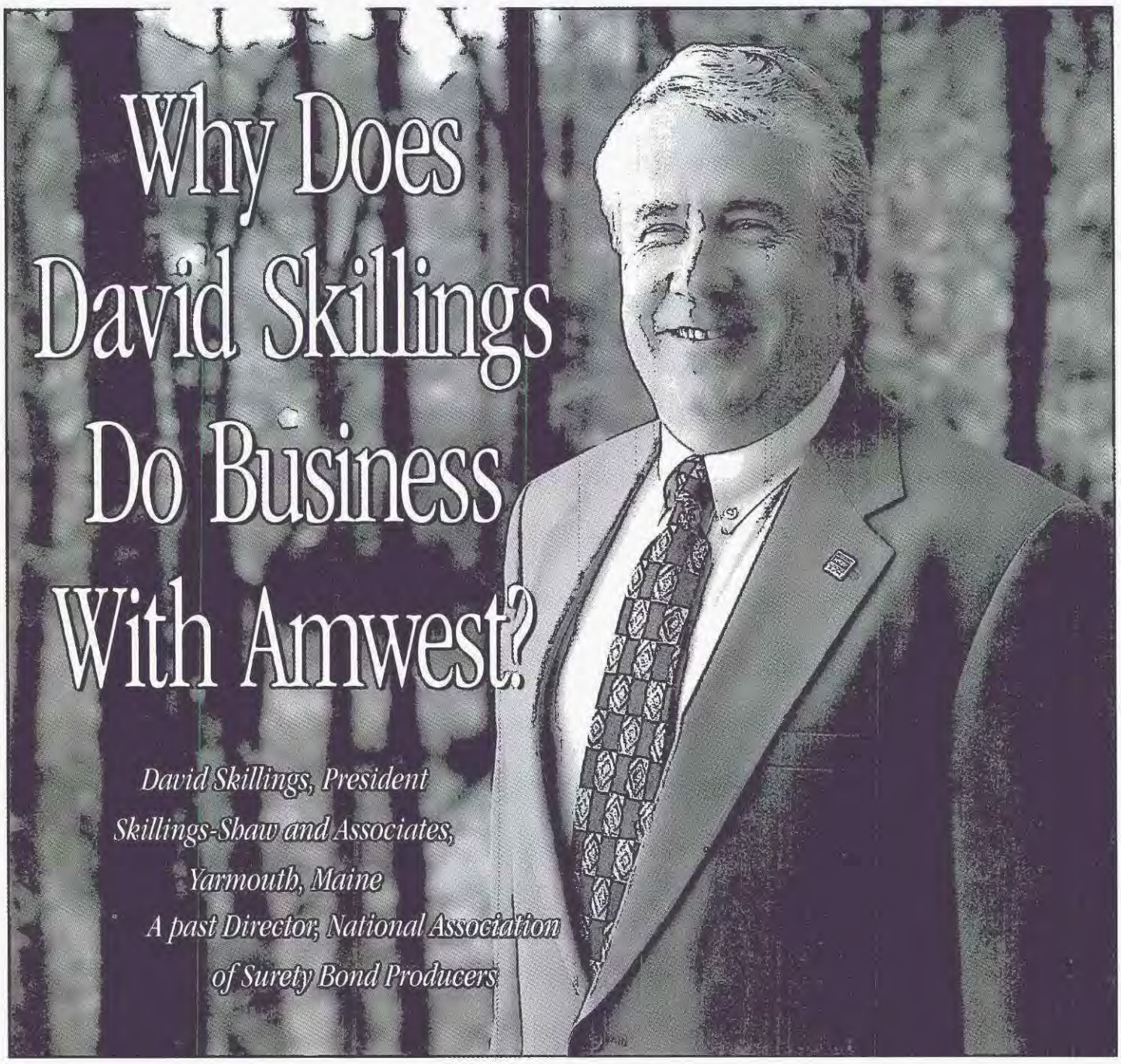
Print ads will contain the logo and telephone numbers of insurance companies and agents that want to be included. The radio scripts are already written and can be aired within eight hours of the decision to proceed, and newspaper ads can appear within 48 hours, said Mr. Kerney.

Since the ads will contain information from many agents and insurance companies, they will be larger and more visible than the tiny and scattered ads that individual agents and insurers used to rely on. The cost of the ads will be paid by insurance companies and the IIAA.

The program initially will be used in windstorm-prone areas along the Atlantic and Gulf coasts as well as the earthquake-plagued Pacific coast. Later, it will be expanded to cover other parts of the country with natural catastrophe exposures.

Mr. Guerra, former chairman of the IIAA's National Catastrophe Task Force and who helped design the program, likens it to helping an independent agent who is juggling a dozen balls following a disaster.

"It's one less thing that we have to worry about in a catastrophe," he said. BI



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Agent/Broker Topics

Industry changes driven by technology

Information capabilities change products

By SALLY ROBERTS

The United States has already undergone several economic revolutions: the first moved it into the agricultural age, the second into the industrial age and the third, still continuing today, is a change to the information age, a brokerage executive contends.

"The world is undergoing an enormous restructuring," said L. Ben Lytle, chairman and chief executive officer of Acordia Inc. in Indianapolis.

Whereas the "sources of power" used to be money and strength, the future will favor those with the power of intelligence, he said.

The new age means insurance agents "will be dealing with a market of one. . .the individual," Mr. Lytle told agents attending the opening general session of the Insurance Marketing & Management Services conference held in Phoenix.

AD vertising & PROMO tions

Right now, "we're seeing this in health care," Mr. Lytle said of the single market concept.

Insurance agents used to just sell a health care policy to an employer. Now employers want a variety of plans so employees can choose which plan fits best with their needs. In essence, "the group market is now an individual market," he said.

All of the trends occurring amid this restructuring are leading to "a smaller, more consolidated and more competitive industry that is still vibrant for those who figure out how to play in it," Mr. Lytle said.

Advances in technology are one of the major catalysts behind the revolution.

In the last few years, technology has been developed that makes it easier to integrate systems after a merger or acquisition, he said. Because of this technology, consolidation in the insurance industry will be faster and more widespread.

"We will see more consolidation in the next five years than we've seen in the last 20 years," Mr. Lytle predicted.

In addition to technological changes, people now travel all over the world, governments are more open to industrial changes and people are able to invest and trade anywhere in the world. "Clearly, the world is getting better," he said.

At the same time, agents are facing a number of challenges.

For instance, agents face difficulties in accessing markets, keeping up with technology, the soft insurance pricing, banks entering the insurance industry and trying to attract good, qualified people into the field.

However, "these are not things to slit our wrists about," Mr. Lytle said.

Instead, agents need to study the trends occurring in the world as well as within the industry and determine where their agency fits in.

For agencies, possible strategies for competing in the market are vast. Mr. Lytle offered a few suggestions, which resemble Acordia's own strategy, to other agents.

- Agents can "figure out where the competition is not and go to it," Mr. Lytle said, adding that mid-sized to small towns are "still a very vibrant" market.
- Agents can focus their business on individual niches. "Lots of agents have not made a move to specialize and that's not a good position to be in," he said.
- Agents can become consolidators. "If you can build an agency by buying other books of business and other agencies, you will have the scale to compete or the ability to sell the agency to a larger fish in the ocean on your terms," Mr. Lytle said.

"If we don't look at what is happening to us, we will wake up one morning and find something bad has happened to us," Mr. Lytle warned.

This forward thinking was the impetus behind the formation of Acordia Inc. in 1989.

"We saw lots of changes occurring now, occurring a few years ago," Mr. Lytle said, adding the idea for Acordia came in 1982, but it wasn't acted upon until 1987.

"We felt there was a good opportunity to build a broker with the quality of an alphabet house, in terms of talent and programs, but to do it in the mid-market in main street cities," he said.

"We also wanted to build a network of regional companies" as opposed to a large standardized and centralized organization, he said. "We didn't want to build in layers, so we built Acordia as a holding company."

Building a holding company with free standing regional companies was a "way to let the entrepreneurial part of the business remain and at the same time have a larger organization that can compete with the alphabet houses," he said.

Acordia also offers an attractive bonus plan and stock ownership plan as incentives for producers.

Acordia's main growth catalyst, however, has been acquisitions. The broker has completed several major acquisitions since 1989—including Robinson-Connor Inc., American Business Insurance Inc. and Bain Hogg Robinson—and a dozen smaller acquisitions, Mr. Lytle said.

"The whole idea worked," Mr. Lytle said. Only six years after it made its first dollar of commission, Acordia reported more than $555 million in revenues in 1995. BI

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IMMS meeting—and the sun—attracts 375

PHOENIX—About 375 insurance agents braved the 106 degree heat in Phoenix to attend the Insurance Marketing & Management Services convention held May 9-11.

As usual, the tone of the conference was lighthearted.

For instance, attendees were greeted early the first morning by a talking watermelon nestled in a cornucopia of fruit at the breakfast buffet. The watermelon was actually a man who, with the exception of his painted green head, was hidden under the table.

In addition to the antics, agents had the opportunity to attend a variety of sessions giving them a taste of what the IMMS thinks the future of insurance distribution will look like.

Such topics as clusters, networks, automation and niche marketing were discussed during the three-day conference. The conference also featured all-day CD-ROM and Internet demonstrations.

The IMMS will hold its 24th annual convention at the Fairmont Hotel in New Orleans, May 14-18, 1997.

For more information, contact the IMMS at 310-442-6000.

Agency aims to retain business

Premium volume growth depends on customer satisfaction

By SALLY ROBERTS

Chris McVicker, president of The Flanders Group, runs the Pittsford, N.Y.-based agency by the motto: "It's not what we make, it's what we keep."

The focus on retaining customers comes at the same time the agency is experiencing tremendous growth. Since 1991, premium volume at the Flanders Group has catapulted 230%, to $33 million in 1995 from $10 million. All this coming from only 19 employees, who each generate more than $184,000 in revenues per year.

"Our growth is so dramatic, it is essential we accelerate the bonding with our customers. . .that we are doing the things necessary to retain them," Mr. McVicker said.

During a session at the Insurance Marketing & Management Service conference held in Phoenix recently, Mr. McVicker compared customers in an insurance agency to customers in the airline business.

"We don't care what type of airline we travel on, whether it's a DC-10 or DC-9, we care if it gets us to point A from point B. The reason we come back to the airline is the service we get." It's the same in an agency. Customers are not interested in the insurers it deals with, they are interested in what the agency is doing to maximize its relationship with the customer, he said.

Providing the kind of service that keeps customers coming back, however, can be difficult to do when an agency does not have the luxury of time.

Statistics back his concern. According to Waltham, Mass.-based 21st Century Management Consulting:

- A 5% improvement in the average agency's customer retention levels will increase its profits by 35% to 50%.
- The average agency will spend five to six times more money to attract a new customer than to keep a current one.
- A referral from a profitable customer will have a 92% retention rate compared to a 67% rate from advertising.
- A dissatisfied customer will tell eight to 10 people about a problem. One in five will tell 20 people.
- Seventy percent of complaining customers will buy from an agency again if the problem is resolved in their favor, while 95% will buy again if it is resolved on the spot.

To take full advantage of the time the Flanders Group did have to devote to its customers, it turned to 21st Century Management Consulting to identify each niche market specialty's needs and wants.

First, Flanders Group clients were broken down in terms of A, B and C customers. A customers pay

AD vertising & PROMO tions

$75,000 or more in premiums; B customers pay $20,000 to $75,000 in premiums; and C customers pay less than $20,000 in premiums.

Face-to-face interviews were conducted with clients from each category. They were asked why they came to Flanders. why they stay, and why they would leave, explained Lynn M. Thomas, the 21st Century consultant who worked with the agency.

"Most of the time, agencies focus on B and C customers because there are more of them," she said. "The future of the agency is dependent on your present A customers."

"It is true that 20% of your customers generate 80% of your income," Mr. McVicker added.

Once the needs and wants are established, action plans need to be put in place, Ms. Thomas said.

She stressed that all employees within the agency need to be behind this effort if it is to succeed. "You need 100% passionate commitment to wooing customers."

While action plans at the Flanders Group are currently being implemented, its long-term goal has been established.

"We've created a non-optional behavior for our personnel. They must go into the direction we want to go or go elsewhere," Mr. McVicker said.

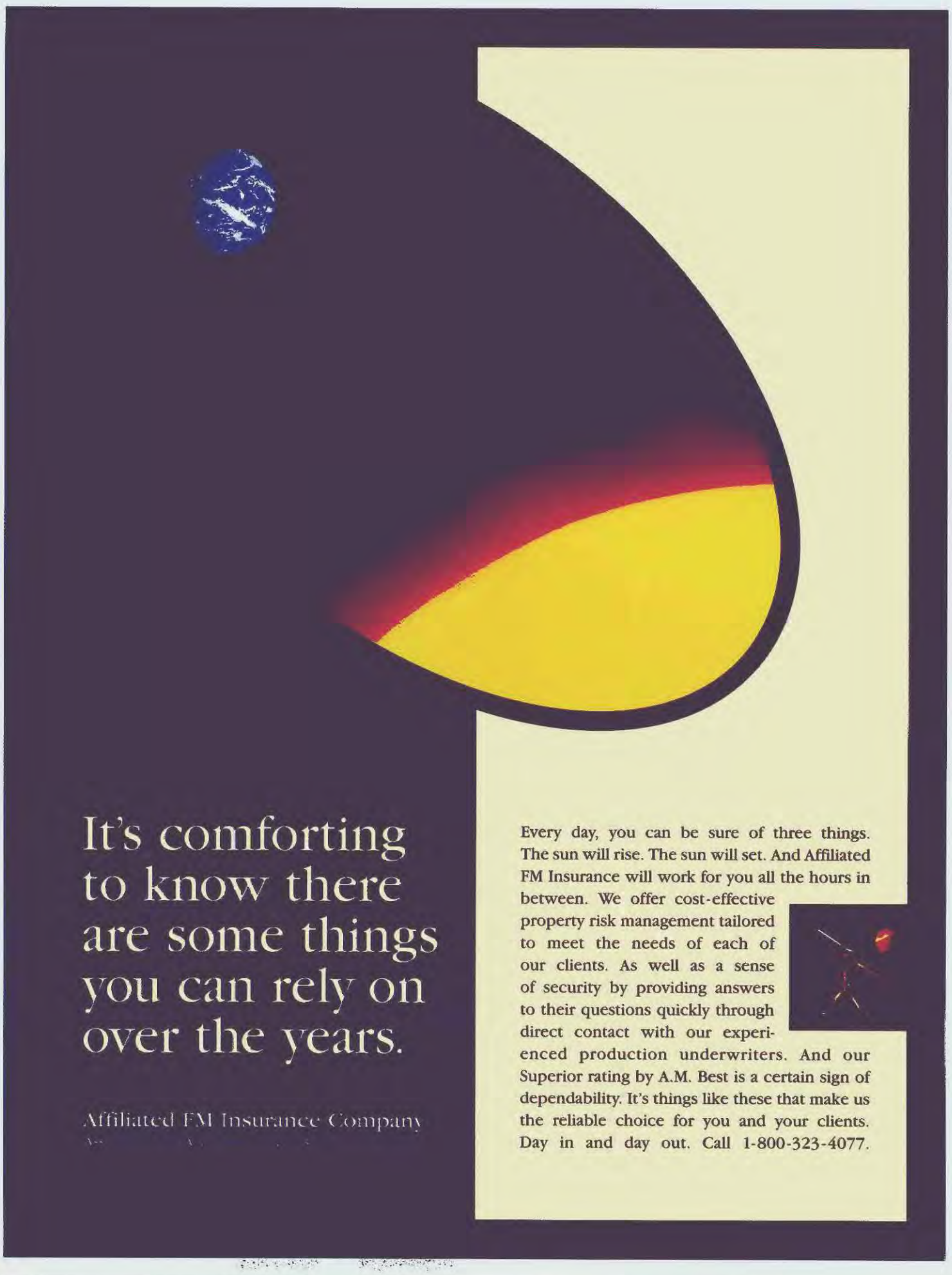
One of the ways to move employees into this direction and create highly satisfied customers is to create highly satisfied employees, he said.

To do this, Mr. McVicker suggests training and compensating employees well.

"The only thing worse than to train someone and have him leave is to not train someone and to have him stay," he said.

While Mr. McVicker is still in the process of implementing action plans, one of the areas highlighted in the report as needing improvement is communications.

Effective communications is not a difficult concept, it's just difficult to implement, he said. BI



Niche markets offer agents growth possibilities

By Andrew Barile

A/BT Perspective

RETAIL INSURANCE AGENTS and brokers, wholesale surplus lines brokers, general agents and managing general agents should increase commission income by focusing on insuring niche market opportunities.

The agent who provides the insurance company for the Florida homeowners niche market, for example, will increase revenues. The managing general agent who is able to secure the insurance company to write a commercial difference-in-conditions policy, including flood and earthquake, will increase its commission income. That's what identifying and securing insurance companies for niche programs is all about. It is the ability of the program administrator—which can be a retailer, wholesaler or MGA—to identify the proper insurer to write the program.

For the insurance company to obtain underwriting profits on the niche program it has to focus on its ability and expertise, as well as competitive market conditions.

Given the approximately 2,600 property/casualty insurance companies operating in the United States, the marketplace has many different underwriting philosophies and operating characteristics. For every niche program, there is a niche specialty insurer.

In matching program administrators with insurance companies, the program administrator has the task of finding the appropriate insurer, based on a conservative number that there are usually some 150 potential insurance company markets for any one specific niche program.

From the insurance company viewpoint, how does it select the type of program it believes has underwriting profitability? This article will explore how agents can readily identify potential insurance company markets and how underwriters can identify profit opportunities. When traditional approaches to find insurers are not economically feasible, alternative risk transfer concepts like purchasing groups, risk retention groups and agency captives must be explored and implemented.

Role of administrator

Converting your agency into a program administrator is a successful approach to increasing revenues.

Control over a book of business or acquiring a book of business in a specific niche, e.g. non-standard auto, commercial auto, excess property, directors and officers, lawyers malpractice—whether it be personal lines or commercial lines, that is not important. What is important is that it is a book of business that is initially approaching $500,000 in anticipated premium volume and that you have a sophisticated business plan for obtaining an insurance company market.

A feasibility study is important for any entity considering the formation of a captive insurance company, either offshore or onshore. The feasibility study for a specialty niche insurance program is equally important for the insurance company that is going to underwrite the program.

Traditional insurance agents and brokers who have become program administrators have increased their revenues by increasing commissions and also contingent commissions on their program business. Owners and executive management of property/casualty insurers recognize that their ability to produce underwriting profits is enhanced when their expertise is focused on specific niche insurance products.

Insurance company underwriters of specialty niche programs are trained to identify potentially profitable programs. They are able to quantify the amount of potential profit to make a selection. Identifying the program to work on is an important characteristic of a good underwriter. The many types of insurance companies operating in the property/casualty market exist for various reasons, most of which have to do with underwriting philosophies.

Property/casualty market

Approximately 2,600 to 3,000 property/casualty insurers currently do business in the

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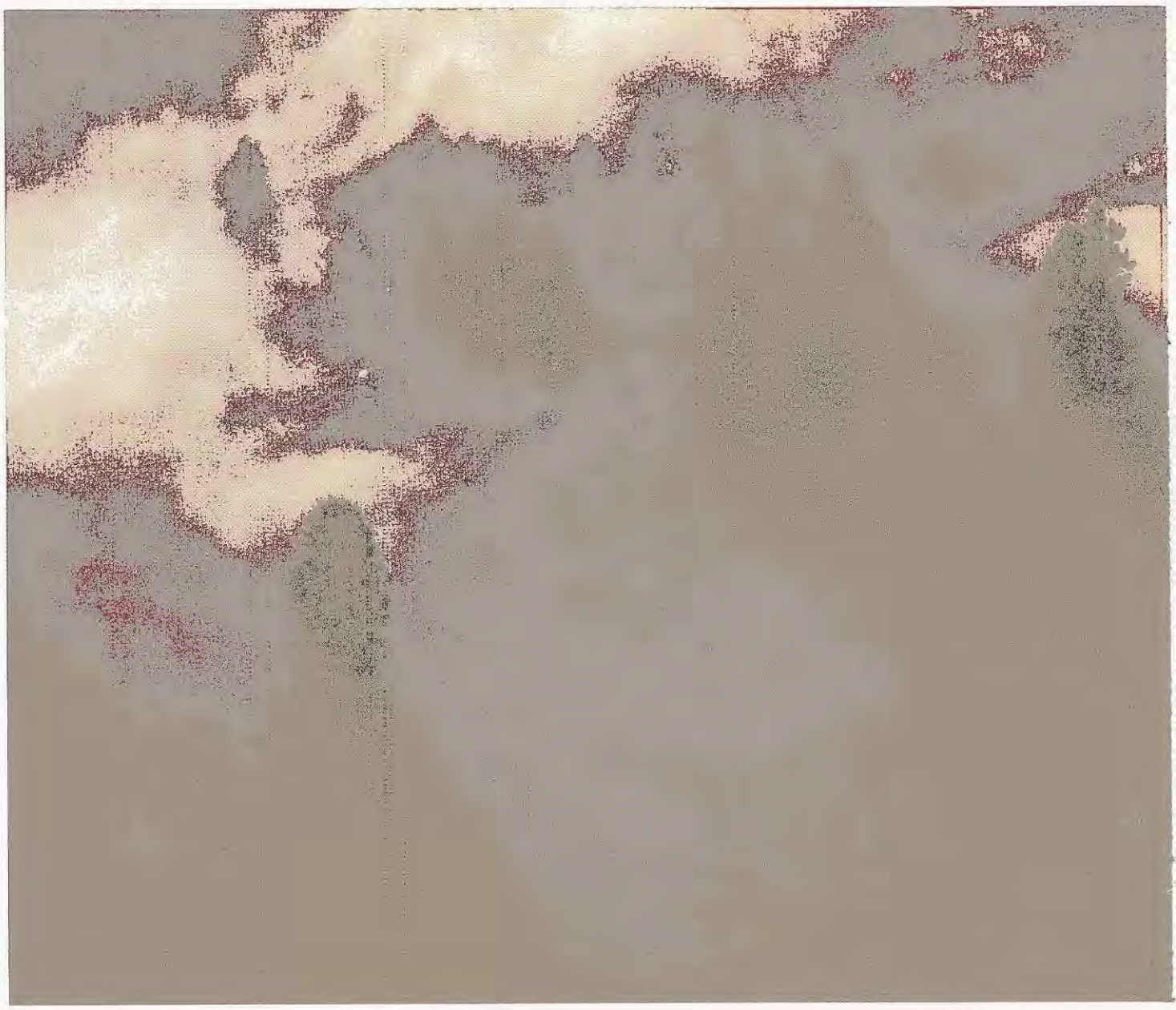

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United States. They include admitted and non-admitted companies, some that write in one state, those that write in all states, some that use independent agents to distribute their products and some that go directly to buyers, and some that only use program administrators. Some insurers only use wholesalers, some only use managing general agents and some insurance groups are so large they use all of the distribution methods, as outlined, largely dependent on the insurance products. The ability to find the "right" insurer for your specialty program is an important concept, as is the ability to negotiate with the insurer.

Negotiating with several insurers on the same program can be the key to finding the "right" company. Let's go through some of the reasons that insurers decline specialty niche programs:

- Parts of the program do not meet the company's requirements.
- The company requires a minimum per policy premium for a program.
- The insurer is not looking to expand its capacity in catastrophe-prone states.
- The company does not have underwriting expertise in that class of business.
- The insurer only writes on a surplus lines basis in that state.
- The company does not think profit potential can be met.
- The insurer believes the premium volume for the program is too large.

Negotiating with several insurers on the same program can be the key to finding the 'right' company.

These are only a few of the many reasons insurance companies decline programs. That is why, to successfully complete a market search, many potential insurance companies must be approached.

Access to reinsurance

Some specialty niche insurers are using the underwriting expertise of the reinsurance company market to provide adequate capacity for their programs.

The U.S. reinsurance market, comprising about 40 reinsurance companies, has a strong underwriting appetite for specialty niche programs. Reinsurers can be accessed on a direct basis, through an intermediary or through a reinsurance consultant.

It is important that not only the insurance company but also the program administrator know the cost and structure of the reinsurance program. Many program administrators are terminated because they are told by the insurer that the company was not able to buy adequate reinsurance at an affordable cost. Program administrators must understand and be able to quantify the cost of the reinsurance for their program.

Vertical integration

Professional reinsurers are forming primary specialty niche insurance companies, first in surplus lines and then in the admitted market. Reinsurers with large capital bases need to expand and obtain more market share.

Global acquisitions and primary insurers afford two opportunities for future growth.

Despite the apparent conflicts with their ceding company clients, professional reinsurers are entering the specialty program business.

Reinsurance companies now are equipped to perform both underwriting and claims audits, not only on their ceding company clients but also on those clients' appointed program administrators.

Many larger program administrators want to obtain their own reinsurance program and welcome the due diligence performed by reinsurance companies visiting their offices. Reinsurance pricing, whether it be the components of a ceding commission or the true cost of excess-of-loss protection, must be understood by all parties in the vertical integration concept, from program administrator to insurance company to reinsurer. The successful specialty niche insurance program enhances the revenues of the program administrator and increases the underwriting profits of the insurance company or reinsurance company.

As the restructuring of the property/casualty insurance business continues, we will continue to see more specialized program administrators and more insurers focused to handle those administrators. BI

Andrew Barile is president and chief executive officer of Insurance Agency Programs Inc., a New York-based consulting firm specializing in insurance and reinsurance.

Logging onto the future

Experts say agents and brokers still have several avenues for competing with online distributior.

- Promote company by sponsoring local information pages on the Internet
- Use Internet to give policyholders advice, e.g. warning before a disaster strikes
- Offer online claims processing
- Increase service by offering 24-hour communication via e-mail

GRAPHIC BY KIM ROME

Something to fear—or use to advantage

Internet will push agents aside, if they let it

By GAVIN SOUTER

NEW YORK—The inevitable result of more widespread use of the Internet in the insurance industry will be the demise of many brokers and agents, two information technology experts say.

