

Business Insurance

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Teales agree to plead guilty to insurance fraud charges

MOBILE, Ala.—Alleged insurance con man Alan Teale and his wife Charlotte Rentz have agreed to plead guilty to charges contained in a 41-count federal fraud indictment filed in January.

Mr. Teale and Ms. Rentz are scheduled to enter their pleas at a hearing in U.S. District Court in Mobile Aug. 2. They have also agreed to forfeit assets to repay victims of insurance scams they are charged with operating, according to a letter sent by the U.S. attorney in Mobile to policyholders

Continued on next page

Berkley's strategy proves a winner for his collection of P/C insurers

By MICHAEL SCHACHNER

GREENWICH, Conn.—Sitting on the couch in William R. Berkley's cluttered, utilitarian office is a small embroidered pillow that reads "Who Cares Wins."

Since taking his insurance holding company, W.R. Berkley Corp., public 20 years ago, Bill Berkley, 47, has done both.

Certainly, he has cared about making money. To a lesser degree, this fixture on the Forbes 400—the so-called Rich List—has also cared about carving out a spot for himself among insurance industry leaders.

Most of all, though, he has cared about those closest to him—his family and the people who have worked with and for him since he entered Harvard Business School in the 1960s, intent on building and buying companies that would make him proud.

Caring about others and giving his managers autonomy has enabled Mr. Berkley—and the 23 separate insurance and specialty service companies he oversees as chairman and CEO—to win at the insurance game at a time when many others are not.

His 17 commercial and personal lines, excess/surplus and specialty insurers wrote nearly \$420 million in premiums in 1992. The entire group finished the year with \$52 million in net income and \$1.7 billion in assets.

Its 1992 return on shareholder equity, 10.4%,

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California comp reform cheered by employers

By LOUISE KERTESZ

LOS ANGELES—Employers and labor are hailing a new comprehensive California workers compensation reform law, which many believe will cut \$1.5 billion from an \$11 billion system while increasing benefits to injured workers.

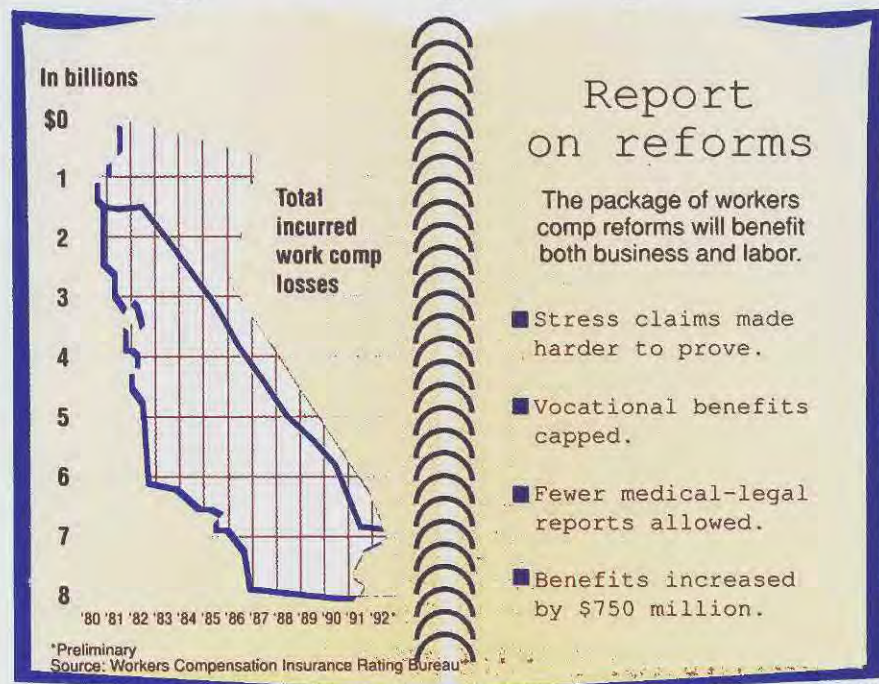
However, insurers and others point out that some language in the legislation must be clarified for the reforms to be effective.

Gov. Pete Wilson signed five of the urgency-status bills in the reform package, with many changes effective immediately (BI, July 19).

Gov. Wilson has yet to sign two other bills in the package the legislature passed: S.B. 30, which would repeal the state's minimum rate law, and S.B. 1005, which would create a commission to study the workers comp system.

Employer groups—including the Chamber of Commerce and Californ-

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CSX seeks new use for captive

Reinsuring life cover may improve chance for tax deductions

By JERRY GEISEL

WASHINGTON—A major transportation company wants federal approval to use its Vermont captive to reinsure group term life insurance benefits, a move that possibly could lead to the tax deductibility of the property/casualty premiums it pays to the captive.

Richmond, Va.-based CSX Corp.

has asked the U.S. Department of Labor for an exemption from Employee Retirement Income Security Act rules that now sharply restrict the use of corporate insurance subsidiaries to insure or reinsure employee benefit coverages.

If the Labor Department approves the transaction, which is by no means certain, it could set the stage for other employers to seek approval to write employee benefit coverages through their captives in an attempt to reap new tax breaks.

"There has been a significant amount of employer interest in putting benefits into their captives. How

the Labor Department rules in the CSX case could well affect what other employers decide to do," said Arthur Koritzinsky, senior vp with Johnson & Higgins in New York.

CSX has asked the Labor Department for an ERISA exemption so it can tap its Vermont captive to reinsure both basic and optional term group life insurance policies.

Those policies, which cover more than 32,000 employees and retirees and generated more than \$12 million in premiums last year, now are written by Aetna Life Insurance Co. in Hartford, Conn., and Prudential In-

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Funded covers hobbled

FASB reporting rule wipes out benefits of multiyear deals

By DOUGLAS McLEOD

NORWALK, Conn.—Despite reinsurance industry objections, the Financial Accounting Standards Board has formally adopted a new rule that virtually eliminates the benefits of funded catastrophe reinsurance covers and other multiyear retrospectively rated reinsurance contracts.

Under the new guideline, ceding insurers will have to report obligations to reinsurers under multiyear retrospectively rated contracts as liabilities in their financial statements, while reinsurers will have to report the obliga-

tions as assets.

Conversely, if the ceding insurer stands to recoup money from a reinsurer because of good loss experience under such a contract, the cedant must book the amount as an asset while the reinsurer reports it as a liability.

FASB's Emerging Issues Task Force announced the rule in March, received numerous letters from industry representatives and heard testimony from reinsurers and brokers last Wednesday.

The task force adopted the rule at a Thursday morning meeting.

While FASB's initial focus was on funded catastrophe reinsurance covers,

the rule in fact covers any multiyear retrospectively rated reinsurance contract and will affect non-catastrophe property and casualty reinsurance covers.

"This issue may affect more transactions than some anticipated, but the staff believes that result is appropriate if the transactions have the same fundamental economic characteristics as a funding cover," FASB concluded.

Ceding companies and reinsurers will have a choice of either restating prior years' results to reflect the impact of the new rule or making a "cumulative catch-up" adjustment as of Jan. 1, 1993,

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Photo by David Lubarsky

William Berkley credits his success to a risk-averse nature and solid regional employees.

Update

Teale, wife to plead guilty

Continued from previous page
of several of Mr. Teale's companies.

A spokesman for the U.S. attorney's office could not provide further details of the guilty pleas or the asset forfeitures.

The indictment charged Mr. Teale—who has been held without bail since his arrest in January—and Ms. Rentz with conspiracy, mail fraud, money laundering and operating a scheme that bilked thousands of policyholders of millions of dollars (BI, Jan. 25).

Rosty fallout may hit health bill

WASHINGTON—Ethics charges dogging House Ways and Means Committee Chairman Daniel Rostenkowski, D-Ill., could seriously hurt President Clinton's drive to win congressional approval of health care reform legislation.

Rep. Rostenkowski has been one of President Clinton's most loyal supporters in the House and has been expected to play a vital role in steering a Clinton proposal through the House. The proposal is expected to be unveiled in September.

