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Updates

Piper Aircraft trust to resolve all present, future product suits

MIAMI—A novel trust fund set up as part of Piper Aircraft Corp.'s bankruptcy reorganization plan and designed to resolve all pending and future product liability claims against the small-aircraft company is now operating after a court approved the plan July 11.

As part of the reorganization, the Vero Beach, Fla.-based company put $30 million in cash and $40 million in secured notes into the trust fund, which will be administered by Howard J. Berlin of Miami law firm

See **Updates** *on next page*

New York broker UFG on the brink of collapse

Allegations of fraud, resignations, suicide pummel firm

By DOUGLAS McLEOD

NEW YORK—Troubled broker Underwriters Financial Group Inc. has been warning since it became a publicly traded company in 1992 that it might not survive as a going concern.

The warnings are beginning to look prophetic.

Amid worsening financial troubles and a new volley of lawsuits, two of UFG's top four officers quit in recent weeks and a third committed suicide, jumping from a window at the firm's 11th floor Manhattan offices.

The reasons for UFG Treasurer Burton Matfus's suicide are unknown, but it came as the broker was confronted with allegations that it defrauded a premium finance company of more than $5 million by submitting phony finance applications in the names of its clients.

UFG is also facing two shareholder lawsuits charging that it misled investors and inflated its stock price in a private placement that raised $4.4 million last year. The American Stock Exchange has since suspended trading of UFG shares.

Meanwhile, Chairman Donald Ferrarini—the only remaining member of the firm's longtime top management team—advised wholesale brokers in a June 28 letter that UFG has been "unable to remit" client premiums "due to financial difficulties."

The letter, which Mr. Ferrarini said he was sending "at the recommendation" of the New York Insurance Department, notifies wholesalers that they should reinstate policies that may have been canceled for non-payment of premium.

The department is investigating UFG, but a spokesman declined to provide details.

In a July 12 letter, the department informed insurers of the premium finance fraud allegations and recommended that they not cancel policies for nonpayment before finding out whether UFG received premiums on those policies. Under New York law, receipt by an agent like UFG constitutes receipt by the insurer.

A UFG visitor log also showed that the firm was visited last week by an official of the Securities and Exchange Commission's enforcement division. SEC officials would neither confirm nor deny an inquiry.

Though UFG's Manhattan office was open last week, little activity was apparent, and UFG competitors and others who have had contact with the firm say it has largely ceased operating.

Little first-hand information was available, though: Mr. Ferrarini did not respond to several requests for an interview and finally referred questions to a lawyer, who could not be reached.

Formerly known as B.R.I. Cov-

See **UFG** *on page 21*

Reinsurers assess reserve adequacy

By JUDY GREENWALD

The decisions of Aetna Life & Casualty Co. and Fireman's Fund Insurance Co. to strengthen their environmental liability loss reserves are expected not only to cause other insurers but also some reinsurers to reassess the adequacy of their own reserves.

But the need to increase reserves will not be even among reinsurers because many of today's major reinsurers were not in existence when these environmental liabilities originally were insured. And other reinsurers may have already adequately reserved for pollution losses.

Hartford, Conn.-based Aetna said earlier this month it is strengthening its loss reserves by nearly $1.1 billion, although there remains some question as to whether this amount will actually cover all of its pollution liabilities (*BI*, July 17). The total reflects a $750 million addition to reserves as well as $335 million excess-of-loss financial reinsurance.

An Aetna spokesman said the insurer did not anticipate any ad-

See **Reserves** *on page 22*

Chicago's work comp blues

In-house claims mismanagement plagues housing authority

By RODD ZOLKOS

CHICAGO—By all indications, the in-house administration of the Chicago Housing Authority's workers compensation program since July 1991 has been everything a good program shouldn't be.

Average annual costs have more than tripled, even suspicious, expensive claims have gone uninvestigated, and the number of open claims has skyrocketed, a direct reflection of the mismanagement and other problems that prompted the U.S. Department of Housing and Urban Development to take over the troubled agency in May.

"It's symptomatic of the reasons we took over," said Joseph Shuldiner, the assistant HUD secretary overseeing the federal takeover of the nation's second-largest housing authority.

The CHA "had no capacity to manage their sites and here they were managing the workers comp program. It was typical. . .they were having trouble doing their main business but they wanted to do everything," he said.

"They couldn't even do chicken right and here they wanted to do hamburgers," the official said.

With the CHA already falling short of the mark in its primary task of providing decent public housing, the breakdown of its workers comp program in recent years dramatically illustrates just how much can go wrong when an organization attempts to self-administer workers comp claims without adequate commitment, resources or expertise.

For now, the first order of federal business is correcting problems at the housing sites. But later this year the department expects to hire an outside firm to administer workers comp claims for the housing authority's about 4,500 employees, who include everything from management and office staff to maintenance employees, construction and craft workers and security personnel.

The CHA administers its own claims, a rarity among public housing authorities, said the HUD official, who had been a housing authority executive in both Los Angeles and New York.

"I kind of find

See **CHA** *on page 16*

In-house and in trouble

The Chicago Housing Authority began administering its workers comp program in mid-1991, with disastrous results.

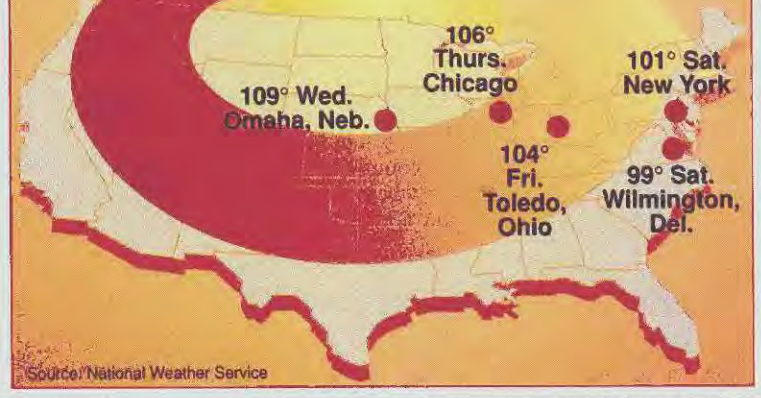
Years	Average number of employees	Average annual cost (millions)	Average cost per employee	Average number of claims	Average cost per claim
1982-90	2,250	$1.75	$777	665	$2,628
1992-94	4,185	$5.49	$1,312	588	$9,338

Source: CHA Inspector General's audit report

GRAPHIC BY JERRY PARKS

Heat wave's scorched path

The recent heat wave that swept across the central states brought death and losses to many areas in its path.



GRAPHIC BY KIM ROME

Fatal heat wave spurs uninsured farm losses

Poultry and livestock losses are high

By LEE VELKER

Commercial losses from the July 12 to 17 heat wave, which is still exacting a tragic human toll in Chicago and elsewhere, are concentrated in the livestock and poultry industries and are running in the millions of dollars.

Thousands of cattle died in the Corn Belt states as temperatures soared past 100°. In Delaware, Maryland and Virginia, where about 10% of the nation's poultry is raised, an estimated 3.7 million chickens died in the heat.

Most of these losses are uninsured since the cattle and poultry industries do not buy much livestock insurance, according to risk managers and other executives. They cite the high cost of coverage and lower perceived risk as the reasons for the lack of coverage.

Nationwide dollar estimates were unavailable for the livestock and poultry losses. In Iowa, Gov. Terry Branstad's office estimates cattle losses at $1.95 million to $2.6 million. The Property Claims Services division of the American Insurance Services Group Inc. has not declared the heat wave a catastrophe.

In human terms, the toll has

See **Heat** *on page 21*

Updates

Trust to pay Piper claims

Continued from previous page

Kluger, Peretz, Kaplan & Berlin. The fund, which also will own 25% of the restructured company, is designed to resolve all product liability claims and hundreds of employee and trade claims related to conduct that predates the emergence from bankruptcy protection.

A key element is that product liability claimants who reject initial settlement offers must submit to mediation before requesting either binding arbitration or a review of their claim in court. Those who opt for binding arbitration are guaranteed 75% of the trust's final offer, said Deborah Talenfeld, an attorney at Kluger, Peretz.

Claims settled before the trust was formed are being paid at 35% of their value, she said. Once all other product liability claims are settled, the trust will begin paying the balance of those claims, she said.

Piper sought Chapter 11 protection in 1991 amid hundreds of lawsuits related to crashes of Piper planes (*BI*, May 24, 1993). For several years before its filing, Piper was self-insured, so insurance proceeds were not involved in the trust arrangement.

Efforts fail to kill data bank law

WASHINGTON—Employers' efforts to kill the Medicare data bank law fell victim last week to the Senate's failure to agree on broad legislation to overhaul the federal regulatory process.

Earlier the Senate approved an amendment by Sen. John McCain, R-Ariz., which was attached to a regulatory reform bill advanced by Majority Leader Robert Dole, R-Kan., to kill the data bank law.

But the regulatory bill, S. 343, died last week when Senate supporters failed to gather enough votes to halt debate on the proposal.

The data bank law, which was enacted in 1993 but never has been enforced, requires employers to file health care coverage and enrollment information to the government to enable regulators to spot situations in which employer plans—not Medicare—should pay claims. Employers have fought to kill the data bank, saying the data is difficult to compile and that much of it will be useless to regulators.

Kent Knutson, a lobbyist at the National Federation of Independent Business in Washington, said that while regulatory reform was "definitely dead" for 1995, the Senate could take up a less comprehensive measure, perhaps one targeting smaller businesses, next year.

U.K. environment act passes

LONDON—The Environment Act 1995 passed by the United Kingdom last week institutes a "polluter pays" system, but regulators say it is not intended to expand the liability of industry and insurers.

However, Brian Street, director of operations for environmental liability insurer ECS Underwriting, believes that the act introduces "strict, retroactive and joint" liability under section 57, which calls for polluters to pay for the cleanup of contaminated land.

The Assn. of Insurance & Risk Managers in Industry & Commerce is expected to issue its position on the act this week.

The U.K. act calls for polluters to pay to clean up a site to a "suitable for use" standard, the U.K. Department of the Environment says. If polluters cannot be found, land owners will be liable for cleanup.

The department said, however, that the provisions create no new classes of liability. The Department of the Environment said it will have to issue further regulations to implement the law.

The act could trigger U.K. companies' liability insurance policies prior to April 1991, which is when policies began restricting pollution coverage to "sudden and accidental" pollution claims, said Mr. Street.

Texas managed care proposal

AUSTIN, Texas—Proposed Texas Department of Insurance rules on managed care plan disclosure will make it easier for consumers to compare plans.

Many of the rules are similar to provisions of the Patient Protection Act, passed by the Legislature in May but vetoed by Gov. George W. Bush last month (*BI*, July 3; June 12).

The rules make it easier for consumers to compare managed care plans because the plans must use a standard form to make information concerning benefits, providers, prior authorizations and emergency services available to prospective members.

In addition, managed care plans must file with the insurance department or make available upon request: identification of providers, their specialties and location, compensation and financial incentive arrangements with providers and utilization review plans.

The department will use the information to prepare a public report on the performance of individual managed care plans and to assess quality of care, access, cost, availability and affordability.

A final version of the rules is expected to be issued within 90 days.

See **Updates** *on page 22*

Errors & omissions

- Due to an editing error, Price Forbes Group Holdings (Pty.) Ltd. of Johannesburg, South Africa, was omitted from the rankings of the world's largest brokerages that *BI* published July 17. A profile of the No. 17 brokerage appears on page 10, as does a revised chart ranking the Top 20 brokers.
- A former Johnson & Higgins compensation consulting unit was misidentified in a July 17 profile of the brokerage. The correct name is Sibson & Co. Inc.

Employers bear millions in elder caregiving costs

By DEBORAH SHALOWITZ COWANS

Employers agree that a new study's estimate that a single employee providing personal care for an elderly relative adds more than $3,100 annually in hidden costs to an employer is realistic—if not conservative.

However, employers can take many steps to mitigate these costs.

The study, which was released last week, was conducted by the Washington Business Group on Health and Washington consultant Gibson-Hunt Associates for Metropolitan Life Insurance Co.

The study is based on workforce demographic data provided by MetLife about a large U.S. manufacturer. The study's conclusions are based on cost estimates derived from elder care literature, not from research conducted on the actual caregiving experiences of the company's employees.

Assuming 2% of the manufacturer's 86,952 salaried employees provide direct assistance with daily living activities to an elderly relative, these caregivers cost the company $5.46 million annually in lost time and productivity.

Consulting firm Work/Family Directions Inc. of Boston estimates that 17% of workers have some kind of elder care responsibility, with only a small percentage providing direct personal assistance.

While most companies have not quantified their costs related to workers caring for elderly relatives, many work/family specialists agree the figures seem reasonable.

These findings are "consistent

See **Elder** *on page 23*

Seeking takers, new catastrophe funding options hit the market

Derivative tools multiply

By GAVIN SOUTER

The number of catastrophe insurance-based derivatives available in the market is expanding, but the number of buyers is not.

Large investors have yet to be persuaded to back the contracts, and trading in the existing contracts on the Chicago Board of Trade has slumped in recent months.

But with the creation of nine new options contracts by the CBOT and Guy Carpenter & Co.'s intention to establish an index for its own contracts, providers of the contracts show they are confident that derivatives will take off as sources of catastrophe capacity.

The contracts will provide an effective way for reinsurers to provide more capacity and for investors to diversify their investments, they say.

The additional CBOT contracts are based on loss data from the Property Claims Services division of the American Insurance Services Group Inc. Several features will make these contracts more attractive to buyers than the existing four contracts which are based on data from ISO Data Inc., a unit of the New York-based Insurance Services Office Inc., said Sylvie Bouriaux, senior economist at the CBOT.

The PCS index will be based on estimates of actual losses rather than loss ratios, which should make it easier to understand, she said. Also, the PCS estimates will represent approximately 50% of the catastrophe market losses in the United States, instead of the 25% to 30% of the catastrophe market represented by the ISO statistics, Ms. Bouriaux said.

The new contracts will include an optional development period of six months or 12 months.

The contracts also have two op-

See **Tools** *on page 4*

Insurer execs debate leadership style

By SARA MARLEY

WASHINGTON—Top insurance executives at a recent international seminar clashed over what type of leaders will guide the industry into the next century.

Strong, central leadership is the key at New York-based American International Group Inc., but a team approach gets the vote at the Internationale Nederlanden Groep N.V.

"Leadership in a company must come from the top," AIG Chairman Maurice R. Greenberg told delegates at the 31st seminar of the New York-based International Insurance Society Inc. "It cannot start at the second or third level. Strategy must always be led at the top. Companies that don't do things that way never have real change."

But Aad G. Jacobs, chairman of the executive board of ING in Amsterdam, Netherlands, countered that "An organization managed by executives which clone one single executive model never achieves optimal performance. We are not strong believers in a strong leader. That doesn't mean there is no leadership. It doesn't mean we can't get things done. We bought Barings in five days," he said, referring to ING's takeover of failed British bank Barings P.L.C. (*BI*, March 13).

ING views the executive as "the spider in the middle of a web and not an executive in an ivory tower," Mr. Jacobs said.

The two executives squared off

See **Leaders** *on page 14*

401(k) administrator directory deadline nears

Business Insurance will publish its seventh annual directory of 401(k) plan administrators in the Aug. 14 issue.

Companies that provide enrollment services, daily maintenance of participants' accounts, account manipulation and other record keeping activities are eligible to be listed. However, to be listed, a company must offer 401(k) administration services directly to employers offering the 401(k) plans. In addition, clients must be allowed to purchase administration/record keeping services on an unbundled basis—that is, without investment management services—if they so choose.

There is no charge to be listed; however, to be included 401(k) plan administrators must complete a *BI* questionnaire. To receive one, please contact Kathy Welyki at 312-649-5279. The extended deadline for returning questionnaires is Aug. 2.

Inside

- Sears, Roebuck is helping employees and dependents with asthma to better manage their health. **PAGE 6**
- President Clinton's scaled-back health care reform outline is right on track, this week's editorial says. **PAGE 8**
- The U.K. pension reform bill will reduce employers' control over pension plans. **PAGE 17**
- Risk and human resource managers are teaming up more often, columnist Susan Werner writes. **PAGE 15**

Departments

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Oxley's Superfund proposal unites insurance industry

Risk managers endorse repeal of retroactive liability

By MARK A. HOFMANN

WASHINGTON—The same property/casualty insurance industry that split bitterly over the shape of Superfund reform only a year ago now speaks with one voice regarding the newest reform proposal.

And that voice, joined by risk managers, says: "It's great."

The proposal that's drawing such praise was unveiled last week by Rep. Mike Oxley, R-Ohio, and chairman of the House Commerce Committee's Subcommittee on Commerce, Trade and Hazardous Materials. Central to the proposal is the abolition of retroactive liability for legal disposal of wastes that occurred before 1987, when the last major revision of Superfund took place.

Enthusiasm for Rep. Oxley's proposal, however, is not shared by the Clinton administration.

"The 1987 date is designed solely to benefit insurers," Steven A. Herman, assistant administrator for enforcement at the Environmental Protection Agency, told Rep. Oxley's panel last week. Mr. Herman and Assistant Attorney General Lois Schiffer detailed the Clinton administration's objections to the repeal of retroactive liability—regardless of date—during last week's hearing (see box, page 9)

As far as risk managers and insurers are concerned, choosing the 1987 cutoff makes the Oxley proposal more attractive than the offer late last month by his Senate counterpart, Sen. Robert Smith, R-N.H., chairman of the Senate Environment and Public Works Committee on Superfund, Waste Control and Risk Assessment, (*BI*, July 3). Sen. Smith's proposal also rescinds retroactive liability, but only for legal acts that took place before Dec. 11, 1980, when Superfund first took effect.

Otherwise both proposals, neither of which has yet been put into legislative language, read a lot alike. Both lawmakers are charged with drafting Superfund reauthorization legislation and both have proposed sweeping changes in the controversial environmental cleanup program. The changes include improving the risk assessment procedure applied to Superfund sites, liberalizing the remedy selection process, and giving states a larger role in environmental cleanup as well as revamping the liability system. Rep. Oxley's proposal also calls for reform of the Resource Conservation and Recovery Act to relax federal requirements for

See **Superfund** *on page 9*

Employers don't need to know all about their workers

Too much knowledge of employees' private lives makes termination difficult

By DAVE LENCKUS

ORLANDO, Fla.—Having too much knowledge can be dangerous for employers dealing with sensitive workplace issues that also cross into employees' private lives, an attorney warns.

Employers often find themselves clashing with employees over such privacy issues when they are enforcing policies on substance abuse, pre-employment medical screenings, HIV testing, workplace romances and employee searches in the workplace.

But, knowing too much about an employee's health and personal habits usually does not help the employer maintain a safe workplace free from discrimination. Instead, it can expose the employer to tremendous liability if that employee ever is terminated, said Jonathan A. Segal, a partner with Wolf, Block, Schorr & Solis-Cohen of Philadelphia.

"Very often, the employer has the need not to know this information," he said last month during a seminar at the 47th Annual Society for Human Resource Management Conference & Exposition in Orlando, Fla.

Mr. Segal advised employers to follow three principles whenever they deal with workplace problems that also cross the line of personal privacy:

- Determine what information is genuinely necessary.
- Consider that the employee may have genuine expectations that the information is private.
- Balance each side's needs by developing an approach that minimizes the employer's intrusion into the worker's privacy and that ensures that only pertinent information is obtained.

Mr. Segal said there is little argument that employers not only have the right to test employees randomly for drug and alcohol abuse but also that they are obligated to conduct such tests to ensure the safety of all employees and third parties.

There are no federal or state constitutional barriers against testing, he said. However, testing could run afoul of some state laws

See **Privacy** *on page 7*

Oregon employers savor legislative victories

Work comp, civil justice and family leave laws reformed

By ROBERTO CENICEROS

SALEM, Ore.—Legislative battles in major business states tend to attract employers' attention, but Oregon businesses are basking quietly in the glory of an array of new pro-business legislation in their state.

In the legislative session that ended last month, Oregon lawmakers turned back what employers saw as a threat to workers compensation reforms with a sweeping bill, modified the state civil justice system to help contain liability losses, revamped the state's Superfund law and condensed family leave laws.

All of the measures have been signed into law by Gov. John Kitzhaber or will be shortly.

Businesses also won a health-related battle in the Legislature, though the victory that will not survive the governor's veto pen. Legislators voted to repeal a 1989 law that, if the state were granted an ERISA waiver, would require employers to provide health care coverage. But Gov. Kitzhaber, who drafted the 1989 law, will veto the recent bill.

"There was a lot going on there, but just because everyone had their eyes glued on the big business states, it didn't get a lot of press," said Anne Allen, state legislative counsel for the Risk & Insurance Management Society Inc. in New York. "This is a big deal. I think the business community there had been

See **Oregon** *on page 20*

Business bonanza in Oregon

WORKERS COMPENSATION New law overturns a court ruling that workers could file civil suits if injuries were not compensable under workers comp and allows companies to require injured workers to be treated by managed care physicians if companies agree to pay charges even if the indemnity claim is denied.

CIVIL JUSTICE New laws put in place a modified "loser pays" system, replace joint and several liability with proportional liability in civil cases, and put a portion of any punitive awards into victims' fund.

FAMILY LEAVE New law makes compliance easier by putting family, parental and pregnancy leave regulations into a single statute similar to the federal FMLA.

POLLUTION LIABILITY New law rewrites the state Superfund law, lowers remediation standards and gives property buyers some protection against pollution liability suits.

GRAPHIC BY JOHN HALL

Lloyd's limits membership

No new North American names with unlimited liability

By SARAH GODDARD

LONDON—Lloyd's of London will stop accepting North American and Canadian residents as unlimited liability members at the end of this year.

As a result of what a Lloyd's spokesman described as "informal" discussions between the Securities and Exchange Commission and Lloyd's lawyers from LeBoeuf, Lamb, Greene & MacRae, only limited liability corporate capital members will be admitted from the United States and Canada beginning in 1996. Existing unlimited liability members will be allowed to continue in their membership category if they choose.

The decision is a direct result of Lloyd's introduction of capacity auctions, which start next month. These are designed to give some value to membership in Lloyd's by allowing members to buy and sell tranches of capacity on syndicates for 1996 underwriting.

This value to Lloyd's membership could indicate that Lloyd's would need to be registered with the SEC, which hasn't been necessary before because it was not selling a security, the Lloyd's spokesman said.

The move could be a recognition by Lloyd's that membership could be construed as a security by U.S. authorities, suggested Phil C. Gallagher, a member in Miami.

Several U.S. members have argued unsuccessfully in court that Lloyd's membership is in effect a security that should be governed by the SEC and any disputes should be heard in U.S. courts.

Since registration would be "extremely complicated" and could be retrospective, the Lloyd's spokesman said, Lloyd's decided it would be easiest to stop recruiting new names from the United States. Canadian securities rules are similar to U.S. regulations, so prospective Canadian names will not be accepted as unlimited liability names either.