Easier access to policyholders will drive many insurers to use the Internet to curb their distribution costs, they say.

Only agents that service large complex accounts and those that act now to take advantage of service opportunities on the Internet will survive, the experts predict.

Agents that simply sell high-volume coverage that is easily packaged and offer no added value to the insurer or policyholder will disappear, they say.

The Internet will lead to more direct writers over the next 10 years, predicted Tim Higham, president and chief executive officer of The Insurance Resource Center in Charlotte, N.C.

Existing direct writers are already working on projects to make use of the Internet to further increase their cost advantage over insurers that use agents and brokers, he said at a conference on the insurance industry and the Internet sponsored by Business Strategy Network in New York earlier this spring.

Broker market insurers "will be forced to set up a separate entity to sell directly to consumers in some form or another within the next five to 10 years," Mr. Higham said.

Inevitably, this will lead to a sharp reduction in the number of agents and brokers, he said.

"Some agents will not be able to keep up and will not be able to survive," Mr. Higham said.

Compared with the Internet, using agents and brokers is an extremely inefficient method of distributing insurance, he said.

In addition, banks likely will increase their role in the insurance market and, if they use the Internet effectively, will kill off even more agents, Mr. Higham said.

"Imagine if you log on to check your credit card balance and you see a note about an auto policy and they give you a quote without you even asking," he said.

For brokers and agents to survive in this environment they will have to be on the cutting edge of technology, Mr. Higham said.

"You will have cyber agents," he said.

The future does not look good for many insurance agents, agreed Steve Waterhouse, a consultant at Waterhouse Communications in Scarborough, Maine.

Direct marketing of personal lines insurance over the telephone in many countries has already shown the direction in which "commodity" insurance sales is heading, he said.

But it will not just be agents selling personal lines business that will be forced out of business, Mr. Waterhouse said.

Many smaller commercial policies also can be packaged and sold over the telephone or Internet, he said.

But while the demise of many agents is inevitable it is not imminent, Mr. Waterhouse said.

The Internet has not yet reached the huge market that is currently serviced through insurance agents, he said.

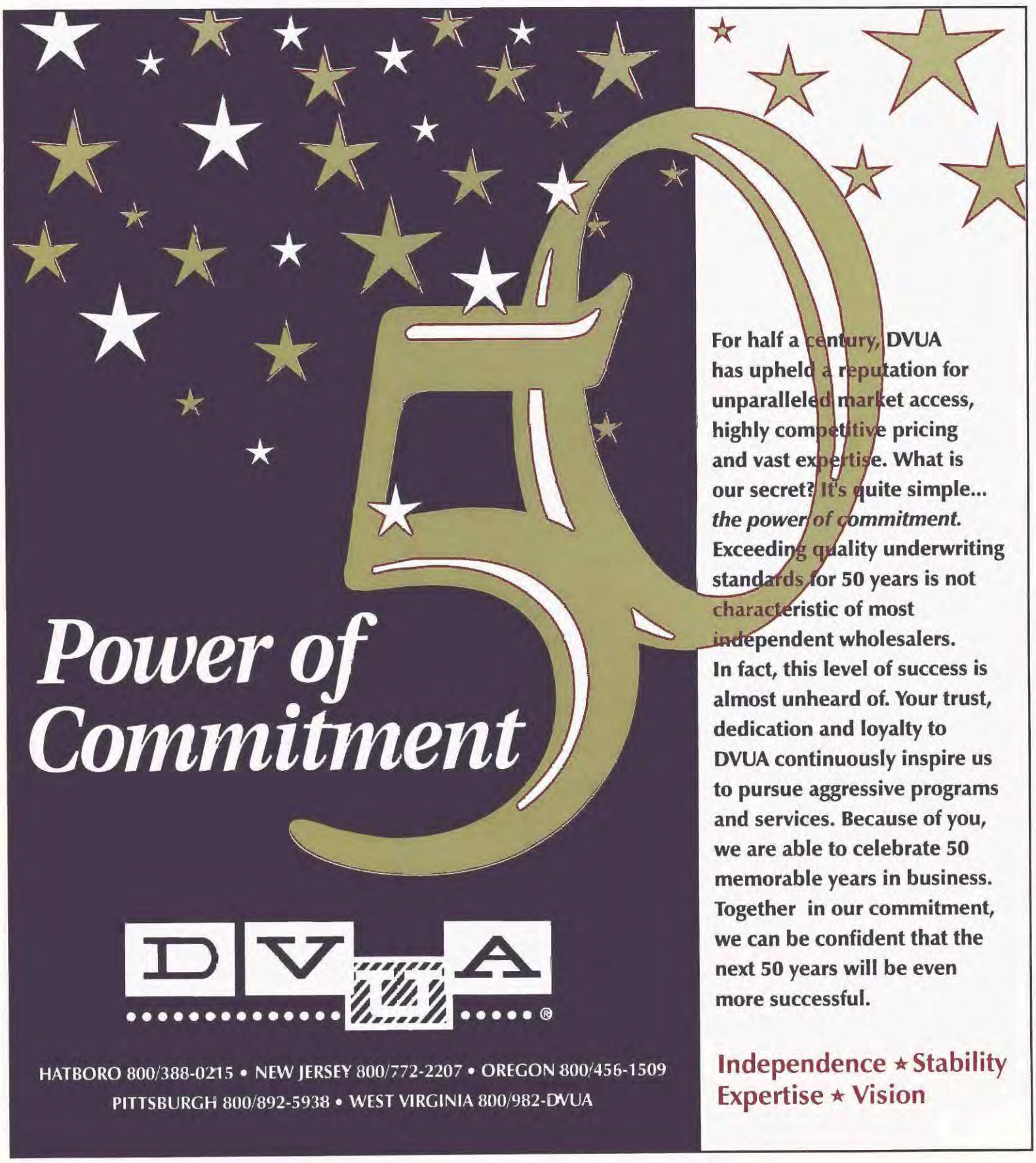
"The cost of technology will keep it from progressing as quickly as we might hope. People will not spend $3,000 on a computer to get on to the Internet," Mr. Waterhouse said.

And those people that will invest in the technology to access the Internet have largely already done so, he said.

The Internet will have to be accessible through simpler means, such as cable television, before there will be more widespread use of the technology and that will likely take several years, according to Mr. Waterhouse. In that time, some insurance agents could adapt to using the Internet as a tool to keep themselves in business rather than fear it as the weapon that will bring about their destruction, he said.

For example, agents could the Internet to promote

See **Internet** *on*



ABT Briefs

Online submissions

NEW YORK—Reliance National Insurance Co. now is accepting broker submissions through its home page on the World Wide Web.

Currently, the New York-based multiline insurer's submission form is limited to a short description of the coverage required, basic underwriting information and other miscellaneous data. Reliance National plans to expand its submission form in the future.

"Initially, our primary objective in being on the Internet is to show the insurance community we have global reach, that we're a leader in technology," said Craig Lowenthal, vp-information services.

"As technology brings more capabilities to the forefront, savvy companies are using this new medium to increase market share and penetration. By being one of the first property/casualty insurers to have a submission page, we believe ourselves to be one of those at the forefront." he said.

Reliance National's Web site includes background on the insurer and its products and services, an online newsletter and links to other insurance-related sites.

For more information, visit the Reliance National home page at http://RelianceNational.com.

IIAA scholarship

ALEXANDRIA, Va.—A dozen high school seniors have been named winners of the 1996 Independent Insurance Agents Junior Classic National Scholarship.

The scholarship program, administered by the IIAJC and the Alexandria, Va.-based Independent Insurance Agents of America Inc., was established last year to help college-bound seniors nationwide. Each winner will receive $1,000.

The IIAJC is a national junior golf tournament that has been held annually since 1969.

This year's winners, chosen from among more than 2,000 applicants, are: Wesley Pearson of Lakewood, Colo.; Mark Hanf of Morehead City, N.C.; Michael Harms of Scotia, N.Y.; Janelle Harnick of Greenfield Center, N.Y.; Jane Dall of Ferdinand, Ind.; Sara Hendryx of Battleground, Ind.; Brian Baumann of Weston, Ore.; Laura Renslo of Stillwater, Minn.; Nicole Nelson of Holt, Mich.; Kari Brummond of Aberdeen, S.D., Kimberly Novak of Clark, Pa.; and Will Chancellor of San Antonio.

For more information on the scholarship program, contact Alan Greilsamer, 800-221-7917.

Teacher wins award

ALEXANDRIA, Va.—The Independent Insurance Agents of America Inc. has named Electra Demos as InVEST Teacher of the Year.

For the past 11 years, Ms. Demos has run the IIAA's InVEST program at Montgomery High School in San Diego. The program teaches insurance-related business skills to high school and college students in 23 states.

Ms. Demos also initiated an "adopt an agency" program to help students interact with insurance industry professionals and created a booklet to assist students in applying for jobs.

As InVEST Teacher of the Year, Ms. Demos received $500 for classroom materials and $500 for personal use.

The award is presented annually to teachers involved in the InVEST program who are nominated by local independent agencies. BI

Internet

Continued from previous page

selves through sponsorships of local information pages on the Internet, Mr. Waterhouse said.

"You have to stop thinking of the Internet as a global thing. It also does a very good job around town," he said.

Internet pages concerning local events and information often can be accessed by the general public at libraries, so there is no need to wait for a cable connection to the Internet to reach a broader audience, Mr. Waterhouse said.

"They may not buy insurance over it yet, but they can see you sponsoring a page," he said.

And for those policyholders that do have easy access to the Internet, insurance agents can set up a range of services that will turn the technology to their advantage, Mr. Waterhouse said.

For example, they can issue information about imminent catastrophes and advice on how to minimize damage, he said.

And online claims processing could be offered over the Internet whereby policyholders can communicate with their agents 24 hours a day, Mr. Waterhouse said.

"I might get home late and find that I can't talk to my agent so I type him a message saying I just backed into a tree. If I can communicate with him on my own terms I'm happy," he said.

But agents should be careful not to use to technology as a means of cutting back on service to policyholders, Mr. Waterhouse warned. "My big fear is that agents will use technology to provide a low level of service. They will automate everything and they will add no value to the companies they represent. When they do that they will be cut out of the picture." BI

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Agent/Broker Topics

Women in sales cite job satisfaction

NAIW survey finds women agents have found success in their careers

By REGIS COCCIA

Most female insurance agents remain in sales positions because their jobs give them a "sense of doing something for the customer," a nationwide survey says.

The survey, conducted earlier this year by the National Assn. of Insurance Women, found that 70.4% of women in insurance sales considered serving the customer as their main motivation.

Other factors motivating female agents included monetary compensation, cited by 48.6% of the respondents, and professional challenge, which was cited by 41.6%.

The survey questioned NAIW members on a variety of agency issues, including annual commissions, reasons for entering sales, which skills contribute most to success and whether their compensation and benefits are equal to that of male agents. The NAIW received 652 responses.

The NAIW, a Tulsa, Okla.-based organization that promotes educational programs for women in insurance, has about 14,000 members.

Most of the respondents—77.3%—are independent agents. Eleven percent are exclusive agents, while 9.7% described themselves variously as brokers, sales writers or sales administrators.

The greatest number of respondents—20.1%—have been in the insurance industry for 11 to 15 years, while 19.5% have been in the industry for six to 10 years and 19.3% have been in the industry for 16 to 20 years.

Property/casualty insurance is the No. 1 form of business, according to the survey.

Of the respondents, 40.5% sell property/casualty coverage, followed by life insurance, 12.1%, and health insurance, 9.8%. Nearly 30% of the survey respondents indicated that they sell both property/casualty and life/health insurance.

Female agents listed a variety of reasons for entering the sales profession.

The most popular reason, cited by 36.2%, was opportunity for greater income. The second most popular reason was opportunity for greater job flexibility, 27.3%. In third place was an "other" category—chosen by 18.9% of responding agents—which included reasons such as family business, career change, job security, enjoyment working with people and desire to be self-employed.

More than 18% listed opportunity for advancement as another reason for entering insurance sales.

A large majority of agents considered themselves moderately successful to very successful in sales, the survey found.

NAIW members were asked to grade themselves on a scale of 1 to 6, with 6 being "very successful." The largest number—40.6%—gave themselves a 5, followed by 30.4% who rated themselves a 4. More than 16% selected the highest possible ranking.

Respondents who rated themselves a 4, 5 or 6 were asked to indicate the skills they believe most contributed to their success. Product knowledge ranked highest, cited by 32.4%, followed by communication skills, 21.8%; listening skills, 17.6%; ambition, 17.2%; flexibility, 16.3%; and perseverance, 16%.

On the issue of whether women in insurance sales receive compensation equal to that of men in the same jobs, 58.1% of women surveyed said they were equally compensated, but 39.4% said their compensation was not equal.

Slightly less than 70% of respondents—69.9%—said their benefit packages are equal to those of male agents, while 24.4% said their benefits were not equal to those that men receive.

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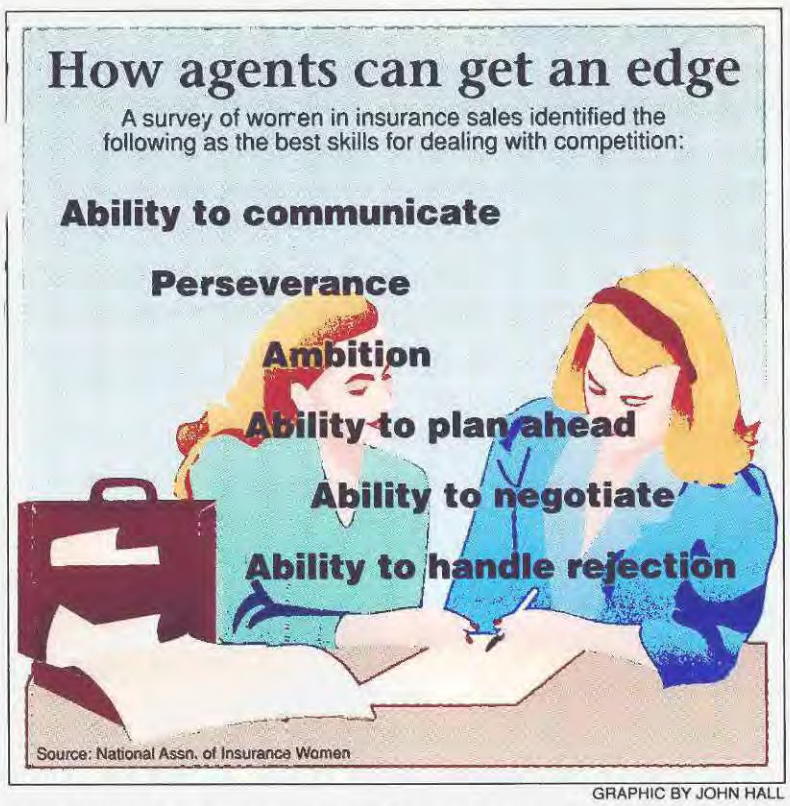
For a copy of "What Makes Insurance Saleswomen Tick?" or more information, contact the National Assn. of Insurance Women, P.O. Box 4410, Tulsa, Okla. 74159; 918-744-5195.



GRAPHIC BY JOHN HALL

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Business Insurance®

Agent/Broker Topics

Agents ahead of insurers in applying technology

As an industry reliant on volumes of data, insurers and intermediaries stand to benefit greatly by making use of today's fast-changing information technology.

Successful agents, brokers and insurers will be those that use technology to produce customized products and market them inexpensively via the Internet, says William C. Hartnett, worldwide insurance industry manager at Microsoft Corp. in Redmond, Wash. Mr. Hartnett, an independent agent for 15 years before joining the software giant, oversees Microsoft's global products and strategies for its insurance industry clients.

Associate Editor Roberto Ceniceros interviewed Mr. Hartnett recently about the insurance industry's use of technology.

Will some companies in the insurance industry emerge as leaders in their use of technology?

I think it's definitely going to happen. The question is, when is it going to happen? The leaders are going to be the ones that have the foresight to make it work.

The key is that people right now have been talking about using the Internet or using some of these new technologies. (But) they are talking about marketing traditional products using the Internet. There is nothing inherently wrong with that, but the real promise is designing new products that can only be distributed electronically.

The conventional wisdom is that bigger is better today. That you have to get bigger because that is the only way that you are going to survive.

I think bigger is the worst thing in the world because it makes you less flexible. If you have a huge fixed-cost structure in place right now, your ability to respond to some of the technology changes and your ability to compete with somebody who comes in as a new entrant leveraging technology (is limited). Their expense ratio could be down in the single digits because they are not going to have these big buildings and all these other expenses.

Which insurance companies are out in front now in their use of information technology and what sets them apart?

Everybody in the industry is using technology effectively or they wouldn't be in the business. But are they leaders of technology? Are they out there in the forefront?

There are people that are doing a little bit better than others, but there is nobody that is clearly out in front of everybody, that you can point out and say, "These guys really have it."

How does insurance rank as an industry in its use of technology?

It's kind of a paradox. Even though the industry was the first outside of government and academia to embrace automation through mainframes, they since then have been on the trailing edge of the technology adoption curve.

They were early adopters, but since then they have been trailing the pack. If you look at what the securities industry or the banking industry have been doing with technology, insurance is really pretty far behind.

Some of that may be because they were early adopters. They bought really expensive systems; probably some of them are still being written off. The other thing is there is such an entrenched structure that has been built up around those early mainframes.

The whole management structure and the fact that there were no people to go to for (outside) programming, you had to build your own programming department. Now we have these huge MIS departments that really have grown up to service these big computers and it just continues along by inertia.

Where has technology had the greatest impact on the industry?

It would be the impact on the sale of the product. If you look at the agency side of the business and what has happened on the agents' desktop, it's really been the development of the personal computer and the microprocessor that has been the dramatic change in the way insurance is conducted.

If you look, for instance, how life insurance is sold, the fact that you can run a (policy) illustration on your desktop computer right now, where before you had to submit a form through your company rep and they would run it through the mainframe overnight and get it to you in a couple of days.

Now they run on laptops and because we have laptops we can do things like universal life and variable life illustrations that were very hard to do before. We couldn't physically sell those cutting-edge products without microprocessor technology.

You can do a lot of what-if illustrations for people. That has really been a major technological revolution. Right now, if you walk into the average insurance agent's office, at least someone who is serious about the business, you probably get a lot better technology employed there than you do at insurance companies.

What are some of the opportunities for insurers in using new technology?

There are big opportunities and I think everyone is recognizing that. One of the big trends in the industry is the move toward distributed computing. It's more toward distributed decision-making.

Everybody has realized through the various rounds of re-engineering we have been through that the key is getting the information to make decisions closer to the point of customer contact.

Whether that is an agent, or service center, or however you are going to structure it, you need a distributing kind of computing architecture to distribute information out to the point where decisions are going to be made.

How can the industry do that?

We know that we have client/server-type systems where we put the power in the hands of the user. There is a recognition of that from a business standpoint. I think everyone knows we have to do that.

But, from an execution standpoint, there is still a lot of concern. How do we make it happen? How do we take what we have had on mainframes, that have been very dependable for 30 years, and move that out to distributed departments? It's a realistic concern.

I think part of the reason the industry might be gun shy is the early proponents of client/server computing really oversold it.

Continued on next page

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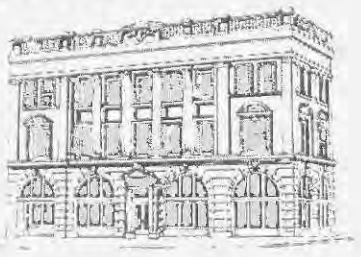

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Continued from previous page

How so?

People would say (up to five years ago), "Aren't these little PC boxes wonderful? They can replace mainframes." Well, that is nonsense. You are not going to replace mainframes with personal computers.

Mainframes have their role and maybe eventually you will have technology that allows you to have that kind of power in a small box. But, as of today, I fully expect mainframe computers will be in the insurance industry for a long time.

What benefits can insurers reap from client/server technology?

The potential of client/server computing is to take certain things off the mainframe that are not really appropriate for the mainframe.

Most of that really involves the application. The mainframe is great at storing data, processing data. But the actual business logic and the business function, how do you process a claim? What is your work flow going to be for underwriting? Even the underwriting applications don't need to run in that mainframe environment, because it is too hard to develop the applications in a mainframe environment.

I think client/server technology can greatly enhance the capability of an insurance company without replacing mainframes. I think you see that a lot in claims systems. The industry is starting to make some progress there now.

What will this mean as far "distributed computing" is concerned?

Distributed computing by nature is going to be harder to manage. Distributed people are harder to manage.

When you start to distribute decisions out to the field, you have a harder time managing what happens out there because all the decisions are not being dictated by the home office. It's just natural. The management structure needs to be better and it's going to be harder to manage. It's going to be cheaper to buy, but it's probably going to be harder to manage. But you should expect that. That is one of the obstacles that a lot of insurance people throw up. They say, "Well it's too hard to manage."

If you have decided you need to have distributed information so you have better decisions at the point of customer contact, then your systems need to support that.

You can't just dig your heels in and say, "It's too hard to manage. I'm not going to do it." That is not reality. BI

ABT Products & Services

Internet monitoring

DAYTON, Ohio—Agents, brokers and insurers have a new tool to help them monitor insurance advertising in cyberspace.

MarkWatch, an Internet monitoring service developed this year, scans four areas of cyberspace, looking for any mention of an insurance company and its products.

Those areas are: the World Wide Web; Usenet news groups, or online discussion groups; databases of domain names, or the electronic equivalent of a company's business address; and online newsletters.

The service is intended to help agents, brokers and insurers comply with advertising regulations by keeping track of trademarks and brand names 24 hours a day, seven days a week.

MarkWatch is run by Dayton, Ohio-based Datalytics, a venture jointly owned by Dow Jones & Co. and Cedar Rapids, Iowa-based AEGON Insurance Group.

Subscribers to MarkWatch can receive daily or weekly reports for an annual fee of $895 per brand name.

For more information on MarkWatch, call 1-800-890-5791.

Hartford CD-ROM

HARTFORD, Conn.—A new CD-ROM available from ITT Hartford Group Inc. puts information about the insurer and its commercial lines products and services at the fingertips of agents and brokers.

"Ready Reference," a compact disc in read-only format, lets agents and brokers retrieve data on commercial lines coverages like property, general liability and workers compensation as well as agency support and other services.

For example, at the click of a mouse, users can call up descriptions of product offerings, explanations of coverage eligibility and quick sales tips.

ITT Hartford introduced "Ready Reference" in a three-volume binder set about a year ago. To help agents and brokers keep the information organized, the Hartford, Conn.-based insurer released it this year on CD-ROM, which comes with instructions for use.

The CD-ROM is available for use with either Windows or Macintosh systems.

For information on "Ready Reference," contact ITT Hartford, Hartford Plaza, Hartford, Conn. 06115; 860-547-5000. BI

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Agent/Broker Topics

Insurance marketing due for a change

By Howard C. Alper

Agents, insurers must make clients partners

OUR INDUSTRY'S marketing methods are in need of an overhaul. They are obsolete, self-destructive and will lead to more insurer failures or mergers if not modernized.

In the 1950s, before the days of "package policies," there was a method of providing property insurance called "the budget plan."

At that time, a five-year prepaid policy was four times the annual premium. To obtain the benefit of spread payments and yet not lose the 20% discount for five-year policies, five policies were written—each for one-fifth the total coverage desired and each for one, two, three, four or five years. All premiums were calculated at the five-year discounted rate. The agreement was that each policy, as it expired, would be renewed for a five-year prepaid term.

The net effect was that the policyholder would pay one-fifth, or one year's worth, of the premiums each year yet get the full benefit of the lower five-year rate, which provided a 20% discount.

This was a great pay-as-you-go plan—a win-win situation for the policyholder and the insurer. The policyholder had the lowest rates possible, and the insurer had a long-term relationship with the policyholder.

In the insurance industry's infinite wisdom, it discontinued this plan and made it easier and easier for the client to pay premiums over shorter periods. Package policies were developed that combined most coverage into one policy and were written for three years, usually for three equal annual payments or sometimes even equal monthly payments.

One of the reasons was to make the policy more attractive to the policyholder. A shorter term also enabled the insurers to realize the benefit of rate increases on an annual basis. In fact, many personal auto policies were written on a six-month basis.

This was good short-term marketing strategy, until competitors did the same, which followed soon after, and the advantage was lost. However, the bottom-line result was a destruction of the long-term partnership relation between policyholder and insurer—it became easier and easier for the policyholder to change insurance companies.

The loyalty factor was substantially diminished and with it the rate competition increased. Instead of becoming purveyors of quality insurance and superior service through a long-term relationship, we became price sellers. In effect, we shot ourselves in the foot.

What we need to do now is to re-create marketing strategies that will marry the policyholders to the insurers and, in the process, to the agents. Give the policyholder reasons to enter into long-term relationships and take away the benefits realized if they terminate the long-term relationships, particularly before the scheduled completion date.

If a client is on a three-year workers compensation retrospectively rated plan, it would be wise to rewrite the policy after two years, providing the client some incentives for doing so, and resolidifying the relationship for three more years.

In political risk insurance, for example, a two-year term is common, with the policy often rewritten after the first year for another two-year term.

We need to become partners with our clients, by following these guidelines:

- **Stop selling.**

Find a way to help clients solve their problems. Don't be driven by premium volume. Instead, be driven by clients' needs.

- **Add value.**

Base strategies on value-added services and interdependence.

Add value to the transaction by helping your customers reach their goals.

- **Put the client first.**
- **Establish a partnership.**

This can be done by understanding clients' business, strategy and goals, both short-term and long-term; sharing mutual values; becoming interdependent, not adversarial; and by forming multiple connection points, such as having your staff and clients' staffs working together.

- **Qualify candidates for partnership.**

Don't try to serve all potential clients. Establish your niche and qualify prospects with characteristics matching your profile.

- **Don't treat insurance as a commodity.**

Insurance is a commodity only if we allow it to become one.

Let's get smart and treat policyholders and ourselves intelligently. BI

Howard C. Alper is president of AuditRate Inc., a Chicago-based insurance industry consulting company specializing in insurance cost reduction.

Flood program changing insurance forms

The National Flood Insurance Program is replacing 10 forms used to write coverage with two new ones developed by the Agency-Company Organization for Research & Development.