But if Rep. Rostenkowski is indicted in a cash-for-stamps scheme, he would be forced to give up his chairmanship. If that happens, chairmanship of the Ways and Means Committee, which has jurisdiction over health legislation, would pass to ranking Democrat Sam Gibbons of Florida.

Unlike Rep. Rostenkowski, whose views on health care reform have been in sync with President Clinton's, Rep. Gibbons has been a long-time supporter of a single-payer approach under which the federal Medicare program would be expanded to cover the entire population. President Clinton is strongly opposed to a single-payer system.

Rep. Rostenkowski has denied any wrongdoing.

Ohio passes comp reform bill

COLUMBUS, Ohio—The Ohio Legislature ended months of wrangling over workers compensation reform by passing a compromise bill that strongly endorses managed care networks.

H.B. 107, signed last week by Gov. George V. Voinovich, went into effect immediately. Employers in the state must buy workers comp insurance from an exclusive state fund or self-insure.

The business-backed law encourages injured workers to visit either employer- or state-run provider networks by giving the administrator of the state's workers comp bureau the authority to require any employee going outside either network to share in medical costs.

It also encourages insured employers to set up quality networks to entice employee use since medical expenses handled through an insured employer's network will not count against the employer's loss experience, thus reducing its workers comp premium.

Other provisions reduce the number of claim appeals to three from four, change rules to speed payouts on contested claims and allow employers to purchase coverage with \$1,000 per-claim deductibles.

Liability for contractors curbed

SAN FRANCISCO—Employees of independent contractors in California may no longer sue the person or company that hired the contractor for injuries suffered on the job.

The California Supreme Court unanimously overturned a 1962 decision allowing the injured employees of a contractor to sue a non-negligent property owner. California was among a minority of jurisdictions that had allowed that application of the "doctrine of peculiar risk."

"Under the peculiar-risk doctrine, a person who hires an independent contractor to perform work that is inherently dangerous can be held liable for tort damages when the contractor's negligent performance of the work causes injuries to others," the court said.

In its decision on a roofing company worker's suit against Franklin Privette, a schoolteacher who owned some rental properties, the high court ruled that "when the contractor's failure to provide safe working conditions results in injury to the contractor's employee, additional recovery from the person who hired the contractor—a non-negligent party—advances no societal interest that is not already served by the workers compensation system."

Agents lose Bank Act lawsuit

WASHINGTON—Agents and brokers could face more competition after a federal appeals court earlier this month ruled that national banks' branches in small towns can sell insurance nationwide.

The District of Columbia U.S. Circuit Court of Appeals' decision came July 16, five weeks after the Supreme Court unanimously ruled that Section 92 of the National Bank Act, a 1916 provision that allows banks in towns of less than 5,000 people to sell insurance, remained in effect.

Agents had argued before the high court that punctuation in the law meant Section 92 had actually been repealed in 1918. The high court, though, determined the punctuation was a "scrivener's error"

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Errors & omissions

• Two appointments at The Wyatt Co.—A.W. "Pete" Smith Jr. to president and chief executive officer and Paul R. Daoust to chief operating officer and executive vp—take effect Aug. 1, not Jan. 1 as incorrectly reported in the July 19 issue.

• Lloyd's of London syndicates 90 and 334 continue to be managed by Pulbrook Underwriting Management Ltd., a unit of Merrett Underwriting Holdings Ltd. A July 19 article incorrectly reported that they were formerly managed by Pulbrook.

Boundaries of conduct
EEOC proposes broader liability for employee harassment

By SALLY ROBERTS

Employers will face greater liability for employee conduct if new, broader harassment guidelines proposed by the Equal Employment Opportunity Commission are adopted.

Sexual harassment already is covered under 1990 EEOC guidelines, which make employers liable if they knew or should have known of harassing conduct and failed to take immediate and appropriate corrective action.

The new EEOC guidelines proposed earlier this month would extend that liability to harass-

ment involving race, color, religion, national origin, age and disability, as well as gender.

The proposed standard also protects individuals against harassment based on characteristics of their relatives, friends or associates that fall into one of the protected categories.

The changes were proposed because "there is so much other harassment going on in the workplace" in addition to sexual harassment, an EEOC spokeswoman said. Another reason for the change is that it would be useful to have consolidated guidelines to determine whether particular

conduct constitutes harassment under various federal anti-discrimination statutes.

The EEOC already had separate guidelines for harassment based on national origin, age and disability, but there were no set guidelines for harassment based on race and religion.

In addition to expanding the protected categories, the proposed guidelines would also adopt the "reasonable victim" standard when assessing harassing behavior. Previously, harassing conduct was judged from the perspective of a reasonable

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Tort reform setbacks

Alabama strikes
punitive award cap;
Arizona reforms
delayed until vote

By MICHAEL SCHACHNER

Two state tort reform packages—one established and one brand new—have been derailed at the hands of a state supreme court and angry trial lawyers, respectively.

Late last month, the Alabama

Supreme Court ruled that a 1987 cap on punitive damages violates the state's constitution by impairing a jury's traditional function of awarding damages commensurate with wrongdoing.

And in Arizona, the heart of a sweeping tort and insurance law that was to take effect July 17 was put on hold after a group of trial lawyers and several victims' groups garnered enough signatures to obtain a public referendum on key elements of the law.

Operating as Fairness & Accountability in Insurance Reform, the groups secured more

than 100,000 signatures and succeeded in having the measures put on the November 1994 ballot.

One element of the reform package that will be subject to the referendum is government immunity from liability involving road and bridge maintenance in cases when the government was not grossly negligent.

The referendum also contains:

• A comparative fault provision that would let juries deny recovery to plaintiffs who are more at fault than the defendant.

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Global insurers,
benefit networks
to be listed

Deadlines are approaching for two *Business Insurance* directories.

One directory will list global property/casualty insurers, and another will include multinational employee benefit networks. These directories will be published in the Oct. 4 issue, which will contain a spotlight report on trends in the international insurance marketplace.

There is no charge to be listed; however, companies must do business in countries other than those in which they are based. To be listed, companies must complete a BI questionnaire and return it by the Aug. 23 deadline.

If your company is a global property/casualty insurer or a multinational benefit network and you have not yet received a questionnaire, please request one by calling Cindy Bloom at 312-280-3195.

Brokers must adapt
to needs of buyers,
executive contends

By JAMES M. BURCKE

TOKYO—As risk management techniques become more sophisticated, brokers will have to beef up the products and services they offer to risk managers in order to survive, a top brokerage executive contends.

However, despite the development of advanced risk management strategies and the growth of alternative risk financing mechanisms, insurance brokers still have a major role to play, says Richard M. Miller, chief executive officer of Willis Corroon Group P.L.C. in New York.

Large companies are downscaling, while "at the same time risk management departments are playing a greater role within their organizations and are taking an increasing (role) in alternative risk financing," Mr. Miller said at the 29th International In-

urance Society Inc. meeting in Tokyo earlier this month.

"In other words, risk management expertise and sophistication is constantly growing, while staff size is not," he observed. Therefore, brokers will continue to be called upon to provide assistance in the areas of "program design, negotiation and administration and as a provider of industry intelligence."

However, brokers will be of little value to their increasingly sophisticated clients unless they offer top-notch services, Mr. Miller said. "Providing service for the client has perhaps never been as important as it is in our industry today."

Given the increased educa-

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Inside

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✓ The biggest Superfund challenge is the necessity of reaching a broad consensus on how to reform the law, this week's editorial says. **PAGE 8**

✓ A legal battle between banks and Lloyd's members in Canada over letters of credit could spark more fraud suits against Lloyd's, the members say. **PAGE 17**

✓ The A&P grocery chain finds complying with the Americans with Disabilities Act pays off. **PAGE 20**

✓ A bill in the Senate would bar employers from cutting retiree health care benefits while litigation over benefit reductions is pending. **PAGE 22**

✓ New York regulators have approved a 14% hike in

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Fears surrounding ADA fall far short of reality

By MEG FLETCHER

One year after the Americans with Disabilities Act took effect for most large companies, the realities created by the ADA appear far different than the myths that were circulating last summer:

Myth No. 1: Most employment-related charges will involve disabled job applicants who were turned down for positions or faced unnecessary physical barriers in taking them.