Existing U.S. and Canadian members will be able to join in the capacity auctions and there will not be any effect on limited liability corporate members from either country, said the spokesman.

The exclusion of new individual North American names is unlikely to reduce capacity at Lloyd's, said Frank Streeter, a former member

See **Names** *on page 23*

Taking leave of their senses

Employers' ignorance of their rights on employees' leave can be costly

By DAVE LENCKUS

ORLANDO, Fla.—The Family and Medical Leave Act will be an easier course to navigate for employers if they take advantage of their many rights under the 1993 law, according to a labor and employment law attorney.

But to do that, employers have to maintain an open line of communication with employees and obtain answers to some key questions about their workers' absences, said attorney Anne Covey of Giordano, Halleran & Ciesla P.C. of Middletown, N.J.

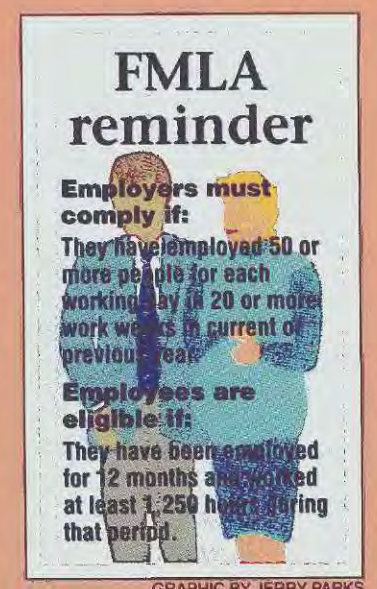
"If you don't ask the right questions, the leave applies under other laws, not the FMLA," Ms. Covey warned last month during a seminar at the 47th Annual Society for Human Resource Management Conference & Exposition in Orlando, Fla.

That means the worker could have 12 weeks more of unpaid leave immediately after returning from an extended leave and that his or her job or an equivalent position must be held open.

A critical issue that employers have to resolve with employees is whether they are eligible for FMLA leave, Ms. Covey said.

"This is probably one of the most difficult questions you're all confronting right now,"

See **Leaves** *on page 6*



GRAPHIC BY JERRY PARKS

Tools

Continued from page 2

tions for loss caps. The small-cap options will cover a total industry loss of up to $20 billion, and the large cap will cover an industry loss of between $20 billion and $50 billion.

"You will have some large insurance companies that are worried about big catastrophes and you will have medium-sized companies that are more worried about a $10 billion to $15 billion catastrophe, so we are offering them a choice," Ms. Bouriaux said.

The new contracts, which will be offered in September, also will include state-specific coverages. The geographic areas covered are: National, Eastern, Northeastern, Southeastern, Midwestern, Western, California, Florida and Texas.

The new contracts are expected to supersede the existing contracts which are: Eastern Catastrophe, Midwestern Catastrophe, National Catastrophe, and Western Catastrophe.

Trading of ISO data-based contracts has slumped recently. Trading volume fell to 385 contracts in the month of June from 2,948 in the month of June 1994.

The slump was partly due to the anticipated introduction of the new contracts, Ms. Bouriaux said.

"People have known for five or six months that we were developing new products. We anticipate that the volume and interest in the new products will now rise," she said.

The new CBOT contracts come on the heels of an announcement by Guy Carpenter that it expects to establish a catastrophe risk index that will be used as a basis for pricing products that will be sold as additional catastrophe capacity.

The index will be based on exposure data supplied by 25 to 30 of the reinsurance brokerage's clients and which will represent 50% of the catastrophe exposures in the main catastrophe-prone areas in the United States, said Aaron B. Stern, president of Normandy Reinsurance Co. Ltd.

This Bermuda unit of Guy Carpenter was established late last year with capital of $5 million to design and market derivative contracts and other financial products that can be used to cover catastrophe risks.

The products that will be sold, beginning in January, will include options, bonds, special purpose companies, and specifically designed reinsurance contracts, he said.

"We will see a development of a variety of forms of risk transfer," Mr. Stern said. The customers will be large sophisticated insurers, he said.

Reinsurers may also be able to develop ways to use derivatives as a means of securitizing their portfolios, Mr. Stern said.

Potential investors in the reinsurance contracts will include investment funds, mutual funds, pension funds and rich individuals.

Normandy Re will not accept risk.

"It's role is to be a transformer, to act as a middle man, hedging contracts that are issued to reinsurance buyers and backing them with financial instruments," Mr. Stern said.

Few large established funds have invested in the contracts offered by the CBOT, but eventually they will be attracted to the derivative-based catastrophe market, said Kenneth A. Froot, a finance professor at Harvard Business School and consultant to Guy Carpenter.

"When you are investing in cat bonds"—high-yield bonds issued by insurers in which the payout to investors is linked to the catastrophe experience of the insurer—"you are investing in something that is unrelated to the rest of your portfolio so it will help to lower the volatility of your portfolio," he said.

And while the return on the investments in cat bonds over the past 25 years would be lower than the Standard & Poor's 500, it would be higher than the return from government bonds over the same period, Mr. Froot said.

The new CBOT contracts and the Guy Carpenter proposals help make derivative-based catastrophe protection viable, but a thriving market in the products is still some way off, said David Koegel, senior vp at Gill Roeser Inc., a reinsurance intermediary in New York.

The new CBOT contracts are easier to understand, but they have been introduced too late for this year's hurricane season so their attractiveness to insurers will not be tested for another year, he said.

And the buyers of the contracts will probably be reinsurers. They will be using them for retrocessional support so they can offer more reinsurance capacity to direct insurers. "Primary companies have been reluctant to use the new instruments due to the fear of the unknown," Mr. Koegel said.

Reinsurers could use derivatives to offer more capacity, agreed James N. Stanard, chairman, president and CEO of Renaissance Reinsurance Ltd. in Hamilton, Bermuda.

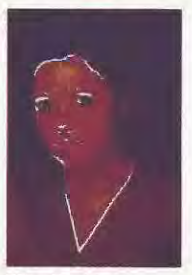
Alternatively, derivatives contracts could be used to form a hybrid product consisting of conventional reinsurance with an investment component, Mr. Stanard said. "The overall concept makes a lot of sense, and it will succeed at some point, but up to this point it has not succeeded on a widespread basis." BI

BI making staff changes

Business Insurance announces two editorial staff changes.

Sarah Goddard, 29, has joined *BI* as an associate editor in London.

Prior to joining *BI*, Ms. Goddard was an assistant editor for two years at One Lime Street, the Lloyd's of London magazine for its members. Before that, she was an assistant editor on two other Lloyd's publications.



Ms. Goddard

Ms. Dziubek

Ms. Goddard has won several professional writing awards from the British Assn. of Communicators in Business and the International Assn. of Business Communicators

Ms. Goddard studied psychology at the University of Manchester in Manchester, England.

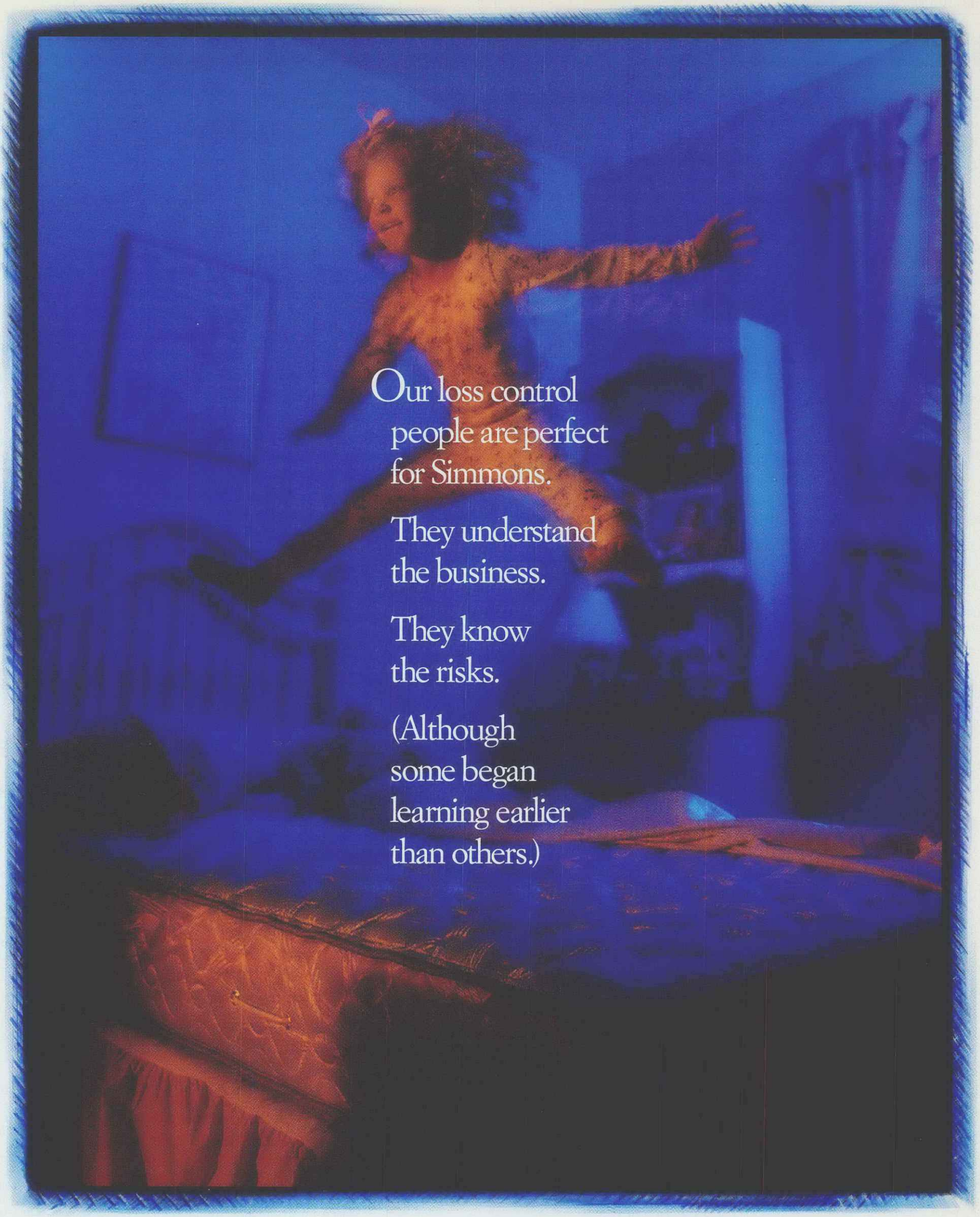
She can be reached in London at 44-171-608-1172.

Kerry Dziubek, 26, has been promoted to copy editor.

She joined *BI* in 1992 as an editorial assistant and was promoted to associate directory editor in January 1994. In August 1994, she was promoted to assistant copy editor.

Ms. Dziubek received a bachelor of arts degree in communications and rhetorical studies and Spanish from Marquette University in Milwaukee. She is pursuing a law degree at Loyola University Law School in Chicago.

Ms. Dziubek can be reached in Chicago at 312-280-3195. BI



"Wausau's loss control people don't hesitate to come out and go through our mattress plant, inspecting machinery, videotaping employees to study ergonomics. Their suggestions have helped minimize claims. This isn't a typical client relationship, it's a genuine personal relationship."

Roger Franklin, Vice President/Treasurer, Simmons Company

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Sears health management plan targets employees with asthma

HOFFMAN ESTATES, Ill.—Sears, Roebuck & Co. is implementing a program designed to help employees and dependents with asthma better manage their health.

Based on a routine analysis of prescription drug claim patterns provided by an outside pharmacy benefit management firm, Sears found that an estimated 4,000 employees suffer from moderate to severe levels of asthma.

Asthma is a chronic disease caused by inflamed or irritated bronchial passages leading to the lungs, which results in a lack of oxygen.

With help from Caremark International Inc., Sears is launching the CarePatterns program for asthma this summer. Caremark will work with physicians to help patients take an active and informed role in managing their disease.

The program incorporates treatment plans based on National Institutes of Health guidelines and expert medical opinion.

In addition, Caremark nurse educators work with asthma patients to identify and manage the effects of symptom "triggers," like dust mites, air pollution and pollen.

Patients with asthma will be taught to monitor themselves to better predict the onset of an attack and to minimize or avoid an attack through the use of medication or other techniques.

The program will help Sears improve the quality of care to its health plan members and will help the company better control costs associated with the disease, said E. Renee Tehi, manager of benefits planning and administration for the Hoffman Estates, Ill.-based retail giant.

"We believe that with our more proactive and comprehensive approach to managing this condition, the suffering and expenses associated with asthma can be substantially reduced," said Jim Bryant, president of Caremark's Health Management Services division in Northbrook, Ill.

So far, about 1,000 Sears employees, retirees and dependents with asthma have enrolled in the program.

—By Christine Woolsey

Benefit Beat

Coors partner benefits

GOLDEN, Colo.—Coors Brewing Co. is tapping into the trend and expanding its health benefits to unmarried domestic partners, including homosexual partners.

Coors employees can now apply to have their unmarried, live-in companions added to their medical and dental insurance policies. To qualify, the parties must sign an affidavit that they are each other's sole domestic partner and have been for more than a year. In addition, both parties must be 18 years old, unrelated, and must show proof of their cohabitation, a Coors spokesman said.

The Golden, Colo.-based brewing company decided to extend its benefits after a group of Coors employees know as the Lesbian and Gay Resource Group, or Lager, proposed the idea. Coors' board unanimously approved the change in May and officially announced the move late last month.

Coors has recently been involved with other employer health care purchasing initiatives.

The Colorado Health Care Purchasing Alliance, founded by William Coors, created a cooperative for health insurance purchasing, or CHIP, last year. And in April, the alliance, a group of 170 self-insured employers, expanded its membership to include small, fully insured employers (*BI*, April 10).

—By Sally Roberts

Coalition picks provider

BETHLEHEM, Pa.—The Lehigh Valley Business Conference on Health Care, a coalition of 62 large and small employers in eastern Pennsylvania, recently negotiated an agreement with Prudential Insurance Co. of America to provide managed care coverage to its small-business members.

The coalition, which currently represents about 100,000 people, spent 10 months evaluating proposals from several other managed care companies and last month chose Prudential.

Beginning Aug. 1, coalition members with two or more employees can offer Prudential's health maintenance organization or point-of-service plan. Prudential agreed to offer three-year rate guarantees to companies offering its POS plan.

The contract with Prudential is the result of frequent requests by small coalition members to gain access to more affordable managed care plans.

Currently, only large, self-insured coalition members have access to the group's negotiated Community Choice managed care plan.

—By Christine Woolsey

Leaves

Continued from page 3

she told a roomful of human resource managers.

Employers first should determine whether their states have enacted their own family leave laws and who is eligible under those statutes, which supersede the FMLA.

Under the FMLA, employers must grant employees an unpaid leave of 12 weeks, which do not have to be used consecutively, during a 12-month period to care for a newborn or adopted child, to care for a family member with a serious health condition or to recover from their own serious condition that prevents them from performing the essential functions of their jobs.

The law guarantees employees their same or equivalent jobs when they return.

It also requires that employers maintain their employees' health coverage, subject to existing cost-sharing agreements.

Employers involved in interstate commerce that employ 50 or more workers for each working day during 20 or more workweeks in the current or preceding year must comply.

And companies with employee handbooks must explain the FMLA in that document. The explanation also must be covered in a second language if a large portion of the employer's workforce does not speak English, Ms. Covey said.

An eligible employee must have been employed for 12 months by the employer and must have worked at least 1,250 hours during that period.

Ms. Covey implored employers to maintain records on how many hours employees work. Without that information, the employee seeking leave is eligible automatically under the FMLA, she said.

Employers that use workers from a temporary service also have some obligations under the FMLA, though the service is responsible for informing the temporaries about the law and continuing their health care benefits, Ms. Covey noted.

For example, a company that has used a temporary worker only two weeks before he or she takes an FMLA leave must provide that worker a job when he or she returns from leave, Ms. Covey said. "You cannot prevent that employee from coming back to your organization," she warned.

Employees seeking a leave, though, must provide at least 30 days' notice when possible, or at least as soon as practicable. If an employee cannot explain why he or she could not provide 30 days' notice, the employer may delay the leave for that period, Ms. Covey said.

Employers also must act promptly in a few situations or risk losing some of their FMLA protections, Ms. Covey pointed out.

For example, if an ineligible employee takes an FMLA leave without at least two business days' warning, the worker automatically becomes eligible if the employer does not deny the leave within two business days of the notice.

In other cases, an employee may wish to take a leave but not have it count as an FMLA leave. If the employer acts immediately, the worker does not have this option, Ms. Covey stressed. "The employer has the ability to classify the leave as FMLA, if they are eligible," she said.

In a handout passed out at her presentation, Ms. Covey also notes that employers that fail to act promptly may, within two business days of the employee's return to work, designate the leave retroactively as an FMLA leave. But employees must receive prompt notice of this action, she warned.

Under some collectively bargained contracts, though, employees may have the right to make this choice, Ms. Covey cautioned.

"This is a mandatory subject of bargaining," she said. "I'd get a tough negotiator next time to tell them this isn't the employee's choice—it's the employer's choice."

Unions, though, do seem willing to negotiate this issue, she added.

Employers also may require workers to use up their remaining paid vacation, sick and personal days as part of their FMLA leave. Again, though, the employee must be notified within two business days of the time he or she gave notice.

There is an exception to that provision: Employers cannot force parents of newborn or newly adopted children to use up their paid sick time while they are caring for the children.

However, if a parent's leave begins sometime before the mother gives birth or the adoption is completed, the employer can require the parent to use up his or her paid sick time until the child arrives, Ms. Covey pointed out.

"So you need to keep in constant contact with them," she said.

When an employee returns from an FMLA leave, an employer would run afoul of the law if it refused to give the worker his or her same job or an equivalent job on the workshift he or she had previously, Ms. Covey noted.

She recounted a case in which a hospital wanted to move a returning nurse to the night shift. It figured the move would not be a problem because of the nurse's new child care arrangements.

But she advised the hospital not to make that decision unilaterally. "Sure enough, that's how it turned out," Ms. Covey said. "So talk to the employee."

In those cases, the employer should document the shift change to show it was voluntary and not mandated, Ms. Covey advised.

In determining what constitutes the same or equivalent job, employers should compare the worker's old and new job in terms of job grade level, status, responsibilities, pay and benefits, she said.

Ms. Covey also warned employers to bear in mind that when a worker who is scheduled to return from an FMLA leave still requires more leave, the Americans with Disabilities Act comes into play.

But, a worker who returns from an ADA leave would have to get the same job back, not just an equivalent position, Ms. Covey pointed out.

Ms. Covey also advised employers that:

- Without giving a 15-day notice, they cannot cancel an employee's health coverage for either non-payment of premiums or failing to return from leave. At that time, employers also should inform those employees about the availability of COBRA health care continuation coverage, Ms. Covey recommended.
- They require employees to provide proof that they are seeking leaves because of family members' or their own serious medical conditions, though such a provision should be part of a written policy. Employers that remain suspicious can require the employee to obtain a second and third opinion, and the third physician may be a doctor approved by both sides, she said.

The employer must pay for the third opinion, which would be binding.

The medical opinions should be obtained using a U.S. Department of Labor form, she said. E

Focus on work comp disability costs

System reforms alone will not save money: Consultant

By DAVE LENCKUS

ORLANDO, Fla.—Workers compensation reforms are not going to save employers much money unless employers also begin limiting their disability costs, a management consultant asserts.

"Companies, don't be bamboozled into believing that workers comp reform will save you money," said Richard K. Pimentel, a senior partner with management consultant Milt Wright & Associates Inc. of Chatsworth, Calif.

SHRM SOCIETY FOR HUMAN RESOURCE MANAGEMENT

"Limiting workers comp without limiting disability—it's a shell game," Mr. Pimentel said last month during a seminar at the 47th Annual Society for Human Resource Management Conference & Exposition in Orlando, Fla.

One way to make a bigger dent in disability and overall workers comp costs is to scrap light-duty return-to-work programs for a "transitional employment program," which is designed to return injured workers to their old job within a specified period, he said.

Mr. Pimentel said that disability costs are "terribly understated" by most employers.

Disability costs include disability payments under workers comp, short- and long-term disability plan payments and compliance and non-compliance costs of the Family and Medical Leave Act and the Americans with Disabilities Act, he said. "It's the highest cost of doing business in your company."

And it is only going to get more expensive, Mr. Pimentel predicted.

He noted that among the approximately 45,000 claims filed against employers since the ADA went into effect, 85% have been filed by current employees, while only 15% have alleged hiring violations.

Employers did not expect this when the law was being championed by groups like disabled military veterans, the deaf and the blind, he said.

Through March of this year, the leading disability claimed under the ADA—more than 19% of the total—was for bad backs, most of which are work-related, he said. "We didn't even know these people were disabled when they passed the law," he said.

Next, accounting for almost 12% of all claims, were neurological impairments—half of which are attributable to carpal tunnel injuries, he said.

Mr. Pimentel noted that 90% of carpal tunnel patients who corrected their injuries through surgery 20 years ago returned to work within six to eight weeks. Today, the recovery rate is 40%, and those patients generally stay off work six to eight months, he said.

"It's the same operation," he said. "Did we forget how to do it?"

The third most-cited disability claim, at 11.6%, is for emotional or psychiatric problems, he noted.

"We have to get away from some assumptions about mental health," Mr. Pimentel urged. "It's not a character flaw. It's often a chemical imbalance."

Exacerbating the problem is that "work and life together compounded is a very scary thing," he said, predicting that stress claims will be the carpal tunnel claims of the year 2000. He pointed to companies laying off workers in good as well as bad economic times, which burdens the remaining employees as well as those laid off; employees constantly on the job through their beepers, cellular phones and home computers; the high cost of living; and violence inside and outside the workplace.

Disability costs are the highest cost of doing business in your company, and they are only going to get more expensive, says consultant Richard K. Pimentel.

Employers, though, are not doing a good job of managing their disability costs, Mr. Pimentel said.

First, many do not understand that an impairment is not a disability, he said. Fear, ignorance and a poor relationship between injured workers and their employers turn impairments into disabilities, he said.

Second, employers typically have return-to-work efforts rather than programs.

Those efforts typically involve "the occupational nurse calling the supervisor and begging the supervisor to take the injured worker back," Mr. Pimentel said.

Some of those workers are placed in open-ended light-duty programs that are not associated with their old jobs and, therefore, are not designed for a worker's limitations. In addition, light-duty programs typically are available to a limited number of injured workers.

The result: "It doesn't work," Mr. Pimentel asserted.

He recommends a program that provides transitional employment, which ideally is designed to help the injured employee recover through work that is designed with the worker's limitations in mind. The employee works in his or her old department, with duties changing to meet his or her medical progress. The worker's duties are part of the normal work flow.

The program—designed by the employer, physicians and the injured worker—lasts a specified period. After that period, the worker returns to his job.