The change is the first step in standardizing data collection for the Washington-based National Flood Insurance Program. The program, part of the Federal Emergency Management Agency, is moving toward writing all its coverage electronically.

The two new forms are an insurance application and a general change endorsement.

The flood program will continue to accept old application forms during a transition period but the ACORD form eventually will be the only one accepted from agents.

For more information or other ACORD forms, call ACORD at 800-444-3341.

—By Michael Bradford

A/BT Letters

Atlantic Mutual values agent relationship

To the editor: Much has been written about poor and even adversarial relations between agents and insurers, as in the May 6 *Agent/Broker Topics* story, "Agents and Insurers in a Love/Hate Affair."

It is the last and most harmful thing Atlantic Mutual Insurance Co. would want in its relationship with agents.

The nature of our industry in complex, changing times will generate contentious issues and honest people can disagree on business decisions. Any position of difference can only be expressed and resolved within the context of a firm underpinning and expectation of a long-term relationship.

Atlantic Mutual's commitment and pragmatic approach with independent agents is as business partners based on open communication. This type of approach is fundamental to understanding strategy, business appetite and behavior leading to mutual success.

As examples, Atlantic Mutual senior management interacts directly with agents at council meetings and with commercial customers in full coordination with producers; joint planning is standard operating procedure; and we routinely arrange get-togethers of agents with board members in unstructured dialogue.

In fact, the outgoing chairman of the National Agents Advisory Council serves as agent representative to the board for a rotating one-year term.

We can't speak for other insurance companies, but our direction is clear and positive. A strong professional independent agency system is in our best interests.

Kenneth J. Gorman
Chairman
and Chief Executive Officer
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■ An outline of five reasons to **upgrade an agency management system** is supplied by AMS Management Systems Group. Request item **3201**.

■ Aon Risk Services Cos. Inc. presents a newsletter addressing topics such as **pollution liability and ergonomics**. Request item **3202**.

■ A state-by-state review of **environmental coverage case law** is presented in a book from American Re-Insurance Co. Request item **3203**.

■ A professional journal that explores **global risk management systems** and services is now available from Anistics. Request item **3204**.

■ The Insurance Institute of America offers a brochure outlining its **Associate in Surplus Lines Insurance** designation program. Request item **3205**.

■ An article reprint describing how **custom programming** helped an agency to compete and earn dividends is provided by AMS Management Systems Group. Request item **3206**.

■ Agency Services Inc. provides a user guide for a system that **receives and manages motor vehicle reports** for insurance agencies. Request item **3207**.

■ AVERT Inc. provides a brochure discussing ways to control losses arising from the **Americans with Disabilities Act**. Request item **3208**.

■ Baldwin Sadler Corp. provides an information kit explaining various **commercial auto liability insurance product lines**. Request item **3209**.

■ A quarterly report offered by Clausen Miller P.C. includes analysis of **insurance coverage litigation** and other issues related to risk management. Request item **3210**.

■ The Insurance Institute of America's three-course **Associate in Automation Systems Management designation program** is described in a flier. Request item **3211**.

■ AMS Management Systems Group provides an article concerning the business relationship between an **automation system vendor and its clients**. Request item **3212**.

■ Commercial **insurance coverage for financial institutions** is overviewed in a booklet offered by Chubb Group of Insurance Cos. Request item **3213**.

■ **Determining the cost-effectiveness** of a captive program is the subject of an article from Commonwealth Risk Services Inc. Request item **3214**.

■ CIGNA Property & Casualty Co./Baldwin Sadler Corp. provides an information packet outlining a new commercial and personal services **professional liability facility**. Request item **3215**.

■ Clausen Miller P.C. presents an article addressing recent case decisions regarding **destruction of evidence** and the implications for subrogating insurers. Request item **3216**.

■ The American Institute for CPCU and the Insurance Institute of America supply a catalog of **property/casualty insurance courses and programs**. Request item **3217**.

■ The advantages of **purchasing consulting services from a management systems vendor** are analyzed in an article from AMS Management Systems Group. Request item **3218**.

■ Chubb Group of Insurance Cos. supplies a disk and booklet that outline current **sexual harassment** laws. Request item **3219**.

■ A report from Guy Carpenter & Co. Inc. provides a **global analysis** of reinsurance markets. Request item **3220**.

■ DAVID Corp. profiles a **property and casualty claims administration and risk management system** in a literature kit and demonstration disk. Request item **3221**.

■ An article from Clausen Miller P.C. examines evolving **employer liability for workplace violence**. Request item **3222**.

■ The American Institute for CPCU and the Insurance Institute of America offer a flier describing an **Associate in Fidelity and Surety Bonding** program. Request item **3223**.

■ Chubb Group of Insurance Cos. presents several **maintenance logs** for owners of boilers and refrigeration equipment. Request item **3224**.

■ DORN Technology Group Inc. supplies an article detailing **data conversion and data validation** services. Request item **3225**.

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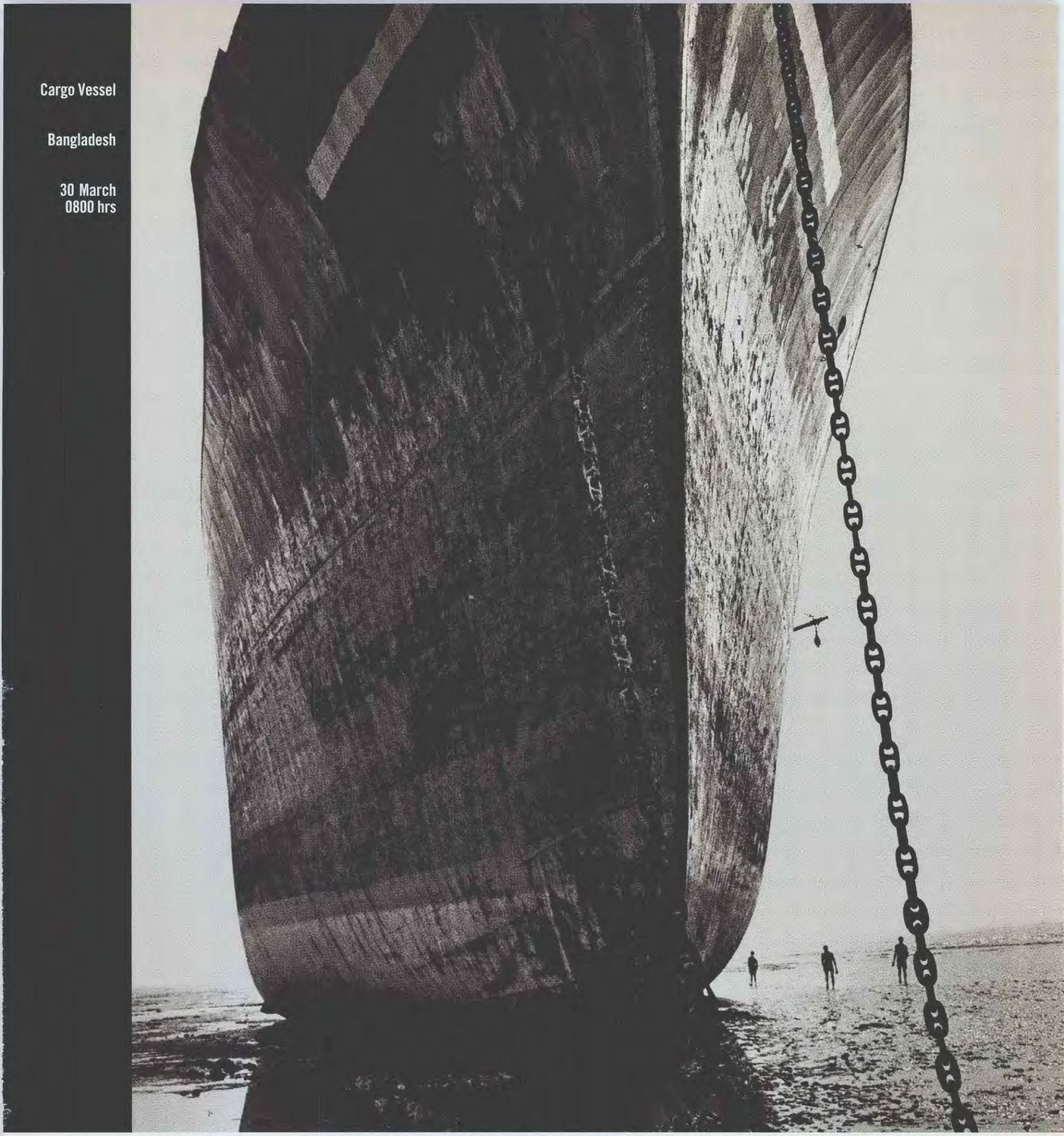

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ASK A BENEFIT MANAGER

Accelerated death benefits a comfort in some cases

Q **I have heard increased discussion of the term "living benefits" in life insurance plans. Can you provide additional information about this benefit?**

A The concept of living benefits, also referred to as accelerated death benefits, or ADB, is a provision of a life insurance plan that provides for the early payment of a portion of the life insurance benefit in the event of a terminal illness. A typical provision may allow for up to 50% of an employee's life insurance benefit, usually with a maximum amount allowed, to be paid in a situation where a physician has diagnosed that the individual's life expectancy is 12 months or less.

The cost associated with providing such a benefit would include an administrative charge for processing the benefit payment as well as an interest charge related to the early payment of the benefit. The amount of the benefit is generally discounted by a specified interest rate, e.g. the 90-day Treasury bill rate.

The question has been raised as to why an organization should offer such a benefit. For an individual with a terminal illness, the accelerated death benefit provides an added element of security and flexibility.

There may be additional expenses related to the individual's illness that would be able to be paid for with the accelerated death benefit. For example, most health plans do not cover those treatments deemed to be experimental. If the individual wants to pursue such experimental treatment, this benefit provides them with the opportunity to obtain such treatment.

Also, very often custodial care is required in terminal illness cases, and custodial care typically is not covered by medical plans. Currently, those individuals who want to use their life insurance policy to pay medical expenses have used viatical companies.

Viatical companies provide essentially the same type of benefit but normally at a significantly greater cost to the individual. The business of viatical settlement of life insurance policies emerged in the late 1980s when an increasing number of AIDS patients were struggling to meet their financial obligations, which were growing due to their increased medical expenses.

These viatical companies buy the insurance policy from the individual afflicted with a terminal disease in exchange for a cash settlement representing a percentage of the life insurance policy's death benefits. The manner in which these viatical companies operate is that the original designated beneficiary of an insurance policy is asked to sign away their rights to any death benefits in exchange for the up-front payment of a portion of the policy.

For example, the viatical company might provide a $25,000 cash payment in exchange for the individual assigning the rights to an entire life policy of $50,000. The life policy proceeds are paid to the viatical company upon the death of the individual.

Although these viatical companies do provide a benefit to terminally ill individuals, people generally remain uncomfortable with this grim area of speculation. It is referred to as "death futures" because the sooner an individual dies, the fewer premium payments the investor has to make, resulting in a larger profit. Although these viatical companies are currently unregulated, in 1994 the National Assn. of Insurance Commissioners drafted a model law and regulations that can be tailored to any state's insurance code. The only states that currently have laws governing viatical settlements are California, Indiana, Kansas, New Mexico, New York and Vermont.

There has been some argument against using accelerated death benefits. The basic argument is that the purpose of the life insurance is to provide for the beneficiary after the death of the individual, not before.

However, if the accelerated benefit is used to pay medical bills before one dies rather than after one dies, accelerated payment of the benefit does not negatively impact estate planning. Also, for single individuals, early payment of a life insurance benefit will not have a negative impact on financial planning.

There is a general concern that accelerated death benefits not be used in place of long-term care benefits. Long-term care benefits are payable in many circumstances other than when an individual is terminally ill. If an individual requires nursing home care and is not considered terminal within 12 months, the accelerated death benefit will not be available.

One current negative aspect of accelerated death benefits is that the benefit is taxable. However, as part of the Republicans' "Contract with America," the House of Representatives last year approved legislation that would provide favorable tax treatment of accelerated death benefits. The bill would allow individuals to exclude from gross income—after Dec. 31, 1995—any amounts received under life insurance contracts and for the sale or assignment of a life insurance contract to a qualified viatical settlement provider.

Under the legislation, an individual would be considered terminally ill if a physician has certified that the individual has an illness or physical condition that reasonably can be expected to result in death within 24 months of the date of certification.

A maximum benefit is allowed under this provision; however, the favorable tax treatment of the accelerated death benefit is part of an income exclusion also related to long-term care insurance plans. The maximum annual amount of long-term care benefits excludable from income would be $73,000. Both long-term care benefits and the accelerated death benefit would apply to this maximum amount. Of course, this legislation is still pending, and for those interested, it is recommended that the status of this legislation be monitored.

At Arthur Andersen, we recently introduced the accelerated death benefit to our employees. While such a benefit provision will not be applicable for a large share of the Andersen employee population, this benefit was warmly received by those individuals in such a situation.

•

Material in this article does not constitute accounting, tax, investment, legal or business advice. Readers should review their specific situation with professional advisers.

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

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

This month's column on employee benefit management issues is written by Dennis J. Nirtaut, managing director of compensation and benefits for Andersen Worldwide S.C. in Chicago. Susan M. Werner, director of risk management at Hardee's Food Systems Inc. in Rocky Mount, N.C., answers questions on risk management issues. William J. Miner, an actuary with Watson Wyatt Worldwide in Chicago, answers actuarial questions on benefits issues. And, Richard E. Sherman, president of Richard E. Sherman & Associates Inc. in Ashland, Ore., answers actuarial questions in the casualty field.

Mr. Nirtaut

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

Child entitled to unmarried father's work comp benefits

The Supreme Court of Ohio ruled that the obligation toward an out-of-wedlock child on the part of a deceased employee entitled the child to dependency status under the Workers Compensation Act.

Franklin C. Newland began living with Linda Boston in 1976. In 1978, Tonia Newland was born to Linda. Mr. Newland acknowledged his parentage by signing a birth certificate as Tonia's natural father. Thirteen months later, Mr. Newland died in the course of his employment. He and Ms. Boston had never married. Ms. Boston filed for death benefits on behalf of Tonia and herself. The Industrial Commission found that Mr. Newland did not contribute more than one-half of Tonia's support prior to or at the time of his death, thus rebutting a presumption of dependency. The Court of Appeals affirmed the Commission.

On appeal, Ms. Boston argued that even if Mr. Newland did not contribute more than half of Tonia's support, a finding of whole dependency was warranted if Mr. Newland had a legal obligation of support. The court said to deny benefits here would twice penalize the child of a neglectful parent. The court concluded Mr. Newland's legal obligation toward Tonia entitled her to whole dependency status.

State Ex Rel. Newland vs. Industrial Commission, Supreme Court of Ohio, Jan. 17, 1996 (*BI*/01/Au.-$10).

Legal Briefs

ERISA assets and bankruptcy

A debtor's interest in an Employee Retirement Income and Security Act plan is exempt from the bankrupt debtor's estate, according to the 9th U.S. Circuit Court of Appeals.

Janice Conner, as an employee of The Orthopedic Clinic, had an interest in an ERISA pension and profit-sharing plan. She and her husband filed for bankruptcy under Chapter 7 of the Bankruptcy Act. John Barkley, as trustee of the bankruptcy estate, sought to have Ms. Conner's interest in her pension and profit-sharing plan turned over to the trustee. The bankruptcy court and appellate panel refused to order this. The trustee appealed.

On appeal, the trustee argued that the particular assets of the plan at issue here were aftertax payments to which the debtors had complete access and which Ms. Conner could withdraw at any time. Thus, the trustee maintained that these assets could not be placed in trust, beyond the reach of creditors, while remaining within the control of the debtor. But, the appellate court said that the U.S. Supreme Court previously had rejected the debtor's control of assets in an ERISA plan as a basis for not exempting the assets from the bankruptcy estate. The decision to exempt the assets was affirmed.

In Re Conner, 9th U.S. Circuit Court of Appeals, Jan. 11, 1996 (*BI* /03/Jy.-$10). BI

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

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■ **Catastrophe exposures and the capital market** are reviewed in a report from Guy Carpenter & Co. Inc. Request item **3226**.

■ An information packet offering a summary of **claims management systems** is available from DAVID Corp. Request item **3227**.

■ A variety of frequently asked questions relating to the **Americans with Disabilities Act** are answered in an article provided by Clausen Miller P.C. Request item **3228**.

■ An **Associate in Loss Control Management** program is described in a flier provided by the American Institute for CPCU and the Insurance Institute of America. Request item **3229**.

■ A brochure presented by Chubb Group of Insurance Cos. offers tips to help businesses in **dealing with hurricanes, tornadoes and floods**. Request item **3230**.

■ **Insurance and loss control solutions** for the construction industry are described in an article by ECS Underwriting Inc. Request item **3231**.

■ Eagle International Associates provides a **directory of adjusters, attorneys and claims-related services** by state and country. Request item **3232**.

■ DAVID Corp. offers an information kit and a demonstration disk for a **risk management and workers compensation claims administration system**. Request item **3233**.

■ An article supplied by Clausen Miller P.C. examines the corporate decision to include **experts in the mediation process**. Request item **3234**.

■ The American Institute for CPCU and the Insurance Institute of America supply a fact sheet describing the **Associate in Marine Insurance Management** program. Request item **3235**.

■ Several management reviews that are designed to evaluate the progress of **loss prevention programs** are offered by the Chubb Group of Insurance Cos. Request item **3236**.

■ ECS Underwriting Inc. offers a fact sheet on **loss control solutions** for environmental service companies. Request item **3237**.

■ Eagle International Associates Inc. provides several papers discussing **liability defense issues**. Request item **3238**.

■ A brochure that offers an explanation of the **directors and officers liability claims-handling process** is provided by Executive Risk Management Associates. Request item **3239**.

■ An annual survey of **fidelity law and crime coverage** is offered by Clausen Miller P.C. Request item **3240**.

■ An **Associate in Reinsurance** program is outlined in a flier provided by the American Institute for CPCU and the Insurance Institute of America. Request item **3241**.

■ Chubb Group of Insurance Cos. provides a brochure detailing its **loss control training center and fire protection seminar**. Request item **3242**.

■ A fact sheet on **environmental exposures for industrial and commercial facilities** is offered by ECS Underwriting Inc. Request item **3243**.

■ The differentiation between **true and false sex abuse allegations** is examined in several articles presented by Eagle International Associates Inc. Request item **3244**.

■ Executive Risk Management Associates provides an article describing non-profit organizations' need for **comprehensive directors and officers coverage**. Request item **3245**.

■ Great American Insurance Cos. provides two brochures describing different **types of directors and officers liability insurance** coverage, including a middle-market program. Request item **3246**.

■ The American Institute for CPCU and the Insurance Institute of America are offering a flier describing a program leading to the **Associate in Risk Management** designation. Request item **3247**.

■ An information sheet describing casualty insurance coverage for transporters of **hazardous waste and materials** is offered by ECS Underwriting Inc. Request item **3249**.

■ Eagle International Associates Inc. offers several papers focusing on **cost containment in litigation and claims management**. Request item **3250**.

■ An introductory brochure to the **exposures faced by non-profit organizations** is offered by Executive Risk Management Associates. Request item **3251**.

■ A **Canadian directors and officers** liability insurance program is summarized in a press release from Great American Insurance Cos. Request item **3252**.

Continued on next page

The Property/Casualty and Health Care Information Resource sections are an editorial compilation of current informational and educational materials on topics of interest to corporate risk management, employee benefit and financial executives.

The listings are published as an editorial service by *Business Insurance*; there is no charge to list material in the section. All of the materials may be obtained free of charge by *Business Insurance* readers.

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■ A **glossary of reinsurance terms** is available from Gill & Roeser Inc. Request item **3253**.

■ Recent events and opportunities in the **international marketplace** are summarized in a newsletter that is provided by GLOBEX International Inc. Request item **3254**.

■ ECS Underwriting Inc. provides a fact sheet on **pollution and remediation legal liability**. Request item **3255**.

■ Hill Wallack offers an article discussing **New Jersey employers' right to hire and fire employees** without fear of later legal action. Request item **3256**.

■ Executive Risk Management Associates provides a brochure examining a Harris poll on the **risks faced by directors and officers**. Request item **3257**.

■ Hinshaw & Culbertson offers an essay addressing the extent to which an insurance broker will be treated as the **agent of the insurer under Illinois law**. Request item **3258**.

■ A newsletter supplied by Industrial Risk Insurers details how **a management-of-change program** can prevent losses. Request item **3259**.

■ INSTEC presents a paper that discusses outsourcing and the need to develop **long-term business relationships**. Request item **3260**.

■ Two fact sheets from ECS Underwriting Inc. review **non-traditional insurance products for risk transfer**. Request item **3261**.

■ A paper from Worldwide Weather explains different **contingency coverages,** such as prize indemnity, event cancellation and non-appearance. Request item **3262**.

■ An article that explores the growing need for **errors and omissions insurance** coverages for real estate professionals is offered by Executive Risk Management Associates. Request item **3263**.

■ Hinshaw & Culbertson presents an article explaining the **obligations and legal liability** of an insurance agent or broker. Request item **3264**.

■ **Means of protecting auto manufacturing plants** are discussed in a newsletter supplied by Industrial Risk Insurers. Request item **3265**.

■ An article from INSTEC provides tips for a developing a **successful PC software vendor/client relationship**. Request item **3266**.

■ InPhoto Surveillance supplies a pamphlet outlining **covert surveillance in the workplace**. Request item **3267**.

■ A chart with a financial analysis of **the surplus lines industry** is offered by the Illinois Insurance Exchange. Request item **3268**.

■ Industrial Risk Insurers offers a newsletter addressing new loss prevention **challenges facing retail stores**. Request item **3269**.

■ A quarterly journal provided by Hinshaw & Culbertson analyzes **tort defense issues** relating to risk management. Request item **3270**.

■ Johns Eastern Co. Inc. provides a handbook describing its **self-insurance services**. Request item **3271**.

■ A brochure outlines the **reinsurance services** of Kernan Associates Inc. Request item **3272**.

■ An article from Industrial Risk Insurers explains how the **proper care of paper mills** can help avoid large property losses. Request item **3273**.

■ The Illinois Insurance Exchange offers a **directory of syndicate profiles**, including preferred terms and conditions. Request item **3274**.

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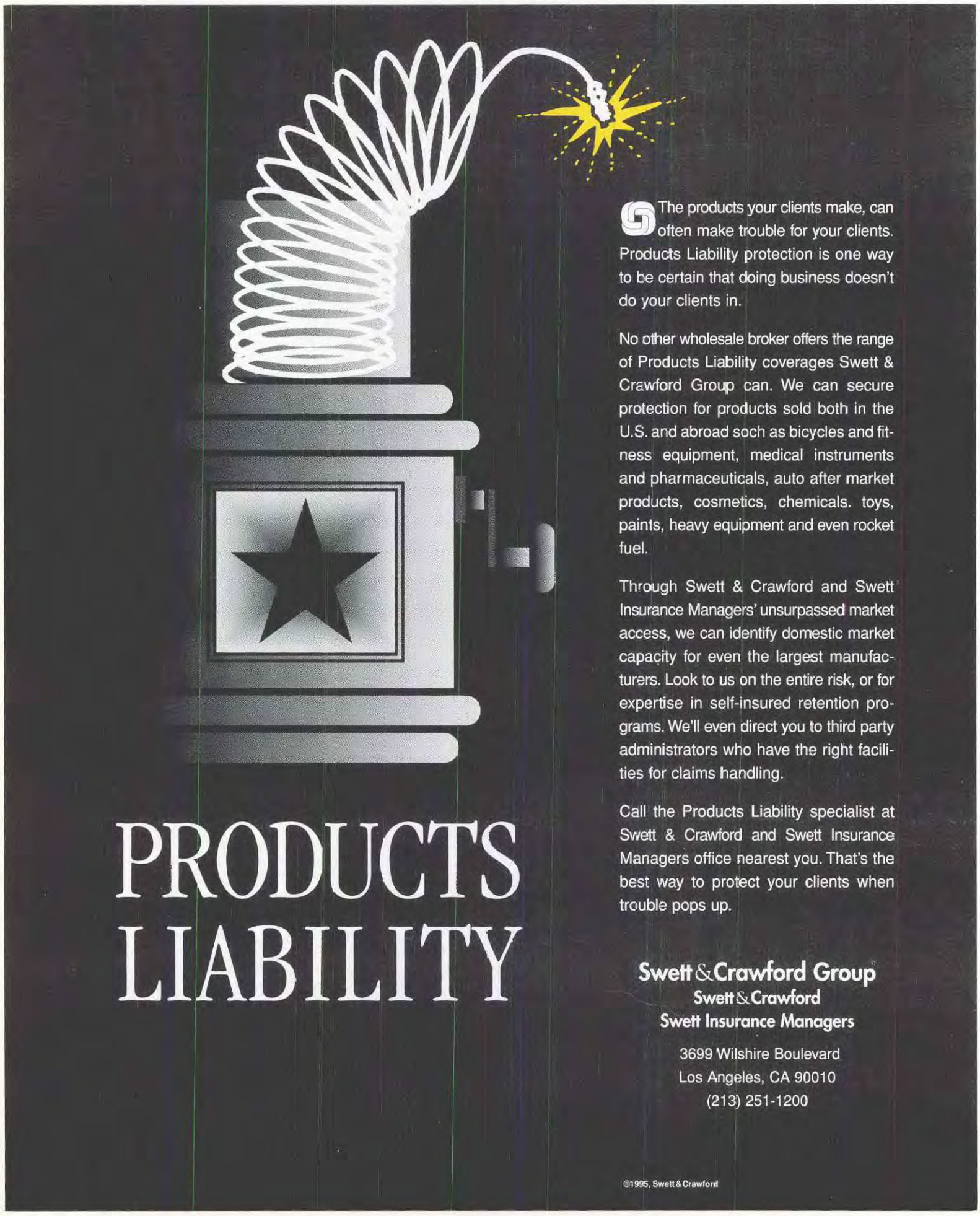

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quest item **3275**.