Actually, alleged illegal discharges account for nearly half—48.6%—of the 11,550 claims filed with the Equal Employment Opportunity Commission through June.

Only 12.9% of those charges actually involved hiring.

Myth No. 2: ADA claims will be extremely costly.

On average, claims are settled for only \$2,178 in wages and out-of-pocket costs, the EEOC reports.

Claims under the disabilities law are being resolved more quickly than other types of claims. In fact, the EEOC has resolved one-fifth of the ADA charges filed, said Peggy R. Mastrianni, the director of the policy division in the EEOC's office of legal counsel.

Only one key EEOC action under the disabilities law has



One company's ADA compliance efforts yield unexpected dividends. Page 20

gone to trial. In that case, a court awarded \$572,000—later reduced to \$222,000—against a Chicago security firm for dismissing an executive with brain cancer.

Myth No. 3: Requiring people to get EEOC right-to-sue letters will curb suits in state courts.

In reality, the EEOC routinely issues right-to-sue letters six months after ADA claims are filed.

Most attorneys do not wait for EEOC approval, instead suing immediately under favorable city or state anti-discrimination laws, said Herbert Semmel, litigation director of the New York Lawyers for the Public Interest Inc., which primarily represents people with disabilities.

They then add the EEOC com-

plaint to the lawsuit when the letter is obtained.

Myth No. 4: Employers will flock to buy insurance to cover ADA claims.

Insurers report only mixed results.

Employers were not interested in a relatively inexpensive stand-alone policy The Home Insurance Co. offered, so it was discontinued earlier this year.

Still, companies are more interested in purchasing ADA coverage through a broader employment practices policy. The cost of such coverage has dropped in recent months, according to insurers.

Myth No. 5: Workers compensation costs will rise because employers will be less able to screen out applicants whose disabilities make them more likely to be injured.

"All indications are that (higher workers comp costs) are merely a potential problem," said Eric J. Oxfeld, assistant general counsel with the American Insurance Assn. in Washington. "So far, members of the AIA report very few problems with the ADA and its interface with workers comp."

Similarly, workers comp costs have not decreased, as some observers thought they would, due to greater emphasis on return-to-work programs under the

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Happy campers at a day camp sponsored by a Bristol-Myers unit.

Camp Granada 1993: Companies sponsor science day camps

By DEBORAH SHALOWITZ

Summer camp 1968: Making potholders and ashtrays. Playing red rover and steal the flag. Indian names like Shawadasee and Ojibwa.

Summer camp 1993: Building rockets and bridges. Testing streams and soil. Corporate names like Bristol-Myers Squibb and AT&T.

Across the country, corporations are offering a hot new summertime benefit: science and technology day camps for children 10 to 14 years old.

Working with local park districts, schools and community organizations, at least 25 corporations are funding science-oriented day camps for adolescent children of employees. Most of the camps also are open to the community.

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Outlook is positive for insurer stocks

By JUDY GREENWALD

Insurance industry stocks have lived up to performance expectations so far this year and likely will keep pace with—if not outperform—the overall stock market for the rest of 1993, analysts say.

Insurance industry stocks are considered good investments in low-interest-rate, low-inflation environments, which help keep increases in loss costs down.

In the first half of 1993, insurance industry stocks have performed better than the general market. The *Business Insurance*



Stock Index—which tracks commercial insurance stocks, including brokers and health maintenance organizations—increased to 987.0 on July 16 from 954.4 on Dec. 30, a 3.4% increase. During the same period, the Standard & Poor's 500 average rose to 445.8

from 435.7 or 2.3%.

Analysts note, however, that insurer stocks have been volatile. The stocks outperformed the market at the beginning of the year by a wide margin, headed downward in February and have since rebounded with reports that inflation has subsided, said Gordon Luce, assistant manager at Brown Bros. Harriman & Co. in New York.

The stocks most frequently recommended by analysts surveyed by *Business Insurance* include American International Group Inc., Chubb Corp., General Re Corp. and SAFECO Corp.—basi-

cally the same stocks favored six months ago (*BI*, Jan. 25).

"The market for insurance stocks has been excellent this year," commented Michael Lewis, first vp for Dean Witter Reynolds Capital Markets in New York.

The continued decline in interest rates has had a positive impact on insurance stocks, as has some people's belief that the current soft market "is getting a little long in the tooth and will eventually, despite itself, turn," he said.

The favorable market for insurer stocks "should continue until interest rates start back up," he said.

Looking ahead, insurer stocks will do better than the overall market unless there is a renewed fear of high interest rates, agreed Gloria Vogel, first vp with Lehman Bros. in New York.

Other factors that could positively affect insurer stock prices are continued stability in the real estate market and visible improvement in pricing, she added.

But not everyone expects insurers to outperform the general market.

Mr. Luce said he expects insurer stocks only to keep pace.

"I would tend to think they'd

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Conference spotlights comp success

SAN DIEGO—Successful risk managers will share their secrets for holding down workers compensation costs at the *Business Insurance* Workers Compensation Conference.

The conference, to be held Oct. 17-19 at the Loews Coronado Bay Hotel in San Diego, will feature case studies of successful workers compensation programs established by employers around the country.

"Holding down workers comp costs is many risk managers' No. 1 concern," noted *Business Insurance* Editor James M. Burcke, one of the conference's co-chairmen. "Award-winning risk managers will address many different aspects of workers compensation cost control, including claims administration and management, risk financing and labor-management relations."

The conference, to be presented by *Business Insurance* and IBF/International Business Forum, will feature presentations by risk managers, including:

THE *Business Insurance* WORKERS COMPENSATION CONFERENCE

- Arnold Davenport, vp-risk management at Marriott Corp. in Bethesda, Md. and the 1991 *Business Insurance* Risk Manager of the Year.

- Michelle Patton, director/risk manager for MERVYN'S, the Los Angeles-based retailer.

- Susan M. Werner, director of risk management for Hardee's Food Systems Inc. in Rocky Mount, N.C., and a member of the 1987 *Business Insurance* Risk Management Honor Roll.

- Stephen M. Wilder, director of corporate risk management at The Walt Disney Co. in Burbank, Calif., and the 1990 *BI* Risk Manager of the Year.

- Millicent W. Workman, director of corporate risk management at Belz Enterprises in Memphis, Tenn., and the 1992 *BI* Risk Manager of the Year.

Other employer representatives who will speak at the conference include:

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Civil procedure reform meets stiff opposition

Proposal would streamline litigation

By GAVIN SOUTER

WASHINGTON—A diverse and powerful array of manufacturers, lawyers and other special interests will be lobbying hard this week to persuade Congress to throw out proposed court procedures designed to streamline civil litigation.

Unless Congress acts to change the rules, which have already been approved by the U.S. Supreme Court, litigants will be required to exchange basic information, including insurance details, before discovery begins.

Opponents of the changes—including insurance companies and big manufacturers—argue that the requirements are too vague, will increase litigation costs and

drag cases out even longer, and might lead to conflicts of interest between attorneys and clients. The changes will be particularly harmful to companies facing product liability suits, they say.

But reformers, including legal scholars and judges, argue that the alterations are only minor and have already proven effective in test runs.

On center stage at Senate hearings that open Wednesday are proposed amendments to the Federal Rules of Civil Procedure. The amendments are a response to the Civil Justice Reform Act of 1990, which aimed to expedite the judicial process (*BI*, Nov. 5, 1990).

The amendment drawing the
Continued on page 7

Funded covers

Continued from page 1
showing the cumulative effect of the change at once.