If the worker, his physicians and employer agree he needs more time in the program, the program should accommodate him.

But, if the worker is unable to physically perform his job at the conclusion of the program, the employer then should try to place him to a vacant position that the employee can handle. Because transitional employment programs ideally should integrate reasonable accommodations for the injured worker, the employer should not face this ADA requirement if the worker cannot return to his job.

The transitional employment program begins before an injury with employee education on how the program works and its benefits, Mr. Pimentel said.

"When they do get injured, there's less stress" as a result of the earlier education, he said.

Employers may be able to cut their workers comp and other disability costs further if they could provide their injured workers' doctors with one- to two-page descriptions of the workers' jobs, film of the workplace and descriptions of their return-to-work programs. With that information, the physicians can make a more informed decision on returning the employees to work.

The role of the supervisor also is crucial, Mr. Pimentel said. Statistics show that injured workers file fewer lawsuits when supervisors stay in constant contact with them, he said.

Mr. Pimentel recounted a case in which an injured worker sought an additional $20 a week in workers comp benefits so he could pay for a lawn mowing service. His supervisor denied the request, but he mowed the injured employee's lawn himself.

After the workers comp award was resolved for a lower amount than the employee could have expected if he had sued, the employee explained why he did not seek a bigger award, Mr. Pimentel said: "You don't sue people who mow your lawn." BI

Privacy

Continued from page 3

and could constitute a murky common-law tort known as intrusion upon seclusion, he said. It also could drive a fearful employee population toward an outside source of help, like a labor union.

Employers instead should limit random testing to employees in safety-sensitive and other critical functions, he said.

An independent medical review officer should conduct the tests, primarily so the employer does not learn of positive results due to the use of prescribed drugs. If such an outside officer is not used and that employee is fired later for other reasons, the employee can argue that the employer perceived him as being disabled because he needs prescription drugs. Of course, terminating an employee for that reason would violate the Americans with Disabilities Act.

Mr. Segal does not like the concept of testing employees only when the employer reasonably suspects they have substance abuse problems.

He recounted a case in which a nursing home supervisor discovered a female aide working naked from the waist up. After she was confronted, the aide lay on the floor and tried to make snow angels and then ran into a bathroom to wash her hair.

Against Mr. Segal's advice, the nursing home had her take a blood test. When it came back negative for drugs, the nursing home had to retain her.

When the nursing home terminated her sometime later, the aide claimed the reason was because it perceived her as a drug user and therefore disabled.

Instead of testing the aide, the nursing home should have terminated her on the spot for her inappropriate actions, Mr. Segal said. Indeed, most employers that would use a reasonable suspicion standard to perform a drug test instead could terminate the employee for inappropriate behavior, he said.

Employers also risk obtaining too much information when they require job applicants to submit to physical examinations after they accept job offers. If the employer obtains information that does not pertain to how the applicant can perform the essential functions of the job and then withdraws the offer, the applicant could claim the employer used that private information against him or her.

Employers should instruct physicians to test applicants only to determine whether they can perform the job and then provide the employer a bottom-line assessment, according to Mr. Segal.

Testing for the human immunodeficiency virus, which causes AIDS, is ill-advised unless the employer is a health care organization or a laboratory, Mr. Segal said.

Other than in those two cases, an HIV test does not determine whether the person can perform the essential functions of a job, he explained.

Privacy issues also can arise if employers adopt policies that prohibit workplace romances as a measure to prevent the sexual harassment claims that often follow when those relationships end.

And, in most instances, the romances do not endure, Mr. Segal noted.

Despite the potential for employee complaints about privacy violations, Mr. Segal supports prohibiting relationships at least between supervisors and subordinates.

Employers can avoid violating those rights by removing employees' expectations of privacy, he said. "If you tell them they have no right of privacy, they probably don't," he said. The key, in most states, is having an established policy and enforcing it consistently, he said.

"The lack of consistency kills most policies," Mr. Segal warned.

Employers that do not adopt no-dating policies face a double-edged sword if they suspect a workplace relationship may not be consensual. Investigating the suspected problem could raise privacy issues, and ignoring the situation could leave the company open to a huge sexual harassment claim.

"There may be a way to avoid it" without adopting a no-dating policy, Mr. Segal said.

He recommended first confronting the supervisor. If he or she denies a relationship exists, the employer should meet with the subordinate.

However, the employer should not ask the subordinate if a relationship exists.

Instead, the employer should show the employee a list of four statements:

- There is a relationship, but the supervisor is not exerting any pressure on the subordinate to continue it.
- There is no relationship and no pressure to begin one.
- There is a relationship and pressure from the supervisor to continue it.
- There is no relationship, but the supervisor is pressuring the subordinate to begin one.

If one of the first two statements is true, the employee is asked to check box A. If one of the latter two statements is true, the employee is asked to check box B.

"So you find out if there's a problem without finding out information about a relationship," Mr. Segal said.

As evidence of its effectiveness, he noted that an employee for a client recently refused to answer those questions and contacted an attorney, who declined to pursue the claim. "For a piranha dressed as a plaintiff's attorney to walk away from a case is a rare occasion," Mr. Segal said.

The legality of searches of employees' workstations, lockers and cars while on company property also probably will hold up if the employer has a clear policy stating it retains this right.

Mr. Segal added that the policy also should mention specifically that the employer has a right to monitor electronic mail on the company computer system.

By remaining silent on that point and giving employees a password to access the system, the employer fuels employees' expectations that e-mail messages are private, Mr. Segal said. "That could create problems in future litigation." BI

SHRM honors three for excellence

The Society for Human Resource Management honored three human resource professionals during its 47th Annual Conference & Exposition in Orlando, Fla., June 25-28.

SHRM presented its 1995 Award for Professional Excellence to:

- Daniel W. Kendall, senior vp and chief human resource officer for The Associated Group of Indianapolis, representing organizations with more than 5,000 employees.
- Sue Ann Tempero, vp of human resources for The Des Moines Register in Des Moines, Iowa, representing organizations with 1,001 to 5,000 employees.
- Nina Drake, vp of human resources for the Nevada Federal Credit Union in Las Vegas, representing organizations with 1,000 or fewer employees.

The conference drew a record 5,910 paid attendees, who were able to select among 112 different sessions, many of which were repeated throughout the conference.

The 1996 conference is scheduled at McCormick Place in Chicago June 23-26. For more information, contact SHRM at 606 N. Washington St., Alexandria, Va. 22314; 703-548-3440.

Opinions

Clinton's welcome moves

WE WERE PLEASANTLY surprised when the Clinton administration recently unveiled an outline of a scaled-back health care reform proposal and a more detailed proposal to simplify and liberalize certain pension plan rules.

Months ago, President Clinton, wisely avoiding the blame game that a number of congressional Democrats played, took responsibility for the defeat of his massive health care reform package when he said the administration had bitten off more than it could chew.

He pledged to produce a more modest package as a first step toward health care reform. The outline the administration presented last month fulfills that pledge.

Among other things, the administration proposed curbing pre-existing medical condition exclusions in all health care plans and providing federal subsidies, such as paying all or part of COBRA premiums for a few months for low-income workers who lose their jobs.

The three-page outline couldn't be more different from the 1,362-page monster the administration presented in 1993 and watched collapse only a short time later.

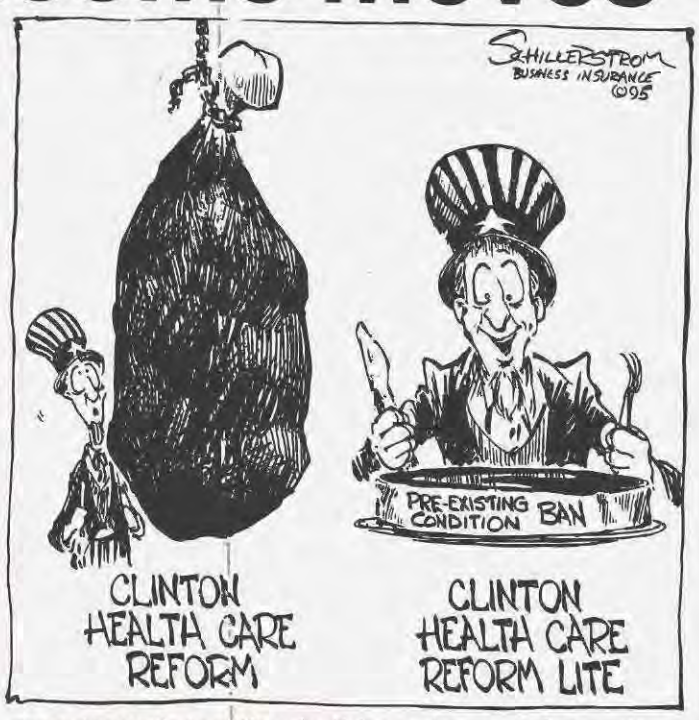
It isn't just length that differentiates the two proposals. The first approach tried to overhaul everything about the nation's health care delivery and finance system, including much—like the ability of employers to design and administer their own programs—that didn't need fixing.

The first proposal also included mandatory purchasing alliances and other ideas that were so politically out of touch that they immediately doomed the package.

By contrast, the new outline is in touch with the kind of changes that the public will support and that are needed.

Certainly, a consensus exists among individuals, employers and health insurance companies that pre-existing medical condition exclusions should be restricted. If all health care plans have to abide by the same rules and regulations, the increased cost for employers curbing pre-existing condition exclusions should be minimal while an obstacle that makes some employees reluctant to change jobs will be removed.

To be sure, the administration's outline is vague on details. But we think that is a strength. It makes more political sense for the administration and Congress to work together in this controversial area than it does for the administration to try to dictate terms.



Indeed, the administration and Congress seem to be on the same track. Current reform bills introduced by conservatives, moderates and liberals all would curb pre-existing medical condition exclusions, although the extent of the curbs differ.

Many of the pension simplification provisions backed by the administration, such as easing 401(k) non-discrimination testing procedures for employers and exempting employers that offer generous matches in their 401(k) plans from running the non-discrimination tests, have been borrowed from earlier bipartisan legislation and have no opposition.

Some new twists—ones that employers heartily welcome—have been added.

These include a liberalized definition of non-highly compensated employees that effectively would allow more employees—those earning $66,000 to $80,000—to increase their contributions to their 401(k) plans.

We hope that the Clinton administration's support of pension simplification will supply the push for Congress to pass this needed legislation.

For an administration that stumbled so badly on health care reform and which appeared indifferent to the impact of pension rules on American businesses, this new change in direction is indeed a very welcome one.

Letters

Cost containment clashes with quality care

To the editor: And the tug-of-war fought among health insurers, doctors, and hospitals to keep costs down while maintaining an "acceptable" level of quality goes on.

As one who served as a representative on the CalPERS Board of Administration with a significant interest in the health insurance program which currently serves approximately 1 million people, I am most distressed when learning of the individual "horror stories" relating to the lack of appropriate health care delivery.

The most recent case lends support to the fear of a complete breakdown in "doctor-patient relationships" in an effort to save money by refusing to prescribe an expensive procedure such as a brain scan.

A young friend recently suffered a broken blood vessel in the brain. Because of prompt, correct emergency treatment by all the medical personnel involved and some great luck, her life was saved.

Now, here is the history which causes a good deal of anguish. The patient has a 10-year history of severe headaches for which she has sought treatment, including a number of trips via paramedic service for emergency treatment. Every evaluation by each treating physician resulted in the same answer to the medical problem. Strong medication and advice on diet, living habits, etc., were the order. But nothing stemmed the severity or frequency of these "migraine" headaches.

Every treating physician connected with this latest event appears visibly surprised or downright uncomfortable when learning that, with the patient's history, no routine brain scan was ordered.

It appears to me that none of the HMO physicians were willing to prescribe the brain scan because it is costly. The primary physician didn't order it, the treating physicians at the emergency hospital didn't do it, nor did any of those "specialists" to whom the patient was referred.

And this patient is an employee with the HMO described here, where the equipment and hospital are owned by this health insurance provider. So much for managed care and quality "doctor-patient relations" in the HMO world of health care.

When California leads the way, the order of the day is, "No expensive procedures are to be prescribed unless ABSOLUTELY NECESSARY."

Now I know exactly what that means.

Jake Petrosino
Anaheim, Calif.

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Superfund

Continued from page 3

facilities seeking RCRA hazardous waste permits.

Neither proposal contains anything like the Environmental Insurance Resolution Fund, an issue that split the insurance industry last year. The EIRF would have levied new taxes on property/casualty insurers to fund a mechanism that would have paid a portion of the cleanup costs for policyholders that agreed not to sue for further coverage. But policyholders that did not accept the EIRF's offer would have been free to sue for more, which many insurers said would lead to a form of adverse selection. In addition, there was no agreement as to how any taxes should be levied.

As he unveiled his plan, Rep. Oxley brushed off any suggestion that the EIRF would re-emerge. "I don't think that's an issue right now," he said.

What is an issue is the cutoff date for retroactive liability. Rep. Oxley gave several reasons for his decision to pursue a 1987, rather than a 1980, cutoff.

He noted that there are roughly 500 sites on Superfund's National Priorities List where dumping occurred both before and after the Smith proposal's cutoff date. Pushing the date to 1987 would eliminate most of these so-called straddle sites and eliminate much litigation, he said. The RCRA record keeping requirements for shipping hazardous waste took effect in 1987 as well, he said. Those records make it much easier to determine how financial responsibility for cleanup should be allocated among polluters.

He cautioned, however, that repealing retroactive liability will depend on whether there's sufficient financing for cleanup without it. Other than promising that no funding mechanism would involve raising taxes, he declined to endorse any specific way to raise the money. He hinted that repealing retroactive liability would allow a reduction in the EPA and Justice Department staffs that deal with Superfund, releasing $250 million annually.

Rep. Oxley also declined to commit himself to how those who already have paid for retroactive cleanup would be treated if retroactivity is repealed. He said that possible moves such as special tax breaks to compensate those that already have paid are beyond the jurisdiction of his committee.

Despite the lack of final details, the Oxley proposal has been met with enthusiasm from risk managers and insurers alike.

"RIMS believes Rep. Oxley's outline represents a good base from which Superfund reform legislation may be developed. Like Sen. Smith's proposal, Rep. Oxley included most of RIMS' reform recommendations in his proposal. We are very pleased to see the inclusion of the 1987 liability cutoff date, which RIMS believes is the more appropriate cutoff date," said Paul Brown, director of government affairs for RIMS in New York. He pointed out that a 1987 cutoff will eliminate more sites and most if not all the sites where dumping occurred both before and after Dec. 11, 1980.

"From the Alliance's perspective, I'd say that we're very, very pleased to see that Chairman Oxley understands the value of a 1987 cutoff, which is for all those parties out there who have been swept up in Superfund liability who simply did not have the records needed to prove that they were unfairly accused of hazardous waste disposal. 1987 is the key date," said Julie A. Rochman, assistant vp in the Alliance of American Insurers' Washington office.

"We support Mr. Oxley's proposal and we also find it very encouraging that he's identified the most important reason for adopting the 1987 date, and that is the adverse effects of any other proposal on the small-business community" which followed EPA disposal practices between enactment of Superfund and its initial reauthorization but which still found themselves liable for cleanups, said Francis D. Bouchard, director of federal affairs for the Reinsurance Assn. of America in Washington.

In addition to seeking a 1987 cutoff date, Rep. Oxley received praise for his insistence on moving the legislative process along quickly. During his press conference, he said that House Speaker Newt Gingrich, R-Ga., and other congressional leaders told him they want a Superfund reform measure passed by the beginning of next year.

"In less than a month, House and Senate leaders have produced sweeping reform outlines, and a House appropriations subcommittee refused to fully fund the current Superfund program for the 1996 fiscal year. The realization by congressional leaders that Superfund is a widely recognized failure means that the opportunity for true reform this year has improved measurably," said AIA President Robert E. Vagley.

•

Rep. Oxley has requested written comments on his proposal by Aug. 11 to Nandan Kenkeremath, counsel, Commerce Committee, H2-316 Ford House Office Building, Washington, D.C. 20515.

In defense of retroactive liability

WASHINGTON—Why does the Clinton administration oppose repeal of Superfund's retroactive liability provision?

Assistant Attorney General Lois J. Schiffer spelled out the reasons—six to be exact—for the House Commerce Committee's Subcommittee on Commerce, Trade and Hazardous Materials last week.

- Retracting an environmental law after 15 years "sends a very bad public message that companies that 'lie in the weeds' rather than complying may be rewarded if they hold out for change long enough."
- It would be unfair to "good corporate citizens" that had voluntarily cleaned up sites.
- "If this fairness problem is addressed, as some have suggested, by paying back the companies that already have paid for cleanups, the cost to the public would be very high."
- Elimination of retroactive liability would lead to a "new explosion of litigation." Disputes over which companies polluted before the Superfund law took effect in 1980 and who did not would clog the courts.
- Cleanups are likely to be delayed because incentives for settlements and voluntary cleanup will disappear.
- It would be more difficult for states to force cleanup of sites under their jurisdiction, particularly states that impose retroactive liability under their own statutes.

—By Mark A. Hofmann

World's 20 largest brokers

COMPANY	Ranking 1994	Ranking 1993	Gross revenues (000) 1994	Gross revenues (000) 1993	% Change	Employees 1994	Employees 1993	% Change	Rev./employee 1994	Rev./employee 1993
Marsh & McLennan Cos. Inc.	1	1	$3,446,800	$3,175,300	8.6%	26,100	25,600	2.0%	$132,061	$124,035
Sedgwick Group P.L.C.	2	3	1,422,309[1]	1,208,659[1,7]	17.7	15,415	15,509	-0.6	92,268	77,933
Rollins Hudig Hall Group Inc.	3	4	1,422,100	1,215,000	17.0	11,850	10,650	11.3	120,008	114,085
Alexander & Alexander Services Inc.	4	2	1,323,900	1,341,600	-1.3	13,312	14,517	-8.3	99,452	92,416
Willis Corroon Group P.L.C.	5	5	1,087,260[1]	1,056,507[1,7]	2.9	11,283	11,110	1.6	96,363	95,095
Johnson & Higgins	6	6	1,008,600	961,900[7]	4.9	8,727	8,642	1.0	115,572	111,305
Acordia Inc.	7	8	466,396	364,779	27.9	5,485	4,234	29.5	85,031	86,155
JIB Group P.L.C.	8	9	367,680[1]	346,962[1]	6.0	3,739	3,763	-0.6	98,336	92,204
Arthur J. Gallagher & Co.	9	11	356,377	329,263[7]	8.2	3,308	3,169[7]	4.4	107,732	103,901
Minet Group	10	10	347,572	325,080	6.9	3,749	3,784	-0.9	92,711	85,909
Bain Hogg Group	11	7	331,146[1]	307,578[1,7]	7.7	4,386	4,695[7]	-6.6	75,501	65,512
C.E. Heath P.L.C.	12	12	283,029[2]	270,408[2,7]	4.7	3,142	3,295	-4.6	90,079	82,066
Jauch & Huebener KGaA	13	13	194,656[3]	183,315[3]	6.2	1,500	1,400	7.1	129,771	130,939
Gras Savoye S.A.	14	14	166,882[4]	145,067[4,7]	15.0	1,613	1,374	17.4	103,461	105,580
Lowndes Lambert Group Holdings P.L.C.	15	16	151,191[2]	125,311[2]	20.7	1,776	1,668	6.5	85,130	75,126
Hilb, Rogal & Hamilton Co.	16	15	140,810	141,656[7]	-0.6	1,630	1,640	-0.6	86,387	86,376
Price Forbes Group (Pty.) Ltd.	17	—	131,320[6]	126,752[6]	3.6	2,890	2,800	3.2	45,439	45,269
ABN-AMRO Verzekeringen B.V.	18	17	121,000[5]	123,740[5,7]	-2.2	1,300	1,400	-7.1	93,077	88,386
CECAR	19	18	110,410[4]	98,058[4,7]	12.6	699	608[7]	15.0	157,954	161,280
Groupe Le Blanc de Nicolay	20	20	100,455[4]	90,978[4,7]	10.4	500	500	0.0	200,910	181,956
TOTAL / AVERAGES			$12,979,893	$11,937,913	8.7%	122,404	120,358	1.7%	$106,041	$99,187

[1] British pound = $1.532 (1994), $1.502 (1993) [2] Fiscal year ending 3/31: British pound = $1.555 (1995), $1.505 (1994) [3] German mark = $0.616 (1994), $0.605 (1993) [4] French franc = $0.181 (1994), $0.177 (1993)
[5] Dutch guilder = $0.55 (1994), $0.538 (1993) [6] Fiscal year ending 3/31: South African Rand=$0.28 (1995), $0.32 (1994) [7] Restated

(Revised 7/24/95)

Source: BI Survey

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Price Forbes Group Holdings (Pty.) Ltd.

25 Sauer St. Extension, Johannesburg
2001, South Africa; 27-11-637-9111;
fax: 27-11-838-1010

	1994	1993
Premium volume	$2.07 billion	$2.0 billion
Gross revenues	$131,320,000	$126,752,000
Brokerage: Retail	79%	81%
Reinsurance	2%	2%
Personal lines	5%	4%
Services	10%	9%
Investment income	4%	4%
Employees	2,890	2,800
Rev./Employee	$45,439	$45,269
Offices	34	31

Price Forbes Group Holdings (Pty.) Ltd. has been keeping quiet about its major achievements in brokerage, risk management and employee benefits consulting.

So quiet, in fact, that *Business Insurance* inadvertently left the firm off its Top 20 broker rankings in the July 17 issue.

The South African company, which should have been ranked No. 17 last week, is philosophical about the error. During the years when apartheid made South Africa a global outcast, the company kept quiet about its performance.

In fact, at one point in the early 1980s, when the rand was particularly strong, Price Forbes officials thought the brokerage might have been No. 8 in the world, said Chairman Paul Heinamann. But they didn't say anything for fear of sounding "pompous."

Now that sanctions have been lifted and "the country is opening up, we have to, too," he said.

Out of public view, Price Forbes Group has grown into the largest brokerage based in the Southern Hemisphere. Today it does business with 80 of the 100 largest companies in South Africa, the chairman said.

Many companies have been clients for years and even when apartheid-inspired sanctions began to cut the nation off from the outside world in the mid-1980s, growth was steady. Sanctions were eased by some countries when Nelson Mandela was released from prison in 1992. Many others followed suit when Mr. Mandela was elected president last year.

"During the years of isolation we gave service that our clients needed because no one else wanted to," said Mr. Heinamann. Now other brokerages and consulting firms are coming into the market, "but we're ready."

For the year-ended March 31, gross revenues, excluding earnings from associated companies, grew 18% to 469 million rand from 396.1 million rand the previous year. Converted into U.S. dollars, using average exchange rates, revenues rose 3.6% to $131.32 million.