■ **Illinois 1995 tort reforms** are outlined in a Hinshaw & Culbertson manual. Request item **3276**.

■ A **pocket guide for loss prevention** is provided by Industrial Risk Insurers. Request item **3277**.

■ A newsletter from Liberty Mutual Insurance Co. discusses various risk management issues, including **creating a balance sheet risk management program**. Request item **3278**.

■ A state-by-state analysis on the **insurability of punitive damages** in the United States is available from Wilson, Elser, Moskowitz, Edelman & Dicker. Request item **3279**.

■ A survey and commentary on various **investment policies and practices of insurance companies** is now available from Securities Software & Consulting Inc. Request item **3280**.

■ An article presented by Industrial Risk Insurers outlines new criteria for **protecting rolling mills**. Request item **3281**.

■ A book analyzing the **unfair claims settlement practices prohibitions** is offered by Wilson, Elser, Moskowitz, Edelman & Dicker. Request item **3282**.

■ An integrated **asset and liability management and pricing software system** is outlined in a booklet from Securities Software & Consulting Inc. Request item **3283**.

■ A brochure from PRMS Inc. details the directors and officers liability protection available to cover **securities litigation risks**. Request item **3284**.

■ Industrial Risk Insurers offers an article that reviews loss exposures associated with **metal-deck roof construction**. Request item **3285**.

■ Recent developments in **environmental law** are reviewed in a newsletter from Wilson, Elser, Moskowitz, Edelman & Dicker. Request item **3286**.

■ A newsletter from Securities Software & Consulting Inc. covers the business of **insurance asset and liability modeling**. Request item **3287**.

■ A guide supplied by PRMS Inc. summarizes practical steps that a public company can take to reduce its **securities litigation exposure**. Request item **3288**.

■ A risk management newsletter for the **security and investigation industry** is offered by Wilson, Elser, Moskowitz, Edelman & Dicker. Request item **3289**.

■ A PC-based client/server software application for **high-volume loss reserving analysis** is reviewed in a booklet from Price Waterhouse L.L.P. Request item **3290**.

■ Securities Software & Consulting Inc. supplies a brochure describing how an **option pricing model** affects the performance of a CHALKE Inc. software product. Request item **3291**.

■ Recent developments in **accountants professional liability** are explained in a newsletter supplied by Wilson, Elser, Moskowitz, Edelman & Dicker. Request item **3292**.

■ PRMS Inc. presents a **securities litigation loss prevention** guide. Request item **3293**.

■ A brochure detailing **loss-reserving software** and a corresponding booklet with sample output reports is supplied by Price Waterhouse L.L.P. Request item **3294**.

■ Wilson, Elser, Moskowitz, Edelman & Dicker provides a newsletter reporting on developments in **medical malpractice law**. Request item **3295**.

■ Price Waterhouse L.L.P. presents a manual with sample output reports for **a loss control software system**. Request item **3296**.

■ A companies' **exposures to**
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Continued from previous page
employee crime are reviewed in a booklet available from Executive Risk Management Associates. Request item **3297**.

■ The **defense of lead paint poisoning claims** is described in a newsletter supplied by Wilson, Elser, Moskowitz, Edelman & Dicker. Request item **3298**.

■ A flier offered by Price Waterhouse L.L.P. outlines a system that combines **integrated actuarial software** with flexible data management. Request item **3299**.

■ NAC Reinsurance Corp. offers a **liability bulletin** covering topics of interest to the reinsurance industry. Request item **3300**.

■ The increasing need for **employment practices liability** insurance coverage is overviewed in a flier offered by Executive Risk Management Associates. Request item **3301**.

■ A checklist for **negotiating letters of credit** and security requirements is provided by SIGMA Actuarial Consulting Group Inc. Request item **3302**.

■ Recent developments in **premises security law** are examined in a newsletter from Wilson, Elser, Moskowitz, Edelman & Dicker. Request item **3303**.

■ A booklet from VISTA Administrators Inc. outlines **products, services and claim payment methods** for employers interested in establishing self-funded employee benefit and workers comp programs. Request item **3304**.

■ Executive Risk Management Associates features a guide to **directors and officers liability insurance**, including eight claim scenarios. Request item **3305**.

■ NAC Reinsurance Corp. offers a flier with information about **major legal and regulatory developments** affecting the reinsurance industry. Request item **3306**.

■ An **actuarial checklist** for the insurance and risk management professional is provided by SIGMA Actuarial Consulting Group. Request item **3307**.

■ Information about Meadowbrook Insurance Group and **the benefits of a captive insurance company** are detailed in a literature kit. Request item **3308**.

■ **Selecting a lawyers' professional liability insurance broker** is the focus of a brochure from Executive Risk Management Associates. Request item **3309**.

■ Marsh & McLennan Cos. Inc. supplies an article that explores **environmental insurance and risk management**. Request item **3310**.

■ A guide from Northern States Management Inc. describes the **necessary procedures for setting up a captive** insurance company. Request item **3311**.

■ A **loss analysis software system** is profiled in a brochure from Coopers & Lybrand L.L.P. Request item **3312**.

■ A newsletter provided by Executive Risk Management Associates describes how to **increase efficiency and reduce risk in law firms**. Request item **3313**.

■ The **components of a loss analysis** are outlined in a paper from SIGMA Actuarial Consulting Group Inc. Request item **3314**.

■ Samples of a monthly mailing on **subrogation law** are available from O'Brien & Hennessy. Request item **3315**.

■ Practical Risk Management offers a nine-page chapter providing **advice and alternative resources** for risk managers who would like to improve their software systems. Request item **3316**.

■ Risk Sciences Group presents an overview of **retrospective rating plans** and their impact on the construction industry. Request item **3317**.

■ A paper presented by SIGMA Actuarial Consulting Group Inc. provides a **benchmark to track improvement in loss experience** due to an effective loss control program. Request item **3318**.

■ Wilson, Elser, Moskowitz, Edelman & Dicker offers a newsletter that reports on recent developments in **employment liability law**. Request item **3319**.

■ Marsh & McLennan Cos. Inc. details **the role of captives** in a semiannual newsletter. Request item **3320**.

■ The Risk Retention Reporter presents a guide to the **1986 Liability Risk Retention Act**. Request item **3321**.

■ Topics such as **risk assessment and financing** are explored in monthly issues of Risk Management Reports. Request item **3322**.

■ Smith, Bell & Thompson Inc. presents a newsletter focusing on major areas of **liability for health care providers**. Request item **3323**.

■ A full functioning demonstration copy of software used to **compute workers compensation modification factors** is available from Specific Software Solutions Corp. Request item **3324**.

■ **Key issues and trends affecting the property and casualty industry** are discussed in a newsletter provided by Swiss Re America. Request item **3325**.

■ An overview of **Vermont's captive insurance industry** is provided in an information packet. Request item **3326**.

■ A **structured settlement reference manual** is available from Structured Financial Associates Inc. Request item **3327**.

■ Tri-Arc Financial Services Inc. presents a paper with **coverages available for long-term auto leasing**. Request item **3328**.

■ **Snow removal insurance** for corporations and public entities is detailed in a paper from Worldwide Weather. Request item **3329**.

■ A Risk Sciences Group article that explains **how to deal with losses in excess of your self-insured-retention**. Request item **3330**.

■ Court cases and **claims administration issues** pertaining to self-insurance are reviewed in a newsletter from Corbel. Request item **3331**.

■ The advantages of **forming a captive insurer in Vermont** are explored in an information packet presented by captive manager Commonwealth Risk Management Inc. Request item **3332**.

■ **Automated solutions** to the ri management timeline are shown a CD-ROM presented by Corpo Systems. Request item **3333**.

Health care resource

HEALTH CARE

■ New developments in **health care law** are detailed in a journal from law firm Hinshaw & Culbertson. Request item **3401**.

■ A brochure and demonstration disk presented by The Apex Management Group Inc. showcase a system designed to help decision-makers **manage health care plan costs**. Request item **3402**.

■ A Vision Service Plan brochure details an **integrated medical eye care program** for the future of vision care. Request item **3403**.

■ Questions and answers about a **prescription drug program** for self-funded employers are listed in a brochure from Pharmacy Data Management Inc. Request item **3404**.

■ A newsletter published by Executive Risk focuses on **employment practice liability issues** for health care institutions. Request item **3405**.

■ StayWell Health Management Systems Inc. presents a manual with a personal **health risk assessment test**. Request item **3406**.

■ A research brief submitted by The Alexander Consulting Group examines basic issues employers face when deciding **to extend benefits to employees' domestic partners**. Request item **3407**.

■ A demonstration disk presented by The Apex Management Group Inc. showcases a system designed to evaluate **hospital inpatient services**. Request item **3408**.

■ An outline from VISTA Administrators Inc. explains the rationale for **self-insuring health care benefits**. Request item **3409**.

■ An article supplied by Ameritas Life Insurance Corp. examines the emerging market of **prepaid dental plans**. Request item **3410**.

■ Several fliers offered by ADMAR Corp. detail how **expectant mothers** can prevent complications during pregnancy. Request item **3411**.

■ Executive Risk presents a brochure detailing a checklist of **health care perils** and coverage issues. Request item **3412**.

■ A guide by The Mutual Group (U.S.), Employee Benefits highlights tips on structuring a **flexible benefits program**. Request item **3413**.

■ A demonstration disk presented by The Apex Management Group Inc. previews a system designed to improve the **internal management of health plans**. Request item **3414**.

■ Meridian Resource Corp. presents an article examining how utilization review providers are dealing with **new challenges of case management** in a point-of-service environment. Request item **3415**.

■ Delta Dental Plans Assn. offers a statistical profile of the **dental benefits market**. Request item **3416**.

■ An information kit from the Blue Cross & Blue Shield Assn. outlines the **network management approach** of HMO-USA within the managed care industry. HMO-USA is the BC/BS-sponsored HMO network. Request item **3417**.

■ Using a health care program called Exclusive Health as **an alternative to an HMO** is discussed in an informational packet from ADMAR Corp. Request item **3418**.

■ A fact sheet from the Blue Cross & Blue Shield Assn. highlights **seniors' perceptions of Medicare managed care**. Request item **3419**.

■ The Alexander Consulting Group presents a paper analyzing the benefits of **Medicare Risk Contract HMOs** for employers that sponsor retiree health plans. Request item **3420**.

■ An article presented by Executive Risk describes the benefits of **medical equipment management programs** for health care organizations. Request item **3421**.

■ A booklet from The Mutual Group (U.S.), Employee Benefits explores **cost control measures** employers can implement to help contain their group medical expenses. Request item **3422**.

■ A research brief by The Alexander Consulting Group analyzes tax considerations and raises issues for employers considering offering **accelerated death benefits**. Request item **3423**.

■ A pamphlet from Corbel outlines the advantages of **managed care plan options** and keeping costs under control. Request item **3424**.

■ The Blue Cross & Blue Shield Assn. presents a fact sheet reviewing recent trends in **workers comp and managed care** within the health care industry. Request item **3425**.

■ A United Wisconsin Services Inc. fact sheet summarizes its **managed care products**. Request item **3426**.

■ Blue Cross & Blue Shield United of Wisconsin's **product portfolio** and regional service centers are featured in a brochure. Request item **3427**.

Business Insurance **Information Resource**

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   - H ☐ Ins/Reins Co
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   - L ☐ TPA
   - M ☐ Health Care Inst
   - N ☐ Other
2. **Number of employees:**
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   - 2 ☐ 151-499
   - 3 ☐ 500-999
   - 4 ☐ 1,000-4,999
   - 5 ☐ 5,000 or more
   - 6 ☐ Unkown
3. **My title is best defined as:**
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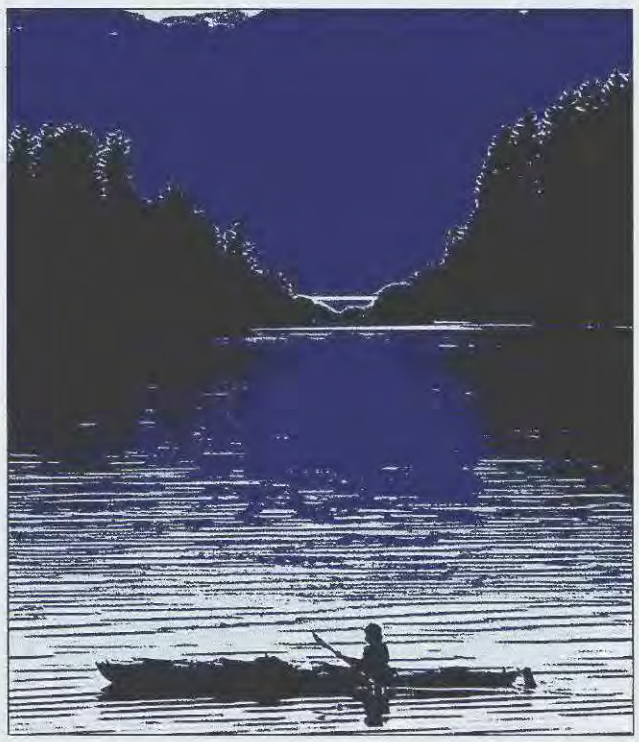

GET THE BROADER VIEW...

FACCT

Continued from page 3

measures, and these could include asthma, low-back pain, coronary artery disease, arthritis and cardiac risk factors, said Ted von Glahn, an in-house consultant for FACCT.

Some in the industry may well have been caught by surprise by the release of FACCT's quality measures. The foundation and its consultants had been meeting since June 1995, when a group of prominent corporate executives, government officials and insurance industry representatives gathered in the Wyoming home of Dr. Ellwood, president and chief executive officer of the Jackson Hole Group, which is best known for its "managed competition" model of health care reform.

The aim of the summit was to find agreement among the diverse interests on how the effectiveness of health plans could be measured and how a fresh approach to measuring health care outcomes could provide plan sponsors and consumers with easily understood standards for comparing plans within the same markets (*BI*, July 3, 1995).

The standards would be based on buyers' expectations more so than any existing measurement system, Dr. Hipp said.

FACCT is not exactly sure yet how its measures will prompt changes in the marketplace. However, Mr. von Glahn said, the group is holding discussions with major employers and employer coalitions, which he said are a "natural conduit" for bringing the standards to a wide audience.

Companies either may choose to write the FACCT guidelines into their managed care contracts as a condition for choosing a plan, or HMOs or doctors' groups may voluntarily adopt the measures as a way of gauging their own progress in attaining quality and in presenting themselves to plan sponsors, Mr. von Glahn said.

FACCT will sell the quality standards to buyers and providers so they can begin their own data collection, though a price has not been determined. One thing that is unclear, Mr. von Glahn said, is who will collect, tabulate and publish data from various providers in the form of a report card that consumers and buyers can use. FACCT specifically wants to avoid this role and continue to act as the formulator of measures, he said, but either managed care organizations or purchasers using third party administrators could take on this task.

But while FACCT is characterizing its new measures as a breakthrough, not everyone in the field is embracing the group's efforts.

The attention to new and better forms of health care measurement does not come at an ideal time for the Washington-based National Committee for Quality Assurance, which accredits HMOs and more than two years ago released HEDIS, the Health Plan Employer Data and Information Set. The NCQA is scheduled to unveil July 16 the first draft of HEDIS 3.0, the third version of its quality measures, and one that NCQA executives say is more oriented toward outcomes.

The NCQA never expected FACCT to publicly produce its own measures, but thought it would submit them to the NCQA for possible inclusion in the new HEDIS set, said Dr. Cary Sennett, NCQA vp for performance measurement.

"Quite honestly, we are confused," said Dr. Sennett. "We're not certain that FACCT is going to move forward working with NCQA. I guess it was our understanding that they saw NCQA's HEDIS as a way to move their work into the marketplace."

Multiple quality measurement efforts that may compete against each other will confuse the public and are unnecessary, he said. Although FACCT argues that its measures are more understandable to non-specialists, the new HEDIS version has been made much easier to use, Dr. Sennett said.

While FACCT has submitted some of its measures to the NCQA for incorporation into HEDIS, Dr. Sennett said FACCT has submitted "very little in the way of specifics."

Dr. Ellwood, for his part, sees no conflict between the NCQA and the organization he helped organize a year ago and said the NCQA has known the direction in which FACCT was headed.

"They were present at the beginning of FACCT and have been kept apprised of FACCT (plans) as they were being developed," he said.

The NCQA may be worried that accepting the FACCT measures would rob it of some of its pre-eminence in the quality measurement field, Dr. Ellwood said. But FACCT, he said, will fill a niche for employers that the NCQA has so far failed to address. BI

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California fraud probe indictments

LOS ANGELES—Two Los Angeles-area men were charged last week in connection with a sweeping, cross-country insurance scam that used phony auto and workers compensation claims to defraud insurers out of at least $10 million.

The 24-count felony complaint is the result of a year-long investigation by the California Insurance Department Fraud Division and the Los Angeles District Attorney's Office, according to California Insurance Commissioner Chuck Quackenbush. Also assisting in the investigation was the National Insurance Crime Bureau, the State Franchise Tax Board, the U.S. Postal Service, the Federal Bureau of Investigation and the Internal Revenue Service.

Hossein All Motamedi, 33, of Los Angeles, and Amir Zamyad, 35, of Calabasas, Calif., face charges of insurance fraud, money laundering, conspiracy to make illegal referrals, conspiracy to commit insurance fraud, filing false tax returns and failure to file a corporate tax return.

Additional suspects are also expected to face charges in connection with the case.

Messrs. Motamedi and Zamyad are accused of running medical and legal offices that illegally referred clients and filed claims for services that were never rendered. Despite having no medical or legal training, the suspects invested in their own medical and legal clinics that specialized in providing "no questions asked" medical services and accepted illegal client referrals for staged auto accidents and fraudulent workers compensation claims. In some cases, injuries with legitimate origins were later padded to recoup more money.

Investigators linked Messrs. Motamedi, Zamyad and other suspects to nine law offices and 17 medical clinics across the country including Texas, Virginia, Washington and Florida.

The scheme hit a snag when the suspects branched out their fraud network to include a photocopy scam that charged insurers about $250 per claim for copying services never rendered.

—By Joanne Wojci

Violence

Continued from page 3

victimized by men.

Tackling the issue is critical because of the loss of life and the sheer emotional devastation a violent incident in the workplace can create, said Sharon Llewellyn, a risk control specialist with consultant Worksafe Inc. in Laguna Hills, Calif. "It's a very serious issue, and it shouldn't be taken lightly by any employer," she said.

To help ensure the safety of workers who may be the target of abuse—as well as their co-workers—employers can take steps that range from urging supervisors to be alert to signs of abuse to actually introducing tighter security measures that can protect employees' safety.

Often, though, the problem is not even acknowledged by employers.

"Some employers are very active, but the vast majority of employers really remain very disinterested," said Joseph A. Kinney, executive director of the National Safe Workplace Institute in Charlotte, N.C. "I think that lack of activity reflects sort of business-as-usual by male senior managers. . . .The awareness level is very high, the willingness to do anything is very low," he said.

"Some employers aren't really doing anything and are viewing it as a private matter as long as it doesn't spill over into the workplace," said Jeffrey C. Londa, a partner with law firm Ogletree, Deakins, Nash, Smoak & Stewart in Houston. "I think that's not wise if there's any potential for spillover."

"I don't think that many employers take the issue of domestic violence as a serious infringement upon business opportunity," says William Smith, operations manager for criminal justice consulting at Sedgwick James of the Carolinas Inc. in Columbia, S.C.

Many employers view the issue in the "Jurassic sense" as a women's problem, not something that can impact the workplace. "That's ludicrous, because it does affect the workplace significantly," said Mr. Smith.

An abusive relationship "is really baggage that the employee brings along to the workplace, and it may have a spillover effect" on co-workers as well, he said.

'The awareness level is very high, the willingness to do anything is very low,' says Joseph A. Kinney.

Furthermore, if you are aware there is a potential danger and do nothing, "you've got a clear liability problem," said Mr. Smith. What happens, he asked, if the employee takes cover behind a co-worker, while the abuser is stalking her with a pistol?

Employers' attitude toward the situation may be changing, though.

Bloomington, Ill.-based State Farm Insurance Cos., for example, last year founded the Corporate Alliance to End Partner Violence, and since has been joined by 15 other employers.

The alliance has an advisory board representing 20 people from six different disciplines, social advocacy groups, medicine, education, law enforcement, religion and employee-assistance programs, who are responsible for reviewing its programs.

Among its upcoming projects is a packet on what can be done within the workplace to promote education concerning—and prevention of—domestic abuse, said Hark Linden, vp and health services director for New York-based American Express Co., one of the member companies. A number of factors, including the O.J. Simpson trial, have recently brought this issue to the fore in corporations, he said.

Employers also may receive some financial incentives to become more involved in this area.

Federal legislation, the "Workplace Violence Prevention Tax Credit Act of 1996," that was introduced by Reps. Nita Lowey, D-N.Y., and Connie Morella, R-Md., last month, would give employers a 40% tax credit for safety and education costs related to violence against women.

The tax credit would be applicable to funds spent on items such as hiring new security personnel to prevent violent crimes against women; the creation of buddy or escort systems to walk employees to their cars; the purchase of surveillance equipment; and the establishment of hot line or counseling services focused on helping victims of violent crimes, among other expenses. The bill has been referred to the House Ways and Means committee.

There are more immediate measures employers can take.

The first step in preventing domestic abuse in the workplace "is to recognize that domestic violence is not the same thing as workplace violence," said Sedgwick's Mr. Smith.

This includes recognizing that "most domestic violence victims are not likely to come forward voluntarily to share their woes."

As a result, employers must be able to recognize the signs of victimization, including absenteeism and tardiness by previously reliable employees; bruising; and even "little signs," such as long-sleeved clothing in warm weather that may be intended to hide physical signs of abuse.

Other more apparent warning signs could include a bitter divorce, a custody dispute, instances where the employee begins to receive numerous calls at the workplace and incidents where the spouse begins to show up at work, "kind of staking out the territory," Mr. Smith said.

Employees who do appear to be at risk of domestic abuse should be encouraged to talk to counselors, experts say.

"I think one of the first things (employers) can do is tell their employees. . .they're willing to help them if the employees are willing to make them aware that they're having a problem," said Warren F. Miller, senior training consultant-loss control engineering with Long Grove, Ill.-based Kemper National Insurance Co.

"The employer's role may be nothing more than serving as a source of goodwill and making resources available voluntarily, and providing information and education," said Dr. Park Dietz, president of Newport Beach, Calif.-based consultant Threat Assessment Group Inc.

However, if counseling services provided by the employer reveal an employee is in danger, the therapist is obligated to break confidentiality rules and report it, because "that situation puts a lot of people at risk, not just the intended victim," according to Edison's Mr. Sypult.

Keeping employers informed about restraining orders also is important, since they can indicate a potential threat.

"We encourage employees to notify their supervisors if they have obtained a restraining order, so we in turn will know and can deal with the situation," said Mr. Sypult "But all too often employees try to keep these kinds of personal problems hidden from supervisors."

Companies should also have in place general security measures, including closed-circuit television, and some way to prevent ready access to the building. These measures should be stringently enforced.

One incident in which this was not the case occurred in 1994, when an Army sergeant allegedly intent on killing his ex-girlfriend was able to get into AT&T Corp.'s corporate headquarters in Basking Ridge, N.J., where she worked, despite the facility's use of computerized access passes. He told an employee who provided access that he had a surprise engagement ring for the woman who was his intended victim.

The man was stopped, though, before he harmed anyone and was subsequently convicted of stalking and attempting to kill the woman. He is now in jail.

After the incident, "we reinforced to our people the idea that, as awkward as it might be, to insist upon tight security," said an AT&T spokesman. "They need to do that for the safety of their co-workers."

More specific security measures that focus on the particular employees who are possible targets of abuse and their abusers should be introduced, as well. Unfortunately, there is no "cookie cutter" answer to what security measures should be taken, said American Express' Mr. Linden.

See **Violence** *on next page*

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Violence

Continued from previous page

"It depends on the state of the domestic-abuse situation, what level it's at, what we think the potential for violence is for the abuser, what the living conditions are for the person who's abused. It's really kind of a complex analysis that we make on each case individually to decide what the best actions will be," he said.

At Edison, "we try to get information on the party who represents a danger, and we try to notify our security people," said Mr. Sypult.

At Motorola, employees who believe they are in danger are asked for details of the person who is threatening them, including an identification of the car they are driving, and information as to when they are likely to show up.

"You need to know about the enemy," said Sedgwick's Mr. Smith. "In other words, has this person threatened homicide before, or is the potential batterer depressed, has weapons, frequently goes off into rages? It's really a part of the investigative process."

Once the investigation is completed, steps must be taken to create a safe environment for the victim while at work.

Motorola, for instance, lets the employees borrow cellular phones to use to call 911 or a local security officer. Also available is a small device that lets out a shrill noise when its pin is pulled, which employees can use to attract help if they feel threatened.

The company also offers parking that is close to its facilities and is willing to provide escorts to cars when requested.

Other options include changing a person's workplace or hours, say observers. "The company should be willing to temporarily relocate someone out of situations where they could be immediately confronted" by an abuser, said Kemper's Mr. Miller. For instance, a person who is in a front-line customer service area could perhaps be temporarily moved to an area where she would not be readily accessible.

In a few instances, Motorola has even gone so far as to relocate the employee to another city. "Those are very few and far between, but there have been those instances," said Mr. Sawyer, who noted these employees have remained safe.