The Securities and Exchange Commission—which urged FASB to adopt the rule—has favored restatement over cumulative catch-up, and the catch-up option comes with various strings that may make it less attractive for some companies, said Alice Schroeder, FASB project manager.

Still, Ms. Schroeder said she expects to see a mix of restatements and catch-up adjustments among companies affected by the rule.

At least one ceding insurer has already restated its earnings: RLI Corp. of Peoria, Ill., announced July 15 that it has revised its earnings from 1990 through the first quarter of 1993 upward to reflect amounts due from reinsurers under contracts covered by the new rules.

No one has any firm idea, though, what the rule's industrywide balance-sheet impact will be.

One of the few indications of the potential impact is an estimate that \$1 billion or more of the total \$15.5 billion in losses from Hurricane Andrew is reinsured through funded cat covers.

Meanwhile, one thing most observers agree on is that the rule will virtually destroy the market for funded reinsurance programs.

"They are all gone. Period," said Tal P. Piccione, chairman and president of U.S. Re Corp., a New York intermediary that represented the Brokers & Reinsurance Market Assn. in discussions with FASB.

He predicted, though, that long-term reinsurance deals can still be structured in ways that meet both the risk-transfer requirements of Financial Accounting Standard 113 and the requirements imposed by the new rule.

"It effectively will kill the incentive to use funded covers going forward, given that it takes away the income-smoothing benefits," observed John H. Snyder, senior vp with A.M. Best Co. in Oldwick, N.J.

Non-publicly traded insurers that do not report to the SEC may still use funded covers "until the (National Assn. of Insurance Commissioners) catches up," imposing restrictions for statutory accounting similar to those FASB has adopted for statements prepared using generally accepted accounting principals, Mr. Snyder added.

The NAIC's Property and Casualty Reinsurance Accounting Study Group will review the FASB rule to determine whether the regulatory group needs to adopt similar restrictions, said New Hampshire Deputy Insurance Commissioner Robert Solitro.

Under a multiyear funded cover, a reinsurer places ceded premiums

into a segregated fund. A loss exceeding the amount in the fund creates a negative balance that the ceding insurer is obligated to repay with increased premiums or settlement adjustments, or—if the contract is canceled—with cancellation penalties.

In examining multiyear retrospectively rated contracts, FASB staff concluded that a ceding insurer's obligation should be considered a current liability "because it is a probable future sacrifice of economic benefits... as a result of a past transaction or event."

The amount of the liability will be calculated using what FASB has dubbed the "with-and-without" method, under which auditors will analyze the difference between the ceding company's total contract costs before and after a loss. These costs will include premium increases, settlement adjustments and costs related to impairments and

changes in coverage, according to FASB.

For example, if the limits of a three-year catastrophe reinsurance contract are wiped out by a loss in the first year, the reinsurer may eliminate coverage in the second and third years unless a loss is the third or fourth event of the year, or unless industrywide losses from an event reach a defined level, Ms. Schroeder explained.

While this represents a major impairment of coverage, the ceding insurer would still be obligated to pay the agreed-on premium for the second and third years, and all or part of this premium should be considered a liability, she said.

Noting that "asset and liability recognition are symmetrical," FASB also concluded that the reinsurer should likewise recognize an asset reflecting the ceding company's obligation to it.

By the same token, if a ceding insurer's loss experience is good and the company has built up a positive fund balance with its reinsurer, the cedant must report the positive balance as an asset and the reinsurer must report it as a liability.

FASB also concluded that "indefinite-term" contracts—those with retrospective rating provisions and no specified termination date—generally do not meet the requirements for reinsurance accounting and are instead financing transactions that should be accounted for as deposits.

Transactions that are not encompassed by the new rule would include: contracts where a retrospective rating feature is not obligatory; contracts that can be canceled by either party without further obligation; and contracts that include a single-year retrospective rating feature, since these do not create benefits or obligations in future accounting periods.

After announcing the rule earlier this year, FASB received a number of critical comment letters from insurers, reinsurers and brokers.

"It's taken 20 years, but with the (new rule) the accounting profession will have finally managed to shoe-horn the insurance business into a nice, bite-size annual reporting model that attempts to make insurance reporting look like that of a manufacturing company or utility," complained J. Heath Fitzsimmons, senior vp with Continental Corp. in New York.

"The formulation of a 'form-driven' rule will only serve to deplete the insurance and reinsurance industry of capacity and valid transactions will be swept out with the abuses," wrote James R. Fisher, senior vp with American Re-Insurance Co. in Princeton, N.J.

Mr. Piccione also predicted serious problems in the marketplace, where ceding insurers unable to replace funded reinsurance covers with acceptable alternatives may cut back their own underwriting, withdrawing from certain lines of business in certain states.

He also noted that while FASB is effectively restricting catastrophe reinsurance for U.S. ceding companies, government officials in the United Kingdom are considering allowing insurers to establish catastrophe reserves on a pretax basis, a move that would ease the capacity problem for U.K. companies.

The American Insurance Assn., meanwhile, reported to FASB that the majority of its members agree with the task force position on most of the issues encompassed by the new rule.

Details of the rule's provisions will be published in a couple of weeks as part of the minutes of the task force's meeting, said Ms. Schroeder, who said major accounting firms will have the details. **BI**

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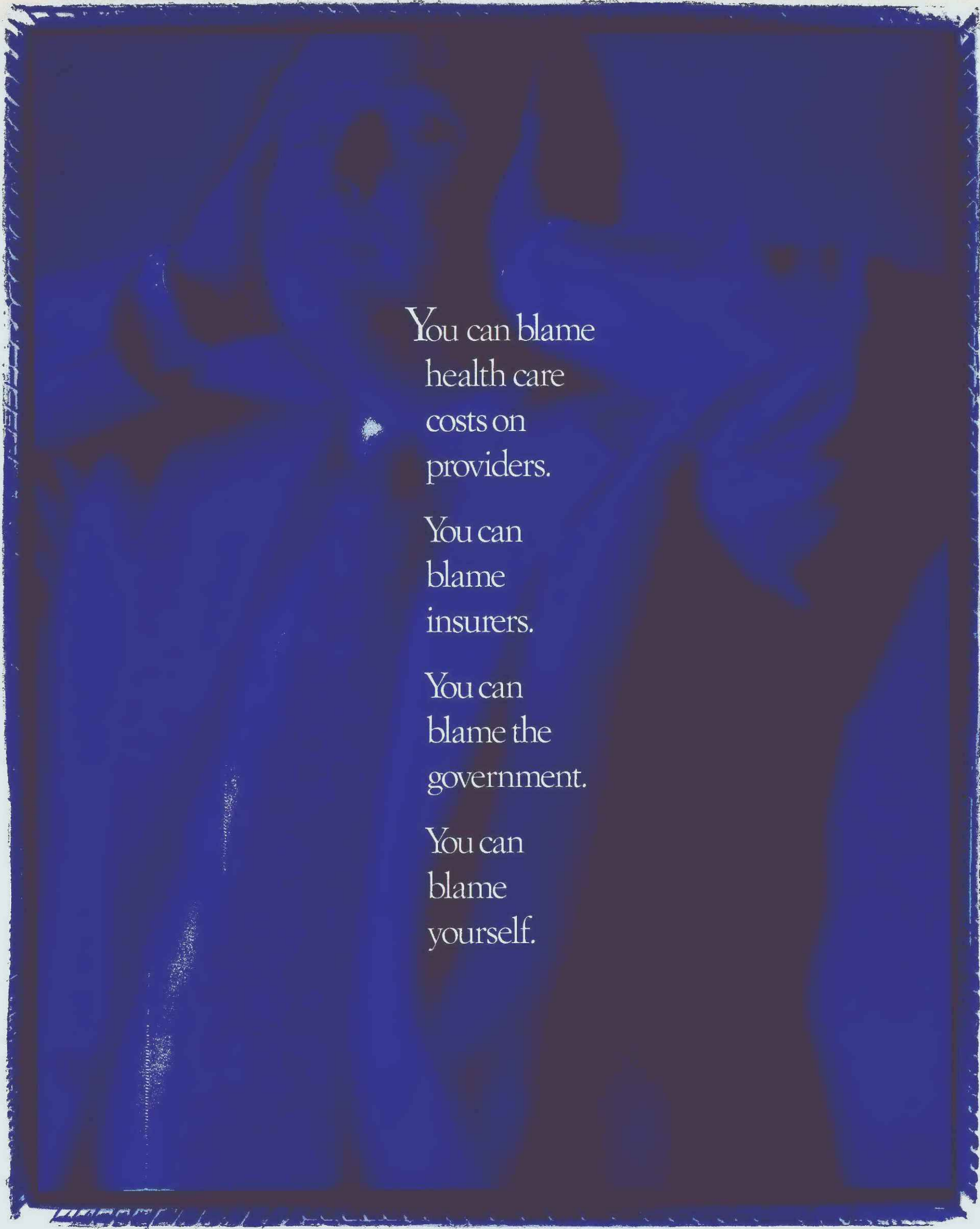