"Price Forbes" may sound familiar as it was once the South African office for Price Forbes Group of London, which was set up by E. Steane Price and Thomas Forbes in 1893. Price Forbes in London held 92.5% of the South African company in 1972. Beginning in 1986, Price Forbes's successor, Sedgwick Group P.L.C., held its remaining 14.5% interest in the brokerage quietly through a subsidiary. Then last year Sedgwick sold the stake and relinquished the use of the Price Forbes name in South Africa. Sedgwick still owns the name elsewhere and its North American operations in London are still known as Price Forbes Ltd.

The origins of Price Forbes in South Africa date back to 1935 when Gordon Douglas, managing director of merchandising firm Emile Levy & Co., decided to offer insurance through his business. His wife was acquainted with the Forbes family in London, so an agency contract was drawn up with Price Forbes.

After World War II, Andrew Macewan joined Emile Levy & Co. Over the next 16 years he turned the small insurance agency into a major brokerage known as Price Forbes (Africa). In addition to brokerage, the company developed life and pension products, and started a reinsurer.

Most of the company's growth has been internal. One acquisition of note came in 1978 when Price Forbes merged with South African brokerage Federale & Volkskas Makelaars to form the country's largest insurance brokerage, Priceforbes Federale Volkskas, which this year changed its name to Price Forbes Group. London-based Price Forbes initially held 33.33% of the merged company; Federale Group, now called Servgro International Ltd., held 40%; and Volkskas, a South African bank which has since been absorbed into South African banking group Amalgamated Banks of South Africa Ltd. in Johannesburg, held 26.66%. The brokerage has been under South African management ever since.

Since 1989, management has increased its stake and Sedgwick has reduced its holding. Today, Servgro owns 55%, ABSA 20%; Price Forbes management owns 17.5%; and 7.5% is held in trust by Servgro. Mr. Heinamann said that the group is looking for "acceptable black ownership" of the 7.5%.

Smaller acquisitions have occurred in recent years. In 1990, Price Forbes merged with Bankorp International Insurance Brokers, and its employee benefit consulting unit, Alexander Forbes Consultants & Actuaries (Pty.) Ltd., bought Shepley & Fitchett Consulting Actuaries. In 1992, Price Forbes Group also acquired 100% of South African brokerage Willis Faber Enthoven and in took its first major step outside South Africa by establishing PFV London Ltd. in London.

PFV London has had an agency agreement with Lloyd's brokerage Nelson Hurst Group Ltd. since 1993. This year, however, Price Forbes exercised its option to acquire 49.99% in the U.K. retail brokerage division of Nelson Hurst known as Nelson Hurst U.K. Ltd. Nelson Hurst U.K.'s non-executive chairman is now Mike Hofmeyr, managing director of South African brokerage division Price Forbes Pty. Ltd.; and managing director is Frans Campher, formerly executive director of the Price Forbes brokerage in South Africa.

Price Forbes Group also owns 3.3% of Nelson Hurst Group Ltd., but the "objective" is to acquire a 10% stake in the London-based group by April 1996, confirmed Mr. Heinamann.

For a South African firm "it's not easy to develop overseas," said Mr. Heinamann. Price Forbes Group has looked at small companies in various parts of the world and decided that Nelson Hurst is a "good competent player" with offices in growing areas of the world such as Southeast Asia and Latin America, he said.

South Africa is still the main growth area for Price Forbes Group, however.

Foreign brokerages have shown interest in Price Forbes Group now that South Africa is open to overseas investors, said Mr. Heinamann. Although executives are open to discussion, a merger or sale "is not in our strategic thinking," he said. "I don't see why all brokers must be headquartered in New York or London."

Organized under the holding company Price Forbes Group Holdings (Pty.) Ltd., Price Forbes consists of four main businesses:

- Price Forbes (Pty) Ltd., which says it is the largest risk management consulting firm and insurance brokerage in the country. The brokerage division, headed by Mr. Hofmeyr, coordinates all the risk management consulting and risk financing services.

This business includes risk management consulting firm Corporate Risk Management (Pty) Ltd., headed by Managing Director Frank Butler. The division consists of about 80 people trained as engineers, lawyers, environmental engineers, as well as in health, security and safety to evaluate clients' cost of risk.

Risk management has been growing in South Africa since about 1980, when the insurance market hardened and companies developed a taste for alternative risk financing, said Steven Briers, marketing executive for CRM. South Africa is now one of the world's most sophisticated markets for risk management services, he added.

CRM tries to build a risk management culture within a business to reduce the total cost of risk, rather than merely protecting insured properties, said Mr. Briers.

Controlling the cost of risk is very important in South Africa today. "Particularly with the barriers coming down, (companies in South Africa) must be more cost-competitive and risk management is seen as a form of cost efficiency," he said.

As foreign-based risk management consulting firms—from small environmental specialty firms to subsidiaries of major accounting firms—move into South Africa, CRM is not too concerned, he said. Meanwhile, CRM's risk management approach is attracting interest in countries around the world such as Thailand, Israel, parts of Europe and North America, according to Mr. Briers. Twenty percent of the consulting division's revenues now originate outside of South Africa, a figure Price Forbes hopes to increase to 50% in three years.

- Alexander Forbes Consultants & Actuaries (Pty) Ltd., headed by two joint managing directors, Graeme Kerrigan and Leon Lewis, which claims to be the largest employee benefit consulting firm in South Africa.

The subsidiary has 1,300 employees and its 1994 gross revenues of 170 million rand

See **Price** *on next page*

Price

Continued from page 10

($54.4 million) accounted for more than one-third of the company's total.

Alexander Forbes is divided into five divisions.

The retirement funds division provides actuarial and benefit services to company-sponsored pension and provident funds set up and run by the employers.

In South Africa, employees can take up to a third of their pension funds in cash upon retirement, leaving the rest in the fund. Employees with provident funds can take the whole fund in cash upon retirement.

The negotiated benefits division acts as a facilitator for clients in negotiations with trade unions of largely blue-collar black employees.

In the 1980s, unions were not happy with the traditional company-sponsored benefits that were offered to employees without negotiation, said Mr. Lewis.

Under the negotiated retirement programs, the trustees of the pension and provident funds now include both employer and trade union representatives.

The health care consulting division has seen greater demand for its services since South Africa loosened regulations of medical insurance plans, known locally as "medical aid schemes," said Mr. Lewis. The plans had been so tightly regulated that they varied little among companies. Now, however, employers can design different types of plans and are looking to cut costs.

The South African government is reviewing the nation's health care system in an attempt to provide medical coverage to the entire population, either through private or public channels.

Alexander Forbes also has two other divisions: financial consulting, which advises individuals on tax and financial planning; and asset consulting, which manages assets for pension and provident funds.

In 1994, Alexander Forbes reached an agreement to be Towers Perrin's South African consultant in its global benefit network. South Africa is one of the world's largest markets for benefits consulting.

- Integrated Risk Consultants (Pty) Ltd. which specializes in risk finance consulting and is a separate operation from CRM. It consults on captive insurance, advises insurance company management, and has an interest in Guardrisk Insurance Co. (Pty) Ltd., an onshore captive insurer which allows South African firms to self-insure.
- Forbes Reinsurance Broking Services (Pty) Ltd., the country's largest reinsurance broker.

—By Stacy Shapiro

Offices listing error

The following corrects errors in the July 17 geographical agent and broker listing:

United States: Charlotte appeared twice in the North Carolina listing.

International: Aberdeen is in Scotland, not Saudi Arabia or England; Antwerp is in Belgium, not Barbados; Baie Mahault is in Guam, not Guadeloupe; Belfast is in Northern Ireland, not Nigeria; Bogota was listed twice in Colombia; Cardiff is in Wales, not Vietnam; Edinburgh is in Scotland, not England; Helsinki is in Finland, not Fiji; Moscow is in Russia, not Qatar; Nilsen Brokers has an office in Norway, not Oman.

The following listings were omitted from the June 26 directory of managed mental health care networks.

National Resource Consultants

9655 Granite Ridge Drive, 6th Floor, San Diego, Calif. 92123; 619-571-8300; fax: 619-278-7822

Staff

Salaried employees 80
Includes: 19 social workers, 14 marriage/family/child counselors, 4 professional/mental health counselors
Contracted professionals 4,974
Includes: 712 psychiatrists, 1,462 psychologists, 1,499 social workers, 1,278 marriage/family/child counselors, 23 professional/mental health counselors

Facilities

Total 461

EAP clients

Total 147
Lives covered at year-end 1994 206,128
Employees 85,887
Dependents 120,241

Mental health network clients

Total 47
Lives covered at year-end 1994 197,153
Employees 82,147
Dependents 115,006

Services began: 1984.
Parent: CaliforniaCare Health Plans.
For profit.
Assessments & treatments: Standard services, including post traumatic stress syndrome.
Health promotion: Standard services, including physical fitness/exercise, mental health topics as requested.
Educational/general services: Standard services, including workplace violence prevention.
Utilization review: Standard services.
Counseling sites: Worksites, EAP/mental health care facilities.
Service area: United States, Canada.
Reporting: By request.
Officers: Leonard Schaeffer, chairman/CEO; Ron Williams, executive vp-group & network services; Nicholas Kenich, vp-behavioral health services.
Contact: Lisa Schiff.

North, Clawson & Bolt Ltd.

66 E. Main St., P.O. Box 593, Moorestown, N.J. 08057; 609-273-8118 or 800-959-3144; fax: 609-273-6656

Staff

Salaried employees 9
Includes: 3 psychologists, 1 marriage/family/child counselor, 1 physician
Contracted professionals 504
Includes: 2 psychiatrists, 220 psychologists, 250 social workers, 30 marriage/family/child counselors, 2 physicians

EAP clients

Total 8
Lives covered at year-end 1994 90,418
Employees 36,167
Dependents 54,251

Mental health network clients

Total 4
Lives covered at year-end 1994 68,350
Employees 27,340
Dependents 41,010

1994 revenues

EAP services 30%
Managed mental health care services 70%

Services began: 1984.
For profit.
Assessments & treatments: Standard services.
Educational/general services: Employee education, supervisor training, drug-free workplace adherence, psychiatric workers comp review, workplace violence prevention.
Utilization review: Standard services.
Counseling sites: EAP/mental health care facilities, physicians' offices, phone counseling, community programs.
Specialties: Self-insured, multisite companies.
Service area: Nationwide.
Reporting: Quarterly, annually, by request.
Billing: Capitated fee; fee for service; negotiated fees per project or site.
Officers: Ron North, president; Russ Bolt, COO; Lloyd Brotman, clinical director; John Gonsiorek, clinical consultant; Jack Drucker, consulting psychiatrist.
Contact: Carol Lambersky, Ron North or Russ Bolt.

Occupational Health Services

1600 Los Gamos Drive, Suite 300; San Rafael, Calif. 94803; 800-327-7526; fax: 415-472-8187

Staff

Salaried employees 330
Includes: 8.5 psychiatrists, 22 psychologists, 20 social workers, 8 marriage/family/child counselors, 6 professional/mental health counselors
Designations held: 3 CEAPs, 29 MSWs, 8 MDs, 22 RNs, 22 Ph.Ds
Contracted professionals 9,600
Includes: 1,158 psychiatrists, 2,569 psychologists, 3,176 social workers, 1,720 marriage/family/child counselors, 684 professional/mental health counselors
Designations held: 3,176 MSWs, 1,158 MDs, 55 RNs, 2,569 Ph.Ds

Facilities

Total 734

EAP clients

Total 425
Lives covered at year-end 1994 3,300,000
Employees 1,000,000
Dependents 2,300,000

Mental health network clients

Total 55
Lives covered at year-end 1994 3,800,000

1994 revenues

Total $32,250,000
EAP services 27%
Managed mental health care services 60%

Services began: 1974.
Parent: Foundation Health Corp.
For profit.
Assessments & treatments: Standard services, including child and elder care consultation, pre-retirement counseling, federal taxpayers' assistance, organizing personal affairs.
Health promotion: Standard services, including physical fitness/exercise.
Educational/general services: Standard services.
Utilization review: Standard services.
Counseling sites: Selected worksites, EAP/mental health care facilities, physicians'/practitioners' offices, phone counseling.
Specialties: Pharmaceutical, petrochemical, consumer goods, high technology and financial services firms.
Service area: All states and Puerto Rico.
Reporting: Quarterly.
Billing: Capitated fee.
Officers: Gary S. Velasquez, Lawrence N. Gelb, Michael S. Sturges, Christine L. Williams, Jonathan M. Wormhoudt.
Contact: Lawrence N. Gelb, senior vp-sales/marketing. BI

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Leaders

Continued from page 2

over centralized vs. decentralized management during an executive panel.

While ING does not emulate a single leadership style, it does measure candidates being considered for each executive or senior management position against three profiles.

The core competency profile evaluates management candidates on entrepreneurship, professionalism, team spirit, performance drive and customer orientation.

The functional position profile spells out all the attributes sought in a specific executive function, while the personal profile identifies the attitude and management style of an individual executive.

"It is used to ensure the right person is in the right place," Mr. Jacobs said. Ideally, executives will have "a good balance of the qualities of all three" categories.

The profile may identify someone as being an integrator, entrepreneur, producer or contributor.

The insurance industry executive of the future also was addressed by a separate panel.

The ideal insurance executive is both a teacher and a learner, said Lukas Muhlemann, chief executive of Swiss Re Group in Zurich, Switzerland.

"The learner recognizes there are many things he doesn't know," he said. "He learns constantly as opposed to being arrogant."

Executives also should learn to accept mistakes.

"It is still one of the most frequent ways to learn," Mr. Muhlemann said. "An organization can't afford (not to make any) mistakes. It ends in obsolescence. We have to learn to live with mistakes."

Job rotation and international assignments will ensure that managers continue to learn.

"Those managers who spent years in the same job are worse managers than those who changed tasks frequently," Mr. Muhlemann said.

While Swiss Re has a tradition of transferring employees internationally, the degree of mobility is still less than Mr. Muhlemann would like. International transfers were more routine at management consultant McKinsey & Co., where Mr. Muhlemann was a managing director before joining Swiss Re last year.

"I would like to see it become more routine," Mr. Muhlemann said. "Before becoming a senior executive, it should be expected that you spend some time in another culture, a different market with different customers and management styles."

Employee mobility, however, must be balanced with customer's desire for consistency. Assignments of three to four years should accomplish that.

Although Mr. Muhlemann came from outside the insurance industry, "I hope the insurance executive of the future will predominantly come from the inside," he said. "Otherwise it will be tough to attract young, talented people to the industry."

"We prefer to look in our company," ING's Mr. Jacobs agreed. If not, "you demoralize your own people."

"There is always some need for outsiders, but the leadership will predominantly come from inside," said Robert A. Anker, president and chief operating officer of Lincoln National Corp. in Fort Wayne, Ind.

In particular, the industry may have to look beyond its own boundaries to increase diversity among its senior ranks.

"The face of the insurance executive is homogeneous," Mr. Anker said. "The executive of today has been in the insurance industry his entire adult life, trained as a specialist, traveled through layers of the company and is overwhelmingly male. We dress and talk alike and share similar political views."

In the future, however, "the face of the insurance executive could be any color, have any hair length and any color shirt or skirt."

With today's flatter organizational structures, executives must "lead the organization, not control it. Decree less and delegate more."

However, "some traits of the effective leadership never change," Mr. Anker said. "Vision is an enduring quality and energy drives the company forward."

"Those of us who made our ways on technical expertise must either broaden our leadership capabilities or make way for those who can," Mr. Anker said.

"Good generalists are also good specialists," Mr. Anker said. "If you become a specialist early, you can broaden your interests and move into a generalist role. If you begin as a generalist, you never develop the depth needed."

Organizations also must strike the balance between specialist and generalist, the executives agreed.

"We cannot be everything to everybody," ING's Mr. Jacobs said. "New specialist insurers have simplified operations and have a cost advantage over multiline companies. Gaining new clients in saturated markets means taking away from the competition. We need to escape the vicious circle."

Instead of chasing other insurers' clients, companies should focus on their best customer segments and gain the highest possible market share there.

"Profit increases the longer a customer stays," Mr. Jacobs said. "The main challenge is to find the right clients to focus on and maintain a long-term relationship with them."

A return to the basics of underwriting, not a trendy strategy, will return insurers to profitability, AIG's Mr. Greenberg said.

"This industry more than any other has failed to embrace change and it has suffered grievously in some areas," Mr. Greenberg said. "Many of the household names in insurance yesterday are gone, either taken over or failed."

One contributor to that demise is the "me-too" tendency.

"Every company has its own culture and history and it ought to have its own strategy," Mr. Greenberg said.

For example, "re-engineering is not the way to keep the expense ratio under control," Mr. Greenberg said. "Expense control is not a sometimes thing. There are constant reminders of it in our company. Everybody works on it all the time."

Support from all levels of management is necessary to bring about change.

"Until the shareholders and boards of directors get more demanding, change will not come about quickly," Mr. Greenberg said.

"Return on equity is the bottom line. If you can't get the return on equity for shareholders, you can't possibly serve policyholders on a long-term basis," he said. BI

Keeping clients, regulators happy

By SARA MARLEY

WASHINGTON—If the insurance industry fails to focus on customers, the government will increase its regulatory grip, an insurance executive says.

That's what happened in the United Kingdom life insurance industry, the executive said. And worse than that, the number of new individual life and pension policies sold plunged nearly 50% over five years and several insurers have failed. The number of new policies sold annually in 1994 stands at 6.4 million, only 5% higher than it did 10 years earlier.

"It is a disaster. That's not too strong a word," Roy H. Ranson, chief executive of Equitable Life Assurance Society in Aylesbury, England, told delegates at the International Insurance Society Inc.'s 31st seminar. "The industry is failing. The needs of the customers are not being met. The industry is tainted. Customers no longer trust us."

Responsibility lies with the insurance industry, Mr. Ranson said.

"If you want to avoid excess regulations, put the customer first, not short-term gain for shareholders," he noted.

For example, insurers resisted providing more information to customers.

"Had we accepted that we must provide such information as the public needs to make an informed decision, then we might well have avoided many of the burdens of regulation," Mr. Ranson said. "The industry should have taken the initiative and driven the good business practice of proper disclosure, rather than being dragged, kicking, by the regulators along that road. Disclosure was forced upon us. If the industry had been willing to change, it could have written the rule book."

Under the authority of the Financial Securities Act of 1986, for example, regulators in the United Kingdom are requiring life insurers to disclose the commission paid on sales.

Poor training of sales staff also contributed to the industry's woes.

"Those who advise on and sell our products should be properly trained and competent. It has been left to the regulators to impose their requirements," Mr. Ranson said.

The objectives of regulation are efficiency, competitiveness, confidence and flexibility, Mr. Ranson said. Instead it has resulted in increased bureaucracy and paperwork the customer does not want or need, he said.

"In my view, the regulatory environment in the U.K. has failed in every category," he claimed. "The industry must take a stand against regulation where it strays into management matters."

In today's consumer environment, customers will not tolerate being treated poorly, he said.

iisi

Customers are the first concern at USAA Property & Casualty Group in San Antonio, said President Wilson C. Cooney.

USAA, which sells only to active and retired U.S. military officers and their former dependents, relies on "relationship marketing" to sell an average of three products per customer and achieve 98% overall customer satisfaction.

"Relationship marketing provides a much greater emphasis on informing and educating vs. advertising and keeping the customers you have as opposed to primarily focusing on capturing new customers," he said. "Selling your products will not get you there. You have to sell your company. It isn't technology that gets you there, it's your people and customers."

For example, USAA offers a catalog shopping service to its members that was originally established to assist policyholders in replacing lost or damaged insured property.

USAA's service is so good partly because the insurer's customers demanded it.

Insurance can be a confusing product to consumers, but they will all understand good service.

"Customers don't understand our product, but they have to have it," Mr. Cooney said. "There is no business commerce unless there is an insurance industry."

To identify customer needs and expectations, USAA will conduct 100 research projects this year, contacting about 900,000 of its 2.7 million policyholders. BI

Record attendance at IIS seminar

WASHINGTON—Nearly 700 people attended the 31st annual seminar of the International Insurance Society Inc. earlier this month.

Fifty-six countries were represented, with more than two-thirds of the participants coming from outside the United States.

Saburo Kawai, founder of Kyoei Insurance Co. Ltd. in Tokyo, was awarded the John S. Bickley Founders' Award Gold Medal for Excellence. He developed the first life insurance rating guidelines in Japan.

Two men were inducted into the Insurance Hall of Fame: G.W. de Wit and Ronald M. Hubbs. Before retiring from Nationale-Nederlanden in 1988, Mr. de Wit was life and non-life actuary, head of the research department and adviser to the board. Mr. Hubbs is the retired CEO of St. Paul Cos. Inc. During his tenure, St. Paul wrote medical malpractice insurance when many others abandoned it and introduced risk management concepts to underwriting.

Next year's seminar will be July 7-11 in Amsterdam, Netherlands. For information, contact the IIS at Box 870223, Tuscaloosa, Ala. 35487-0223; 205-348-8974.

ASK A RISK MANAGER

Departments team up for medical cost savings

Q **At one time it appeared as if the risk management and human resources departments seldom communicated with one another since workers compensation and employee benefits were considered to have totally separate agendas. Do you find this situation changing?**

A I definitely do believe that unlike in the past, the risk management and human resources departments communicate on a regular basis and often find themselves as partners in major corporate projects.

Traditionally, risk management was responsible for administration of the workers comp program, which included other affiliated areas such as safety and Occupational Safety and Health Administration compliance initiatives, while the human resources staff administered the group health care program. In recent years, however, the heated discussions over national health care concerns and turmoil in the workers comp arena have opened a few doors for the blending of both the risk management and employee benefits disciplines to better manage both areas. That's not to say that the reporting structure of the departments should change, but that an open dialogue and spirit of cooperation should prevail.

If you take the opportunity to look at both the workers comp and employee benefits areas, you will find some interesting similarities. Both are focused on providing efficient, cost-effective medical care to their employees, regardless of whether the accident or illness occurred on or off the job.

In that spirit, our director of employee benefits and myself recently joined forces to explore the rationale of a 24-hour coverage program for our employees. This "seamless" approach to health care delivery appealed to us because both of us are focused on improving the medical management aspects of our programs in hopes of further reducing costs and streamlining things for our employees. Our motto is to "simplify and save."

As we began to explore the various options available to us, it quickly became apparent that both departments already were taking advantage of many cost savings opportunities. Our human resources department had experience with a health maintenance organization and an attractive prescription drug program. They also had put together an excellent employee assistance program, which has been viewed as a very positive benefit by our workforce, and recently assisted in the design of a drug-screening program.

Risk management also was subscribing to a vast number of workers comp cost containment programs such as utilization review, hospital and provider bill audit, vocational and occupational rehabilitation, and fraud investigation and was accessing our third-party administrator's preferred provider organization. Further, since all occupational incidents and accidents are reported direct to us via a toll-free number, we have a solid gatekeeping effort in place. Like many other companies, our arrangement with our third-party claims administrator involves the use of dedicated offices and adjusters. Our assignments are transmitted electronically to them, which affords an immediate response to all claims, especially those which evolve into serious, lost time cases.