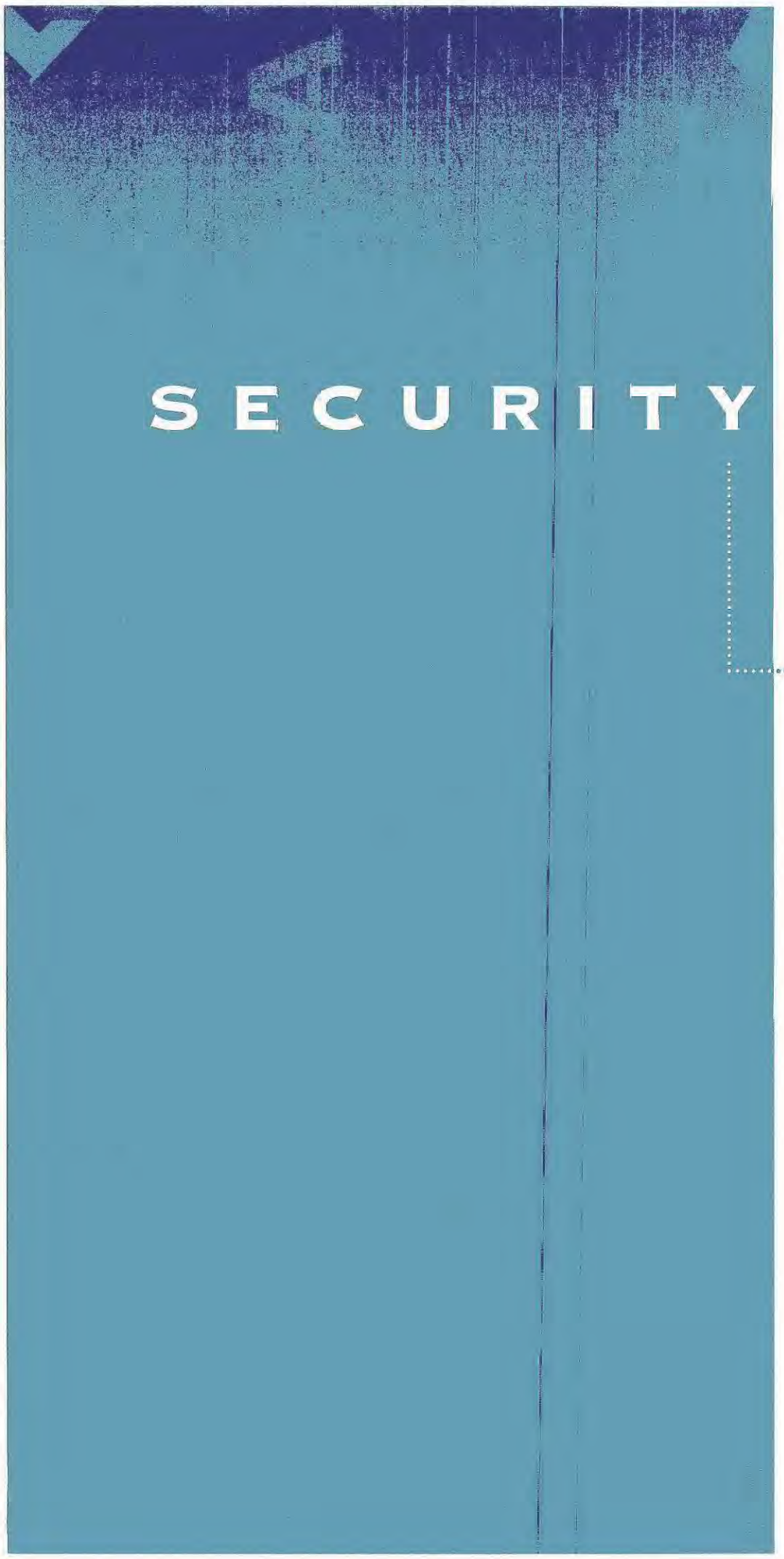
In addition, "we make sure they've done everything prudent they can do out in the community," such as notifying local law enforcement officials, and help employees obtain restraint orders if one has not already been obtained, said Edison's Mr. Sypult.

Employers should also be willing to help employees take advantage of local stalking laws, where applicable, said Kemper's Mr. Miller.

If restraint orders are violated on company property, the employer should pursue formal charges against the batterer, said Mr. Smith. This may be the best course to follow even if the victim does not want it at the time, said Mr. Smith.

He noted that typically abusive relationships consist of a three-part cycle: the tension-building stage, which can involve name calling and inflicting psychological and emotional abuse; the acute battering stage, which involves violence and—assuming the victim survives—the honeymoon stage, where the abuser will beg for forgiveness and shower the victim with gifts.

An employer that pursues charges could well catch the couple in the honeymoon stage of the cycle and find the woman reluctant to press charges. But inevitably, the cycle will wind its way round to the abusive stage again, said Mr. Smith. "It's not going to change, that much is given." BI



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Datebook

JULY

JULY 11-12. Introduction to a Comprehensive Work Injury Management Program in Kansas City, Mo., sponsored by Advantage Health Systems Inc.; $375. Advantage Health Systems, 920 Main St., Suite 700, Kansas City, Mo. 64105; 800-279-0491.

JULY 14-17. The 20th National Symposium on Workers' Compensation in East Lansing, Mich., sponsored by Michigan State University; $495 for government employees, $595 for others. School of Labor and Industrial Relations, Michigan State University, 422 S. Kedzie Hall, East Lansing, Mich. 48824-1032; 517-355-9591.

JULY 15-17. Benefits Conference for Public Employees in Monterey, Calif., sponsored by International Foundation of Employee Benefit Plans; $685 for members, $775 for non-members. IFEBP, Registrations Dept., P.O. Box 69, Brookfield, Wis. 53008-0069; 414-786-6710 ext. 8257.

JULY 15-19. Fundamentals of Industrial Hygiene course in Williamsburg, Va., sponsored by American Industrial Hygiene Assn.; $955 for members, $1,095 for non-members. **Also Sept. 30-Oct. 4** in San Antonio. AIHA Continuing Education Department, 2700 Prosperity Ave., Suite 250, Fairfax, Va. 22031; 703-849-8888.

JULY 16. CEBS Information Meeting in Milwaukee, sponsored by Certified Employee Benefit Specialist; no charge. **Also July 17** in Madison, Wis.; **July 18** in Chicago; **July 23** in Des Moines, Iowa; **July 24** in Kansas City, Mo.; **July 25** in St. Louis; **July 30** in San Francisco; **Aug. 1** in San Diego; **Aug. 5** in Philadelphia; **Aug. 6** in Baltimore; **Aug. 7** in Cleveland; and **Aug. 8** in Detroit. CEBS Program International Foundation of Employee Benefits Plans, P.O. Box 1270, Brookfield, Wis. 53008-1270; 414-786-6710, ext. 8257.

JULY 16-17. Case Management Workshop in Kansas City, Mo., sponsored by Advantage Health Systems Inc.; $250 Advantage Health Systems, 920 Main St., Suite 700, Kansas City, Mo. 64105. 800-279-0491.

JULY 16-17. Lloyd's Symposium in London, sponsored by Lloyd's List Insurance Day, Barlow Lyde & Gilbert Bacon & Woodrow and Wellington Underwriting Agencies; $870. Harvey Dawson L.L.P. Ltd., Conference Department. 1 Singer Street, London EC2A 4LQ 171-250-1500.

JULY 19-21. The NCOIL Meeting in Minneapolis, sponsored by the National Conference of Insurance Legislators. $275 for legislator, staff in member state. $300 for legislator, staff in non-member. $425 for industry advisory committee. $675 for industry non-member, no charge for Insurance Commissioner. NCOIL, 122 S. Swan St., Albany, N.Y. 12210-1715; 518-449-3210.

JULY 22-23. Understanding the Annual Statement: Life/Health Insurance Operations in Philadelphia, sponsored by Michael Conn Associates; $850. **Also Aug. 19-20** in Philadelphia. Michael Conn Associates, 223 Bloomfield St. #104, Hoboken, N.J. 07030; 201-795-9333.

JULY 23. PLUS Lloyd's of London Seminar in Oak Brook, Ill., sponsored by Professional Liability Underwriting Society; $30 for PLUS members and $35 for non-members. PLUS, 4248 Park Glen Road, Minneapolis, Minn. 55416; 800-845-0778.

JULY 23-24. Disaster Planning and Preparedness seminar in Toronto, sponsored by Factory Mutual Engineering and Research; $495. **Also July 25-26** in Montreal; and **Sept. 10-11** in Baltimore. FME&R's Insured Education, 1151 Boston-Providence Turnpike, P.O. Box 9102, Norwood, Mass. 02062; 617-255-4606.

Continued on next page

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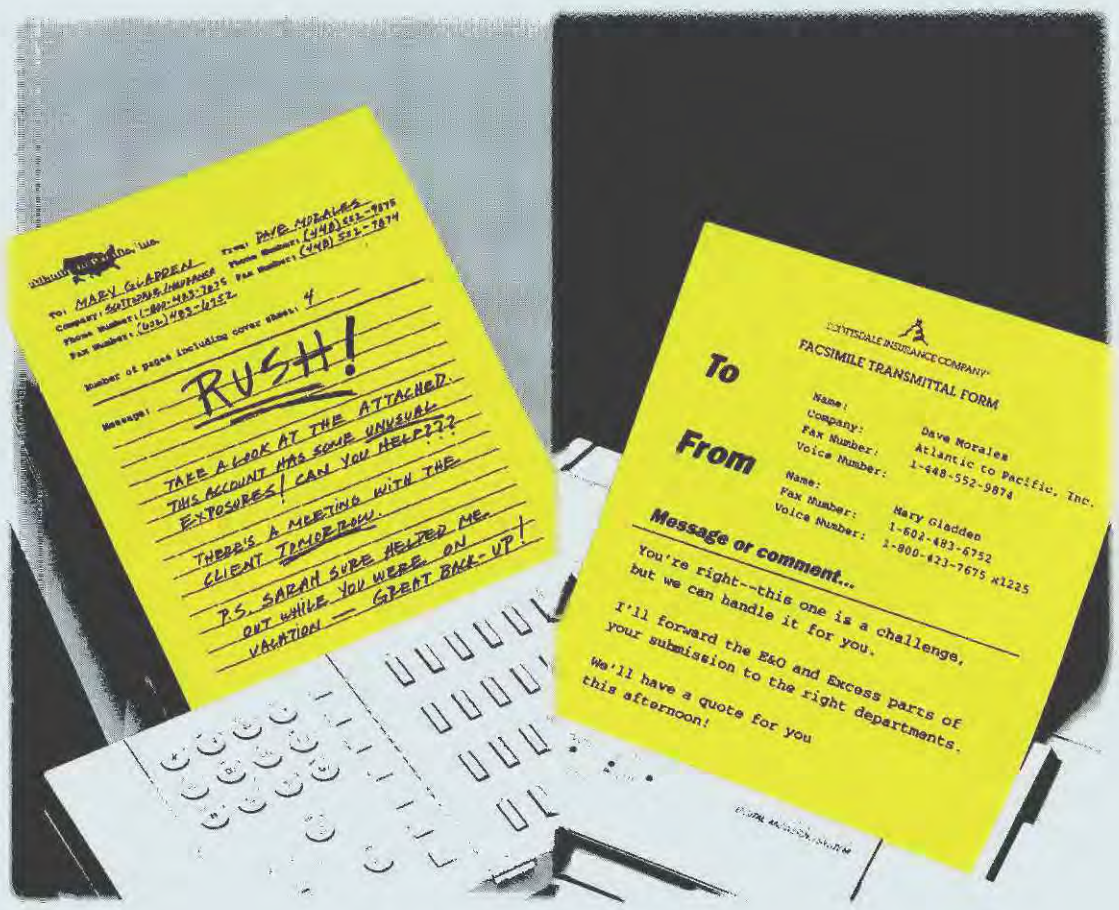

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Datebook

Continued from previous page

JULY 24-25. Understanding the Annual Statement: Property/Casualty Insurance Operations Seminar in Philadelphia, sponsored by Michael Conn Associates; $850. **Also Aug. 21-22** in Philadelphia. Michael Conn Associates, 223 Bloomfield St. #104, Hoboken, N.J. 07030; 201-795-9333.

JULY 28-31. Ergonomic Analysis of the Workplace: Ergonomic Concepts and Applied Problem-Solving Methods in Las Vegas, sponsored by Managed Health Resource Inc.; $645. **Also Aug. 18-21** in Orlando, Fla. Managed Health Resource Inc., 3417 Timberline, Eugene, Ore. 97405; 541-484-5853.

JULY 29-30. Demystifying Derivatives Seminar in Chicago, sponsored by the National Assn. of Insurance Commissioners; $275 for state insurance department staff, $475 for others. NAIC, Education and Training Department, 120 W. 12th Street, Suite 1100, Kansas City, Mo. 64105-1925; 816-374-7192.

JULY 29-30. 3rd International Funding Catastrophe Protection: Using Securitization to Enhance Capacity conference in New York, sponsored by International Quality & Productivity Center; $1,295. IQPC, 150 Clove Road, P.O. Box 401, Little Falls, N.J. 07424; 800-882-8684.

JULY 29-AUG. 1. The Essentials of Public Sector Benefits Management course in Brookfield, Wis., sponsored by International Foundation of Employee Benefit Plans; $940 for members, $1,060 for non-members. IFEBP, Registrations Department, P.O. Box 69, Brookfield, Wis. 53008-0069; 414-786-6710 ext. 8257.

JULY 29-AUG. 1. Quantitative Industrial Hygiene course in Cleveland, sponsored by American Industrial Hygiene Association; $855 for members, $995 for non-members. AIHA Continuing Education Department, 2700 Prosperity Ave., Suite 250, Fairfax, Va. 22031; 703-849-8888.

JULY 30. Contingency Planning for Equipment & Machinery in Pittsburgh, sponsored by Factory Mutual Engineering and Research; $495. **Also Aug. 1** in Fort Mitchell, Ky.; **Aug. 28** in Atlantic City, N.J.; **Sept. 4** in Norwood, Mass.; **Nov. 5** in Norcross, Ga.; and **Nov. 7** in Charlotte, N.C. FME&R's Insured Education, 1151 Boston-Providence Turnpike, P.O. Box 9102, Norwood, Mass. 02062; 617-255-4606.

AUGUST

AUG. 1-3. Ergonomic Analysis of the Workplace: Analysis and Implementation of Ergonomic Solutions in Simulated Work Situations in Las Vegas, sponsored by Managed Health Resource Inc.; $365. **Also Aug. 22-24** in Orlando, Fla. Managed Health Resource Inc., 3417 Timberline, Eugene, Ore. 97405-1274; 541-484-5853.

AUG. 11-14. 11th Annual Vermont Captive Insurance Assn. conference in Burlington, Vt., sponsored by the Vermont Captive Insurance Assn.; $100 for first-time captives, $350 for members, $550 for non-members. Vermont Captive Insurance Assn., P.O. Box 763, Stowe, Vt. 05672.

AUG. 19-22. Life & Health Annual Statement Preparation and Analysis Seminars in Windsor Locks, Conn.; sponsored by Bowne Insurance Division; $595 for basic or advanced. Insurance Answers, 400 Canyon Lane, Irving, Texas 55063; 800-223-3103.

AUG. 26-29. Property and Casualty Annual Statement Preparation and Analysis Seminars in Nashville, Tenn., sponsored by Bowne Insurance Division; $595 for basic or advanced. Insurance Answers, 400 Canyon Lane, Irving, Texas 55063; 800-223-3103.

SEPTEMBER

SEPT. 4-6. Advanced Pension Conference in Chicago, sponsored by Corbel; $595. Educational Services, Corbel, P.O. Box 47720, Jacksonville, Fla. 32247; 800-326-7235 ext. 1139.

SEPT. 7-8. The Global Behavioral Healthcare Leadership Development Congress in San Francisco, sponsored by the Institute for Behavioral Healthcare, the Global Behavioral Healthcare Partnership and CentraLink; $995. CentraLink, 4370 Alpine Road, Suite 108, Portola Valley, Calif. 94028; 415-851-8411.

SEPT. 7-11. Behavioral Healthcare Tomorrow conference in San Francisco, sponsored by the Institute for Behavioral Healthcare; $795, $895 after Aug. 9. IBH, 4370 Alpine Road, Suite 108, Portola Valley, Calif. 94028; 415-851-8411.

SEPT. 8-11. Managed Care Leadership Summit on International Healthcare Trends summit in Mexico City, sponsored by Astra Merck Inc., Diversified Pharmaceutical Services and Genentech; $1,995. GHAA/AMCRA Customer Services, Department Number 0612, Washington, D.C. 20073-0612; 202-778-3269.

SEPT. 9-10. Reinsurance Law and Practice: New Legal and Business Developments in a Changing Global Environment conference in New York, sponsored by Practising Law Institute; $995. PLI, 810 Seventh Ave., New York, N.Y. 10019; 800-260-4PLI.

SEPT. 10-13. RIMS West Coast Conference in Stevenson, Wash., sponsored by the Washington State Chapter of RIMS; $350. Terry Killen, The Boeing Co., P.O. Box 3707, MS 13-57, Seattle, Wash. 98124-2207; 206-655-3523.

SEPT. 11-12. Nuclear Insurance Coverages and Issues seminar in Orlando, Fla., sponsored by Johnson & Higgins; no charge. Jim Loesner, Johnson & Higgins, 125 Broad St., New York, N.Y. 10004-2424; 212-574-7984.

SEPT. 16-20. Industrial Ergonomics: Human Factors in Occupational Health and Safety course in Boston, sponsored by the Harvard School of Public Health; $1,145. Harvard School of Public Health, Center for Continuing Professional Education, 677 Huntington Ave., II-23, Department B, Boston, Mass. 02115-6023.

SEPT. 16-20. The Essentials of Multiemployer Trust Fund Administration conference in Brookfield, Wis., sponsored by International Foundation of Employee Benefit Plans; $1,175 for members, $1,325 for non-members. IFEBP, P.O. Box 69, Brookfield, Wis. 53008-0069; 414-786-6710 ext. 8257.

SEPT. 18-20. Financial Analysis of Life/Health Insurance Operations Seminarin Philadelphia, sponsored by Michael Conn Associates; $1,250. **Also Oct. 23-25** and **Nov. 20-22** in Philadelphia. Michael Conn Associates, 223 Bloomfield St. #104, Hoboken, N.J. 07030; 201-795-9333.

SEPT. 19-20. Negotiating Environmental Agreements executive program in Cambridge, Mass., sponsored by Massachusetts Institute of Technology; $1,175. Carol Sloane, Center for Management Research, MIT, 55 William St., Wellesley, Mass. 02181; 617-239-1111.

SEPT. 25-26. 401(k) Course in Brookfield, Wis., sponsored by International Foundation of Employee Benefit Plans; $510 for members, $570 for non-members. IFEBP, P.O. Box 69, Brookfield, Wis. 53008-0069; 414-786-6710 ext. 8257.

SEPT. 25-28. Excess/Surplus Lines Claims Assn. Inc. 28th Annual Conference in Hilton Head, S.C., sponsored by Excess/Surplus Claims Assn. Inc.; $275. Joanne Moore, Tokio Re Corp., 1 Liberty Plaza, New York, N.Y. 10006; 212-267-3300.

SEPT. 26-27. Mealey's First Reactions to the New Reinsurance Market conference in New York, sponsored by Mealey Publications Inc.; $995. Mealey Publications, P.O. Box 446, Wayne, Pa. 19087-0446; 1-800-MEALEYS.

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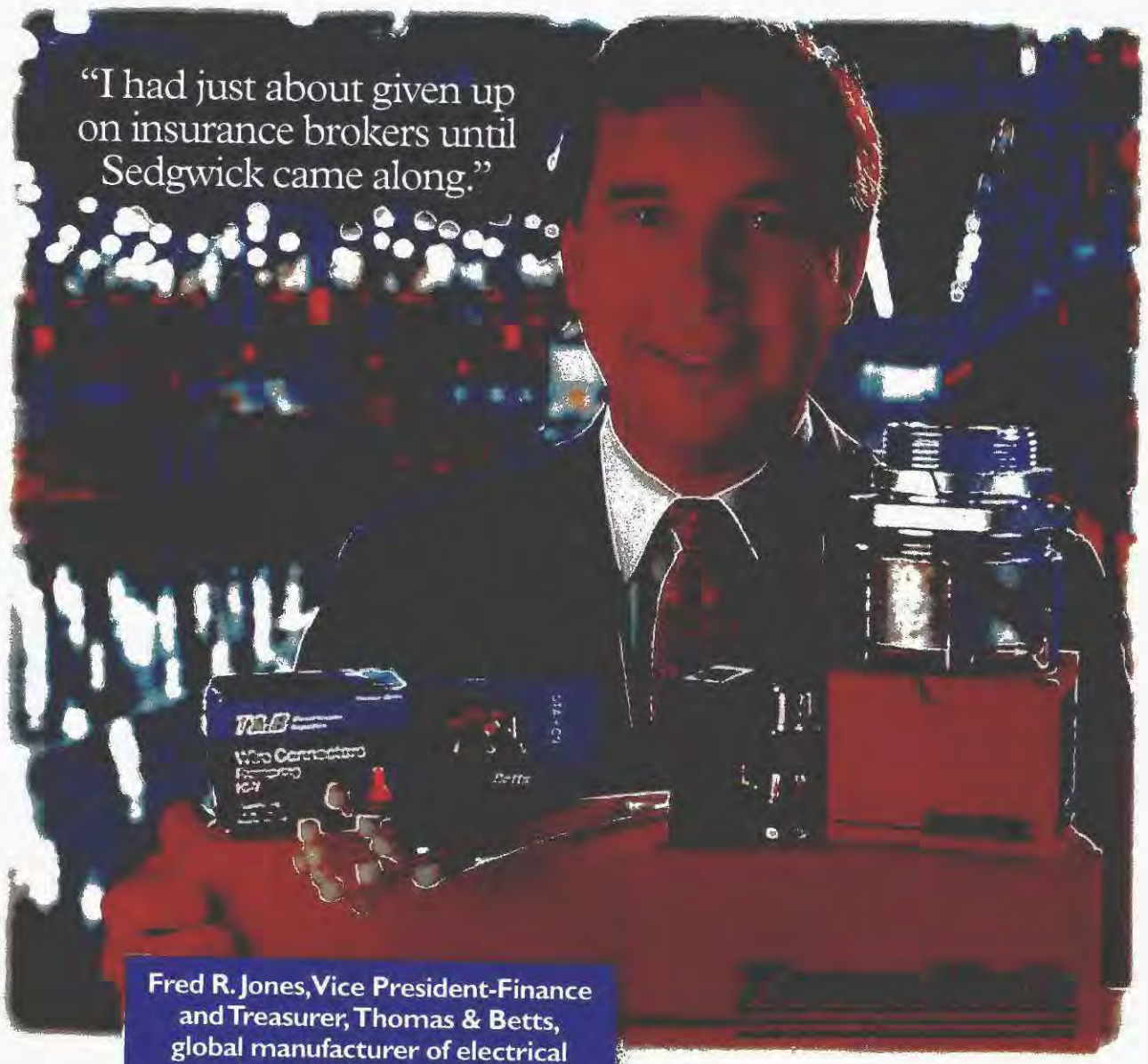

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INTERNATIONAL

Court limits part-timers' retroactive right to pensions

By EDWIN UNSWORTH

LONDON—U.K. employers will avoid making an estimated £80 million ($123.2 million) in back pension contributions after a tribunal ruled that some part-time employees are time-barred from claiming pension benefits under a 1994 European court decision.

The June 24 ruling by the U.K. Employment Appeals Tribunal held that about 50,000 employees who worked on a part-time basis before 1994 were not entitled to claim back pension benefits because they had failed to apply for the benefits within six months of leaving work.

The tribunal declined to refer their claim to the European Court of Justice in Luxembourg, which decided in 1994 that denying pensions to part-time employees—many of whom were women—effectively amounted to gender discrimination.

However, the tribunal also ruled that 10,000 part-time workers who had applied within the six-month time frame were entitled to retroactive pension benefits.

The tribunal limited claims for retroactive pension benefits to two years. That means the 10,000 part-time workers entitled to claim back pensions will share up to £16 million ($24.6 million) in compensation for back pension payments. The part-timers, about 80% of whom are women, are mainly teachers and employees in the health care, banking and retail industries.

The Trades Union Congress, a labor organization, said it was considering appealing the tribunal's decision to the U.K. Court of Appeal.

All of the claimants had filed their claims through a TUC-coordinated program in November 1994. That was one month after the European Court of Justice ruling on part-time employee pensions.

However, last week's judgment said most of the claims had been filed "out of time" because they were not made within six months of the end of employment, as required under U.K. law.

TUC General Secretary John Monks said the tribunal's decision was a case of blaming the victims. Many of those barred from receiving benefits had left work well over six months before the 1994 European Court of Justice ruling and, therefore, the tribunal ruled they had no grounds for making a claim within the six-month time frame, he said.

"Part-timers will feel frustrated that a U.K. court has blocked their right to seek justice in Europe. But they should not lose heart. The TUC will be considering whether to take the campaign to the Court of Appeal," Mr. Monks said.

Data shows rise in quake risk

Seismic study alerts Australian insurers

By KATE TILLEY

BRISBANE, Australia—Parts of Australia face a much greater risk of earthquake than previously thought, and insurers should take new research into account when setting rates, Australian seismologists say.

New seismic data, gathered from recordings taken from 1984 to 1994, shows the Queensland coast has an earthquake risk similar to that of Newcastle, New South Wales, said Peter Mora, director of the Brisbane, Australia-based Queensland University Advanced Center for Earthquake Studies.

Newcastle, which is 60 miles north of Sydney, was hit by a devastating quake measuring 5.5 on the Richter scale in December 1989. The temblor killed 13 people and caused insured losses of more than $1.02 billion Australian ($791 million), according to the Melbourne-based Insurance Council of Australia, which established earthquake-prone zones.

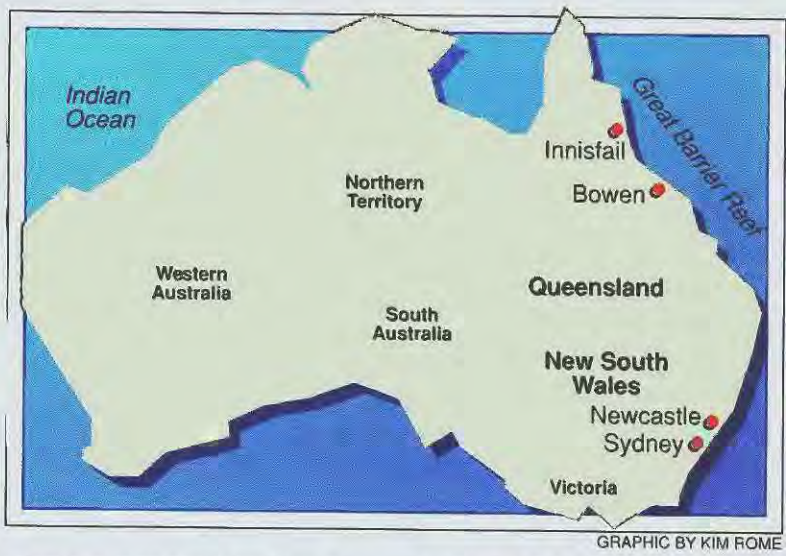
The new data shows that parts of southeast Queensland face a quake risk double that of Newcastle. And, a 240-mile-long zone off the coast of north Queensland, from Bowen to Innisfail, including parts of the Great Barrier Reef, has 2.5 times Newcastle's risk.