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Instead of pointing fingers, Wausau is developing solutions. Like ACCURESM, a database to check medical charges. CARE-LINKSM for answering health questions. PPO networks. 24-Hour Managed Care. 99% accuracy on group claims paid. You get results, not excuses.



GTE testing new family health centers

Benefit beat

TEMPLE TERRACE, Fla.—At a time when some employers are wringing their hands in frustration or waiting for the federal government to take action to solve the health care crisis, another company is attempting to "take it all on."

GTE Corp. recently opened two family health centers near Tampa, Fla., for 25,000 employees, dependents and retirees in the area. The two facilities—in Temple Terrace and Clearwater—are staffed full-time by three family doctors, a psychologist and a health educator.

The health centers also will provide laboratory, X-ray and pharmacy services. Patients who require medical treatment beyond the clinic's services will receive care from a local network of hospitals and specialists established by GTE.

The centers required a "significant" financial investment on GTE's part, but the Stamford, Conn.-based telecommunications firm is banking on a substantial return, said Richard Bohn, manager of the GTE Family Health Center in Temple Terrace.

"Our goal is to realize a 15% to 20% savings annually" over what the company currently spends to provide health care coverage for its employees and retirees, he said.

About half of GTE's workforce—which totals more than 106,000 nationwide—is covered by the company's self-insured indemnity plan, administered by Travelers Insurance Co. The remainder are covered by managed care plans.

GTE would not release figures on annual health care expenditures. However, Mr. Bohn said health care cost increases have been escalating 10% to 15% annually, and the company hopes the clinics will help moderate those increases.

"We plan to test this approach for two or three years and then step back and see what has been accomplished in terms of employee satisfaction, cost control, quality and outcomes, and health promotion," he explained.

The family health center facilities are managed by PHP Healthcare Corp., a medical facility management firm in Alexandria, Va. The centers are open weekdays during normal business hours, with some extended hours. Physicians are on call to handle off-hour emergencies.

Currently, only active employees, retirees and dependents in GTE's indemnity plan may use the centers. However, those with health maintenance plan coverage will be able to use the centers by August, when the center physicians become primary care providers for the HMOs.

There is no enrollment process, and employees, dependents or retirees can still seek treatment from other doctors and hospitals in the community. GTE has built financial incentives into the health centers to encourage use by employees. For example, office visits—which range from \$10 to \$40 at off-site providers—cost only \$5 at the centers.

In addition, people who use the GTE facilities will benefit from other discounts, like savings on prescription drugs, from providers serving the centers. "We will be able to keep the centers' costs lower because we have no profit motive in providing the X-ray, lab or other services," Mr. Bohn said.

GTE chose Tampa as the pilot site for its company clinic because so many workers, families and retirees live in the area. If the project is successful, GTE may build health centers in other locations where there is a high density of covered lives. "We may link up with other employers in areas where we don't have as dense a population, and we

may partner up with other employers in the Tampa area," Mr. Bohn said, noting that high patient volume helps keep provider rates low.

The company strongly believes in managed care. "We believe for the dollars invested, managed care gives more than illness coverage—it focuses more on prevention and health promotion," Mr. Bohn said.

Other large employers—including Southern California Edison Co. in Rosemead, Calif., and John Deere & Co. of Moline, Ill.—have built clinics to serve the health care needs of their workforces (BI, July 20, 1992; March 5, 1990).

—By Christine Woolsey

Domestic partners

BELMONT, Calif.—It costs very little for companies to extend medical and other insurance benefits to employees' unmarried domestic partners, according to a specialty broker.

Extension of benefits is inexpensive because few employees take advantage of the opportunity, and the covered domestic partners don't seem to pose any greater risk than the general population, according to Alburger Basso DeGrosz Insurance Services Inc., a brokerage in Belmont, Calif., that specializes in commercial insurance and employee benefit consulting.

The broker bases its conclusions on data from 12 Silicon Valley clients that have extended coverage to

both homosexual and heterosexual domestic partners of company employees.

"Surprisingly few people register their partners for benefits," remarked Vp Andrew Cohen. "An employer with several thousand employees may end up insuring additional dependents for only 10 or 12 people."

Domestic partner benefits can generate certain additional costs. Unmarried partners tend to incur higher medical costs initially than married partners, because many unmarried partners have been left out of the medical system for a while, Mr. Cohen explained.

Moreover, health maintenance organizations charge more to insure unmarried domestic partners, and self-funded plans also are at risk for

increased utilization, he said. But, since relatively few employees enroll their domestic partners, the overall cost to companies has been small.

Four factors tend to depress utilization for domestic partners, he said:

- The employee must disclose his or her personal relationship to the employer.

- Benefits paid to unmarried partners are taxable.

- Employees must sign a document declaring financial responsibility for the partner, which may cause future legal problems if there is a separation.

- Domestic partners must show evidence of insurability, and they can be turned down for coverage due to a pre-existing condition.

—By Nancy P. Johnson



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Discovery rules

Continued from page 3

most fire is rule 26(A)(1), which would require parties to provide certain basic information to opponents even before discovery begins, including:

- The name, address and telephone number of people who are likely to have discoverable information relevant to the case.
- A copy, or a description by category and location, of relevant documents and data in the possession of parties to the case.
- A computation of any damages claimed and materials, which are not protected from disclosure, on which the computation is based.
- Any insurance contract that is subject to claims.

Approved by the Supreme Court in April, the amendments will become law on Dec. 1 unless Congress acts. If Congress chooses to change

the amendments, it must do so before it recesses this year.

Congressional review of the rules started last month before the House Subcommittee on Intellectual Property and Judicial Administration. Those hearings ended without any indication which way the panel is leaning.

On July 28, the rules will go before the Judiciary Committee's Subcommittee on Courts and Administrative Practice, headed by Sen. Howell Heflin, D-Ala.

Even the Supreme Court itself split on the proposal, with three justices—Antonin Scalia, Clarence Thomas and David H. Souter—dissenting from the decision to approve the amendments.

"The proposed radical reforms to the discovery process are potentially disastrous and certainly premature—particularly the imposition on litigants of a continuing duty to disclose to opposing counsel, without

awaiting any request, various information," Justice Scalia said at the time.

Leading the opposition to the amendments is Alfred W. Cortese Jr., a lawyer with Kirkland & Ellis in Washington. His clients include interest groups like the Federation of Insurance Corporate Counsel, the Product Liability Advisory Council, the U.S. Chamber of Commerce and the National Assn. of Manufacturers.

The Assn. of Trial Lawyers of America has not taken a formal stand on the rule.

"Rule 26 was put in to try to achieve more efficiency and to reduce the time cases take. Instead, it would increase costs and make cases longer," Mr. Cortese said.

Faulting the new rule as too vague, he complained that courts will be inundated with motions to define what is "relevant."

Parties are likely to disclose too

much to avoid sanctions, Mr. Cortese contends. "This not only results in unnecessary expense for the disclosing party, but also wastes the resources of the party receiving the disclosure, who must take the trouble to sort through and analyze the material."