My risk management "wish list" included expanding the prescription drug and drug-screening program into the occupational setting and using the EAP on all physiological workers comp cases. I also wanted to have a strong, uniformly administered "modified" return-to-work program to support the objective of getting our disabled workers back to work as soon as possible. My counterpart in employee benefits shared the desire to have a uniform modified return-to-work program for non-occupational cases and was enthusiastic over pulling the EAP, prescription drug and drug-screening programs into the occupational area. So, we now find ourselves operating as a team to make these common objectives a reality. The 24-hour coverage program involves some unique challenges and may or may not be a good fit for us. The more important issue is that the concept initiated a dialogue between us which will serve to improve our existing programs.

The days of empire building and turf protection are over. Each of us must explore the various alternatives available to make our companies stronger. While in many organizations, workers comp is the responsibility of risk management, which usually reports to finance, and employee benefits "belongs" in human resources, both groups must respect each other and commit to blending their specific talents.

The 1990s are an era of team style management. Risk management and human resources are likely players when it comes to exploring better ways of providing a comprehensive wellness program to the employee population! BI

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

Ms. Werner

This month's column on risk management issues is written by Susan M. Werner, director of risk management at Hardee's Food Systems Inc. in Rocky Mount, N.C. Dennis J. Nirtaut, managing director of compensation and benefits for Arthur Andersen & Co. S.C. in Chicago, answers questions on employee benefit plans. 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.

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.

Court rules coverage allocations must be explicit in policy

The Supreme Court of Delaware ruled that pro rata allocation of coverage could not be read into an excess liability insurance policy.

Employers' Surplus Lines Insurance Co. issued excess liability policies to Monsanto Co. for the periods from 1959 to 1965 and from 1967 to 1972. The policies indemnified Monsanto for property damage caused by an occurrence further defined as an accident during the policy period.

C.E. Heath Compensation & Liability Insurance Co. acquired ESLIC.

Monsanto was also insured by several other insurance companies. Monsanto brought this action seeking a declaration that it had coverage from several insurers for claims relating to pollution at various sites throughout the United States.

The trial court allocated liability on a pro rata basis among the respective insurers of Monsanto based on the length of coverage.

The appellate court noted that the case had to be resolved under the Missouri law. The court said that Missouri courts have recognized that insurance companies may effectively limit their coverage obligations to policyholders with an explicit pro rata provision in the policy terms.

Conversely, the appellate court said, where an insurance policy is silent on proration, an insurance company is jointly and severally liable to the full extent of the policyholder's loss.

Furthermore, the court observed that the majority of courts have held that without a pro rata clause, insurance companies cannot limit their obligations to a pro rata share or portion of a policyholder's liabilities. Finding no plain or unequivocal pro rata provision in the policies, the court reversed the trial court decision.

Monsanto Co. vs. C.E. Heath Compensation & Liability Insurance Co., Supreme Court of Delaware, Nov. 7, 1994; *On denial of reargument and rehearing en banc*, Jan. 10, 1995 (*BI*/02/Ju.-$10).

Legal Briefs

Discrimination coverage excluded

The Court of Appeals of Minnesota held that an umbrella liability policy provided a policyholder with no reasonable expectation of coverage for gender and age discrimination.

Jostens Inc. paid $90,000 for a $5 million umbrella liability policy from Northfield Insurance Co. The policy provided liability coverage for bodily injury and personal injury damages in excess of other insurance on a broad variety of risks. The policy covered discrimination with several exceptions such as that committed on the basis of race, creed, color, sex, age or national origin.

In 1990, the Equal Employment Opportunity Commission filed charges against a Jostens subsidiary alleging gender and age discrimination in violation of federal law. Jostens tendered the defense to its insurer.

The insurer informed Jostens it had not yet determined if its policy provided coverage. After not hearing from the insurer, Jostens retained independent counsel to defend it and entered into a conciliation agreement with the EEOC.

Altogether, Jostens incurred fees and costs in excess of $300,000. Jostens then brought suit seeking coverage under the policy. The trial court ruled for the insurer.

On appeal, Jostens argued in part that it had a reasonable expectation of coverage even though painstaking study of the policy provisions would have negated those expectations. But the court said that the policy's "except for" language immediately negated any legitimate expectation engendered.

"Jostens could not have been under more than a momentary delusion that the policy afforded coverage for the costs at issue," the court said, "given the juxtaposition of the exclusions to the policy's mention of discrimination; thus, the reasonable expectations doctrine did not provide coverage."

The appellate court affirmed the decision of the trial court.

Jostens Inc. vs. Northfield Insurance Co., Court of Appeals of Minnesota, Jan. 31, 1995 (*BI*/04/Au.-$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.*

CHA

Continued from page 1

it surprising that they brought it in-house. It's one thing to be self-insured, quite another to administer it," HUD's Mr. Shuldiner commented.

The problems with the CHA's workers comp program are detailed in an internal audit report prepared by the CHA's inspector general submitted to the housing authority board in 1994 and recently made public by HUD officials. The report shows a program in total disarray, seemingly oblivious to all current workers comp cost containment methods.

The report also depicts a program virtually ignored by the CHA's former director of risk management and benefits, John D. Lauer, who, along with the CHA's general counsel, had responsibility for overseeing the housing agency's workers comp efforts.

Mr. Lauer left the authority last year after being linked to a scandal in which up to $20 million was looted from its pension funds (*BI*, June 27, 1994). Attempts to reach him or his attorney for comment were unsuccessful.

Steven Laduzinsky, first assistant general counsel for the CHA, said "while there are some problems" with the authority's workers comp program, "it's not as bad as the IG makes them out."

The CHA inspector general's report shows a workers comp program in total disarray, seemingly oblivious to all current workers comp cost containment methods.

The report also ignores the bad experiences the authority had in the past with third-party administrators, Mr. Laduzinsky said.

But the audit report states, "Since (administration) was brought in-house in July 1991, the program has not been administered in an effective, efficient and economical manner."

Because the workers comp administration was brought in-house in midyear 1991, the audit report compares data for the periods from 1982 to 1990 and from 1992 to 1994.

The audit showed that average annual workers comp costs more than tripled to $5.5 million from $1.75 million during the period from 1982 to 1990 when the claims were administered by Martin Boyer Co., the Chicago-based workers comp administration unit of Aon Corp.'s Aon Risk Services operation.

"In our opinion, the increased costs are attributable to undertaking the in-house administration for the (program) without proper planning, management and staffing," the auditors wrote.

Those shortcomings are reflected in the number of open claims, which has grown "astronomically" since the CHA started self-administering its program, the auditors found.

Of the 1,579 claims filed from January 1992 through August 1994, 1,110 remained open at the end of August 1994, and only 83, or 12% of 691 claims filed in 1993, were closed.

"Each month the backlog of open cases has increased and there appears to be no relief in sight," the auditors wrote. Claims include a variety of workplace injuries, such as knee or back injuries or injuries resulting from slips and falls.

The auditors placed blame for the problems at the feet of the former risk manager and general counsel, charging them with failing to manage the workers comp program responsibly, and they called for a major initiative to set up an efficient and effective program.

"It sounds like they have a program with a lot of opportunity for improvement," said Susan M. Sauer, senior vp and national workers compensation practice leader at Johnson & Higgins in Chicago. "HUD has a big opportunity there."

"It certainly appears from the report that if this was outsourced to experts in the field they might be better off," said Rebecca Shafer Bruce, senior vp and director of workers compensation consulting at Aon Risk Services, an Aon unit, in Glastonbury, Conn.

As the CHA's overall workers comp costs grew since taking on administration of the program, its average cost per claim went up dramatically as well, to $9,400 from $2,600. Meanwhile the average cost per employee increased to $1,312 from $777.

Those increases occurred even though the average number of claims per year decreased slightly after administration was brought in-house.

In that context, the cost per claim and cost per employee figures are truly troubling, Mr. Shuldiner explained. "That would seem to mean that there's either a health-hazard problem out there that we need to address or that this stuff isn't being monitored very well."

Monitoring is essential and will be one duty of the outside firm eventually hired by the CHA, said Mr. Shuldiner.

Monitoring is one area where the CHA was particularly weak, the auditors said. When the authority took over administering the program, it established no policies explaining the program's goals or how the two-person workers compensation staff was to complete its work.

"Consequently, the WC staff is working without direction," the inspector general said.

"Policies and procedures are not the be-all and end-all," said Beth Voorhees, practice leader in the casualty claims consulting group of Coopers & Lybrand L.L.P. in Chicago. Companies can have policies and procedures in place but still have poor workers comp programs. But without them, it is impossible for administrators to know what their goals are and what resources will be needed, Ms. Voorhees said.

Compounding the problem was the fact that Mr. Lauer, the former risk manager, ignored or even interfered with safety and loss control efforts, according to the audit.

The audit also found that employee injuries weren't being reported to the CHA's workers comp department on time. Even though the agency's personnel manual says that injury reports are to be submitted within one day of an accident, on average injuries were reported 28 days after accidents.

That injury reporting delay has hampered workers comp administrators' ability to investigate accidents and has prevented them from contacting injured workers early, coordinating medical care and making safety recommendations.

In fact, the CHA has done almost no claims investigation, the auditors found.

Take, for example, a claim for neck, back and knee injuries brought by a former professional football player employed by the CHA. Though the claim has cost the CHA approximately $50,000, there are no records to indicate it tried to find out whether the injuries were pre-existing conditions from his football career.

Of 125 claims files reviewed by the auditors, 93% had no written statement from the employee regarding injury. In 96% of the files that included the name of a witness, the witness had provided no written statement. And in 98% of the files reviewed there was no evidence that an adjuster had visited the site of the accident to review its cause.

The audit also showed that of the claims submitted since the CHA started self-administering, 55% were filed by employees who had submitted multiple claims. Yet only two repeat claimants had been investigated over the two-year period ending June 30, 1994.

"I'm not surprised they have a lot of repeaters, and if there is no mechanism for getting people back to work, that's clearly going to happen," said Coopers & Lybrand's Ms. Voorhees.

Mr. Shuldiner wants to see the CHA implement a modified-duty, return-to-work program. The Los Angeles authority implemented such a program while he was there to control costs in its self-insured program.

The CHA's Mr. Laduzinsky said the authority is in the process of drafting a light-duty workers comp program.

When the Los Angeles authority moved to self-insure its program, it also looked into self-administering, Mr. Shuldiner said. But staffing constraints and stiff California laws regarding the period in which workers comp claims must be processed prompted Los Angeles officials to reject the idea.

"The downside of processing was so great that we decided to contract it out," he said.

With only two claims adjusters, the CHA was clearly inadequately staffed to administer its workers comp program, consultants say.

The audit report notes that in a 1994 bid to get additional help, the CHA workers comp staff surveyed a number of insurance companies, finding that while the companies' claim adjusters handled caseloads ranging from 125 to 200 claims, the two CHA adjusters each were handling 445 cases.

"If you have too big a caseload, you're not going to get anywhere self-administering," J&H's Ms. Sauer said. "You have to have trained and educated adjusters who are managing your claims. And if you do it well you can, in my estimation, do it better than a TPA can."

Self-administration also requires managers who can maintain communications with employees, oversee the program's medical component and find ways to curb employee litigation, she said.

And someone must be responsible for ensuring that the program is staying on track, a task that would have been difficult at the CHA in the absence of any clearly defined goals for the self-administered program.

"No matter what kind of program, you need to have somebody who is guiding it," Ms. Sauer said. "Somebody has to be able to look at the program and say 'We don't communicate well with our employees.' "

"Somebody has to be reviewing performance and somebody has to be accountable," she said.

Since the audit report was submitted at the end of 1994, the CHA has added a third workers comp claims adjustor and two administrative support staffers to the workers comp staff, and is in the process of hiring an in-house investigator and an in-house workers comp attorney, Mr. Laduzinsky said.

The CHA counsel said he would like to see the CHA's upgraded workers comp administration program get a chance to succeed before the authority turns to a TPA.

"I'd like to give it a shot in here to get it up and running," Mr. Laduzinsky said. "Even if we hire an outside administrator, we're still going to have to have staff in-house to monitor the program."

Ms. Voorhees agreed that hiring a TPA won't free any organization from the responsibility for monitoring the workers comp program's performance if it wants to contain costs.

"Any outside service provider is only as good as you are at managing them," Ms. Voorhees said. "You have to be real clear about what you want from them and at the end there has to be an evaluation of performance. If that's not there or you don't have the resources to do that, that's also not going to work." BI

Costly lesson in comp scam

Bilking of more than $1.1 million spurs Los Angeles system reforms

By ROBERTO CENICEROS

LOS ANGELES—By the time a routine audit unraveled one of the largest workers comp scams of its kind in California, the thefts had been going on for nearly two years, concealed partly by a logjam of 40,000 open claims.

It was yet another textbook case of how not to run a workers comp program (see story, page 1). Now the Los Angeles City Workers' Compensation Division is busy implementing some fundamental risk management practices aimed at resolving claims more quickly as well as cutting the number filed.

Meanwhile, former Los Angeles city workers comp analyst Thelma Bowman is scheduled to appear in court Wednesday for a hearing in connection with the bilking of more than $1.1 million from the self-funded program.

She has pleaded not guilty to charges by prosecutors that the 25-year city employee is the ringleader in the biggest case of workers comp fraud against a public entity in California. She was charged July 16 along with 13 other people and is being held in Los Angeles County Jail in lieu of $1 million bail (*BI*, July 17).

City officials said they had an eight-point plan to modernize and improve the "horse and buggy-era" workers comp system even before the 1994 audit that led to Ms. Bowman's firing and eventual arrest.

"Frankly, the city had a pretty bad work comp system," said Tim Lynch, a deputy city comptroller.

Others characterize the atmosphere in the city's former workers comp system as demoralized for several reasons, with employees merely shuffling claims paperwork rather than closing cases. In that environment, the claims piled up, allowing someone to bilk the city without anyone noticing for months.

At the time, there were about 40,000 claims outstanding. Many had piled up over time, but it roughly amounted to one for every city employee.

Prosecutors say the scam included Ms. Bowman paying off to accomplices old claims she thought unlikely to face further review, altering computerized data for bogus claims and phony billings by investigators.

"She was the final person to sign off after all the paperwork had been prepared and claims were to be paid," said Deputy District Attorney Thomas R. Krag.

But it was the audit and the discovery of fraud that finally lit a fire under city leaders, Mr. Lynch and other city workers said. After the discovery, city leaders had the political will to support the eight-point plan.

"Absolutely, it was a factor in selling the package as a whole," said Carol Williams, assistant chief of the Los Angeles City Workers' Compensation Division.

As part of the plan, the city is outsourcing handling workers comp claims from the police and fire departments to Associated Claims Management of Walnut Creek, Calif., and Hertz Claim Management of Park Ridge, N.J.

Those claims account for about half of the 30,000 outstanding medical and indemnity claims.

Using TPAs for those claims will free the city's staff to concentrate on the remainder. And, the city has begun to hire 20 employees in the workers comp division, including adjudicators.

But, closing older claims is not the only objective. The city has adopted measures similar to those in use in the private sector. A return-to-work program is being crafted by Johnson & Higgins, Ms. Williams said. Managers will be held responsible for claims in their departments, and they will be trained to help detect and defend against those without merit. Workplace safety procedures will be developed and standardized for all departments.

"For many years, it's just been a case of doing business as usual, and the budget kept going up and up. Everyone just said, 'We have to pay,' " she said. "And we don't have to pay."

INTERNATIONAL

Parliament completes pension reform bill

U.K. legislation restricts employers' control over plans, but critics claim worker protections don't go far enough

By JOEL CHERNOFF

Crain News Service

LONDON—The U.K. pensions bill, sparked by the late Robert Maxwell's plundering of his companies' pension funds, takes some control away from employers as it tries to increase the security of participants' assets.

Parliament has put the final touches on the long-awaited legislation, which was expected to receive Royal Assent—the equivalent of signing into law—last week.

The pension legislation establishes new protections for workers. It creates a pension regulatory authority, establishes minimum funding rules, expands the role of trustees and forms a compensation plan for pension funds subject to embezzlement or fraud at companies that fail.

But the legislation takes away some control from employers, both over investment decisions and pension surpluses.

One area of concern for employers is that the law sets the priorities for disposing of the assets of a wound up pension plan, explained Chris Lewin, head of group pensions for Guinness P.L.C. of Edinburgh, Scotland. Currently, the plan itself sets the priorities.

"For example," explained Mr. Lewin, "pension increases are much lower down the statutory list than they are in a number of schemes at present." This means that pensioners will now have a lower degree of security about their future standards of living.

Overall, said Mr. Lewin, although the act is an attempt to improve the security of pension fund members, some aspects of the legislation are unnecessary and others are positively detrimental. "It has been poorly focused on the wrong things," he said, adding that the government should have looked at the simpler issues which had been brought to light by the Maxwell case.

The legislation also creates administrative problems for companies that have opted out of the state earnings-related pension program at the government's encouragement, only now to find they violate European Union sex discrimination rules (see related story, page 19).

What's more, the law fails to include several key reforms sought by various pension experts, including independent custody of pension assets and a "discontinuance fund" to pay claims of plans that are wound up and found to have insufficient assets.

Lastly, the regulator will not be the pro-active type of policeman envisioned by the Goode Committee in its 1993 report recommending pension reforms (*BI*, Oct. 11, 1993). Instead, the Occupational Pensions Regulatory Authority will rely heavily on whistle-blowing by plan advisers and participants.

"We were very keen that the bill should contain a provision which requires the assets of pension schemes to be held by an independent custodian which is regulated," said Tom Ross, chairman of the National Assn. of Pension Funds in London. Although nothing will prevent a theft if the thief is determined enough, a custodian would detect activities such as Maxwell's much earlier and would make theft of pension funds a lot more difficult. "We were disappointed in the government's reaction in dropping that provision," added Mr. Ross.

Andrew Miller, a Labour MP, echoed, "My great regret is that I do not believe that the bill will stop another potential Maxwell. It puts obstacles in the way of such a person, but I do not believe that it would stop someone determined to bypass fairness and equity and to manipulate people's pension funds improperly."

In one piece of good news for employers, however, government officials promised the pension regulatory authority will be able to ease funding rules for companies that encounter tight fiscal constraints or whose industries face a funding problem, including if a market crash causes plans to become underfunded.

Even significant reforms in the new law may not be as sweeping as members of the public believe.

"It is not generally understood, for example, that the new compensation scheme only kicks in under limited circumstances. It would not have been triggered, for example, by the Maxwell case" since the Mirror Group was not insolvent, explained Richard Malone, European policy director for Sedgwick Noble Lowndes Ltd. in Croydon, England.

Several conditions have to be met before the act will be triggered, among them: the pension plans must have been set up under a trust; the employer has to be insolvent; and the value of the assets must have been reduced by an illegal act such as theft or fraud.

But the law also contains what Andrew Scrimshaw, pensions research manager for Sedgwick Noble Lowndes, a "catchall clause." Under this clause, he said, compensation will be paid only where it "is reasonable (under all the) circumstances that the board makes a payment."

This, he said, would limit rather than expand the conditions for payment.

Also, pension plans still might

See **Pension** *on page 19*

Italy passes pension reforms

By MARIA KIELMAS

ROME—Italy is creating its first private pension system following a successful all-out push by the Italian government to reform the public pension system.

Italy's Parliament approved the reform legislation earlier this month.

The reforms encourage the development of private pension funds, first authorized in 1993, as an alternative to state-provided pensions. The purpose of the reform, which has been under way since 1992, is to reduce government expenditures on pensions.

Italy's public debt is 126.4% of its gross domestic product and the cost of state-provided pensions totaled 13.5% of GDP, according to the Cofindustria, a powerful Italian business lobbying group.

Businesses backed the pension reform measure in large part because they think it will reduce the public debt and, thus, lower interest rates.

"As soon as private pension funds take off, this will limit the public expenditure," says Michael Hutton, European equities analyst at Barclays de Zoete Wedd in London. But he does not believe there will be a rapid growth of private pension funds until the government provides some tax incentives for individuals to defer larger amounts to the funds.

Italian insurers appear interested in selling pension products, but demand for them is expected to remain low in a nation long accustomed to generous state pensions.

"We estimate that in 15 years' time there may be 400 trillion lire ($248 billion) in private pension funds. That's not a massive amount" in 2010, Mr. Hutton said.

Under the reforms, the principal source of pension funds is still the severance pay provision, or *tratamento fine de rapporto*. The TFR is the sum of contributions made by the employee amounting to between 4% and 10% of gross pay into a fund that is held by the employer. The TFR is augmented by the so-called *liquidazione*, a fund to which both the employer and employee contribute small amounts depending on the worker's age and length of service. The employer's contributions are mandatory.

When the employee leaves the company, the employer transfers the accumulated contributions of the TFR and *liquidazione* in a lump sum to the National Social Security Institute, which in turn pays pension benefits to the employee.

The reform law creates new voluntary private funds.

Employees who switch jobs can now transfer their entire TFR and *liquidazione* contribution into these funds, which will be augmented by voluntary annual contributions of 2% of gross pay by the employee and the employer.

Employees who stay at their current jobs can contribute to the new private pension fund by paying 2% of their TFR plus the 2% employer and employee contributions. Eventually employees will be able to contribute a larger percentage of the TFR.

However, contributions to private individual pensions will only be tax-free up to 2.5 million lire ($1,500) for individual pensions, while there will be no limits on the amount of payments into private group pension plans that are tax-free.

At present, the Italian state pays a pension to all individuals who have worked for 35 years that is equal to 73% of gross pay. As part of the reforms, the minimum working period will be increased to 40 years, after which the retiree will receive 73% of his last salary. Employees can opt to retire after 35 years, but they will only receive 55% of salary.

The pension reform is seen as a first step to shift people from the state-run system, which has been cut back in recent years, to a wholly private system. How many employees will take advantage of the new system is unknown.

The transition to the 40-year compulsory working period will begin in 1996-1997—when the state will begin to pay retirees 55% instead of the 73% salary payout as a pension for those working for 35 years—and end in the year 2008, after which a worker will have to work for 40 years to qualify for a state pension.

However, employees with the private pension will have access to the TFR and other contributions when they retire.

State pension costs—and thus public debt—as a percentage of GDP should begin to fall after 1996, Mr. Hutton said.

The new law did not come easily. At one point, Prime Minister Lamberto Dini threatened to resign if the Parliament held up the pension reforms any longer.

The transition to offering private pensions after having a state pension system is always a tricky matter since people are not too eager to contribute to the new funds, explained Mr. Hutton. "You can't create the money. Either the government must tax less or the people must contribute more."

There is also a political problem in changing a state system when the aim is to reduce government deficits.

"The government is reneging on the promises it made to people about to retire," Mr. Hutton said. He believes that is why many governments have not tackled the problem of pensions and state deficits until the problem became acute. "Your back really has to be against the wall," he said.

Despite quake, Munich Re gains

World's top reinsurer says it turned first underwriting profit in 10 years

By DON LEWIS KIRK

MUNICH, Germany—For the first time in more than 10 years, Munich Reinsurance Co. will report an annual underwriting profit for the fiscal year ending June 30.