Two small earthquakes, each measuring about 3.4 on the Richter scale, hit southeast Queensland in early June, according to University of Queensland researchers. No major damage was recorded.

A quake above magnitude 5 occurs, on average, every five years in Queensland, Mr. Mora said.

Past estimates of the quake hazard were based on data recorded from 1872 to 1984, he said.

The new information includes seismic recordings from two new Queensland stations, but Mr. Mora said Queensland's earthquake monitoring equipment is still "inadequate and most of the equipment is outdated."



GRAPHIC BY KIM ROME

Insurers need to take the new data into account in setting probable maximum loss estimates for

See **Quake** *on page 41*

Prudential plans to float M&G Re by year end

By EDWIN UNSWORTH

LONDON—Prudential Corp. P.L.C., Britain's biggest life insurer, is proceeding with plans to float shares in its Mercantile & General Reinsurance Co. P.L.C. unit by year end.

The offering could value M&G Re at up to £1.5 billion ($2.31 billion) based on an estimated £900 million ($1.4 billion) in assets and £600 million ($924 million) of Prudential shareholder funds, according to Prudential.

It will involve a stock market listing, with a "significant" shareholding sold through a global equity offering, Prudential said.

However, the planned offering, which is unlikely before the autumn, does not preclude the possibility of an outright sale of M&G Re to another reinsurer.

Nick Bunker, insurance sector analyst with ABN-AMRO Hoare Govett Securities Ltd., said the work involved in either means of selling the unit is about the same, as would be the profit to Prudential.

However, he added, M&G Re's specialization in life reinsurance probably makes it attractive to only a small number of potential buyers. He suggested possible companies could include Munich Reinsurance Co. and Employers Reinsurance Corp.

Mr. Bunker said he considers selling the unit an appropriate move for Prudential because it will allow the company to concentrate on its core businesses of retail financial services. Prudential is not related to U.S. life insurer Prudential Insurance Co. of America.

Given the importance of its U.S. markets, some analysts speculate that M&G Re could be of particular interest to U.S. investors. They also say that buyers might be attracted by M&G Re's strong position in the Far East, where it is one of the largest non-Japanese reinsurers.

However, Trevor May, insurance analyst at Salomon Bros. Inc. in London, said some potential buyers, or even investors in a stock offering, might be put off by the long-tail nature of M&G Re's business.

Prudential announced in May that it might seek to sell M&G Re (*BI*, May 20).

"We have been reviewing the strategy of the corporation, particularly in the light of the consolidation taking place in the U.K. financial services sector. Following a thorough review, we have decided to concentrate Prudential's activities in future on retail financial services and related fund management activity," Peter Davis, group chief executive, said last week.

He added that the operational and strategic synergies between Prudential's core operations and M&G Re are "limited."

Prudential has made no secret of its interest in buying another life insurer or a building society, which is similar to a U.S. savings and loan institution.

John Engerstrom, M&G Re's chief executive, said: "We welcome this decision and believe that our resulting higher profile and independence will assist us in further reinforcing our already strong market position, especially

See **Prudential** *on page 41*

Industry contraction continues: Analyst

By EDWIN UNSWORTH

LONDON—More shrinkage in the number of key players in the world's major insurance, reinsurance and brokerage markets is in the cards, an insurance analyst says.

John Kriz, managing director-financial institutions for rating agency Moody's Investors Service Inc. in New York, said deregulation is hitting insurance sectors in Europe and Japan and "mergers and acquisitions will be a part of it."

Foreign underwriters and brokers will be looking to gain entry to these previously closed markets, he said, and it will be "painful for those not used to unbridled competition."

In light of such competition, companies will have to re-examine the value of the services they offer and reassess "what value they create as insurers or brokers," said Mr. Kriz during the World Insurance & Reinsurance Conference held here last month and sponsored by L.L.P. Ltd.

Risk managers are becoming "smarter and more creative" and demanding more from the insurance community, he said.

Mr. Kriz forecasts more consolidation to come among global brokers, with even some of the Top 10 possibly merging with each other over the next few years.

In addition, mergers and acquisitions among international reinsurers, as illustrated by U.S. reinsurers' recent acquisitions in Germany, are not yet over, he said. A major reason for this trend is that cedants are looking more and more at capacity, he said.

Speaking on the changing role of brokers, David Scott, chief operating officer of Alexander Howden Developments, a unit of brokers Alexander Howden Group Ltd. in London, said that market trends encouraging consolidation in the insurance and reinsurance sectors will also contribute to "further consolidation" among brokers.

Those trends include:

- Corporate clients demanding

See **M&A** *on next page*

Belgian insurer under investigation

By MARIA KIELMAS

LIEGE, Belgium—Belgian mutual insurer Societe Mutuelle Administrations Publiques is continuing business as usual despite the Belgian public prosecutor's ongoing investigation into an alleged tax fraud by SMAP.

The insurance company's Liege headquarters and its offices in the cities of Brussels and Hasselt were raided by police on June 17 in connection with an alleged failure to pay a tax levied on interest earned from insurers' technical reserves.

SMAP is Belgium's third-largest insurer and provides life insurance coverage and pension plans for public-sector companies and the civil service.

The amount in question could involve "billions of (Belgian) francs" according to a spokesman for the prosecutor's office in Brussels.

Police also raided the offices of public-sector companies whose pension funds are managed by SMAP. These included the Brussels-based French-language broadcasting company, Radio Television Belge de Francophone, and the capital's water utility, Brussels Intercommunal Water Co.

"The police have seized a lot of papers, and they are now sifting through them," the prosecutor's office spokesman said.

SMAP rebutted the tax fraud allegations in a statement.

SMAP said that it had sufficient reserves to meet all of the liabilities of pension plans purchased from the company. These reserves have been placed in government bonds or similar investment in accordance with the country's insurance regulations. SMAP claimed that the revenue from these investments is exempt from withholding tax. The rights of its pensioners are thus safeguarded and are not affected by the investigation under way, the company said.

A SMAP spokesman in Liege said that it was "business as usual" for the company.

INTERNATIONAL

M&A

Continued from previous page
more value-added services and focusing to a greater degree on managing total corporate risk.

- The need to cut costs and invest in advanced distribution systems.
- Growing claims size, including the "mega" catastrophe exposure.

In the 21st century, brokers will become "infomediaries," not just placing risks with insurers but advising clients on the whole spectrum of risk and financial management, Mr. Scott predicted.

Jonathan Spencer, director-insurance in the U.K. Department of Trade and Industry in London, also said he "would expect the number of players to continue to reduce as the company market sees further rationalization and seeks economies of scale."

However, he added, London is likely to hold on to its key position in the global market because declines in capital seem to have been reversed, with more than £2 billion ($3.08 billion) in new capital having been committed to the London insurance company market in the past 18 months. BI

Names will approve R&R plan, Lloyd's exec says

LONDON—Lloyd's of London Chief Executive Ron Sandler is confident that members will overwhelmingly endorse the insurance market's reconstruction and renewal program later this summer.

Regular monthly polls of Lloyd's names have shown an increasing level of support for the R&R plan, he said. For example, support among names for the plan was 58% last November, while in May this year it had risen to 79%, he said at the recent World Insurance & Reinsurance conference, held recently in London and sponsored by L.L.P. Ltd. However, the key factor in whether the R&R plan can proceed is approval by a majority of litigating names, according to Lloyd's.

"I am confident that when names receive their next indicative statement. . .the 79% will go considerably higher," said Mr. Sandler. Those statements, which names were due to receive last week, show revised estimates of how much they will be expected to pay into Equitas Ltd., the reinsurance company set up to take on old liabilities up to and including the 1992 year of account.

Lloyd's issued revised estimates late last month of 1992 and prior-year liabilities, which dropped to £859 million ($1.33 billion). Lloyd's originally estimated it would need £1.9 billion ($2.93 billion) in cash from names to fund Equitas (*BI*, June 24).

There has been considerable speculation over how Lloyd's would count votes on the settlement offer. Mr. Sandler said the tallying process was not easy to outline, adding that it would not be simply a question of counting the number of votes cast by names.

Lloyd's will have to assess carefully the R&R plan "acceptances" received by members of the various action groups that have sued Lloyd's, since a key aim of R&R is to wrap up past losses to put an end to the litigation, he said. Lloyd's is unable to quantify a percentage of approval needed for the plan to succeed.

"If it looks as though (acceptances) will bring litigation to an end, then we'll feel confident in declaring acceptance unconditional," Mr. Sandler said.

He added that Lloyd's is now more profitable than at any time in its history, with recent independent estimates from analyst ABN-AMRO Hoare Govett Ltd. forecasting profits of about £1 billion ($1.54 billion) for each of the 1993, 1994 and 1995 years of account.

—By Edwin Unsworth

French insurers consolidating

By EDWIN UNSWORTH

The French property/casualty insurance industry is undergoing both contraction and expansion in an effort to boost profitability, a new study says.

French non-life insurers are consolidating, as mergers and acquisitions increase in their home market, while at the same time expanding aggressively into overseas markets in pursuit of new business, according to the study released last month by management consulting firm Datamonitor.

These developments are driven by the consistently depressed profitability of French insurers and by the maturity of the French insurance market, which is marked by considerable market penetration in all major lines, according to the firm, which maintains offices in London and New York.

The French non-life insurance market, with annual gross written premiums of 242.8 billion francs ($49.5 billion), is the third-largest in Europe, after the United Kingdom and Germany. However, it has performed weakly in recent years.

Market saturation has contributed to slower growth and thinner profit margins, while "very poor" auto insurance results since 1990 are dragging the overall market's results down. In fact, the overall market is expected to post a net loss due to poor auto insurance results, Datamonitor said. No other single line of non-life insurance earns enough to compensate for losses on the auto account, according to the report.

The report says that investment in new technology, such as electronic data interchange, telephone claims lines and document imaging, has lowered insurers' expenses associated with auto insurance, but has had only a limited effect on the market's overall expense ratio, which has come down to 16% in 1994 from 19% in 1991.

"The French non-life market is among the least attractive in Europe, despite its advanced use of technology. The bleak commercial

Lower profits are leading French insurers to consolidate and expand operations overseas.

prospects for such a developed market should be of concern to insurers elsewhere, notably in the U.K. Heavy investment in technology alone cannot bring long-term profitability," said Andrew Nuttney, a Datamonitor consultant.

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The report, "Insurance in France: Strategic Action for the 21st Century," costs $1,450. It is available from Datamonitor USA, 41 Madison Ave., Fifth Floor, New York, N.Y. 10010; 212-661-2525. Or contact Datamonitor Europe, 106 Baker St., London W1M 1LA; 171-625-8548.

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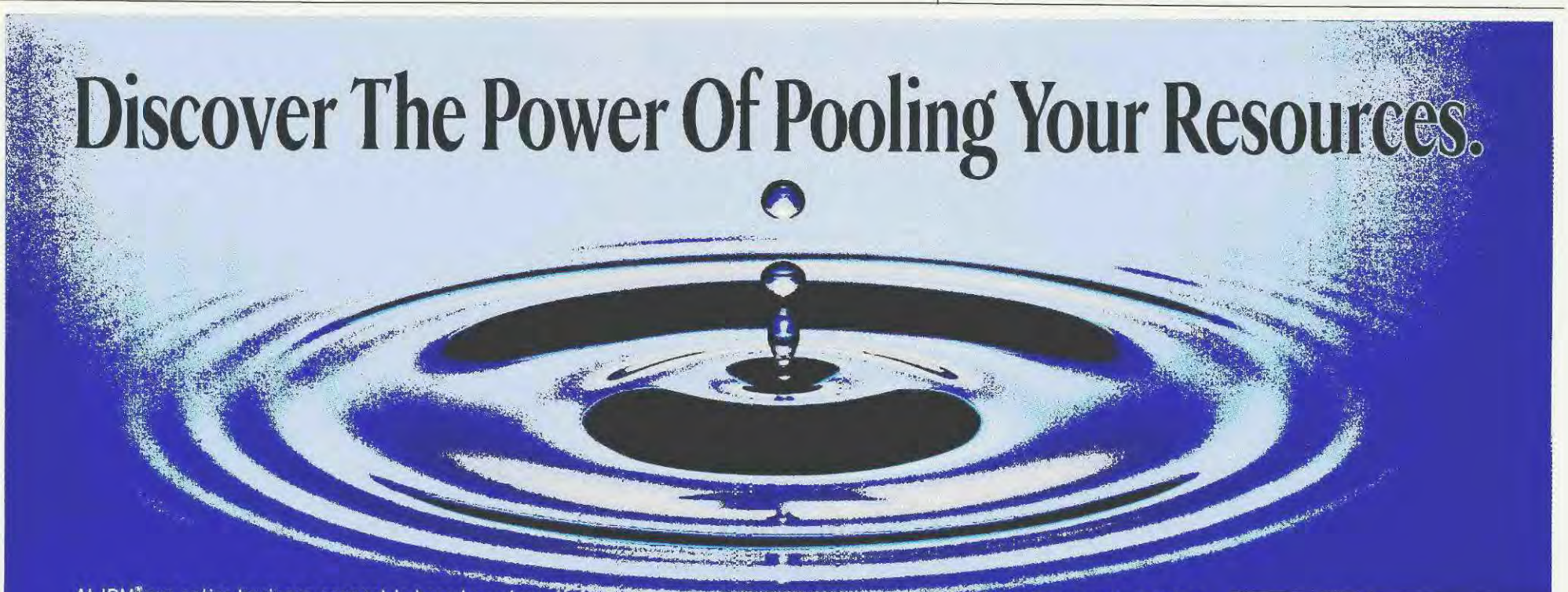

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LIMIT posts profit surge to £13 million

By EDWIN UNSWORTH

LONDON—The London Insurance Market Investment Trust P.L.C., the largest corporate capital investment vehicle at Lloyd's of London, reports a £13.0 million ($19.9 million) pretax profit for the year ending March 31, 1996, up 20% from £10.8 million ($16.5 million).

The profit came from investments, in mainly equities and fixed-interest securities. LIMIT's portfolio at the end of March was worth £326.0 million ($498.8 million), up 20% from £271.9 million ($416 million) a year earlier.

Lloyd's three-year accounting means LIMIT, which began investing with Lloyd's 1994 year of account, will not report its first results from underwriting for another year. However, LIMIT has upgraded its forecasts of its first underwriting profits.

LIMIT Chairman Jonathan Agnew said the board now estimates that LIMIT's return on its £502.5 million ($768.8 million) of 1994 capacity, after expenses but before the special contribution to the market's Central Fund as part of Lloyd's reconstruction and renewal plan, will be more than 9%. Last November LIMIT had been forecasting an 8% return, but Mr. Agnew said the improved forecast reflects better than expected claims experience for 1994.

And, early indications are that LIMIT's return on its £580 million ($887.4 million) of 1995 capacity will be about 7%, Mr. Agnew said.

While underwriting conditions appear to have become more competitive, 1996 is expected to be a profitable year for LIMIT, he added.

Subject to the implementation of Lloyd's reconstruction and renewal plan, Mr. Agnew said LIMIT may need to invest more in Lloyd's managing agents and in integrated vehicles—structures combining corporate membership vehicles with a managing agency with which they have ties. LIMIT is already in discussions with managing agents about the formation of such units, which act similar to insurance companies.

Agency groups managing over 40% of LIMIT's 1996 capacity have already formed, or have announced plans to form, integrated vehicles, while many of the agencies managing the rest of LIMIT's 1996 capacity are negotiating comparable arrangements for 1997. BI

Quake

Continued from page 39

earthquakes in Queensland, he said.

Russell Blong, director of the Natural Hazards Research Center, an insurer-funded unit at Sydney's Macquarie University, said insurers should rate all natural hazards, including earthquakes, according to geographic risks.

In Australia, standard homeowners and commercial policies include earthquake coverage, though insurers do charge higher rates for zones considered quake-prone, like Newcastle and parts of South and Western Australia.

However, insurers should separate earthquakes and other hazards, like tropical cyclones, and use finer zoning, Mr. Blong said.

He also called for more comparative risk studies, saying insurers need to put quakes into context with other natural hazards.

Daniel Wilkie, managing director-non-life at FAI General Insurance Co. Ltd. in Sydney, said insurers already take quake risks into account in setting premiums because reinsurers charge higher rates for risks in zones considered quake-prone.

"What we don't do is apply earthquake premiums to individual risks," he said. "We're not at the stage where we can individually measure all the risk factors."

Owen F. Roach, executive director-corporate and reinsurance for GIO Australia Holdings Ltd. in Sydney, said earthquake study is "not an exact science."

"How can you charge a separate premium for something that's relatively unlikely and would impact on a wide area if it happens?" he asked.

If insurers charged a separate quake premium, they would "make a 100% profit in every year there's no event and have a thundering great loss in the year when it does."

Regardless of "any academic studies," Sydney is not on a major fault line and is far less exposed to earthquakes than Tokyo, Los Angeles, San Francisco or even Wellington, New Zealand, Mr. Roach said.

He said insurers do not change PMLs every time there is a new study but will consider research.

The Natural Hazards Research Center is working on a new study of earthquake risks in Sydney, commissioned by reinsurance broker Greig Fester (Australia) Pty. Ltd. The center already has completed studies on earthquake risks in the major capital cities of Sydney, in 1992; Melbourne, 1993; Perth, 1994; and Adelaide in 1995. Mr. Blong said the Sydney study was being repeated because new methodology was available to assess the risk more accurately. The report is expected to take at least the rest of 1996 to complete.

A Brisbane-Gold Coast study is expected to begin in 1997.

Mr. Blong said there is "never enough" research on natural hazards, adding that studies need to pinpoint areas susceptible to brushfires, droughts, earthquakes, cyclones and other perils, so that insurers' ratings can accurately reflect the risks.

The center is funded by QBE Insurance Group Ltd., Greig Fester (Australia) Pty. Ltd., and Swiss Re Australia Ltd., the Australian arm of Swiss Reinsurance Co. Other work done by the center includes research projects commissioned by its main funding insurers and other insurers, including international companies (*BI*, Feb. 13, 1995). BI

Prudential

Continued from page 39

in life and health reinsurance."

M&G Re does about three-quarters of its business in life reinsurance, with the remainder in property/casualty lines. It has expanded its global operations in recent years, and in 1995 opened offices in Paris and Cologne while strengthening operations in Asia.

It currently has customers in more than 100 countries and 29 offices around the world. The United States is an important market, accounting for about 65% of its life business and almost a third of its general property/casualty business.

After losses in the early '90s, M&G Re began showing strongly improved overall results in 1993, and in 1995 posted its third successive year of improved results, with a pretax profit to £196 million ($304.4 million), up 13% from £174 million ($272.3 million) in 1994. BI

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Sub-total	**30,164**
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Government, Unions and Educational Institutions	881
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Sub-total	**31,356**
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★ *Source Business/Occupational breakdown of qualified circulation, Novermber 27,1995 Issue, as submitted to BPA for December 1995 BPA Publisher's Statement*

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UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK
IN THE PETITION OF PAUL ANTHONY BRERETON EVANS AND RICHARD CLAUDE BOYS-STONES, AS JOINT PROVISIONAL LIQUIDATORS OF THE ORION INSURANCE COMPANY PLC AND THE LONDON AND OVERSEAS INSURANCE COMPANY PLC (THE "COMPANIES")
Case Nos. 94-B-44968 (SMB) and 94-B-44969 (SMB) Jointly Administered

NOTICE IS HEREBY GIVEN that on June 20, 1996 an order was entered by the United States Bankruptcy Court for the Southern District of New York (the "Bankruptcy Court") continuing the Preliminary Injunction Order originally issued on March 14, 1995 (the "Order"):

1. Enjoining and restraining all persons and entities from (a) transferring, relinquishing or disposing of any property of the Companies in the United States, or the proceeds of such property, to third parities; (b) commencing or continuing any action or other legal proceeding (including, without limitation, arbitration, or any judicial, quasi-judicial, administrative or regulatory action, proceeding or process whatsoever) against the Companies or any of their property in the United States, or any proceeds thereof; (c) enforcing any judicial, quasi-judicial, administrative or regulatory judgment, assessment or order or any arbitration award, and commencing or continuing any act or any action or other legal proceeding (including, without limitation, arbitration, or any judicial, quasi-judicial, administrative or regulatory action, proceeding or process whatsoever) to create, perfect or enforce any lien, set-off or other claim against the Companies or any of their property in the United States or any proceeds thereof, including, without limitation, rights under reinsurance contracts; and (d) drawing down any letter of credit established by either of the Companies, or withdrawing from, setting off against, or otherwise applying property that is the subject of any escrow agreement or similar arrangement in which either of the Companies has an interest, in excess of what is expressly authorized by the terms of the contract and any related trust or other agreement pursuant to which such letter of credit, escrow, or similar arrangement has been established;

2. Requiring all persons and entities that are beneficiaries of letters of credit established by either of the Companies, or parties to any escrow or similar arrangement in which either of the Companies has an interest, to (a) provide notice to Petitioners' United States counsel of any drawdown on any letter of credit established by either of the Companies, or any withdrawal from, setoff against, or other application of property that is the subject of any escrow agreement or similar arrangement in which either of the Companies has an interest, together with information sufficient to permit the Petitioners to assess the propriety of such drawdown, withdrawal, setoff, or other application, including, without limitation, the date and amount of such drawdown, withdrawal, setoff or other application and a copy of the agreement pursuant to which any such drawdown, withdrawal, setoff or other application was made and provide such notice and other information contemporaneously therewith; (b) turn over and account to the Petitioners for all funds resulting from such drawdown, withdrawal, setoff, or other application, in excess of what is expressly authorized by the terms of the contract, any related trust or other agreement pursuant to which such letter of credit, escrow, or similar arrangement has been established;

3. Requiring every person and entity that has a claim arising under a contract of insurance, reinsurance or retrocession written or entered into by either of the Companies and who is a party to any action or other legal proceeding (including, without limitation, arbitration, or any judicial, quasi-judicial, administrative or regulatory action, proceeding or process whatsoever) in which either of the Companies is named as a defendant, to place the Petitioners' United States counsel on the master service list of any such action or other legal proceeding and to take such other steps as may be necessary to ensure that such counsel receives (a) copies of any and all documents served by the parties to such action or other legal proceeding or issued by the court, and (b) any and all correspondence, or other documents circulated to parties named in the master service list.

The Order shall remain in effect pending the hearing scheduled to be held in Room 621 of the Alexander Hamilton U.S. Custom House, One Bowling Green, New York, New York on October 22, 1996 at 10 o'clock a.m. before the Honorable Stuart M. Bernstein, without prejudice to the right of any party in interest to seek relief prior to that date upon appropriate notice and hearing. Any party in interest who has not received a copy of the Order should contact counsel for the Joint Provisional Liquidators in writing at the address listed below.

Chadbourne & Parke LLP
30 Rockefeller Plaza
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Attention: Kenneth P. Coleman, Esq.

The Orion Insurance Company PLC, a U.K. company, is not affiliated in any way with Orion Capital Corporation or any of the Orion Capital Companies.

Florida

Continued from page 3

wiretap and a U.S. district attorney's statement that there was no evidence anyone else was involved, provides "a complete exoneration" of Bankers with regard to any role in the illegal wiretap, Mr. Meehan said.

Insurance Commissioner Nelson said he considers it "outrageous that any insurance company would hire someone to spy on regulators."

Mr. Meehan charged that Bankers has been the target of "non-objective regulatory abuse" since 1993. He said the insurer repeatedly has received letters and procedures from state insurance regulators that are "out of the scope of objective regulatory oversight."

Mr. Meehan said the insurer lost its contract to service the JUA earlier this year because of "bid-rigging" that allowed other insurance companies to submit lower bids to handle the business.

It's 'outrageous that any insurance company would hire someone to spy on regulators,' says Commissioner Nelson.

He said those charges and others are outlined in suits filed in state and federal court seeking reinstatement of Bankers' JUA contract. Mr. Meehan said he hopes the suits will bring to light the reasons Bankers has been targeted for what he claims is regulatory abuse in recent years.

The investigatory hearing later this month could result in administrative charges. Willful violations of the state insurance code can bring penalties from fines to suspension or revocation of an insurer's license.

In another matter related to the JUA, brokers are battling over who should win the contract to place the facility's reinsurance.

In April, the JUA designated E.W. Blanch Co. as the reinsurance intermediary but the move was quickly protested by Guy Carpenter & Co. Inc., which held the contract last year.

After hearing new presentations from both intermediaries, the JUA now is reconsidering its decision and has not yet awarded a contract for the brokerage business.

The bidding has been complicated by allegations of a conflict of interest.

Florida Senator Locke Burt, R-Ormond Beach, has been drawn into controversy surrounding the bidding because of his relationship as a consultant to Guy Carpenter. The senator receives a commission for deals he helps the intermediary complete and he acknowledged earning a commission for consulting related to Guy Carpenter's 1995 winning bid.

Sen. Burt's Ormond Re Group in Ormond Beach, Fla., is the holding company for a reinsurance managing general agency, an insurance and reinsurance management and consulting firm and a general agency handling non-standard auto insurance and other lines.

"In 1993, Guy Carpenter hired me as a consultant," he said last week, with the charge of advising the intermediary on changing Florida insurance laws, JUA operations and other matters.

He cleared the arrangement with the state's Commission on Ethics to avoid a conflict of interest. "They said the JUA was not a state agency," and he was approved to represent Guy Carpenter in dealings with the JUA "with my private citizen hat on." BI

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Dems offer few details in new family agenda

WASHINGTON—The November general elections are still five months away, but position papers already are popping up designed to capture media sound bites and voters' attention.