The reforms will be particularly costly to large corporations, according to Bill Kemp, an in-house attorney for Detroit-based General Motors Corp.

"I don't believe that most major corporations in complex cases such as products liability will be able to identify documents and warranties within a short period of time," Mr. Kemp said.

In some cases, the critical facts don't begin to emerge for three or four years, he said. "I don't see how a major corporation with operations throughout the country would be able to identify what would be needed."

Similarly, Charles E. Duroni, vp and general counsel at Hershey Foods Corp. in Hershey, Pa., argues that the changes would distort the legal process.

"It would inalterably force the contest of the parties away from a substantive resolution of the claims on the merits to a tactical pretrial contest having little or no relation to the merits of substantive claims and defenses," Mr. Duroni said in written testimony to the House rules committee.

Britain and Canada both use rules similar to the proposed U.S. rules. "But they have very different legal systems in that the complaints that are filed are very specific and there isn't the degree of guessing what would be needed like there would be in this situation," according to Samuel Witt, an attorney at Wombie Carlyle Sandridge & Rice in Winston-Salem, N.C. Mr. Witt is chairman of Lawyers for Civil Justice Ad Hoc Committee for Procedural Reform.

Ditching the rule would be in the interests of insurers and corporations as it would avoid further complicating the civil justice system, Mr. Cortese said.

Defense lawyers, of course, collect larger fees when cases drag on. But, he contends, "It is not in the long-term interests of lawyers that litigation should cost more."

Mandatory disclosure is also at odds with the adversarial nature of the U.S. civil justice system, Mr. Cortese said.

"Under present discovery rules, a litigant is responsible for identifying and seeking that information which might be relevant to his case. An opponent has no obligation to turn over any information unless and until it has been requested," said Mr. Cortese. "Mandatory pre-discovery disclosure turns this tradition on its head."

That is precisely why various legal scholars and judges find the new rules appealing.

"U.S. lawyers, in some districts more than others, seem to think that it's a terrible thing for lawyers to do anything that might help do things more rapidly and go against delays that might be in the interests of their clients," said Paul Carrington, a law professor at Duke University in Durham, N.C.

In fact, he said, the changes are not radical. Where they have been tried on an experimental basis, they have reduced costs. What's more, judicial districts that do not want to use the rules can opt out.

Lawyers and judges in the southern district of New York, for example, might be wise not to implement the changes, he said. "I'm sure that they would be used for a lot of time-wasting there. . . . Lawyers there are so hostile that they may take it as an opportunity to badger people more."

The new rules are already working well in the approximately 30 districts where they are being used on an experimental basis, Mr. Carrington said.

U.S. District Judge William Bertelsman of Covington, Ky., agrees.

"I've been using them on an experimental basis for going on two years, and all the problems which people talk about just don't happen," he said.

The rules speed up litigation, reduce the number of discovery motions and thereby reduce the costs of litigation, according to Judge Bertelsman.

And the rules are flexible enough to make allowances in cases "where there are warehouses full of documents," he said.

The rules have been applied to all types of cases, including product liability cases and they have usually proved to be beneficial, he said. **BI**

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Opinions

Key to Superfund success

NEARLY EVERYONE agrees that the current Superfund law does not work. However, in order to improve the law, a broad consensus must be reached on how it should be changed.

That's easier said than done.

Businesses and insurers had a chance to make major changes in Superfund in 1986, when the original law was reauthorized. They fumbled the opportunity. Business interests fought among themselves, mainly over the taxes assessed to hazardous waste producers that finance a portion of the Superfund program. As a result, the law was reauthorized with few significant changes.

We all know the rest of the story. Superfund has become an extraordinary expensive federal program, especially for one that does not work. A 1992 Rand Corp. study concluded that 88% of the money that insurers pay out in Superfund costs go toward transaction costs like legal fees; only 12% is used to clean up waste sites.

Businesses and insurers both know the problems that have been created by Superfund, and a wide array of lobbying groups has been formed in an attempt to solve these problems. Some groups again are focusing on the tax issue; others are attempting to ease the strict cleanup standards the government has set for Superfund sites; and still others, and we count ourselves in this group, want big changes in the liability provisions of Superfund, arguing that the strict, retroactive joint and several liability imposed by Superfund is simply not fair.

All of these groups—no matter what their agenda—make good points. But while everyone is entitled to their say on Superfund reauthorization, we are worried that too many different argu-



ments from too many groups could confuse legislators, which could lead to delay or diminish the chances for meaningful Superfund reform.

In other words, too many cooks could indeed spoil the broth.

While the debate over Superfund from all sides is good for now—it is raising legislators' and the public's consciousness over the need for changes to the law—at some point the groups must band together and decide what are the most important changes that must be made to Superfund.

No one—except those with an unrealistic idea of how pollution should be cleaned up—wants to see a repeat of 1986.

Letters

Workers comp policy does not protect officers

To the editor: There are circumstances that indicate a serious coverage gap exists in the standard workers compensation/employers liability insurance policy that, to my knowledge, is not currently being addressed by the insurance industry.

Here are the facts of a case: An employee enters a confined space, is overcome by toxic fumes and dies. A suit is brought by the next of kin against the officers of the company as well as the company itself. Also named as a defendant is the plant manager, who is not an officer of the company. The complaint alleges that the defendants "wantonly disregarded the safety, health and well-being of the employee" in not providing appropriate breathing and harness devices and in not training him properly.

In fact, the employee may have been provided with proper safety equipment and training and also may have violated the employer's safety rules. A factual determination will have to be made by a jury.

Does an individual executive officer of a corporation and the non-officer named as a defendant have coverage under the employers liability section of

the standard workers compensation policy? Does the insurer have a duty to defend?

Under General Section B of the policy, partners or the corporation are covered parties. However, the policy is silent of the issue of coverage for corporate officers or non-officer employees.

Directors and officers liability policies, as well general liability policies, exclude employment-related injuries. A standard D&O policy excludes "...bodily injury, sickness, disease, death or emotional distress of any person, or damage to or distribution of any tangible property..." The standard commercial general liability policy likewise excludes employment-related bodily injury unless contractually assumed.

Employers liability insurers do not deny coverage on the basis of "intentionally caused injury," but rather on the basis that officers and non-officer employees are not insured under the policy. Only the corporation is insured.

The reasonable expectation of corporate officers and other managers is that their workers comp/employers liability policy should defend these claims on their behalf since the injury arose from an employment relationship. Defense should be offered under a reservation of rights letter until it is judicially determined that the acts or omissions were "intentional." As only individuals can act for the corporation, which is insured, the individuals of that corporation should also be protected under the workers comp/employers liability policy.

It is my recommendation that either the current policy be revised by the National Council on Compensation Insur-

ance to reflect these reasonable expectations or an advisory NCCI bulletin should immediately be issued to interpret the current policy language, which is now silent on the issue.

Jesse Pagonis

Director of Corporate Insurance
Engelhard Corp.
Iselin, N.J.

■ *The National Council on Compensation Insurance responds: The workers compensation and employers liability policy (WCELIP) is governed by state statutes and judicial review. As a result, interpretation of the WCELIP is not the function of the NCCI, but is the responsibility of one or more branches of government.*

Mr. Pagonis suggests in his letter that various coverages should be provided through the WCELIP. In fact, however, the reasonable expectations of corporate officers and other management employees should be based on the WCELIP issued to them.

General Section A of the WCELIP is clear on its face that the insurance contract is between the employer named in Item 1 of the information page and the insurer. Item 1 identifies the insured by its entity status.

General Section B of the WCELIP states that coverage for partners is provided only in the partner's capacity as an employer of the partnership's employees.

Perhaps the coverages sought by Mr. Pagonis are available by means of insurance mechanisms other than the WCELIP. As a result, we would not agree that additional WCELIP coverage should be extended as suggested.