And despite the devastating 1995 earthquake in Kobe, Japan, the world's largest reinsurer says profits for its fiscal year, which ended June 30, will increase.

Munich Re released some figures for the fiscal year last week; full results will not be released until later this year.

In a letter to shareholders, Munich Re attributes its underwriting turnaround to a "profit-oriented policy," which has limited the underwriting of some coverages, altered reinsurance conditions and even forced cancellation of some policies.

Also contributing to the improved underwriting figures were fewer German auto insurance claims and advances in "nearly all branches" of foreign business.

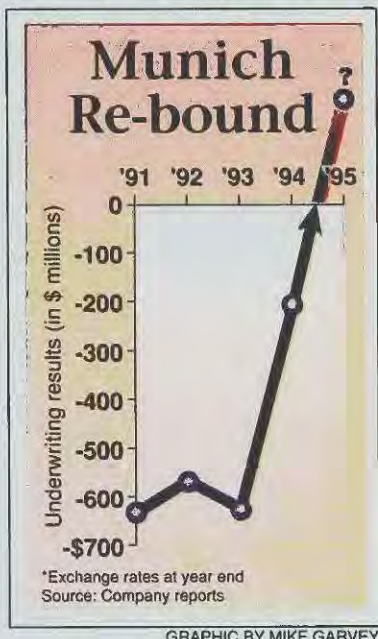
While earnings from capital investments fell off slightly, overall profits and premium volume will rise for the year ended June 30.

Gross premiums at Munich Re edged up 0.7% to 18.3 billion DM ($13.24 billion) for the year ended June 30 from 18.16 billion DM ($11.47 billion) a year earlier. One factor limiting growth was the strength of the deutsche mark.

Net income figures are not yet available.

Gross premium for Munich Re and its related companies rose 1% to 29 billion DM ($20.98 billion) for the recently ended year from 28.7 billion DM ($18.09 billion) in the prior underwriting year.

The reinsurer's Kobe losses are not expected to exceed 300 million DM ($217.1 million). Kobe losses were initially estimated at 200 million DM but now appear to be less than 150 million DM.



GRAPHIC BY MIKE GARVEY

Munich Re's property/casualty reinsurance includes: fire reinsurance, with 3.3 billion DM ($2.39 billion) in the recently completed fiscal year, compared to 3.8 million DM ($2.40 billion) a year earlier, auto reinsurance at 3.3 billion DM ($2.39 billion), unchanged from last year; and liability reinsurance, which increased in 1995 from 1.63 billion DM ($1.18 billion) in the prior year. Life reinsurance gross premiums totaled 3.9 billion DM ($2.82 billion), compared with 3.7 billion DM ($2.33 billion) last year.

Munich Re also writes aviation, marine, accident, hail and other lines of reinsurance.

See **Munich** *on page 20*

The Professional Marketplace

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HELP WANTED

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LEGAL NOTICE

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 July 13, 1995 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 parties; (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 25, 1995 at 10 o'clock a.m. before the Honorable Stuart M. Bernstein. 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
30 Rockefeller Plaza
New York, New York 10112
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.

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HELP WANTED

RISK MANAGER
for the
OREGON HEALTH SCIENCES UNIVERSITY

OHSU is a rapidly-expanding clinical and research university. It is Oregon's only academic health sciences center and as such has a statewide mission to provide education, research, patient services and outreach in the health professions. OHSU has 6,700 employees and an annual budget of $463 million and a 364 bed teaching hospital. Currently most substantive risk management functions are provided by the State of Oregon's Division of Risk Management. These functions will be transferred to OHSU through legislative action that restructures OHSU into a public corporation.

The successful candidate will have experience in setting up a risk management program to include:

- transitioning from a parent risk management program;
- establishing and managing the financial aspects for a self-insurance program;
- procuring insurance or excess insurance to cover environmental, property and liability risks;
- integrating risk policy and procedures;
- facilitating property and liability loss prevention;

and can demonstrate the ability to coordinate with a variety of services and programs including:

- workers' compensation loss management;
- safety program;
- property and liability claims in-house or through a third party administration;
- quality management department.

The successful candidate must have a proven ability to work with fellow workers in a collegial and constructive manner.

Candidates must have considerable experience in setting up and managing a risk management program, which preferably includes medical professional liability risk for an operation the size of OHSU. Excellent written and verbal communication skills are required. The ideal candidate would have the following credentials:

- A Chartered Property and Casualty Underwriter designation (CPCU)
- An academic degree in business administration

OHSU recognizes that there may be superior candidates who lack these designations. Position open until filled. Interested applicants should send their resume, cover letter and salary requirements to:

Chair, Risk Management Search Committee, L101
Oregon Health Sciences University
3181 SW Sam Jackson Park Road
Portland, Oregon 97201
(503) 494-8224

HELP WANTED

HELP WANTED

Manager, Regional Environmental Claims

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Vice Presidents, Directors, Managers, and other related department personnel of: insurance, risk, employee benefits, personnel, compensation, pension, safety, security, industrial relations, human resources and employee/labor relations 15,529

Sub-total **30,801**
Associations 343
Government, Unions and Educational Institutions 950

Commercial Consumers
Sub-total **31,294**
Insurance Agents and Brokers 8,285
Insurance Companies 7,587
Accountants, Actuaries, Attorneys & Consultants 3,563
Adjusters, Appraisers, TPA's, Captive Managers & Health Care Providers 1,344
Others Allied to the Field 1,028

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Non-qualified 74
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★ *Source Business/Occupational breakdown of qualified circulation, November 28, 1994 Issue, as submitted to BPA for December 1994 BPA Publisher's Statement*

INTERNATIONAL

Pension

Continued from page 17

be terminated with less than full funding, leading to reduced benefits for participants. The overall problem had been to design legislation that would protect benefits of participants while not making them so cumbersome that employers would shut down their plans, Mr. Malone explained.

The trade-off has been the level of protection offered to plan participants, who have worried about the security of their plans since Robert Maxwell took some £450 million ($840 million) in Maxwell company pension assets before he died (*BI*, Dec. 16, 1991).

One glaring weakness in the law was the watering down of the role of the regulatory authority. Bowing to fears of a powerful and costly regulator, the government decided the regulator would not routinely inspect pension plans but instead rely on tips from actuaries, accountants, trustees and others. A new burden will be placed on plan advisers to alert the regulator of potential misdeeds.

"The government did strip (the pension bill) of its teeth and set up a very low-key and very reactive regulatory authority," said Tony Thurnham, a partner with the law firm of Linklaters & Paines in London.

Another problem has been the lack of an external custody requirement, which NAPF officials have argued could help avoid another Maxwell situation. But government officials could not be persuaded that the benefits of requiring external custody outweighed the costs. A dilemma over who would regulate custodians also hamstrung efforts to impose a custody requirement.

Upsetting some employers is a provision that shifts the balance of power in making investment decisions almost entirely to trustees, giving employers only a right to consult on investment decisions.

The expected reduction in employer control over plan assets and potential increases in pension costs may push companies toward defined contribution plans.

Under the legislation, trustees will have to consider the impact on beneficiaries in allocating surplus assets. In the past, companies and participants often have split surpluses. The legislation may encourage companies to reduce generous levels of pension funding—though overfunding has been declining from a combination of fewer contributions, tax law changes and poor dividend growth in 1992 and 1993.

In addition, the bill clearly hands over investment responsibility to trustees, saying the employer has the right only to be consulted. With the employer on the hook for any potential liabilities, this makes more than a few finance directors nervous.

Still, the pension law—combined with demographic shifts, a more mobile population and international competitive threats—may conspire to move the U.K. pension world toward defined contribution benefit plans, some experts believe.

Some major U.K. companies are exploring whether to make a shift, while others are said to be installing defined contribution plans for new employees, sealing off entrance into their defined benefit plans.

•

Edwin Unsworth and Sarah Goddard contributed to this story.

U.K. pension law mixes good, bad

Administrative burden remains

By JOEL CHERNOFF and EDWIN UNSWORTH

Crain News Service

LONDON—Employers will find both good and bad news in the new U.K. pension law.

The good news is that government officials said the new pension regulator will have authority to extend the time employers will be given to meet new minimum funding requirements. Employers might receive two years to get funding up to 90%—up from one year under the law—and eight years to reach full funding, up from five years, according to government guidelines now being floated.

The bad news is that government officials failed to resolve a huge headache for employers that have contracted out of the state earnings-related pension program.

Such employers face conflicting regulatory requirements under the European Union's requirements that pensions not discriminate on the basis of gender.

Employers now face a complex dilemma between complying with E.U. rules and the U.K. pension law.

During the last stages of debate on the pension legislation, then-Minister for Social Security William Hague told the House of Commons that the new regulator would be able to extend funding rules under certain circumstances, either for individual companies or on a broader scale.

Easing the funding rules has been a critical issue. Under an earlier legislative blueprint, employers would have received only 90 days to restore a plan to 90% funding and up to three years to return it to full funding.

Plan managers complained that the original limits could have posed a threat to the solvency of some companies if they were required to rapidly inject money to bring funding levels up to the required levels of 90% or 100% (*BI*, Dec. 26, 1994).

Faced with considerable industry pressure, the government in December extended those time periods to one year and five years, respectively. But some industry forces—notably the Confederation of British Industry—lobbied for further change.

While government officials long have said the regulator would have power to ease funding requirements, the government already is floating guidelines that would extend those periods to two years to reach 90% funding and eight years to attain 100% funding.

Mr. Hague said the regulator would consider individual extensions as well, where plans are properly administered. He said the regulator would look at the influence of benefit increases and pay rises and the probability of the plan recovering. A long-term funding commitment from the employer could be involved.

The regulator also would have the power to relax funding requirements if particular types of plans are adversely affected by the new rules, Mr. Hague said.

Industry officials welcomed the relaxation. Tom Ross, chairman of the National Assn. of Pension Funds in London, wrote in the Financial Times that the proposed extensions are "a sensible compromise between protecting the employer who provides financial backing for the scheme and providing security for members."

But observers sharply criticized the government for failing to resolve a major headache for employers that have contracted out of SERPS.

The state-run SERPS provides supplementary pension benefits, but employers receive a rebate of contributions if they opt out of the plan. The government has been encouraging employers to leave the program as long as they provide benefits at least as generous as the state plan.

The dilemma that occurs under the pension law is complex: The European Court of Justice's *Barber* ruling said employer-run pension plan must not discriminate on the basis of sex from May 17, 1990 (*BI*, Oct. 10, 1994). The ruling does not affect state plans.

But employers that opt out of SERPS, which uses different retirement ages and accrual rates for men and women, must offer a guaranteed minimum pension that reflects the state's discriminatory benefits.

For the future, this will not be a problem because the law will end the guaranteed minimum pension in April 1997. But contracted-out employers now are caught between the U.K.'s and the European Union's conflicting rules for the seven-year window from May 1990 until April 1997.

Despite an industry effort to offer two different solutions, the government rejected these proposals, apparently because there might be a potential decrease in benefits for a small number of individuals.

"It is hard to see the decision as anything other than a political one," said Alan Jenkinson, policy director for Sedgwick Noble Lowndes Ltd. in Croydon, England, in a statement.

The government, "through ill-considered and retroactive changes to the terms of contracting out made in 1990," is responsible for the mess, he added.

Now, without further E.U. guidance, employers face the prospect of upgrading benefits to the higher level offered to similarly situated men and women.

The situation is "an absolute administrative nightmare," said Hilary Langley, the Reisgate, England-based manager of the pension technical unit at Watson Wyatt Worldwide. Employers will have to equalize benefits at age 60 and then every year until 65, she explained.

Dealing with past-service accruals could last for decades, experts said.

INTERNATIONAL

Barings report leaves murky issues

Investigators fail to determine if Leeson committed fraud

By SARAH GODDARD

LONDON—Uncertainty remains in the London insurance market over who will pay what claims for the collapse of investment bank Barings P.L.C. earlier this year, despite last week's publication of a damning report on the debacle.

The U.K. House of Commons Board of Banking Supervision slammed Barings, its auditors and the Bank of England—the U.K. banking regulator—in its 337-page report. The report has already led to the resignation of Bank of England regulator Christopher Thompson, senior manager-merchant banks, major U.K. banks supervision, who was responsible for overseeing the conduct of Barings.

Nick Leeson, the alleged rogue trader who gambled on Far Eastern futures markets and ultimately brought down —with debts of £830 million ($1.32 billion)—one of the most respected banks in the City of London, refused to give any evidence to the inquiry team unless he was assured that he would be tried for his alleged crimes in the United Kingdom.

Barings' assets were sold for a nominal sum to Dutch banking and insurance group Internationale Nederlanden Groep N.V. (*BI*, March 13; March 6).

Mr. Leeson was operating out of Singapore when he allegedly carried out the unauthorized trades which proved to be Barings' downfall.

He is currently in prison in Germany fighting extradition to Singapore.

Until Mr. Leeson's version of the story has been heard, insurance executives say they cannot be sure whether his trading was fraudulent.

Fraudulent actions could trigger bankers blanket bond coverage.

Alec Sharp, underwriter for Lloyd's of London syndicate 839, managed by Tower Managing Agents Ltd., which leads the bankers blanket bond and professional indemnity cover for Barings Securities Ltd., was confident the coverage would not be triggered. "The only way the insurance could be triggered is if Leeson took the money himself," said Mr. Sharp.

He added that if Mr. Leeson were found guilty of fraud in Singapore courts, this still wouldn't necessarily trigger the policy. Singapore's definition of fraud is much wider than the United Kingdom's. He could be found guilty of unauthorized trading in Singapore, which is necessarily not a fraudulent offense in the United Kingdom, where the policy is placed.

Confidentiality clauses in the insurance policies prevented insurance sources from revealing the policy limits and other details.

The board's report, though highly critical of Mr. Leeson's alleged "catastrophic activities," admits that it currently has no evidence to "determine what the motives were for Leeson's activities."

Heavy criticism is heaped on the executives of Barings in both the London and Far Eastern operations in last week's report. "We have concluded that the system of checks and balances necessary for the proper management and control of a financial institution failed in the case of Barings with regard to Baring Futures (Singapore) Pte. Ltd. in a most serious way, at a number of levels and in more than one location," the report says.

Accounting firm Coopers & Lybrand failed to fully check that various payment controls were adequate in the London operation, the report added. But the inquiry could not assess the Singapore audit because it was not allowed access to any documentation in Singapore. Neither did it benefit from the cooperation of the Singapore financial regulators.

Minet Global Professional Services, Coopers & Lybrand's broker, refused to comment on the situation.

Liability underwriter Ian West of Lloyd's syndicate 702, managed by Octavian Syndicate Management Ltd., said it was difficult to assess whether there would be any claims on professional liability policies against either the bank or the accountants.

"These policies are tailored to the individual insured," Mr. West said.

"They vary widely not just between insureds but between insurers as well," he said.

There was a possibility, he said, that like some other family-run organizations, Barings had not purchased directors and officers insurance.

And even if the company had, the policy conditions may prevent a claim from being made. "There are often (exclusions) for exposures which fall under fraud or dishonesty," said Mr. West. These would stop claims being made if the Barings' executives had been deliberately dishonest.

The auditor's errors and omissions coverage might be triggered by a lawsuit, said Mr. West. This could be brought by the shareholders and loan note holders—individuals who have supplied capital to the bank in exchange for promissory deeds—who have suffered serious loss. BI

Munich

Continued from page 17

Foreign premium volume dropped, primarily due to Munich Re's new restrictive underwriting policy. By reducing coverage, Munich Re was able to improve profits, particularly in fire reinsurance. In many countries, fire policies cover natural catastrophes, so reducing fire coverage reduced Munich Re's catastrophe exposures.

Munich Re says an "unsatisfactory" situation in the U.S. liability market also continues to burden results. However, policy changes "markedly" improved results in that sector as well.

"Calculating rates without direct insurers when necessary has proven to be the right step," the letter concludes. "Rates can no longer be gauged on the past claims experience alone but must also look to the future and consider claims potential."

Munich Re sees the international reinsurance market as thinning out. "The vast majority of reinsurance coverage is in the hands of a few insurers," says a spokesman.

"A consolidation process in reinsurance is a normal development considering the rising loss potential. This process is triggered by efforts of competitors to offer a strong and high standard of professional risk assessment. Munich Re sees itself in a good position to stand the test." BI

Oregon

Continued from page 3

ignored for a few years."

For the first time in 40 years, Republicans control both state houses, and self-insured companies and some risk managers took advantage of what is seen as a more business-friendly government.

Oregon Self Insurers Assn. members presented key legislators with 14 workers comp issues that the group wanted addressed in the latest session, said Cathy Meyers, the association's past president and pulp and paper products company James River Corp.'s western region supervisor for workers compensation.

The lawmakers listened.

"It was just an all-around outstanding session for business," said Gary Carlson, executive vp in Salem, Ore., for Associated Oregon Industries, a business lobbying group. "We got 90% to 95% of what we wanted."

Oregon employers already were benefiting from an extensive 1990 workers comp reform law (*BI*, May 28, 1990).

Workers comp costs decreased 36% from 1990 to 1995, saving the state's employers $1.3 billion in direct costs, according to the Department of Consumer and Business Services.

Contested workers comp claims, workplace fatalities and the number of lost workday cases all fell. Workers comp rates dropped to 32nd-highest in the nation from sixth in 1986.

But until recently, employers were eying nervously several court decisions that they feared would erode the 1990 reforms.

For example, in a 1994 decision, *Errand vs. Cascade Steel Rolling Mills Inc.*, the Supreme Court ruled that a worker could file a civil claim if an injury was not compensable under the workers comp system. The decision threatened the state's exclusive remedy provision.

The worker involved in that case had pre-existing chronic sinusitis and was predisposed to developing upper respiratory tract irritations. The worker filed a workers comp claim, contending that exposure to workplace substances worsened his condition. A referee found work exposure was not the major cause, and the Workers' Compensation Board agreed the condition was not compensable.

The worker later filed a negligence lawsuit, claiming the company allowed him to be exposed to particulates. A trial court granted Cascade's motion for summary judgment and the appellate court affirmed. The two courts found the employer was protected by the exclusive remedy provision. But the Oregon Supreme Court found the exclusive remedy did not apply because the worker did not have a compensable injury.

In a 1993 case, *Stone vs. Whittier Wood Products*, a state appeals court allowed compensation for temporary partial disability to be paid on the basis of the worker's theoretical earning power at any kind of work, rather than on the worker's actual job earnings at the time of injury.

Legislators, however, passed S.B. 369, which the governor signed June 7. Among other things, the broad law reverses the *Errand* decision by making the exclusive remedy doctrine no longer dependent on the compensability of the claim.

"(The *Errand* case) really pulled the legs out from under the exclusive remedy provision," said Linda Jefferson, workers comp manager for the City of Portland's risk management department. "We felt like we put some teeth back into it with S.B. 369."

Among other things, the law:

- Allows insurers or self-insured companies to require that an injured worker immediately seek treatment from a managed care physician if the insurer first agrees to pay for the service, even if the injury is later determined non-compensable under workers comp.

"This definitely is a rather big piece allowing us to direct their care from the inception of a claim," Ms. Jefferson said.

- Clarifies the relationship between compensable injuries and pre-existing conditions. For example, disability and treatment of pre-existing conditions are not compensable unless the pre-existing condition is worsened by the work injury or exposure.
- Addresses the *Stone* case by requiring benefits to be based on a comparison of the worker's potential wages and the worker's wage at the time of the injury. It basically defines potential wages as unemployment compensation, wages actually earned or that which reasonably could have been earned.

"It certainly has improved the work comp climate for employers and hopefully for the employee as well," said Herb Plep, assistant treasurer and risk manager for steel alloy casting manufacturer ESCO Corp. in Portland.

But as employers digest the changes, some may be surprised by the number of concessions given to workers, according to Lisa Trussell, director of risk management for Associated Oregon Industries and co-chair of the state's Management Labor Advisory Committee on workers compensation.

"The benefit increases (for workers) are very substantial," she said. "These are not minor at all."

Among other worker advantages, the bill—for the first time in the state's history—increases scheduled and unscheduled award levels so they meet or exceed the national median. Survivor benefits also were increased retroactively for claims dating back to 1985.

It is estimated that the increase in benefits will cost about $25 million, Ms. Trussell said "Of course the costs will be borne by employers."

But overall, Ms. Trussell views the new legislation as balanced. Labor was due its share of the rewards from decreasing costs in workers comp expenses, she said.

Ms. Meyers of the Oregon Self

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Oregon

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Insurers Assn. said she is pleased with the new workers comp law. However, as an observer of workers comp regulations in several states, she and others see Oregon as a heavily regulated state with complex administration requirements.

Ms. Meyers notes that the technical language of S.B. 369 will make the law complicated to administer. And although the bill contains language employers like, adversaries eventually will find its weaknesses.

"It will still offer some opportunities for creative plaintiffs' attorneys that we have never dreamed of," she said. "It's like sitting on a water bed. You sit on one spot and another bulges up."

Oregon's legislators also adopted several tort reform measures, which were backed by risk managers.

S.B. 385, signed by Gov. Kitzhaber last week, institutes a modified "loser pays" system, allowing courts to award prevailing-party fees. Courts also can impose sanctions for "bad faith" actions when there is no legal basis to support a claim.

Another law, S.B. 482, replaces joint and several liability for defendants in civil cases with proportional liability.

Legislators also directed that 60% of damages awarded are to be paid to the Victims' Compensation Fund of the State of Oregon. No more than 40% of the damages are to be paid to the plaintiff and no more than 20% of the full award shall be paid to the plaintiff's attorney.

"They look great to us," said Joe Gilliam, Oregon state director for the National Federation of Independent Businesses. "They don't go near as far as they need to, but they do improve the system. And they will have a positive effect on liability insurance (premiums)."

Ross Dwinell, risk manager for United Grocers Inc. in Portland, Ore., lobbied on behalf of the punitive damages measure. He said it is difficult to predict how the measure will affect insurance in a state where it already is competitively priced. However, the law will inject stability and predictability into business operations.

Under the family leave umbrella, legislators condensed existing parental, family and pregnancy leave laws into one statute which was recently signed by the governor. The law tracks much more closely to the federal law, making compliance easier for employers with 50 or more employees, according to analysts for Associated Oregon Industries.

And a "Recycled Lands Act" passed by the Legislature would completely revise Oregon's Superfund law by lowering standards for site remediation. It also would release a property buyer from potential liability for existing contamination in exchange for a commitment to clean up the site and to redevelop the property. The governor is expected to sign the measure, H.B. 3352.

Lawmakers also expressed their feelings about an existing mandate requiring employers to provide health coverage. Oregon was a lead state on this issue. But mandatory employer-sponsored health care already was set to die before implementation because an ERISA waiver was not likely by the Jan. 1 deadline.

Additionally, Gov. Kitzhaber has said that he will veto the new bill. But the legislative action is the kind of message Oregon's business leaders like.