Congressional Democratic leaders last week released an agenda of legislative actions that they say they intend to take if Democrats regain control of the House and Senate.

But much of the agenda, released by House Minority Leader Richard Gephardt, D-Mo., and Senate Majority Leader Tom Daschle, D-S.D., is composed of one-line statements with no explanation of how they would actually work.

In addition, many of the points are simply recycled positions originally proposed by the Clinton administration.

Many of the points in the Democrats' 'Families First' agenda are simply recycled positions that the Clinton administration originally proposed.

For example, the 21-point agenda, which Democrats are calling "Families First," calls for an end to "pension raiding" and the immediate reporting of any misuse of a pension fund.

Pension raiding, as critics refer to the practice of removing surplus pension assets from overfunded plans, effectively ended in 1990 when Congress enacted legislation imposing such high taxes on pension reversions as to kill the practice.

The reporting of misuse of pension funds was proposed several months ago by the Clinton administration as part of broader pension reform legislation.

Similarly, the Families First agenda calls for the federal government to crack down on employers that use their workers' pension money as a savings bank for the company.

But that proposal also is not new. The Clinton administration earlier proposed reducing to as little as a few days—down from the current 90-day maximum—the amount of time in which plan administrators must funnel employees' 401(k) contributions to the plan.

Other provisions are skimpy on detail. For example, the Democrats' Families First plan says parents should be eligible for bigger tax breaks—without saying how big—to help them afford better child care.

Current law provides two major tax breaks that help to subsidize child care.

Under one such break, employees can make annual pretax contributions of up to $5,000 to flexible spending accounts to pay for child care expenses if an employer offers such accounts. In addition, employees can take tax credits of between 20% and 30%—depending on their income—for up to $2,400 of annual dependent care expenses for one child and $4,800 of expenses for two or more children.

Since 1989, an employee's child care expenses eligible for federal tax credits are directly offset by contributions made to dependent care FSAs.

Finally, Democrats say they would encourage an expansion of pension coverage by making it easier for small employers to offer pension plans. That, too, is a recycled idea.

The administration earlier this year proposed a new type of 401(k) plan—with simplified reporting rules—for employers with fewer than 100 employees.

—By Jerry Geisel

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Work/life

Continued from page 3

respondents offer dependent care flexible spending accounts and 24% offer offsite referral services. Only 13% offer emergency or sick child care and only 12% offer onsite daycare centers.

Child care programs, however, continue to be more prevalent than elder care programs, Mr. Federico said.

According to the survey, 25% of the respondents offer referrals to community resources and 19% contract with offsite referral services. Only 6% have onsite referral services.

Since work/life programs deal with issues like gender and age, it's only natural to include diversity issues within the same framework, Mr. Federico said.

The most popular diversity training program—offered by 72% of the respondents—is training for a harassment-free workplace, the survey said.

Forty-one percent of the employers offer cultural diversity sensitivity training and 26% said they are either developing or considering such a program.

Thirty-four percent of the respondents offer disability awareness training, while 29% of the employers offer gender sensitivity training.

Among other work/life initiatives offered to employees, the survey found:

- Seven percent offer coverage to same-sex domestic partners while 15% offer coverage to heterosexual domestic partners.
- Fifty-seven percent offer year-round casual-dress days.
- Fifty-two percent offer stress management counseling.
- Forty-seven percent offer pre-retirement planning.

Among emerging employee conveniences, the survey found 44% of the respondents offer banking services, 38% offer fitness center discounts, 39% offer postal services and 33% offer onsite fitness centers.

•

Free copies of William M. Mercer Inc.'s Work/Life and Diversity Initiatives Benchmarking Survey 1996 are available by writing to: Publications Department, William M. Mercer Inc., 1500 Meidinger Tower, Louisville, Ky. 40202.

EMLICO

Continued from page 2

numerous GE and EMLICO documents to support the charge, including an "insolvency flow chart" which court records say was prepared by EMLICO lawyers in 1994 to show what would happen to EMLICO in a Massachusetts liquidation.

The flow chart was one of two documents mailed anonymously to an EMLICO reinsurer in March and later sealed by a state judge at EMLICO's request. *Business Insurance* obtained a copy from the court file.

GE and EMLICO, meanwhile, maintained that they never misled regulators and that EMLICO's huge insolvency was triggered by events that occurred after it arrived in Bermuda last July.

The insurer and GE, its sole policyholder, also assert that EMLICO is beyond the reach of Massachusetts regulators even if they wanted to reclaim it for liquidation.

"Whether anybody likes it or not, the Insurance Division lacks the jurisdiction because EMLICO is now a Bermuda corporation," said Dan K. Webb, a former federal prosecutor and partner with Winston & Strawn, representing GE.

The high-stakes dispute became even more intriguing with the discovery that last week's hearing was attended by two Boston-based federal prosecutors and an FBI white collar crime expert.

Officials of the FBI and U.S. Attorney's office have contacted the insurance division and reinsurer representatives for background on the case, those involved say.

The federal officials declined to comment on why they are interested, though Lloyd's of London underwriters charged earlier this year that EMLICO may have deliberately filed false financial statements and that the filings may violate federal criminal laws (*BI*, May 6).

EMLICO and GE representatives also declined to comment.

Massachusetts regulators called last week's hearing in the wake of the bitter dispute that erupted over EMLICO's 1995 reorganization.

EMLICO, a longtime GE liability insurer, won approval from regulators last June to separate loss-plagued GE liability policies dating back to at least 1952 from its other business, which it spun off into a former subsidiary.

With GE as its sole remaining policyholder, EMLICO then moved to Bermuda where—on Oct. 20, after applying a new reserving method—it declared itself underreserved by about $750 million and insolvent by about $500 million (*BI*, Dec. 11, 1995).

Several EMLICO reinsurers—Kemper Re, Allstate Insurance Co., Lloyd's underwriters and units of General Re Corp.—sued the Massachusetts division to reverse the redomestication, and Kemper has gone to court in Bermuda to halt the liquidation and have EMLICO's corporate status there rescinded.

The surprise testimony at last week's hearing came not from the reinsurers or EMLICO, though, but from the insurance division's own Mr. McAdoo, who appeared last and read a brief written statement.

Mr. McAdoo, the division official responsible for EMLICO, noted that he consented to EMLICO's move after four months of review of the insurer's financial statements and "extensive dialogue" with EMLICO management.

"Due to the unique business relationship between GE and EMLICO, I did inquire of EMLICO management as to any plans to change claims practices post-redomestication," Mr. McAdoo testified. "If in response to that question I had been informed that EMLICO planned to change its actuarial method of estimating loss reserves, its coverage of GE environmental claims or its accounting for reinsurance recoverable amounts, my opinion of the company's financial condition and my support of the transaction would likely have changed."

Though Mr. McAdoo concluded before the move that EMLICO had about $250 million in surplus, "I was never informed by any person, including any official of EMLICO, prior to Oct. 20, 1995, that EMLICO was insolvent or believed to be insolvent."

If EMLICO officials thought the insurer was insolvent, they had a duty to report it to Massachusetts regulators, he said. If Mr. McAdoo reached the same conclusion, he would have recommended liquidation.

Reinsurer attorneys—some of whom were skeptical about their chances of success before Mr. McAdoo appeared—called the testimony a "bombshell."

"I believe his testimony forces (Insurance Commissioner Linda Ruthardt) to reopen," said one. "It would almost be a repudiation of her own chief examiner if she doesn't."

"It establishes categorical misrepresentation" by EMLICO, argued David I. Finnegan, a lawyer with Finnegan, Underwood, Ryan & Tierney in Boston, representing Lloyd's.

"I don't know if that amounts to a slam-dunk for reopening the case," he added, but "I think it tends in that direction."

EMLICO's lawyers, however, argue the testimony helped their case.

Mr. McAdoo acknowledged that he was "aware of significant asbestos and environmental exposures at EMLICO" and confirmed that he had found the insurer solvent and had not been advised to the contrary by EMLICO management.

"McAdoo does not assert a misrepresentation of any kind with respect to EMLICO's solvency," the insurer's lawyers argue in a brief.

In addition, Mr. McAdoo never asked EMLICO officials if they planned to change their actuarial method or posture on coverage of GE claims; he only asked if the insurer planned to change its "claims practices," EMLICO's brief notes.

"The commissioner cannot possibly suggest that a reopening is warranted because Mr. McAdoo did not receive an answer to a question he never asked," the brief contends.

Before wrangling over Mr. McAdoo's statement, lawyers on both sides traded body blows in other arguments for and against reopening.

GE and EMLICO contended that Massachusetts regulators can't review their earlier decision because they no longer have any jurisdiction over Bermuda-based EMLICO. Reversing the decision would also be an "unmitigated disaster" for EMLICO's non-GE policyholders, who have been transferred to the still-solvent Electric Insurance Co. and might have to be transferred back, GE's Mr. Webb argued.

"This is a year-old decision, not one made last week," said Thomas Martin, a lawyer with Shearman & Sterling in Washington, representing EMLICO. "It's far too late and too much has occurred" to second-guess it now.

GE and EMLICO lawyers also refuted charges that the insurer concealed its insolvency to win approval for its move.

In an affidavit, EMLICO's former president, David St. Laurent, said that the insurer didn't realize it was insolvent until last fall, months after the move.

The finding was triggered by what Mr. St. Laurent says was an unexpected increase in asbestos claims and by huge reserve increases by several U.S. insurers—including Aetna Life & Casualty Co., Fireman's Fund Insurance Co. and CIGNA Corp.—between June and October.

These reserve increases prompted EMLICO to review its legal position on GE's claims—which it had denied—and to change its reserving method to the "exposure" method. The result was a huge reserve shortfall and insolvency, he said.

EMLICO never hid the possibility that it might become insolvent in Bermuda, its lawyers added, pointing to a February 1995 letter from EMLICO's Bermuda counsel to regulators in Bermuda and Massachusetts citing its vulnerability to asbestos and pollution claims.

Massachusetts also recognized the possibility, since regulators asked GE to waive claims to guaranty fund protection.

Finally, when the Insurance Division's order approving the move was found to include a reference to the "unlikely event" of EMLICO's insolvency, a Shearman & Sterling lawyer wrote the next day to ask that the word "unlikely" be deleted because the record included no evidence on the probability of insolvency.

"These are the people who are supposed to be trying to conceal stuff," Mr. Webb scoffed.

Reinsurers, meanwhile, insisted that the Insurance Division does have the power to review its order and argued that the order was improper in the first place because state law only allows redomestication to other states, not to foreign countries.

The case should also be reopened because EMLICO fraudulently concealed its scheme to take advantage of reinsurers by liquidating under Bermuda's creditor friendly laws, the reinsurers charged.

In Bermuda, EMLICO would be able to estimate its future liabilities and collect immediately from reinsurers, averting a long runoff.

"You bet they meant to go to Bermuda, you bet they meant to file for insolvency and you bet they knew why," Lloyd's lawyer, Mr. Finnegan said.

In an affidavit, Richard J. Marcus, Kemper Re's chief underwriting and claims counsel, cites a litany of GE and EMLICO documents that he says show the insurer knew it was insolvent long before the move.

One of these is the "insolvency flow chart," which is undated, but which was prepared in 1994 by Chadbourne & Parke, EMLICO's outside counsel, according to court filings.

The affidavit does not offer details of the flow chart, which was sealed by a Massachusetts judge. However, the document traces the steps that would be taken in a Massachusetts liquidation of EMLICO, a copy obtained by *Business Insurance* shows. The first steps are:

- "EMLICO posts reserves for universe of 'conforming' GE environmental and toxic-tort claims.
- EMLICO reports reserves to regulators, either immediately or in next quarterly statement.
- Massachusetts regulator determines EMLICO insolvent."

Mr. Marcus' affidavit also notes that:

- EMLICO has never litigated policy defenses with GE and in March 1991 lost a non-binding arbitration with GE on coverage of cleanup costs. The arbitrators unanimously rejected EMLICO's argument that it had agreed with GE that cleanup costs were outside the scope of its policies.
- Mr. St. Laurent wrote to reinsurers in September 1991 informing them that "it appears clear that GE's cleanup liabilities will be enormous."
- David Raim, a lawyer with Chadbourne & Parke, told reinsurers in November 1991 that "given the enormity of GE's exposure, the amount of resources GE can throw into this and the generally unfriendly courts in the U.S., it is unlikely in the extreme that EMLICO could ever completely escape liability."
- GE provided EMLICO with details of its pollution exposures starting in the 1980s, and by 1994 had reported potential liability at 484 sites, demanded payment from EMLICO of more than $500 million already spent on cleanup and projected GE's total liabilities at $2.6 billion.
- Between September 1992 and March 1993, EMLICO paid $44.4 million in GE cleanup claims covering seven sites.
- Despite this, EMLICO never put up any reserves for the pollution claims beyond a $25 million defense-cost reserve, contending the claims were not covered and that EMLICO's liability was too uncertain to estimate.

Mr. Marcus ridiculed the idea that EMLICO learned of the reserving method that allegedly triggered its collapse only after it arrived in Bermuda. Insurers had actually been using the "exposure method" for several years, and EMLICO had used the model itself since at least 1992 in developing commutation proposals for reinsurers, he said.

He also challenged Mr. St. Laurent's claim that EMLICO was only following reserve increases of other U.S. insurers. Those insurers had already boosted their pollution and asbestos reserves in 1992 and 1993, and the increases were on top of already substantial reserves.

By contrast, "EMLICO's reserves for environmental claims were zero," he said.

Mr. Marcus's affidavit was filed in Bermuda Supreme Court in support of Kemper Re's effort to halt EMLICO's winding up. Hearings on the reinsurer's charges are scheduled for this week. BI

FMLA

Continued from page 2

overtime flexibility the president seeks. But the White House does not support H.R. 2391, sponsored by Rep. Cass Ballenger, R-N.C., because it would give employers the final decision on when comp time could be taken. The president instead favors giving employees the final say in the matter, subject to giving their employers two weeks notice.

The Family and Medical Leave Act got additional attention last week when Sen. Christopher Dodd, D-Conn., and Rep. Patricia Schroeder, D-Colo., introduced legislation that would implement the 24-hour unpaid leave provision while extending the act's coverage to businesses with between 25 and 49 employees. The 1993 act currently only covers businesses with 50 or more employees and allows up to 12 weeks of unpaid, job-protected leave per year to deal with such matters as the birth or adoption of a child, the care of a sick relative or their own illness, without losing any medical benefits.

"It's hard to see" a downside to the idea of allowing workers to take an additional 24 hours of unpaid leave annually to handle personal matters, such as school conferences, said Karol Rose, a principal with Kwasha Lipton L.L.C. in Fort Lee, N.J. Making the most of that flexibility will require education and changes in corporate culture, she said.

Ms. Rose predicted that some employers would view the additional allowance positively because they want their employees to remain active in education and other civic activities. Twenty-four hours a year is only two hours a month, she said.

"Employers are just beginning to realize that it's cost-effective" to allow employees that sort of flexibility, she said. Without flexibility, employees spend a lot of time and energy worrying about how they will be able to get the time necessary to deal with outside demands and their performance suffers accordingly, she said.

Allowing flexibility results in a "more adult relationship between employer and employee," said Ms. Rose. She added, though, that "there's a tremendous amount of resistance from organizations in terms of how time is handled."

Some managers talk about measuring results when they're really measuring time spent on the job, she said, adding, "It makes no sense."

But Mary Reed, a legislative representative for the National Federation of Independent Business in Washington, said that even though the president's proposal only calls for 24 hours a year, it is "much more natural for an employer and employee to work together to make arrangements for such leave times instead of having the federal government mandate."

Another potential problem with the proposed mandate is the amount of record-keeping it would entail.

"Adding an additional 24 hours to the law is going to make it that much more difficult for employers to keep track of all the leave time taken by employees," said Cherae Bishop, associate director of human resources for the National Assn. of Manufacturers in Washington.

"I think it will depend on the size of the company as far as much of headache it would be," said Margy McKenna, director of risk and benefits for Jones InterCable Inc. in Englewood, Colo. Ms. McKenna said that allowing more unpaid leave is "probably the right thing to do," but added that many companies already allow that flexibility, though they require that the lost time be made up.

The idea of mandatory flextime also received a mixed reaction.

"The concept is something NFIB and small business owners have been calling for for many years," said Nelson Litterst, a Washington-based NFIB legislative representative. Mr. Litterst stressed, though, that the NFIB was not about to endorse the president's position before legislation had been presented.

Jones InterCable's Ms. McKenna was considerably less enthusiastic about the concept.

"When my people are working overtime, they're working overtime because there isn't enough time to get their work done. If overtime is just for a single project once a year, it might not be that big a deal. But if its just to get caught up because of workloads, I think you just keep falling further and further behind," if you then have to give people comp time off, she said.

The notion of expanding FMLA to smaller employers seems likely to run into even heavier opposition from employer groups.

"NFIB is violently opposed to any erosion of the small business exemption within the FMLA. NFIB was the principal backer of the under 50-employee small business exemption in the act and fought for that for eight years when it was being debated in Congress," said the NFIB's Ms. Reed.

"To move the a threshold for employers who have fewer than 50 employees is going to have an adverse impact, particularly on small business," said NAM's Ms. Bishop. BI

Fraud

Continued from page 3

helicopter so a specialized hand surgeon could re-attach the finger during more than 12 hours of surgery.

Robert Scott also began filling out paperwork in Milwaukee to apply for public assistance to pay for his medical bills, since he said he had no health insurance, investigators allege.

A few days later, though, his father, Robert J. Schemmel, 46, of McHenry, Ill., allegedly "corrected" the story and said Robert Scott's finger was crushed when a heavy box the son was moving fell on it at Howe Electric Co. in McHenry, the electrical contracting firm his father operates, investigators say. The father said Robert Scott initially lied to hide the fact that he disobeyed orders and moved the box without waiting for assistance, investigators alleged.

The father then filed a first report of injury with Howe Electric's workers compensation insurer, American States Insurance Co. of Indianapolis. The insurer began paying initial medical and wage-loss claims while the case was being investigated.

While waiting for accident reports, Diane Kennard, a claims adjuster in American States' Crystal Lake, Ill., office, began a routine accident investigation. Her work included photographing the boxes, which had been moved to a new location, as well as the accident site. However, her efforts to obtain a recorded statement from Robert Scott were stymied for nearly a month. "Usually, people respond quickly," she said.

The insurer's medical bill review service, CorVel Corp. in Oak Brook, Ill., was the first to point out that the hospital bills cited the accident's cause as an ATV rollover, not a box falling at work, Ms. Kennard said.

Based on that discrepancy, Ms. Kennard then forwarded details of the case to the insurer's Special Investigations Unit.

Getting the file "while it was still fresh" helped American States' SIU do its investigation "in a timely manner," said Angela Pawlikowski, American States' former SIU special investigator. The SIU investigators interviewed medical personnel in McHenry and Milwaukee and photographed the damaged dune buggy, which was chained at the back of the company's worksite, investigators said. It was removed shortly after their visit.

Overall, American States paid about $8,000 in wage-loss and medical benefits during the first three months after the accident, until it became convinced the claim was fraudulent and denied the claim, Ms. Kennard said.

Workers comp medical and wage-loss related benefits were expected to cost $125,000, but that figure could have doubled to $250,000 due to higher than anticipated medical and other costs, according to the latest estimates.

"We are very aware that when someone is insured with us, we made promises to them to pay when there is a legitimate loss," said John Cook, assistant vp at American States. However, "losses that are not legitimate increase the cost of insurance for all. We have an obligation to policyholders to try and identify fraudulent claims and not pay them."

American States' SIU unit then turned the case over to the National Insurance Crime Bureau, which coordinates investigations for member companies and helps present them to local prosecutors.

NICB's Ms. VanDenburg interviewed several of the witnesses again, aided primarily by Illinois State Police Sgt. Douglas W. Andrews, who is based in Elgin, Ill.

Workers comp fraud has always been accepted among lay people who think that it doesn't matter if insurers are ripped off a bit, because they have deep pockets, she said.

The two-person team packaged the information and presented it to McHenry County State's Attorney Gary Pack's office in Woodstock.

In the fall of 1994, the case was assigned to Assistant State's Attorney Sandra Z. Nueschen, who immediately began studying the relevant law and cases because she had no previous experience in insurance-related fraud cases.

It took a team of insurance and police investigators as well as McHenry County prosecutors about four months before a grand jury issued the first indictments under Illinois' 3-year-old insurance fraud law.

The grand jury charged Robert Scott Schemmel and Robert J. Schemmel, his father, each with three felony counts:

- Class 2 felony "insurance fraud conspiracy" for agreeing to file an employer's first report of injury to American States.
- Class 3 felony insurance fraud for knowingly obtaining $8,038.38 by making a false claim on an insurance policy.
- Class 3 felony theft for filing a false claim and obtaining more than $300 from the insurer.

Special Agent Samantha VanDenburg and Sgt. Douglas Andrews worked together to investigate the insurer's suspicions and package the case for McHenry County prosecutors.

Bail for father and son was set at $10,000 each.

"I was impressed that our grand jury took such an interest," said G. Terence Nader, chief of the criminal division for the McHenry County. "We are often confronted by certain preconceived notions, usually in lawyers or judges, that the insurance company can fend for itself, that it has the resources to handle fraudulent claims or any kind of contests in civil court."

However, as Sgt. Andrews sees it, "Any of us who pay insurance premiums in one form or another realize the importance. Insurance companies take a beating in these kinds of cases."

Although every written, medical-related document said the cause of the accident was a rolled ATV, the case "was not a slam dunk," said NICB's Ms. VanDenburg.

"Dealing with insurance fraud, you have a lot more variables," said Assistant State's Attorney Ronald R. Inderbitzin. Initially he helped Ms. Nueschen handle the case, then took it over when she left in March of this year to join the law firm of Corbett & Donahue P.C. in McHenry.

For example, he said, you have to determine where the conspiracy took place and prove that McHenry County court has appropriate jurisdiction.

"He (the defendant's father) really tried to fight it and work every angle to get out from under it," the NICB's Ms. VanDenburg said.

For example, the defendant's attorney argued typical motions challenging venue and jurisdiction and even challenged whether a workers comp claim was ever filed. Although Howe Electric filed a first report of injury claim with American States, the reporting form "is not a claim and cannot remotely be construed as a claim," argued Douglas P. Trent, an attorney with Trent & Butcher in Carol Stream, who represented the father.

Mr. Trent did not return several calls seeking comment from him or his client.

American States considered the report of injury to be a claim, said Ms. Kennard, the claims analyst.

In fact, the policyholder's failure to formally file a claim with the Illinois Industrial Commission was considered "a big, red flag" that this was not a legitimate workers comp claim, said the NICB's Ms. VanDenburg.

The defendant also raised questions about doctor/patient confidentiality, challenging investigators' access to medical records, especially for the fraud case.

Once medical personnel became aware that confidentiality was an issue, they required prosecutors to speak to their lawyers, rather than to them directly, and to obtain subpoenas for any future discussions.

The defendant also filed related civil lawsuits, including one in which the son sued the owner of the building in which Howe Electric was located, alleging the premises were negligently kept. However, the defendants asked to have these dismissed about five months after they were filed.

Despite all the work on this case, several factors led the state's attorney's office to decide to accept a negotiated plea.

"The information we had was circumstantial. It largely required us to prove a negative: That the injury could not have been caused in this way," Mr. Nader said. The case would rest on the medical experts' testimony, because no eyewitness was available who would testify for the prosecution.

The prosecutors' case would also include mentioning inconsistent statements the son made about the cause of the accident as well as the possible motive for the alleged conspiracy, which was to get medical bills paid, Mr. Nader said.

Overall, insurance fraud cases are "somewhat harder" than most felony cases because you rarely have eyewitnesses and "you don't find a smoking gun," said Mr. Pack, the McHenry County state's attorney.

Weighing these factors, his office decided to settle the case 16 months after the grand jury indictment.

Robert J. Schemmel agreed to plead guilty to misdemeanor insurance fraud, as if the value of the property taken was $300 or less. However, he was still was ordered to make full restitution to the insurer by May 1, 1997, of the $8,038 it paid out, plus about $600 in miscellaneous costs. He also received 18 months probation.

However, all charges against his son were dropped as part of the deal, Mr. Inderbitzin said.

"Teamwork was the key to getting a good result," said Ms. Pawlikowski, the former American States SIU investigator, who now works in the Chicago office of Risk Enterprise Management Ltd., a third-party administrator. "It was a great effort on the part of everyone involved, from the claims adjuster to the state's attorney and all of us who fall in between."

"You see so many people taking advantage or our industry and it's nice to catch one and make him pay us back what he fraudulently took from us," she said. This outcome is "sending the message that the industry won't tolerate fraud." BI

Updates

Tobacco liability law upheld

TALLAHASSEE, Fla.—Both sides are claiming victory in a Florida Supreme Court decision that upholds much of the amended law allowing Florida to sue tobacco companies to recover the Medicaid costs of treating smoking-related illnesses.

Florida is one of several states seeking to recover the costs in lawsuits filed against the tobacco industry.

A critical part of last week's decision allows Florida to continue to use statistical evidence to show that smoking causes health problems. However, the ruling also requires the state to name Medicaid recipients it claims were injured, which will permit tobacco companies discovery of each recipient.

"We are delighted that the Florida Supreme Court has agreed with our position that this lawsuit must focus on individual Medicaid recipients," said Charles R. Wall, senior vp and deputy general counsel at New York-based Philip Morris Cos., one of the defendants.

But Florida Gov. Lawton Chiles called the ruling a "tremendous victory for the people of Florida—dealing a stinging and devastating blow to the forces of smoking and death."

The ruling upheld portions of the 1994 amended law that say tobacco companies cannot use issues of contributory negligence or the willing assumption of risk by smokers as affirmative defenses in such suits. The state can use a market-share or a joint-and-several theory of liability, but not both, in its suit.

In allowing the suit to proceed, the ruling called the law as a whole "a rational response to a public need."