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Brokers' role

Continued from page 2

tional level and growing sophistication of risk managers, "there is increased demand for us as brokers to bring value-added (services) to the business relationship. The single most important need is for us to understand our clients' business, their needs and preferences. Next, we must be innovative in designing risk financing programs and being able to provide knowledge and exercise leverage on behalf of our clients in the insurance market."

Mr. Miller pointed out that lack of service is the No. 1 reason that risk managers change brokers. "And the tendency of risk managers to shop brokers—which as often as not is done to keep the incumbent broker on his or her toes—points to the fact that many times brokers are not providing the level of service or making the time commitments required to keep the client satisfied."

"Service means giving the client not just what they asked for, but what they would ask for if they only knew to. It means providing a level of service that anticipates and exceeds our clients' expectations. It means designing programs that save them money, tailoring products to their companies' special needs, anticipating those needs and then delivering," he said.

To give this type of service, bro-

kers must "know the client's business as well as our own and manage the client's bottom line as if it is our own," he noted.

Mr. Miller pointed out that the services a quality broker offers its clients have changed as the risk management discipline has evolved since its origins in the mid-1950s, through the turbulent 1980s and on through today.

"The reliance on the traditional insurance market, as was the case in the early '80s, should be considered a thing of the past—even during soft market cycles" like today's, he said, estimating that one-third of total premium volume is paid to some type of risk financing alternative. "These premiums will never return to insurance carriers."

"These changes in the approach to insurance buying and risk management, paired with the excess capacity in the property/casualty market, have created greater demands on brokers than ever before," Mr. Miller said. "Our role within the risk management triad—composed of risk manager, insurer and broker—is evolving. We are now as likely to serve as consultant and strategist as we are to serve in our more traditional role as broker or agent."

Opportunity for brokers, he said, has been created by the growing trend toward unbundled insurance services, like claims management, loss control and captive manage-

ment. Mr. Miller referred to a McKinsey & Co. study that said nearly three-quarters of all companies now purchase insurance-related services on an unbundled basis.

As risk management increasingly becomes an integral part of corporate financial structures, the advice that brokers supply to their policyholders is changing.

"We as brokers are acting more like investment bankers in many cases than we are insurance brokers. We are more often working in conjunction with our clients' senior financial officers to whom the corporate risk manager is likely to report," Mr. Miller said.

In addition, "the nature of advice that we as brokers offer is changing dramatically. Rather than seeking advice and buying insurance, the risk manager is now looking to us for our skills in strategic and technical expertise, market knowledge and contacts, and financial savvy to complement his internal resources."

Also speaking at the session was Jose Manuel Martinez Martinez, chief executive officer of Mapfre Corp. in Madrid, Spain, who outlined the Spanish insurance group's dramatic growth over the past decade.

The session was moderated by Patrick Peugeot, chairman and CEO of SCOR S.A. in Paris. **BI**

Insurers must pursue fundamental changes for success: Aetna CEO

By JAMES M. BURCKE

TOKYO—Insurers must "re-engineer" themselves if they are to win back the confidence of their policyholders, the chief executive officer of Aetna Life & Casualty Co. says.

"Through countless ups and downs of the pricing cycle, the industry's 'boom or bust' performance, the 'insolvency crisis' and the gradual alienation of the public, we have lost much of the trust and goodwill of the customers who buy our products and of the legislators and regulators who decide how and where we conduct our business," says Ronald E. Compton, Aetna's chairman, president and CEO.

The "key" to winning back consumer confidence is making big changes through re-engineering rather than just paying lip service to the need for change, Mr. Compton said during the opening session at the International Insurance Society Inc.'s 29th annual seminar, held July 11-15 in Tokyo.

"Re-engineering does not mean improving an existing process. It means fundamentally changing an existing process—or getting rid of it entirely," Mr. Compton explained.

"There will be winners and losers. The winners will be those who focus on four critical success factors: sharp focus on core business; disciplined financial programs to improve earnings and reduce expenses; re-engineering to radically improve business processes; and targeted programs to give employees the tools, training and support they need to succeed," he said.

This process will mean that insurers will have to pay more attention to the policyholders.

"Timetables should not be driven by internal processes but by what our customers demand. This requires us to rethink how we design products, how we pay claims and how we keep agents up-to-date," he said. "The best way to do this is to move the business as close to the customer as possible, giving each business the authority to make decisions it has to make to stay competitive."

And, competition in the insurance market surely will increase, another insurer executive said during the IIS seminar.

"Our industry has been very competitive and it will become even more competitive, driven by consumers who expect value for their money," remarked Jurgen Zech, deputy chairman of the board of management at Gerling-Konzern Versicherungs-Beteiligungs A.G. in Cologne, Germany, in a paper he delivered at the seminar.

"They are looking for insurers to give them excellent advice, good and generous claims handling and... the feeling they are well-treated," Mr. Zech said, noting that insurance consumers are "much better informed than they were in the past."

To better serve these consumers, Mr. Compton told insurers, "We need to get our house in order. We need to become more efficient: trim expenses and keep our administrative costs low, use technology to improve operations and service, discard processes that are inefficient and outmoded, explore new ways to provide products and services that customers really need and want, and train our people so that they are

knowledgeable and professional."

Some of this thinking is now appearing in how insurance companies are structured, he noted, explaining that the traditional "multiline" approach taken by many insurers no longer is appropriate.

"As a result, most large insurers have given up trying to be all things to all people and have ceased selling every insurance product in every market segment. Instead, they are focusing on strategic businesses that offer the best profit potential and getting out of lines or locations where they cannot service customers well or make a decent return."

Another effect of restructuring will be a focus on employee quality.

"We need the best effort of every single employee. With less management and a flatter organization, we encourage employees to assume more responsibility and authority," Mr. Compton said. "That, in turn, means we need to work in partnership with our employees to develop their skills, broaden their knowledge and give them continuous constructive feedback that enables them to stay on course in meeting their objectives."

Mr. Zech also called upon insurers to upgrade their workforces.

Insurance companies "need employees who are very good at dealing with people and who can project confidence," he told the IIS seminar.

In his paper, Mr. Zech noted: "One of the major tasks of an insurer is personnel development, as the quality of staff is the biggest asset of an insurer."

While insurers must focus on consumers and improve their staff to survive, Mr. Compton also noted that insurers must upgrade their financial performance and their solvency margins.

"The people who regulate insurance tend to be adversarial. They see the insurance industry as too volatile. What we see as the property/casualty cycle, they see as lack of stability. They have been frightened by the failure of many savings and loans in the United States and by a few highly visible insurance insolvencies," he said.

Part of the fear of insolvency—both by regulators and policyholders—is "fueled by the industry's poor financial performance," Mr. Compton reported, noting that U.S. property/casualty insurers have not posted an underwriting profit for more than a decade.

Mr. Zech said the future for most insurers will depend on how they perform in three key areas: customer orientation, risk and pricing evaluation, and efficiency.

Many insurers, he said, have made their customers their No. 1 priority while, at the same time, losing sight of the fact that they also must make a profit to survive.

"My point is not that we should give up customer orientation but that we should strike a better balance between these three key factors."

Also speaking at the session was Takashi Onoda, president of The Sumitomo Marine & Fire Insurance Co. in Tokyo, who explained the fundamentals of the Japanese insurance market.

The opening session was moderated by William G. Poortvliet, chairman of New York-based Metropolitan Life Insurance Co.'s international units. **BI**

A lack of understanding

By KATE McILWAINE

TOKYO—U.S. rating agencies receive low marks when assessing foreign insurance companies, two executives say.

Aad G. Jacobs, chairman of the executive board of Internationale Nederlanden Group in The Hague, Netherlands, complained that U.S. rating companies do not understand the European insurance industry. "They look at European companies, which are different, through American eyes," he said.

In addition, he said it is impossible to "get a straight answer" from rating agency officials. If a rating is lowered, the rating agency can't give "a straight answer" about how an insurer can regain its rating, he said.