As Mr. Gilliam observed, "It sends a message that Oregon is shifting from an anti-business mentality to a pro-business and pro-enterprise state." BI

Heat

Continued from page 1

been staggering. The heat was one of the deadliest catastrophes ever in Chicago, accounting for 456 deaths and the toll is still rising.

On the Delmarva peninsula—so-called because it consists of southern Delaware, eastern Maryland, and eastern Virginia—3.7 million chickens were lost between July 14 and 17, said Bill Satterfield, executive director of the Georgetown, Del.-based Delmarva Poultry Industry Inc.

It is difficult to estimate the dollar value of the losses because "birds died at different ages and older ones have more value because more money has been put into them," according to Mr. Satterfield.

Neither the big poultry companies that owned the birds nor the individual growers who raised them for a fee are very likely to have bought any insurance for the losses, said Mr. Satterfield.

Ronald Fisher, risk manager for Perdue Farms Inc. of Salisbury, Md., confirmed that the losses would be mostly self-insured, but declined further details.

Big poultry companies that were not directly in the path of the record-breaking heat wave fared much better.

"Seeing as we did not get hit by the heat so much, it is pretty much business as usual," said Carl Johnson, risk manager of Tyson Food Inc. in Springdale, Ark., who would not say whether the company was insured for that type of loss.

The cattle industry was also hit hard by the heat wave, which made its way from the Midwestern farm states through the East Coast.

"The death loss was high in the Corn Belt region, meaning Nebraska, Iowa, Illinois and southern Minnesota, where the heat wave really hit," said Troy Marshall, a market analyst for the Denver-based Cattle-Fax Co.

Mr. Marshall initially estimated a loss of about 6,500 cattle, but said those numbers will likely increase. Cattle owners, which lost animals, and feed companies, which saw demand for feed decline, both were hit by the heat and are both largely uninsured, said Angelo Fili, executive vp of the Omaha, Neb.-based Greater Omaha Packing Co. Like other packing companies, Greater Omaha Packing had no direct losses from the heat.

UFG

Continued from page 1

erage Corp., which was the 50th largest broker of U.S. business in 1993, UFG has a long history of disputes with regulators and clients and has recently struggled against mounting financial woes as it sought to shift from private to public ownership.

Originally formed as a unit of financial conglomerate Integrated Resources Inc., B.R.I. worked with John V. Goepfert—later jailed on insurance fraud charges—to generate business for Resources Insurance Co., another unit of Integrated Resources Inc. that collapsed in 1975.

B.R.I. agreed in 1985 to pay $450,000 to settle charges brought by the New York Insurance Department as Resources liquidator. It also paid an additional $125,000 settlement to the department.

Through the late 1970s and the 1980s, B.R.I. was privately held by several of its top managers.

In 1992, though, the firm completed a reverse acquisition of a publicly traded oil and gas company, Chippewa Resources Corp. Renamed Underwriters Financial Group, the company divested its oil and gas assets and continued the brokerage business of B.R.I. with the former B.R.I. partners as top officers and major shareholders.

These included Mr. Ferrarini; Bruno Rumignani, executive vp; Howard Miller, senior vp; and Mr. Matfus.

The road for UFG hasn't been smooth.

An amended 10-K filing for 1992 reported that the company faced a "liquidity crisis" because of acquisition-related debt, reported shareholders equity of negative $8.6 million and said the AMEX could delist UFG's stock for failing to meet exchange financial guidelines (*BI*, Sept. 27, 1993).

UFG also said it planned to raise capital using $35 million in "guarantees" purportedly backed by the rights of Marshall Islands landowners to payments from the U.S. government for the use of their South Pacific atoll as a military base. The company later gave up on this plan.

After reporting a dramatic rise in net income and narrowing of its shareholders equity deficit in 1993, UFG discovered errors in its accounting for certain transactions that led it to restate its 1993 results earlier this year. Instead of net income of $2.7 million, it reported a loss of $1.4 million; instead of an equity deficit of $2.4 million, it reported a deficit of $6.9 million.

The brokerage fired its Denver-based auditor in December, and in February hired new Washington-based accountants. The change in auditors and other problems, however, caused UFG to miss the April filing deadline for its 1994 10-K. That led AMEX to halt trading of UFG shares on April 12 (*BI*, May 8). The trading suspension remains in effect.

UFG filed its 1994 10-K in mid-May and a few days later filed its first quarter 10-Q.

While the 1994 filing showed improvement in some areas, the picture in the first quarter was less encouraging.

UFG reported total first-quarter revenues of $3.1 million, down 7.2% from $3.3 million in 1994, and a net first-quarter loss of $388,446 compared with net income of $347,770 last year.

The company's equity deficit expanded to $3.2 million as of March 31 from $2.8 million at the end of 1994, and its cash balances, which stood at $1.2 million at the end of the year, were down to zero by March 31.

UFG reported that it wasn't able to obtain financing to relieve the cash crisis during the first quarter. The firm was considering "alternative arrangements," including sale of certain assets or operations, but "no formal agreements or serious negotiations" were in the works, according to the first-quarter filing.

Like several other filings UFG has made since 1992, the first-quarter report expresses doubts about the broker's ability to survive as a going concern.

While it has struggled with its liquidity troubles, UFG has moved to cut expenses, including slashing staff. From 207 employees at year-end 1991, the firm was down to 78 as of May 15, according to its SEC filings.

In May 1994, it also moved out of its previous downtown Manhattan offices to cheaper space nearby, where it had a one-year lease that expired in May and where it has since been renting month-to-month, according to the first-quarter filing.

The move caused its former landlord, however, to sue UFG for breaching its non-cancelable lease; the suit seeks $1.4 million in unpaid rent and other damages, and UFG continues to accrue liabilities of $900,000 a year for the next five years for rent on the previous offices, the filing says.

Other court filings allege that UFG has failed to pay meet a variety of its obligations.

American Home Assurance Co., a unit of American International Group Inc., sued UFG in a New York state court last Thursday for bouncing a $248,506 premium check covering one of its clients, Victaulic Co. of America of Easton, Pa.

Last year Jerome Leitner, UFG's longtime lawyer, sued the brokerage for more than $1 million in unpaid legal fees.

Mr. Leitner has since sought to withdraw as counsel for UFG in at least one lawsuit; filed against the firm by several Lloyd's of London syndicates, according to another lawyer involved in the case.

Mr. Leitner—who also represents the estate of Mr. Matfus—could not be reached.

UFG's problems have accelerated in recent weeks.

On Saturday, May 27, Mr. Matfus was let into UFG's building by a security guard and jumped to his death. The city's medical examiner has ruled the death a suicide, according to a New York Police Department official.

He was alone in the office at the time and left no note, according to the official, who also said that Mr. Matfus, 68, had been battling cancer.

Since UFG's last SEC filing, Mr. Rumignani and Mr. Miller have also quit, leaving only Mr. Ferrarini from the top management group.

The firm's board of directors formerly comprised Mssrs. Ferrarini, Rumignani, Matfus and Miller, along with two outside directors.

As of May 15, Messrs. Ferrarini, Matfus and Miller each owned 8.3% of UFG's 10.2 million outstanding common shares, and Mr. Rumignani owned 5.6%.

Mr. Rumignani and Mr. Miller both declined to discuss UFG, referring questions to lawyers who could not be reached.

While UFG has struggled with its liquidity troubles, it has moved to cut expenses. From 207 employees at year-end 1991, the firm was down to 78 as of May 15.

As UFG was losing much of its top management, it was also confronted with charges that management had concocted a scheme to defraud a premium finance company by pocketing loans UFG obtained in the names of clients.

CPF Premium Funding Inc. of Lake Success, N.Y., last month filed a civil racketeering suit in federal court in Manhattan naming UFG and Messrs. Ferrarini, Rumignani, Miller and the estate of Mr. Matfus.

The complaint charges that between August 1994 and May 1995, the four UFG officials forged clients' signatures on CPF premium finance agreements and on documents authorizing UFG to receive the proceeds of the loans on clients' behalf.

In these cases, UFG's clients never actually sought financing, and UFG kept the proceeds of the loans to cover its own operating expenses and debts, CPF charges.

In other cases, UFG falsely told clients that their CPF agreements had been canceled and arranged financing with another company, Imperial Premium Finance Inc. UFG then misappropriated the proceeds of the CPF loans, the suit alleges.

The complaint lists 31 UFG clients in whose names the broker received a total of $5 million in loans. The largest of these was Del Laboratories Inc., a Farmingdale, N.Y., cosmetics company, for which UFG obtained a $1.1 million loan; others included trucking companies, demolition contractors and restaurant managers, many based in the New York area.

Del Labs' risk manager declined to comment.

One of the trucking company clients confirmed that it never sought financing and paid its premiums directly to insurers or to UFG; another client on the list said it financed its premiums with Imperial and never sought CPF financing. Neither wished to be named.

CPF says it discovered the alleged fraud earlier this year when it sought to cancel some of the financed policies for nonpayment of its loans and UFG "urgently requested" that it not do so, explaining that the proceeds had not actually been used to finance premiums, according to the complaint.

As the scheme unraveled, "certain of the defendants acknowledged their participation in the fraud and one of the defendants tragically committed suicide," the lawsuit says.

UFG and Messrs. Ferrarini, Rumignani and Miller have not yet answered the complaint.

Meanwhile, the firm and its top officers were hit earlier this month with two shareholder lawsuits, both of which were filed in federal court in Manhattan and one of which seeks class-action status.

Both charge that the broker and its officials misled investors who bought units of UFG preferred stock and warrants at $10 per unit in a private placement that was completed last year and raised $4.4 million.

One of the suits, for example, charges that the company materially overstated its assets and understated its liabilities, citing UFG's revision of its 1993 results earlier this year.

The complaint also notes that the offering memorandum failed to disclose that the company had stopped paying rent for its Manhattan office and was in danger of losing its lease.

The stock is now "virtually worthless," the suit says.

UFG hasn't yet answered the complaints.

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New York Bureau Chief Mike Schachner contributed to this story.

Reserves

Continued from page 1

ditional reinsurance recoverables when it set up its $750 million in reserves, and although some portion of it could end up in the reinsurance market, he couldn't say how much.

Aetna's announcement came less than a month after Novato, Calif.-based Fireman's Fund added $800 million to its reserves.

Aetna's move has increased pressure on other property/casualty insurers to either bolster their reserves or explain why they will not.

And in April, New York-based Swiss Reinsurance America Corp. said it would bolster its incurred-but-not-reported environmental and asbestos loss reserves with a $700 million capital infusion from its parent, Swiss Re Group.

There is not a direct connection between insurers' reserve additions and costs to reinsurers. If a reinsurance treaty kicks in when a claim hits the specified limit, the reinsurer is going to have to pay regardless of whether the insurer is adequately reserved, noted Joanne Morrissey, a principal with Firemark Consultants Inc. in Parsippany, N.J.

"Even at that point, reinsurers are not necessarily paying out a lot of money right away because they do their own investigations," she said.

"I don't think you're going to find (primary insurers) are going to settle more quickly because they added reserves," Ms. Morrissey added.

But the primary reserve additions could lead reinsurers to take another look at their own reserves.

"I think certainly as the Aetnas and the Fireman's Funds of the world and the major multilines begin to step up to the plate with reserve adjustments, the reinsurance industry will have to follow," said Tom Walsh, associate director at Standard & Poor's Corp. in New York.

Of the $40 billion in environmental liabilities S&P estimates the insurance industry now has, "20% will make its way into the reinsurance market," said Mr. Walsh. Of that $8 billion total, half will head overseas and half will remain in the United States, he said.

"In the short term, companies with an awful lot of financial flexibility"—such as Fireman's Fund, which is backed by Allianz A.G. Holding—will have an easier time "stepping up to the plate than those companies that don't have a capital-rich parent," he said.

Others agree the reserve additions by the primary companies spell increased costs for reinsurers.

"If these companies are recognizing that they've got future problems, we have to anticipate that it's going to carry into the reinsurers who at least supported their treaties for the last 20 to 40 years, and I think that they're now going to be forced to look at their old treaty contracts," said Robert L. Osborne Jr., executive vp at A.J. Gallagher Intermediaries Inc. in New York.

Reinsurers were no better at recognizing the reserving problem than the primary companies that are now having to post reserves, said Mr. Osborne. "Some of the old-line reinsurers that have been backing these companies for years and years are probably going to have to take some kind of a similar stance if they haven't already done so."

Reinsurers may have to increase reserves "because this is likely something nobody had really expected or incorporated into their reserving methodology," said John L. Ward, chief executive officer of Ward Financial Group, a research and consulting firm in Cincinnati.

However, when Aetna and others put up reserves, "it doesn't mean it's being paid anytime soon," said Robert N. Tremelling II, president of San Francisco-based reinsurance intermediary The Tretis Group Inc. It just means they are recognizing the liability and trying to make the statement that the environmental liabilities will be paid "somewhere down the road."

Of Aetna's $750 million reserve strengthening, $400 million is going into case reserves with most of the remainder going into IBNR.

In addition, "everybody buys reinsurance in different ways, and depending on how they buy it, it could have a lot of impact or very little," said Steven Bolland, senior vp at reinsurance intermediary Gill & Roeser Inc. in New York.

But, some say the reinsurance industry may be in relatively good shape anyway.

"I don't think it's safe to say the reinsurance industry gets off scot-free, but I don't know necessarily that because Aetna did a big reserve increase the reinsurance industry is going to have to put up an equal amount," said Michael Smith, senior vp with Lehman Bros. in New York.

GRAPHIC BY MIKE GARVEY

"If you look at the reserves some of the reinsurers have put up, it looks like they long ago recognized in their IBNRs the likelihood of increased claim activity."

Reserving concerns vary widely among reinsurers.

"Good reinsurers have set their own estimates irrespective of what ceding companies may have reported to them both with respect to IBNR and additional case reserves," said Bill Munson, president and CEO of Mercantile & General Reinsurance Co. in Morristown, N.J.

"A lot of your good reinsurance competitors today are companies that weren't even in existence in that period of time," said Paul Ingrey, president of F&G Re, a Morristown, N.J.-based unit of USF&G Corp., who pointed to NAC Re, Trenwick America Reinsurance Corp. and Zurich Reinsurance Centre Inc.

On the other hand; "I think that when other companies address their reserves shortfall, what they're going to find is the reinsurers that they were doing business with 20 and 25 years ago may no longer be around," said Lehman Bros.'s Mr. Smith. "I suspect the guys that got hit the hardest were Lloyd's syndicates."

Lloyd's is attempting to "ring-fence" those old liabilities through runoff reinsurer Equitas Ltd.

As for the United States, the environmental liabilities will affect "certain pockets of reinsurers here rather than spread across the whole industry," said Mr. Tremelling.

"It doesn't appear to be a serious issue for the reinsurance industry as a whole," said John Kriz, managing director at Moody's Investors Service in New York. "The primary's a different kettle of fish." BI

Aetna move unrelated to *Montrose* decision

By DOUGLAS McLEOD

A California Supreme Court ruling adopting a "continuous trigger" of coverage for pollution claims did not influence Aetna Life & Casualty Co.'s decision to boost environmental liability loss reserves and is not expected to have much influence on other insurers' reserving decisions.

The state high court unanimously decided earlier this month that comprehensive general liability policies in effect from the time pollution first begins until damage or bodily injury is discovered may be liable for defense costs.

The ruling in *Montrose Chemical Corp. vs. Admiral Insurance Co.* rejected a long-held insurance industry position that only the policy in effect when a loss is discovered should be triggered.

The decision affirmed a lower court ruling and made California the fifth in which the high court has adopted the continuous trigger theory, though not all in pollution cases (*BI*, July 10).

The *Montrose* ruling also preceded by about a week Hartford, Conn.-based Aetna's announcement that it would strengthen its environmental liability reserves by about $1.1 billion (*BI*, July 17).

However, the ruling played no role in Aetna's decision, which resulted from an analysis of reserving levels begun several months ago, according to Scott Moser, vp of environmental and excess claims at Aetna.

"We were doing our work over a long period of time independent of *Montrose*," Mr. Moser said.

While insurance companies have long argued in court for the "manifestation" theory of coverage, Aetna assumed a continuous trigger exposure in the calculations that led to its reserve bolstering, according to Mr. Moser.

He added that *Montrose* by itself probably won't have much impact on reserving decisions of other insurers, that probably also will be assuming a continuous trigger exposure.

"It's almost as much an underwriting issue as a reserving issue," said David Tritton, senior vp with American Re-Insurance Co. in Princeton, N.J.

Underwriters now will take greater pains to identify discontinued operations and other risks that could cause continuing injury and damage, explained Mr. Tritton. "It's so difficult to reserve for this anyway. This is just one more thing that's very difficult to quantify."

Michael Smith, senior vp with Lehman Bros. in New York, agreed about the ruling's influence on Aetna: "I don't think the *Montrose* ruling was the straw that broke the camel's back by any means."

He also suggested that Aetna's action may loom larger than the *Montrose* ruling in the thinking of other insurers, particularly CIGNA Corp., which may be the next in line to bolster reserves.

"Now that Aetna has done this, all eyes are turned to CIGNA," he said. "It's the last holdout not to boost its reserves."

CIGNA officials could not be reached for comment. BI

Updates

USX settles Utah pension case

PITTSBURGH—USX Corp. will pay $47 million in cash and millions more in undetermined pension benefits to 1,700 Utah steelworkers who were illegally idled when the company closed a plant early to avoid pension liabilities, according to a settlement reached last week.

The settlement followed a May 5 ruling by a U.S. District Court in Salt Lake City that found the Pittsburgh-based oil, gas and steel company liable for closing the mill near Provo, Utah, in 1987 to avoid paying pension benefits. The court also awarded the plaintiffs cash and injunctive relief—which USX will pay over two years—worth $50 million to $60 million, including lost wages, pension benefits and interest, said the workers' lawyer, Jonah Orlofsky of Plotkin & Jacobs in Chicago. "This case sends a clear message to corporate America that they can't get away with secret schemes to manipulate their workforce and avoid paying pensions."

$95 million fraud settlement

TALLAHASSEE, Fla.—Coopers & Lybrand L.L.P. and Merrill Lynch & Co. Inc. together will pay $95 million to settle a Florida Department of Insurance lawsuit over the 1991 failure of Jacksonville-based Guarantee Security Life Insurance Co.

Coopers & Lybrand agreed to pay $50 million but admitted no wrongdoing. The firm settled "to avoid the costs and uncertainties of a lengthy jury trial," it said in a statement. "No fraud was alleged against the firm. Our alleged failure was to detect the fraud of others."

A spokesman said the accounting firm was fully covered, but would not provide details. Coopers' professional liability coverage is written by its Cayman Island-based captive, Abacus Insurance Co. Ltd.

Merrill Lynch, which will pay $45 million, is largely self-insured and maintains a Vermont captive, Investor Protection Insurance Co.

Merrill Lynch allegedly would buy a block of junk bonds from Guarantee Security on the last trading day of the year and then resell them to the insurer within a few days (*BI*, May 11, 1992).

New York law firm Shereff, Friedman, Hoffman & Goodman agreed to pay $5 million. It and Merrill Lynch also deny the allegations. Neither Coopers & Lybrand nor Shereff Friedman reported the junk bond practices to regulators.

The lawsuit alleging fraud against Guarantee Security's former officers, whom the department alleges drove the insurer into debt while stealing $90 million, is set to go to trial Sept. 25.

ERISA pre-emption brief filed

NEW YORK—The Employee Retirement Income Security Act preempts New York's 13% surcharge on hospital bills paid by self-insured plans, says a brief filed in the 2nd U.S. Circuit Court of Appeals.

The brief follows an April ruling by the U.S. Supreme Court that New York's hospital surcharge on insured plans does not violate ERISA (*BI*, May 1). The Supreme Court left the question of whether the surcharge on self-insured plans violated ERISA to the appeals court. Two of the plaintiff-appellees in *Travelers Insurance Co. vs. George Pataki et al.*—Travelers Insurance Co. and Aetna Life Insurance Co.—recently filed the brief with the appeals court, asking that the court retain jurisdiction over the case and hold that ERISA preempts the surcharge on self-insured plans.

The brief notes that, in many previous cases, the Supreme Court has taken a more expansive view of ERISA's pre-emption of state law. The New York statute's reference to "patients. . .enrolled in a self-insured fund" is a "more express reference to self-insured ERISA plans" than in previous cases in which the court upheld ERISA pre-emption. The surcharge "falls directly upon self-insured funds. It is levied on the very health care benefits that bring those plans within the ambit of ERISA in the first place," the brief says.

Briefly noted

First-quarter insured catastrophe losses were $4.1 billion, which is higher than average over the last decade but well behind last year's record of $15.5 billion, said the Property Claims Services division of the American Insurance Services Group Inc. . . .Setting up what appears to be a four-way race to become chairman at the end of 1997, **Johnson & Higgins** last week appointed four new executive vps: Norman Barham, global practices leader; John W. Gussenhoven, head of European operations and president of the UNISON network; Joseph P. Platt, deputy global retail leader; and Robert F. Powell, chairman and CEO of benefit consulting unit A. Foster Higgins & Co. Inc. . . .Legislation approved by the House of Representatives last week would reinstate a 9-year-old ban—lifted only last year—to prohibit the federal employees' health insurance program from **paying for abortions** except when the mother's life is in danger. . . .Dow Corning Corp. is taking a $221.2 million aftertax charge in the second quarter to reflect a change in the accounting method it is using to recognize its $2 billion contribution to the **breast implant global settlement**. . . .**Xerox Corp.** last week sold its Viking Insurance Holdings Inc. unit to Guaranty National Corp. for at least $103 million in cash. Talegen Holdings Inc., Xerox's insurance holding company, said the sale price could escalate based on loss reserve development at Viking. Viking, based in Madison, Wis., specializes in non-standard personal automobile insurance and wrote $152 million in premiums in 1994. . . .This Wednesday the U.K. government is to release its response to the call from the Treasury and Civil Service Committee of the House of Commons for an end to **self-regulation at Lloyd's** of London (*BI*, May 29). . . .House GOP leaders last week circulated a draft proposal under which the Medicare program would be overhauled so that beneficiaries would receive **vouchers to purchase health care** coverage. . . .A bill that would create a **national catastrophe reinsurance pool** able to borrow from the U.S. Treasury was introduced in the Senate last week. It is virtually identical to a House measure introduced last month (*BI*, June 19).

Elder

Continued from page 2

with what we know," said Donna Klein, director of work/life programs at Marriott Corp. in Bethesda, Md. "If anything, they're probably conservative."

The study's cost estimate is "realistic and probably low," agreed Kathy Hazzard, manager of work/family programs at John Hancock Financial Services in Boston.

Personal caregiving—assisting an elderly person with activities such as eating, bathing, dressing and going to the bathroom—is the most costly and most stressful kind of caregiving, pointed out Diane Piktialis, a vp at Work/Family Directions.