The court also ruled that recoveries for Medicaid payments sought before the law was amended July 1, 1994, will have to be made under the state's old law, meaning the tobacco companies can use the defenses barred by the recent ruling.

Tax bill on Senate agenda

WASHINGTON—The U.S. Senate is expected to pass tax legislation next week that contains a slew of pension simplification provisions backed by employer groups.

The measure, among other things, would make it easier for employers to run the basic 401(k) plan non-discrimination test and would increase to $80,000 from $66,000 the amount of compensation for an employee to be considered highly compensated for pension non-discrimination testing purposes.

The measure also would require multiemployer pension plans to adopt the same rapid vesting schedules that single-employer plans have used since 1989, as well as retroactively restore—through Dec. 31, 1997—the tax-favored status of employer-provided educational assistance benefits.

Insurers settle with Occidental

BUFFALO, N.Y.—Lloyd's of London syndicates and other London insurers will pay an undisclosed amount for the cleanup of the Love Canal toxic waste site in an agreement reached with Occidental Chemical Corp. last week.

The settlement covers a major part of the coverage dispute that Occidental began with its insurers in 1980, an Occidental spokesman said.

Disputes with other insurers are due to go to trial next year.

Love Canal was polluted in the 1940s and 1950s by Hooker Chemical Corp., which Occidental bought in 1968. The cleanup costs are expected to be in the hundreds of millions of dollars.

Occidental had $320 million in liability insurance between 1963 and 1979 (*BI*, Jan. 21, 1980).

Briefly noted

Senate Republican leaders, trying to break an impasse on health care portability legislation, on Friday agreed to amend a controversial **medical savings account provision.** Under the compromise, tax-favored MSAs initially could be offered by employers with 50 employees or less with Congress then deciding in the year 2000 whether or not to expand MSAs to larger employers. . . .**Rep. William Emerson, R-Mo.**, chief House proponent of creating a national reinsurance facility that would respond to catastrophic natural disasters, died on June 22 after being hospitalized with a respiratory infection. The 58-year-old lawmaker was diagnosed with inoperable lung cancer last year. His wife, Jo Ann, is senior vp-public affairs for the American Insurance Assn. . . .Pennsylvania Gov. Tom Ridge last week signed into law a **workers compensation reform** measure that, among other things, reduces certain awards by other employer-funded benefits and bases benefits on a worker's average pay during the prior nine months, rather than the quarter in which the employee received his or her highest pay in a year. . . .French reinsurer **SCOR S.A.** plans to list its shares on the New York Stock Exchange. Its former subsidiary, SCOR U.S., was delisted from the NYSE last year and merged into the parent company (*BI* Nov. 13, 1995). . . .Shareholders of **Tempest Reinsurance Co.** approved the sale of the Bermuda-based company to ACE Ltd. last week. If the ACE shareholders approve the deal on July 1, as expected, Tempest shareholders will receive 3.2 ACE shares for every Tempest share. . . .Proponents of comprehensive **Superfund reform** got a key victory last week as the House of Representatives overwhelmingly rejected a proposal to prohibit the use of any funds appropriated for Superfund for liability reform. The measure, which was offered as an amendment to the VA/HUD/Independent Agencies appropriations bill by Rep. Edward Markey, D-Mass., was defeated on a vote of 274 to 142. . . .The Internal Revenue Service has reinstated tax-exempt status to the proposed state-run insurance agency known as the **California Earthquake Authority**, said Rep. Jerry Lewis, R-Calif. . . .The 3rd U.S. Circuit Court of Appeals on Thursday denied a petition to rehear a three-judge panel's decision to decertify *Georgine vs. Amchem*, the proposed $1.3 billion **asbestos personal injury settlement** (*BI*, May 20).

Alpine

Continued from page 3

pine is domiciled, are reviewing the insurer, though no action has been taken yet.

"At this time, there have been no restrictions placed on Alpine's operations," said Arnold L. Dutcher, chief deputy director of the Illinois Insurance Department.

Alpine writes architects, engineers and contractors errors and omissions coverage for small consultants on an occurrence basis and is one of California's 10 largest non-admitted insurers in that line, the SLA said.

Alpine is writing about $500,000 in gross premiums per month in California, or about $6 million annually in the state, Mr. O'Shaughnessy said.

Alpine writes the majority of its business in California, but also writes on a non-admitted basis in nearly 40 other jurisdictions.

In March 1995, Alpine sought authority to write additional lines of business in California. The ensuing Insurance Department audit ultimately resulted in the order barring brokers from placing business with the company.

It is not known yet whether the California action will affect Alpine's parent, Transco, which voluntary ceased writing business on the IIE last month.

The withdrawal of Transco and the recent loss of another syndicate has raised questions about the IIE's stability (see related story).

"The IIE is in the process of doing a total review" of Transco, said IIE President James M. Skelton. "If they (Transco officials) were to reactivate, I think we would take some kind of action to assure the exchange and potential policyholders (that) they were a stable market."

However, Mr. Skelton said Transco did not write enough business for its withdrawal to have a serious impact on the exchange.

Transco wrote $10.5 million, or 8%, of the exchange's $127.6 million in net premiums in 1995. That was down from the $21.9 million, or nearly 11% of the IIE's $201 million in net premiums, it wrote in 1994 (*BI*, Sept. 11, 1995).

Oldwick, N.J.-based A.M. Best Co. in April downgraded its combined ratings of Transco and Alpine to "C," or marginal, from "B," or adequate. In 1994, Alpine had been rated "A-," or excellent.

Best found that "significant" portions of Transco's assets were "non-liquid" and noted that Exstar had requested extensions for filing its 1995 10-K form with the Securities and Exchange Commission (*BI*, April 22).

Mr. Shaughnessy said Exstar plans to file its delayed 10-K statement on or about July 15 and will then ask Best to upgrade its ratings.

The California Insurance Department contends Alpine has understated its liabilities and listed inadmissible assets, including: about $7.2 million in reinsurance ceded to its parent, Transco; a $770,664 balance on a mortgage loan to Exstar; and a low-grade revenue bond from the Orange County, Calif., Pension Fund.

"Transco is an unauthorized reinsurer which does not meet the requirements of California Insurance Code Section 922.4," the department said in its June 24 order. That section requires unauthorized reinsurance be secured by letters of credit, a trust account or funds withheld.

As a result, Alpine cannot take reinsurance credit for the $7.2 million, which increases the insurer's liabilities, the order said.

The department's order also pointed out that this reinsurance recoverable was not disclosed in Alpine's 1994 annual statement.

After a review of Transco's 1994 annual statement, as well as its third-quarter statement dated Sept. 30, 1995, the California department disallowed about $19.4 million of Transco's reported capital and surplus. This brought the reinsurer's capital and surplus total to just $2.5 million—less than half of the $5.4 minimum capital and surplus requirement for authorized reinsurers in California.

As of Dec. 31, 1995, Alpine's capital and surplus was an adjusted negative $11.4 million, according to department auditors, after the department disallowed $29.1 million in reinsurance recoverables and $1.9 million in assets. That fell below the state's requirements that eligible surplus lines insurers have a minimum of $15 million in capital and surplus.

And, after revising Alpine's March 31, 1996, quarterly statement to reflect its auditors' 1995 findings, the department found that the insurer then had an adjusted negative policyholder surplus of $6.9 million for the first quarter of this year. The improvement reflected unrealized capital gains, improved net income, and a reduction in reinsurance recoverable from Transco.

In addition, the department auditors said, "Net underwriting losses increased from $628,000 in 1992 to $2,615,000 in 1994," and "investment yields since 1992 have ranged from 1.6% to 2.6%, which is well below the NAIC standard of 4.5%."

At the same time, Alpine's gross premium volume has increased. Nationwide, it wrote $52.5 million in 1995, or $17.7 million net of reinsurance, according to the Illinois department. That compares with $45.6 million in gross premiums in 1994, $28.7 million in 1993 and $5.4 million in 1992.

"Alpine is insolvent under the CIC standards," the department concluded in denying a certificate of authority. BI

IIE exec says facility can withstand problems

CHICAGO—The financial problems of two syndicates are testing the mettle of the Illinois Insurance Exchange.

Geneva Assurance Syndicate Inc. is now in conservation under the control of the Illinois Insurance Department. A Cook County Circuit Court issued that order May 17, though it was kept confidential until late last month.

The goal is to conserve Geneva's $35 million in assets, which are exceeded by about $39.5 million in liabilities, said Richard Darling, chief operating officer of the department's Office of the Special Deputy Receiver in Chicago.

The order temporarily stops payment of all claims and loss adjustment expenses. It includes an injunction on suits outside of the conservation proceedings.

Geneva Assurance, which ceased underwriting new business in 1995 and has been running off old claims, has fewer than 50 policies in effect.

Illinois regulators will meet with the IIE and syndicate officials in mid-July.

"The next step will be rehabilitation or liquidation, and it's unclear what that step will be," said IIE President James M. Skelton.

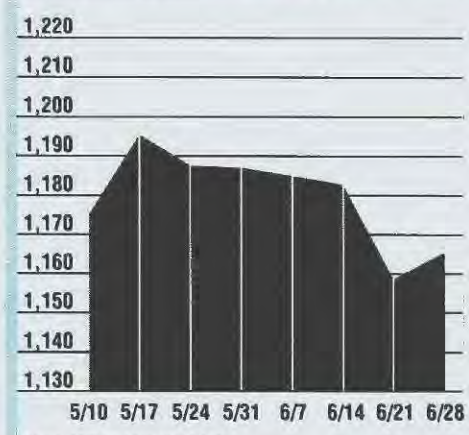
A syndicate spokesman confirmed ongoing discussions but declined to elaborate.

In addition, the operations of Transco Syndicate #1 Ltd. are under review by regulators in California and Illinois, who are concerned about the financial health of related companies.

"The exchange could survive," even if faced with a worst-case scenario in which both syndicates were liquidated and the IIE's guaranty fund triggered, Mr. Skelton said. "The most important thing is that the remaining (nine) syndicates stay viable, continue writing and having faith in the marketplace."

—By Meg Fletcher

BI Insurance Index



Base=100 on Dec. 29, 1978
Source: Nordby International Inc.

PCS catastrophe options

As of June 28

Call spread	Price bid/ask	Call spread	Price bid/ask
Eastern September 1996		**California Annual**	
40/60	4/5.2	40/60	.8/1.6
50/70	3/4.5	80/100	.5/1.5
80/100	2.3/3.2		
Southeast Sept. 1996		**Western Annual**	
80/100	1.6/2.7	40/60	1/2

Total volume: 24 Total open interest: 4,699
For information on PCS cat options, call 312-435-3674.
Source: Chicago Board of Trade

British Issues

June 28 Companies	Price pence	P/E	Div. pence	Yield %	1 week high—low
Comml Union	574	11.0	35.3	6.1	577—568
Gent Accident	643	9.7	38.8	6.0	649—635
Gdn Royal Exch	241	8.9	11.3	4.7	258—241
Independent	467	8.7	14.1	3.0	483—467
Royal	392	7.4	20.0	5.1	401—392
Sun Alliance	369	8.4	21.6	5.9	376—367
Brokers					
Bradstock	71	11.8	7.1	10.0	71—71
Fenchurch	104	7.0	10.6	10.2	111—104
CE Heath	105	12.4	6.3	6.0	107—105
JIB Group	114	11.3	9.4	8.2	116—114
Lloyd Thmpson	181	11.1	11.3	6.2	183—180
Lowndes Lmbrt	137	9.0	10.5	7.7	142—137
Nelson Hurst	205	12.6	9.8	4.8	205—203
Sedgwick Grp	137	10.7	8.1	5.9	145—137
Steel Brl Jones	44	5.7	5.6	12.7	44—44
Willis Corroon	157	14.1	8.3	5.3	164—157

Source: Philip Olsen, London * Estimated. Others actual.

BI Industry Stock Report JUNE 24, 1996, THROUGH JUNE 28, 1996

		Price	Weekly % change	Year to date % change	Annual High	Annual Low	Vol.(000)	$ Div.	% Yield	P/E	Book value	Mkt./Bk value
BROKERS												
Acordia Inc.	NYS	33.75	4.25	13.45	33.75	23.50	35	0.8	2.37	20	14.00	2.41
Alexander & Alexander	NYS	19.75	-4.24	3.95	25.50	17.88	319	0.1	0.51	25	19.17	1.03
E.W. Blanch Holdings Inc.	NYS	19.875	-3.64	-14.97	25.50	16.50	31	0.4	2.01	16	4.93	4.03
Gallagher Arthur J. & Co.	NYS	32	-2.29	-14.09	39.50	30.00	112	1.16	3.63	12	6.48	4.94
Hilb, Rogal & Hamilton	NYS	13.875	0.91	3.74	14.38	12.00	128	0.8	4.32	16	1.21	11.47
Kaye Group Inc.	NDQ	6	1.05	-25.00	9.50	5.63	160	0.1	1.67	8	NA	NA
Marsh & McLennan	NYS	96.5	1.18	8.73	101.63	76.63	583	3.2	3.32	17	19.95	4.84
Poe & Brown	NDQ	24.75	4.21	-0.50	25.50	22.75	32	0.48	1.94	14	5.15	4.81
BROKERS	AVERAGE		0.2	-3.1					2.8	18		
INSURERS/REINSURERS												
ACE Ltd.	NYS	47	-3.34	18.24	50.38	28.25	577	0	0.00	-	22.45	2.09
Acceptance Insurance Cos.	NYS	17.125	-3.52	15.13	18.25	13.13	155	0	0.00	45	10.76	1.59
AEGON N.V.	NYS	46.125	3.07	4.83	50.38	33.25	48	1.19	2.58	14	17.28	2.67
Aetna Life & Casualty	NYS	71.5	-1.55	3.25	78.75	60.25	3741	2.76	3.86	19	48.85	1.46
AFLAC Inc.	NYS	29.875	1.27	3.02	33.13	24.38	1342	0.4	1.34	13	17.58	1.70
Allied Group Inc.	NDQ	43.25	13.82	20.14	44.25	27.50	591	0.88	2.03	9	21.81	1.98
Allmerica Prop. & Casualty	NYS	27	4.85	0.00	27.25	21.50	155	0.16	0.59	11	19.87	1.36
Allstate Corp.	NYS	45.625	3.99	10.94	46.50	29.25	3634	0.85	1.86	11	18.75	2.43
American Financial Group	NYS	30.125	-3.60	-1.63	34.50	25.25	253	1	3.32	7	24.94	1.21
American General	NYS	36.375	-2.35	4.30	39.13	31.00	1926	1.3	3.57	14	17.03	2.14
American Heritage Life Ins.	NYS	21.875	0.00	-4.37	24.25	18.88	22	0.76	3.47	11	12.51	1.75
American Indemnity/Fin'l	NDQ	12.25	0.00	22.50	13.38	9.00	4	0.3	2.45	-5	15.92	0.77
American International	NYS	98.625	3.41	6.62	103.38	71.00	3301	0.4	0.41	18	34.66	2.85
American Re Corp.	NYS	44.875	-0.83	9.79	46.00	34.00	344	0.44	0.98	-29	16.77	2.68
Aon Corp.	NYS	50.75	-0.73	1.75	56.00	36.25	854	1.44	2.84	14	18.30	2.77
Argonaut Group	NDQ	31.25	-0.79	-3.85	35.00	28.88	83	1.48	4.74	11	29.91	1.04
AVEMCO Corp.	NYS	13.5	-4.42	-15.63	18.00	11.75	309	0.48	3.56	15	6.28	2.15
Baldwin & Lyons Inc.	NDQ	20.625	13.01	26.92	20.63	14.25	26	0.32	1.55	10	13.90	1.48
Berkley W.R. Corp.	NDQ	41.75	-0.60	-22.33	55.50	35.25	201	0.52	1.25	14	34.46	1.21
Berkshire Hathaway Inc.	NYS	30700	-0.97	-4.36	38000.00	23400.00	1	0	0.00	16	10089.11	3.04
Capital RE Corporation	NYS	36.75	8.89	19.51	38.25	24.75	124	0.24	0.65	12	27.82	1.32
Capsure Holdings Corp.	NYS	17.875	0.70	1.42	18.75	13.00	90	0	0.00	13	14.61	1.22
Chartwell Re	NDQ	22.125	1.14	NA	24.75	10.00	174	0	0.00	11	21.53	1.03
Chubb Corp.	NYS	49.875	2.05	3.10	52.25	28.50	1891	1.08	2.17	13	48.92	1.02
CIGNA Corp.	NYS	117.875	3.63	14.16	125.50	77.13	1117	3.2	2.71	60	80.46	1.47
CNA Financial Corp.	NYS	103	0.37	-9.25	123.25	85.50	233	0	0.00	7	71.13	1.45
EMC Insurance Group Inc.	NDQ	12.5	11.11	-9.09	15.25	10.13	163	0.56	4.48	8	11.13	1.12
Everest Reinsurance	NYS	25.875	4.55	10.70	26.50	18.50	1290	0.12	0.46	136	NA	NA
EXEL Ltd.	NYS	70.5	-2.93	15.81	73.63	51.25	624	0.4	0.57	-	31.47	2.24
Fremont General Corp.	NYS	23	-2.13	-6.12	26.25	16.13	411	0.6	2.61	8	19.04	1.21
Frontier Insurance Group	NYS	34.5	-4.17	7.81	38.00	24.75	75	0.51	1.48	15	14.65	2.35
Gainsco Inc.	ASE	9.875	-1.25	-13.19	12.38	8.31	416	0.05	0.51	12	3.98	2.48
General RE Corp.	NYS	152.25	-0.16	-1.77	158.25	129.50	773	2.04	1.34	14	59.35	2.57
Guaranty National Corp.	NYS	18	0.70	17.07	19.00	13.38	228	0.5	2.78	31	11.60	1.55
Harleysville Group	NDQ	29.5	15.69	-8.88	33.00	24.00	298	0.76	2.58	12	20.72	1.42
Hartford Steam Boiler	NYS	49.125	1.29	-1.75	52.50	42.63	446	2.28	4.64	15	14.68	3.35
HCC Insurance Holdings	NYS	22.5	7.14	21.62	25.50	10.25	308	0	0.00	24	15.86	1.42
ITT Hartford Group	NYS	53.25	-0.23	10.08	54.38	44.50	1157	1.6	3.00	12	45.46	1.17
Lincoln National	NYS	46.25	-1.60	-13.95	57.00	39.75	702	1.84	3.98	10	28.90	1.60
Markel Corp.	NDQ	93	4.49	23.18	94.50	55.25	29	0	0.00	15	25.71	3.62
Meadowbrook Insur. Group	NYS	30.75	-4.28	-8.21	34.13	24.00	42	0.08	0.26	-	NA	NA
Mid Ocean Ltd.	NYS	41	3.80	10.44	43.00	30.50	231	0.25	0.61	-	22.18	1.85
Mutual Risk Mgmt. Ltd.	NYS	31.25	-4.94	-8.93	34.88	24.50	304	0.3	0.96	18	9.72	3.22
National Re Corp.	NYS	37.75	17.97	-0.66	38.13	30.00	344	0.2	0.53	12	17.05	2.21
Navigators Group	NDQ	17.75	0.71	0.71	20.25	13.50	166	0	0.00	10	10.21	1.74
Nobel Insurance Ltd.	NDQ	11.625	1.09	2.20	12.75	10.13	29	0.2	1.72	10	6.84	1.70
Ohio Casualty Corp.	NDQ	34.75	0.00	-10.32	40.00	30.75	130	1.6	4.60	14	23.64	1.47
Old Republic Int'l	NYS	21.5	0.00	-9.15	24.38	16.88	472	0.44	2.05	9	25.79	0.83
Orion Capital Corp.	NYS	51	7.37	17.58	51.00	38.38	140	1	1.96	11	26.00	1.96
Partner Re Ltd.	NDQ	29.875	0.00	8.64	31.88	23.75	583	0	0.00	-	20.37	1.47
Penn-America Group Inc.	NDQ	16.625	3.91	16.67	16.75	9.25	57	0.16	0.96	12	8.28	2.01
Philadelphia Cons. Holding	NDQ	19.5	0.65	20.00	22.50	13.88	17	0	0.00	13	11.58	1.68
PXRE Corp.	NDQ	24.25	-1.02	-8.49	29.75	22.75	133	0.72	2.97	5	21.27	1.14
Reliance Group Holdings	NYS	7.5	0.00	-13.04	9.25	6.25	1425	0.32	4.27	9	3.42	2.19
Reliastar Financial Corp.	NYS	43.125	-1.15	-2.82	51.63	36.00	610	1.12	2.60	10	24.53	1.76
RenaissanceRe Holdings Ltd.	NDQ	30.75	0.82	1.23	33.13	20.72	116	0	0.00	-	NA	NA
Risk Capital Holdings	NDQ	19.625	0.64	-16.04	23.38	19.13	90	0	0.00	-	NA	NA
RLI Corp.	NYS	24.375	2.09	-2.50	25.88	21.75	56	0.56	2.30	24	20.51	1.19
St. Paul Companies	NYS	53.5	2.15	-3.82	60.50	46.13	1059	1.76	3.29	9	32.46	1.65
SAFECO Corp.	NDQ	35.375	4.04	2.54	39.75	28.13	1318	1.16	3.28	10	31.61	1.12
Seibels Bruce Group	NDQ	2.4375	-2.50	62.50	4.25	0.44	54	0	0.00	10	0.04	60.94
Selective Ins. Group	NDQ	32.5	0.00	-8.45	38.75	30.75	118	1.12	3.45	10	23.23	1.40
Sphere Drake Holdings	NYS	10.25	0.00	-26.79	19.13	9.75	21	0	0.00	-	13.86	0.74
TIG Holdings	NYS	29	-0.85	1.75	34.25	22.25	976	0.2	0.69	27	16.62	1.74
Tilan Holdings, Inc.	NYS	14	-4.27	-2.61	16.63	10.88	83	0.29	2.07	10	9.04	1.55
Tokio Marine & Fire	NDQ	66.625	2.90	0.95	69.25	50.88	7	0.32	0.48	23	57.72	1.15
Torchmark Corp.	NYS	43.75	3.24	-3.31	49.88	36.75	501	1.16	2.65	21	17.37	2.52
Transatlantic Holdings	NYS	70	0.18	-4.60	75.25	62.38	152	0.48	0.69	12	33.30	2.10
Transnational Re Corp.	NDQ	24.625	6.84	0.51	27.25	20.00	164	0.2	0.81	6	22.23	1.11
Travelers Aetna Property	NYS	28.375	7.08	NA	28.38	26.00	1194	0.3	1.06	315	24.77	1.15
Travelers Corp.	NYS	45.625	4.58	9.28	47.13	28.38	4785	0.6	1.32	11	24.77	1.84
Trenwick Group Inc.	NDQ	50	1.27	-11.11	57.50	41.75	67	1.24	2.48	11	29.23	1.71
United Fire & Casualty	NDQ	30.5	-19.74	8.93	40.00	18.25	34	0.6	1.97	11	28.96	1.05
Unitrin	NDQ	47	-1.57	-2.08	51.75	44.50	322	2.2	4.68	13	37.51	1.25
UNUM Corp.	NYS	62.25	6.41	13.18	63.00	43.75	604	1.1	1.77	16	26.45	2.35
US Facilities Corp.	NDQ	17.375	-1.42	-18.71	23.38	15.50	114	0.24	1.38	7	14.20	1.22
USF&G Corp.	NYS	16.25	2.36	-3.70	19.50	14.25	1814	0.2	1.23	10	10.86	1.50
USLIFE Corp.	NYS	32.875	3.14	10.04	33.25	26.25	829	0.93	2.83	11	38.45	0.86
Washington National	NYS	25.75	-1.90	-6.79	30.50	20.13	79	1.08	4.19	10	32.19	0.80
Zenith National Ins.	NYS	27.375	-0.90	28.07	28.00	20.00	180	1	3.65	39	16.35	1.67
Zurich Reinsurance Centr.	NYS	31.5	-0.40	3.70	32.63	27.88	91	0	0.00	19	21.64	1.46
INSURERS/REINSURERS	AVERAGE		1.5	2.5					2.0	18.6		
HEALTH MAINTENANCE ORGANIZATIONS												
FHP International	NDQ	27.375	1.39	-3.95	34.25	22.25	614	0	0.00	-30	28.15	0.97
Humana Inc.	NYS	17.875	-2.72	-34.70	28.88	17.00	3022	0	0.00	15	6.56	2.72
Oxford Health Plans	NDQ	41.125	0.61	11.34	55.25	22.25	7957	0	0.00	50	6.56	6.27
Pacificare Health Sys.	NDQ	66	-4.35	-24.14	98.75	44.50	617	0	0.00	17	15.02	4.39
Safeguard Health Enter.	NDQ	18.25	1.39	56.99	19.25	10.50	10	0	0.00	31	6.15	2.97
Sierra Health Services	NYS	31.5	2.44	-0.79	36.00	22.13	841	0	0.00	23	9.22	3.42
United Healthcare Corp.	NYS	50.5	3.59	-22.75	69.00	39.50	5336	0.03	0.06	30	16.17	3.12
U.S. Healthcare	NDQ	55	0.46	18.28	55.31	29.88	6813	1.1	2.00	23	5.66	9.72
Wellpoint Health Networks	NYS	31.25	-2.72	-2.72	39.13	26.00	174	0	0.00	17	14.26	2.19
HMOs	AVERAGE		0.0	-0.3					0.2	20		
ALL COMPANIES	AVERAGE		0.6	-0.3					2.1	22		

Top advancing issues: National Re Corp., Harleysville Group, Allied Group Inc. Leading decliners: United Fire & Casualty, Mutual Risk Mgmt. Ltd., AVEMCO Corp. Most active issue: Oxford Health Plans. The BI Index rose 0.6%; the Dow Jones 30 Industrials fell 0.9%; the S&P 500 increased 0.6% and the NYSE Composite gained 0.6%. Book values are updated annually by Nordby International Inc.

System design: Nordby International Inc.

The Equation is Elementary.

To cut loss costs by as much as 30%, our risk management team does something no other company does. We make you a part of it.

By bringing together a team of experts that includes you, your broker, our underwriters, loss control consultants, and investigative and claims specialists, we can help produce significant savings. That's money you can invest in your company's future.

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