"Personal care itself involves much more caregiver stress and burden" than other kinds of elder care, Ms. Piktialis said. And people who require such attention are generally frailer than other elderly people, she added.

Another factor that makes it hard on employees providing care is that they usually depend on others to help, meaning there are numerous chances for the system to break down, said Ms. Piktialis.

The MetLife study highlighted several ways that elder care can add to employer costs.

- Replacing employees who quit. Though only 1% of those workers providing personal elder care are forced to quit their jobs, according to the study, the costs to employers associated with replacing employees still are significant.
- Absenteeism due to taking elderly relatives to the doctor and the hospital, visiting facilities and arranging for other care.
- Handling leaves of absence, job changes and reduced work schedules for those employees who are personal caregivers.
- Workday interruptions. The study estimated that personal caregivers would spend one hour per week at work dealing with their responsibilities.
- Additional work that supervisors must handle, such as arranging coverage for absent or late employees, or counseling employees about their benefits or an employee assistance program. The study estimated that supervisors spend about one hour each month managing employees with personal elder care responsibilities.
- Medical care for caregivers, which often exceeds that of workers without elder care responsibilities. According to the study, 4% of caregivers reported getting sick more and used physicians' services to a greater extent than the average employee.
- Greater use of mental health services due to higher anxiety, depression and stress.

Employers use many strategies to mitigate costs associated with elder care. Among the most popular are elder care consultation and referral services, flexible schedules, informational seminars and support groups.

For example, in addition to offering elder care consultation and referral services, Aetna Life & Casualty Co. offers a variety of leave and flexible work policies.

These policies allow employees "to be away from work when they need to be away," noted Denise Cichon, senior consultant in the company's Hartford, Conn., headquarters. Flexible schedule options include flex time, staggered hours, part-time work, work at home and job-sharing.

The success of John Hancock Financial Services' lunchtime seminars on topics such as dealing with Alzheimer's disease and legal issues for elderly people is "unbelievable," Ms. Hazzard said.

"People are hungry for the knowledge" they need, she said. John Hancock also offers elder care consultation and referral services.

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"The MetLife Study of Employer Costs for Working Caregivers" is available free by calling Susan Dolan at MetLife at 203-221-6580.

Names

Continued from page 3

in Boston who ceased underwriting in 1994. "I don't think that there is anyone in the U.S. that would want to get into Lloyd's other than through a corporate vehicle," he said.

Potential new members have witnessed how much money existing members have lost and would not be prepared to join Lloyd's without the limit on liability that corporate membership provides, Mr. Streeter said.

Meanwhile, members agents at Lloyd's have extended their cash call litigation to overseas members. Last week, 26 U.S. members who were identified as able but unwilling to pay their Lloyd's losses were sent letters saying that if they didn't pay within seven days, writs would be issued against them.

Only the portions of a member's liabilities that are not the subject of litigation are being targeted.

"Members agents are suing under the agency agreement they have with their names," said Philip Holden, head of Lloyd's financial recovery department. The action was taken not by Lloyd's but by members agents, who were cooperating closely with the financial recovery department, he stressed.

Under the American mediation plan for members—the U.S. equivalent of the members' hardship plan—several arrangements for members to pay their losses had been processed, Mr. Holden said. He confirmed that a Lloyd's representative had recently met with some U.S. names, though he would not say how many, to try to sort out these arrangements and that Lloyd's has appointed U.S. agents to administer the plan. These agents are either lawyers or accountants, he said.

If a U.S. member reaches a mediation agreement that turns out to be on worse terms than the proposed settlement offer next year, the situation will be reviewed so that they will not be disadvantaged. The settlement offer will include members' losses that are subject to litigation and those that are not. Lloyd's has said that it hopes to give members the best terms available.

But, Mr. Gallagher said the decision to issue writs against U.S. members prior to a settlement offer being made is an error.

"All American names are hoping to have some offer of settlement that will be sufficiently attractive to put the litigation behind them. For Lloyd's to go after assets or draw down on letters of credit now would be a public relations disaster," he said.

Lloyd's action would be heavy-handed and a waste of money, said Ralph Bunje, a former member in San Francisco.

"If an individual does not have any money, it would be a waste of money. If he has a bunch of money, he would retain an attorney. So, if the issue is you need money today, how do you accomplish that by issuing writs?" he asked.

Instead, Lloyd's should try to instill a spirit of cooperation by making a reasonable settlement offer, Mr. Bunje said.

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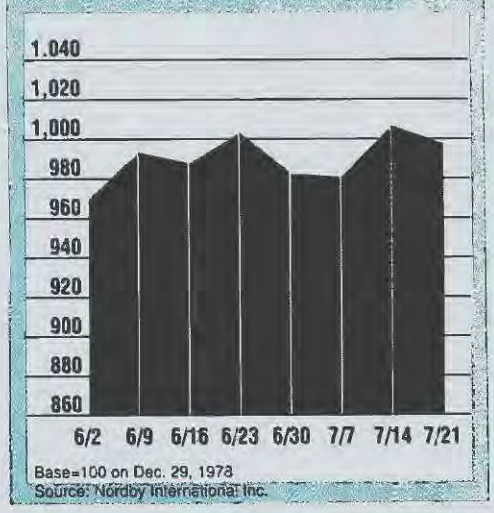
Gavin Souter also contributed to this report.

BI Insurance Index



Base=100 on Dec. 29, 1978
Source: Nordby International Inc.

Catastrophe insurance option call spreads

As of July 21

Call spread	Price bid/ask	Rate on line %	Call spread	Price bid/ask	Rate on line %
Eastern September 1995			Western Annual 1995		
45/65	—/6.5	—/32.5	20/30	—/1.3	—/13
50/70	—/6.5	—/32.5	30/40	—/—	—/—
60/80	—/6	—/30	30/50	—/—	—/—
100c	9/10	9/10	50/70	—/—	—/—
150c	—/5	—/10	60/80	—/—	—/—

Total volume: 67 Total open interest: 1,747

For quotes, call the CBOT trading floor at 312-341-3342. For general information, call 312-435-3674.

Source: Chicago Board of Trade

British Issues

July 20 Companies	Price pence	P/E	Div. pence	Yield %	1 week high—low
Commi Union	593	11.9	33.0	5.6	60 —591
Gent Accident	593	8.7	36.3	6.1	605—593
Gdn Royal Exch	203	NM	10.3	5.0	210—203
Independent	299	8.3	11.9	4.0	302—299
Royal	315	8.0	15.0	4.8	32[illegible]—315
Sun Alliance	334	11.2	19.7	5.9	34[illegible]—334
Brokers					
Bradstock	57	6.4	7.1	12.4	58—57
Fenchurch	144	10.1	10.0	6.9	146—144
CE Heath	198	12.4	20.0	10.1	198—195
JIB Group	124	10.8	9.4	7.6	12[illegible]—123
Lloyd Thmpson	154	10.7	9.8	6.4	158—154
Lowndes Lmbrt	167	9.3	10.3	6.2	167—167
Nelson Hurst	137	10.6	8.3	6.1	137—137
PWS Holdings	16	N/M	0.8	5.0	16—16
Sedgwick Grp	136	12.4	8.1	6.0	139—136
Steel Brl Jones	85	10.0	11.3	13.3	85—85
Willis Corroon	139	N/M	8.3	6.0	147—139

Source: Philip Olsen, London

BI Industry Stock Report JULY 17, 1995, THROUGH JULY 21, 1995

BROKERS		Price	Weekly % change	Year to date % change	Annual High	Annual Low	Vol.(000)	$ Div.	% Yield	P/E	Book value	Mkt./Bk. value
Acordia Inc.	NYS	31.13	-0.81	-7.09	34.50	24.63	7	0.72	2.31	15	13.24	2.35
Alexander & Alexander	NYS	23.50	-6.49	27.03	26.44	18.50	194	0.10	0.43	-13	6.08	3.87
E.W. Blanch Holdings Inc.	NYS	19.38	-1.30	-6.06	23.00	17.50	66	0.40	2.06	16	4.55	4.26
Gallagher Arthur J. & Co.	NYS	36.63	1.03	14.45	36.63	29.63	93	1.00	2.73	16	6.48	5.65
Hilb, Rogal & Hamilton	NYS	12.38	-0.04	2.06	13.13	10.50	155	0.56	4.53	14	4.72	2.62
Marsh & McLennan	NYS	77.25	-2.83	-2.52	86.38	71.25	725	2.90	3.75	15	19.40	3.98
Poe & Brown	NDQ	23.88	2.69	9.77	24.50	19.50	6	0.48	2.01	15	4.49	5.32
BROKERS	AVERAGE		-1.1	5.4					2.5	11		
INSURERS/REINSURERS												
ACE Ltd.	NYS	29.88	-2.46	27.81	31.38	20.75	364	0.56	1.87	-13	22.45	1.33
Acceptance Insurance Cos.	NYS	14.75	-6.35	-1.67	18.00	12.63	83	0.00	0.00	9	9.83	1.50
AEGON N.V.	NYS	35.75	0.00	40.75	37.25	21.69	79	3.60	10.07	14	43.84	0.82
Aetna Life & Casualty	NYS	60.63	-3.39	28.65	64.88	42.25	1447	2.76	4.55	12	57.21	1.06
AFLAC Inc.	NYS	42.38	-0.29	32.42	44.75	31.63	764	0.52	1.23	14	57.21	0.74
Allied Group Inc.	NDQ	28.00	-0.88	13.13	31.00	22.00	69	0.68	2.43	6	23.43	1.20
Allmerica Prop. & Casualty	NYS	23.00	-1.63	36.30	23.38	14.63	257	0.16	0.70	10	19.45	1.18
Allstate Corp.	NYS	30.50	-3.17	28.42	33.38	22.63	15426	0.76	2.56	10	19.60	1.56
American Financial Group	NYS	26.50	-0.93	26.19	27.63	21.63	192	1.00	3.77	13	36.30	0.73
American General	NYS	35.13	-3.45	24.34	36.75	25.63	2190	1.24	3.53	14	20.39	1.72
American Heritage Life Ins.	NYS	20.38	-1.24	7.24	21.50	16.25	39	0.68	3.34	11	12.42	1.64
American Indemnity/Fin'l	NDQ	10.75	2.38	6.17	12.75	10.13	11	0.28	2.60	3	15.92	0.68
American International	NYS	108.00	-4.00	10.20	119.50	87.63	3898	0.51	0.47	15	49.75	2.17
American Re Corp.	NYS	37.63	-2.60	16.67	39.88	25.25	120	0.32	0.85	15	16.85	2.23
Aon Corp.	NYS	37.25	-3.87	16.41	38.88	29.25	312	1.36	3.65	12	21.96	1.70
Argonaut Group	NDQ	31.25	0.81	10.62	32.50	27.50	133	1.32	4.22	12	29.80	1.05
AVEMCO Corp.	NYS	16.50	-4.35	7.32	18.25	13.38	28	0.44	2.67	14	6.30	2.62
Baldwin & Lyons Inc.	NDQ	16.00	2.37	8.47	17.63	14.50	22	0.32	2.00	12	13.56	1.18
Berkley W.R. Corp.	NDQ	37.00	2.07	-1.33	39.63	32.50	395	0.48	1.30	20	36.47	1.01
Berkshire Hathaway Inc.	NYS	24100.00	-1.03	18.14	25200.00	18150.00	1	0.00	0.00	-98	9157.79	2.63
Capital RE Corporation	NYS	25.88	-0.02	-5.48	27.38	20.50	20	0.20	0.77	9	21.48	1.20
Capsure Holdings Corp.	NYS	13.75	-2.69	-5.98	14.88	12.13	27	0.00	0.00	13	13.72	1.00
Chubb Corp.	NYS	78.25	-2.35	1.13	85.25	68.63	1407	1.96	2.50	12	48.40	1.62
CIGNA Corp.	NYS	79.00	1.28	24.17	81.63	59.00	1408	3.04	3.85	8	80.98	0.98
CNA Financial Corp.	NYS	86.50	-1.98	33.33	89.00	60.00	159	0.00	0.00	20	73.83	1.17
EMC Insurance Group Inc.	NDQ	11.88	3.26	25.00	12.25	8.63	11	0.52	4.38	8	10.77	N.A.
Emphesys Financial Gr. Inc.	NYS	23.75	1.06	-25.20	39.50	22.63	285	0.60	2.53	6	N.A.	N.A.
EXEL Ltd.	NYS	52.88	0.24	33.86	53.75	36.88	578	1.32	2.50	14	31.62	1.67
Fremont General Corp.	NYS	26.00	4.00	11.23	26.13	17.16	215	0.80	3.08	8	22.90	1.14
Frontier Insurance Group	NYS	25.38	-5.60	16.00	37.50	16.75	55	0.48	1.89	19	14.94	1.70
Gainsco Inc.	ASE	10.00	0.00	21.21	11.00	7.25	74	0.04	0.40	13	3.79	2.64
General RE Corp.	NYS	130.00	-4.06	5.26	138.38	104.50	1070	1.96	1.51	14	57.17	2.27
Guaranty National Corp.	NYS	17.88	-4.05	-2.72	19.00	15.13	34	0.48	2.69	10	11.84	1.51
Harleysville Group	NDQ	25.50	0.99	5.15	26.50	20.00	45	0.68	2.67	11	20.18	1.26
Hartford Steam Boiler	NYS	43.00	-0.58	7.84	46.25	35.88	117	2.20	5.12	16	14.62	2.94
HCC Insurance Holdings	NYS	26.63	-1.39	2.90	27.38	18.50	325	0.00	0.00	16	11.76	2.26
ITT (Hartford Group)	NYS	115.50	0.32	30.32	120.13	77.00	8090	1.98	1.71	15	49.95	2.31
Lincoln National	NYS	40.13	-4.46	14.64	46.25	34.63	740	1.72	4.29	13	31.99	1.25
Markel Corp.	NDQ	60.50	1.26	45.78	61.25	40.25	19	0.00	0.00	17	25.15	2.41
Mid Ocean Ltd.	NDQ	31.75	-5.59	16.51	34.63	22.25	255	1.00	3.15	9	20.24	1.57
Mutual Risk Mgmt. Ltd.	NYS	35.50	6.77	35.24	36.38	23.00	65	0.32	0.90	19	9.11	3.90
NAC Re Corp.	NDQ	32.88	-1.51	-1.87	35.25	24.25	52	0.20	0.61	15	19.75	1.66
National Re Corp.	NYS	33.75	-1.46	28.57	34.38	22.25	49	0.15	0.47	19	17.31	1.95
Navigators Group	NDQ	17.50	-2.13	20.69	19.75	12.75	3	0.00	0.00	-22	10.21	1.71
Nobel Insurance Ltd.	NDQ	10.13	-1.22	22.73	10.50	7.75	49	0.20	1.88	4	6.84	1.48
Ohio Casualty Corp.	NDQ	32.50	-0.76	15.04	34.25	27.00	153	1.52	4.68	11	24.68	1.32
Old Republic Int'l	NYS	25.50	-2.86	20.00	26.63	18.88	270	0.52	2.04	10	24.60	1.04
Orion Capital Corp.	NYS	40.00	2.22	13.48	40.25	28.13	65	0.80	2.00	10	25.86	1.55
Partner Re Ltd.	NDQ	24.63	-1.50	18.67	26.25	18.50	810	0.40	1.62	8	N.A.	N.A.
Penn-America Group Inc.	NDQ	9.75	0.62	32.20	9.75	6.50	102	0.12	1.23	11	6.21	1.57
Philadelphia Cons. Holding	NDQ	15.38	-2.38	25.51	15.75	10.00	66	0.00	0.00	16	8.43	1.82
Phoenix RE Corp.	NDQ	25.75	-3.74	-8.85	29.00	21.00	304	0.60	2.33	5	22.86	1.13
Provident Life	NYS	22.50	-2.17	3.45	29.88	20.50	171	0.72	3.20	10	27.09	0.83
Reliance Group Holdings	NYS	6.50	0.00	25.30	6.75	4.88	478	0.32	4.92	10	3.48	1.87
Reliastar Financial Corp.	NYS	37.00	-0.67	27.59	39.63	27.00	534	1.00	2.70	11	24.81	1.49
RLI Corp.	NYS	22.63	-1.11	37.96	23.63	15.91	24	0.52	2.30	11	20.51	1.10
St. Paul Companies	NYS	46.38	-4.87	3.63	51.88	39.38	1561	1.60	3.45	8	31.88	1.45
SAFECO Corp.	NDQ	58.50	-1.74	8.65	59.88	46.75	881	2.12	3.75	12	46.94	1.25
SCOR U.S. Corp.	NYS	9.50	2.70	13.43	12.25	7.50	9	0.20	2.11	17	13.60	0.70
Seibels Bruce Group	NDQ	1.00	6.38	-60.00	3.50	0.75	47	0.00	0.00	-	1.05	0.95
Selective Ins. Group	NDQ	31.50	-4.92	24.75	33.75	23.25	53	1.12	3.56	10	23.36	1.35
Sphere Drake Holdings	NYS	16.00	3.23	15.32	16.50	10.75	24	0.16	1.00	8	13.15	1.22
TIG Holdings	NYS	22.50	0.54	20.00	24.63	17.00	931	0.20	0.89	20	17.25	1.30
Titan Holdings, Inc.	NYS	12.00	-4.99	23.08	12.88	7.84	83	0.24	2.00	9	9.31	1.29
Tokio Marine & Fire	NDQ	58.50	-1.90	-3.70	64.75	49.88	28	0.46	0.79	-	57.72	1.01
Torchmark Corp.	NYS	38.38	-1.60	11.23	44.50	32.38	553	1.12	2.92	11	17.49	2.19
Transatlantic Holdings	NYS	63.63	0.99	13.87	66.25	47.75	123	0.40	0.63	13	32.43	1.96
Transnational Re Corp.	NDQ	21.38	-2.84	-9.04	25.25	18.75	101	0.00	0.00	7	N.A.	N.A.
Travelers Corp.	NYS	44.63	-1.66	37.84	47.25	30.38	3080	0.80	1.79	11	24.26	1.84
Trenwick Group Inc.	NDQ	44.50	3.18	5.01	45.75	36.50	190	1.12	2.51	11	29.20	1.52
United Fire & Casualty	NDQ	31.00	5.98	12.05	31.00	26.25	7	0.80	2.54	9	28.96	1.07
Unitrin	NDQ	46.00	-1.35	6.98	51.50	38.50	342	2.00	4.34	12	38.64	1.19
UNUM Corp.	NYS	46.75	-0.81	23.84	50.00	35.13	784	1.08	2.27	24	27.78	1.68
US Facilities Corp.	NDQ	17.25	2.99	72.50	18.00	9.13	368	0.20	1.14	12	11.07	1.56
USF&G Corp.	NYS	15.25	-3.97	12.96	17.25	12.50	1649	0.20	1.3	6	10.04	1.52
USLIFE Corp.	NYS	40.13	0.94	15.05	41.50	30.88	136	1.32	3.29	10	40.82	0.98
Washington National	NYS	20.88	-1.21	9.87	22.88	17.75	45	1.08	5.17	8	23.61	0.88
Zenith National Ins.	NYS	21.25	0.00	-6.59	27.38	19.38	24	1.00	4.71	11	17.54	1.21
Zurich Reinsurance Centr.	NYS	28.25	0.00	-2.16	30.86	25.00	59	0.00	0.00	-39	22.26	1.27
INSURERS/REINSURERS	AVERAGE			-0.8	15.4				2.6	9.4		
HEALTH MAINTENANCE ORGANIZATIONS												
FHP International	NDQ	24.50	5.38	-4.85	31.00	19.50	1609	0.00	0.00	13	12.22	2.00
Humana Inc.	NYS	19.00	0.00	-16.02	27.13	17.00	6647	0.00	0.00	16	6.04	3.15
Pacificare Health Sys.	NDQ	53.00	-0.24	-16.62	79.50	44.50	732	0.00	0.00	-	14.21	3.73
Safeguard Health Enter.	NDQ	10.75	2.38	16.22	13.63	8.25	19	0.00	0.00	72	6.16	1.75
Sierra Health Services	NYS	23.75	-1.57	-24.90	33.63	22.13	503	0.00	0.00	13	6.04	3.93
United Healthcare Corp.	NYS	43.75	-1.69	-3.05	55.38	34.13	7533	0.03	0.07	25	6.57	6.66
U.S. Healthcare	NDQ	31.25	-2.74	-24.24	49.00	26.50	7203	1.00	3.20	13	5.04	6.20
Wellpoint Health Networks	NYS	28.13	-0.02	-3.43	39.00	24.25	434	0.00	0.00	13	12.73	2.21
HMOs	AVERAGE			0.2	-9.9				0.4	18		
ALL COMPANIES	AVERAGE			-0.6	3.6				2.5	12		

Top advancing issues: Mutual Risk Mgmt. Ltd.; Seibels Bruce Group; United Fire & Casualty. Leading decliners: Alexander & Alexander; Acceptance Insurance Cos.; Frontier Insurance Group. Most active issue: Allstate Corp. The BI Index fell 1.1%; the Dow Jones 30 Industrials dropped 1.4%; the S&P 500 fell 1.1% and the NYSE Composite lost 0.8%.

System design: Nordby International Inc.

ARCHITECTS & ENGINEERS

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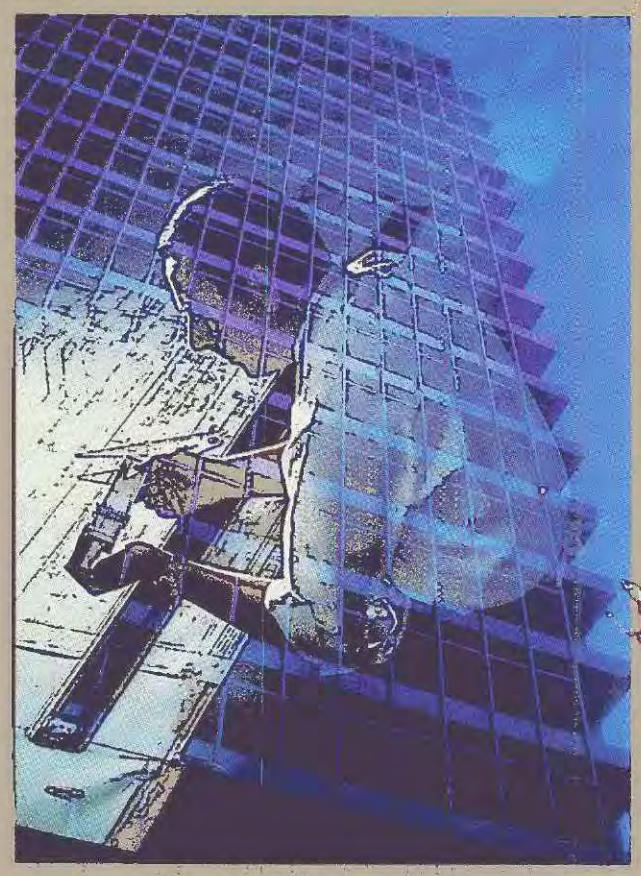

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