Europe needs its own insurer rating agencies, Mr. Jacobs contends.

Robert M. Baylis, chairman and chief executive of investment bank CS First Boston Pacific Inc. in Hong Kong, observed it is "unusual to find any (insurance) company that loves the rating companies."

However, Mr. Baylis said, insurance rating agencies are more negative than they should be because they were late, four to five years ago, to recognize insurance company asset deterioration and are now trying to "get ahead of it."

Mr. Baylis said rating agencies are businesses and therefore need to be "at the cutting edge and have something smart to say." That has changed their "personalities," he said.

Mr. Baylis said he would welcome the development of European rating agencies.

"It would be interesting to have a European agency that worked in competition with the U.S. and might help to rebalance (American agencies') views," he noted. However, Mr. Baylis added, a European rating company would have little benefit for U.S. institutions until the European agencies are accepted in the United States.

The two executives spoke about rating agencies during a session,

U.S. rating agencies off the mark: Insurer

"Evaluating Company Performance: Staying Competitive and Solvent," at the International Insurance Society Inc.'s 29th annual seminar in Tokyo.

Dissatisfaction with ratings apparently led two Japanese insurance companies to withdraw from Standard & Poor's Insurance Rating Service after receiving downgrades earlier this year (BI, July 12).

Rating agencies often require higher solvency standards than do regulators, which can lead to confusion, according to ING's Mr. Jacobs. Rating agencies often have less information about a company than regulators, which may contribute to the higher standards they require, he added.

However, if regulators set adequate solvency requirements, there is no need for rating agencies to impose stricter standards, Mr. Jacobs complained. Policyholders may draw wrong, unjust conclusions about a solvent company based on a low rating from an agency, he added.

Rating agencies' assessments consider, among other things, the quality of insurers' investment portfolios, proposed business developments and solvency levels.

"Solvency is a criteria for assessing claims-paying ability, but not the only one," Mr. Jacobs said. Insurer management's perception typically is that maintaining solvency is a cost, and management's responsibility is to reduce costs, he said. To be competitive, an insurer has to minimize its costs and, thus, its solvency margin.

However, regulatory authorities, which were established for policyholders' benefit, require solvency levels to meet defined standards, Mr. Jacobs said. Regulators have adopted conservative accounting principles and high solvency standards, he noted.

But there is a contradiction in that consumer protection requires high solvency levels but more attractive rates are possible with lower solvency requirements, Mr. Jacobs said.

An adequate solvency level is in the insurers' and the policyholders' interests, but too high of a level is not, he said.

Meanwhile, First Boston's Mr. Baylis observed that insurers have, in the past, chosen premium growth over profitability. "The cumulative effect of growth in the non-life sector is usually overcapacity and heavier competition, which lowers prices and reduces profit margins."

The product distributors have gained control of the market and their strategy is to increase volume, rather than build profits, Mr. Baylis said.

Managers are making decisions based on what agents' opinions of their actions will be. Underwriting companies' managements are "in glass houses" worldwide, and their actions influence opinion of their companies, he said.

Asked whether insurers should be expanding into new geographic regions, Mr. Baylis said any company with excess capital, providing it is real excess operating capital, needs to look at why it would want to go into another region. It needs to contribute more than just money for such ventures to succeed, he added.

He said China will be the world's biggest insurance market in 25 years. Japan will allow access by some "outsiders," but the movement of foreign insurers into Japan and deregulation of the Japanese market will be slow.

Mr. Jacobs, responding to the same question on underwriting expansion, said insurers should expand, but warned investors to "be selective. . . I would not invest my money in the reinsurance industry."

Mr. Jacobs' company, Internationale Nederlanden, has pursued an aggressive acquisition policy over the past 20 years, buying 12 other companies in that time. But about 10 years ago, it also began building new operations in countries like Japan from the ground up.

The session was moderated by John R. Gardner, president of Toronto-based Sun Life Assurance Co. of Canada. **BI**

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Sky isn't falling, insurer exec says

But insurers can reduce cat losses

By KATE McILWAINE

TOKYO—Despite reports to the contrary, the frequency of natural disasters has not increased when viewed in the perspective of long-term patterns, an insurance executive contends.

There are many "informed papers" that suggest the "so-called greenhouse effect" and global warming have contributed to an increase in natural disasters, noted E. John Cloney, chief executive officer of QBE Insurance Group Ltd. in Sydney, Australia.

However, it is "wrong and presumptuous" to draw the conclusion that man is totally responsible for "the recent weather aberrations because of industrial activity," he said.

Climatic fluctuations have occurred over thousands of years, and those who say there has been an increase in weather-related catastrophes in the past 30 years are ignoring the longer-term historical record, he said.

Nevertheless, the insurance industry's losses will increase as catastrophes continue, according to Mr. Cloney. Greater population density and higher values at risk mean the insurance industry will pay more for catastrophe losses in the future, he said.

The insurance industry could mitigate its losses by refusing to insure some risks or insisting on minimum standards of building codes, Mr. Cloney suggested. For example, he said, houses and industrial facilities throughout the world have been built near—even on—faults in the earth's crust.

In fact, hospitals, even in earthquake-prone California, have been built on fault lines, he pointed out. "Such construction is asking for di-

saster," he remarked.

Mr. Cloney said tougher building codes have been implemented in some earthquake-prone areas, but they need to be better monitored for compliance.

In addition, many buildings are unable to withstand windstorms, even though it is relatively inexpensive to fortify their construction, he said. "Nearly all forms of construction can be made wind-resistant by suitable modification, adding no more than 5% to the cost of a house."

However, these tougher building standards often are not enforced.

For example, the Eastern seaboard of the United States is vulnerable to severe hurricane damage,

but wooden-frame construction incapable of withstanding windstorms remains dominant in the region, Mr. Cloney said.

In Australia, though, new building standards were implemented nationwide in 1975, after 60% of the houses in Darwin were leveled by Cyclone Tracy on Dec. 25, 1974, he said.

Insurers have a responsibility to protect against catastrophic loss, Mr. Cloney said. However, over the past 20 years, underwriting control and risk selection has given way to market-share philosophy and expense-cutting that has inhibited more technical considerations, he said.

"It is imperative that insurers, reinsurers, building engineers and local governments unite to identify

ways to reduce damage...and recommend their implementation rather than force insurers to take on substandard risks," he stressed.

Mr. Cloney said insurance rates should differentiate between good and bad property risks. Reduced catastrophe reinsurance capacity and higher reinsurance costs are forcing insurers to examine their exposures to catastrophic losses, he added.

Mr. Cloney also complained about the Australian government's refusal to make catastrophe reserves tax-deductible. During a later interview, he added that Australia is "a land of natural disasters" and insurers should be able to keep sufficient catastrophe reserves to pay losses without being penalized.

Shiro Horichi, executive vp of Tokio Marine & Fire Insurance Co.

Ltd., said insurers worldwide need to exchange more information on catastrophes so they can learn from each other's experiences.

He suggested the insurance industry must take steps to minimize catastrophe losses through:

- Estimating probable maximum losses more accurately through studies of frequency and size of disasters and the risks involved.

- Improving catastrophe reserve funding systems.

- Strengthening loss-control capabilities.

- Examining claims-handling systems.

Mr. Horichi observed that the Japanese insurance industry is rebuilding its catastrophe reserves after losses from Typhoon Mireille in 1991 demonstrated that more funds were required. Mireille cost the Japanese insurance industry about \$5 billion, he said (*BI*, Nov. 18, 1991).

Earthquake deductibles a possibility

SYDNEY, Australia—Some Australian underwriters are considering imposing separate deductibles for earthquake damage in commercial and personal property insurance policies.

E. John Cloney, chief executive officer of Sydney-based QBE Insurance Group Ltd., said his company first considered implementing earthquake deductibles after the 1989 Newcastle quake (*BI*, Jan. 8, 1990; Jan. 1, 1990).

Although QBE has not yet decided whether to introduce such a deductible, it remains a possibility, he said.

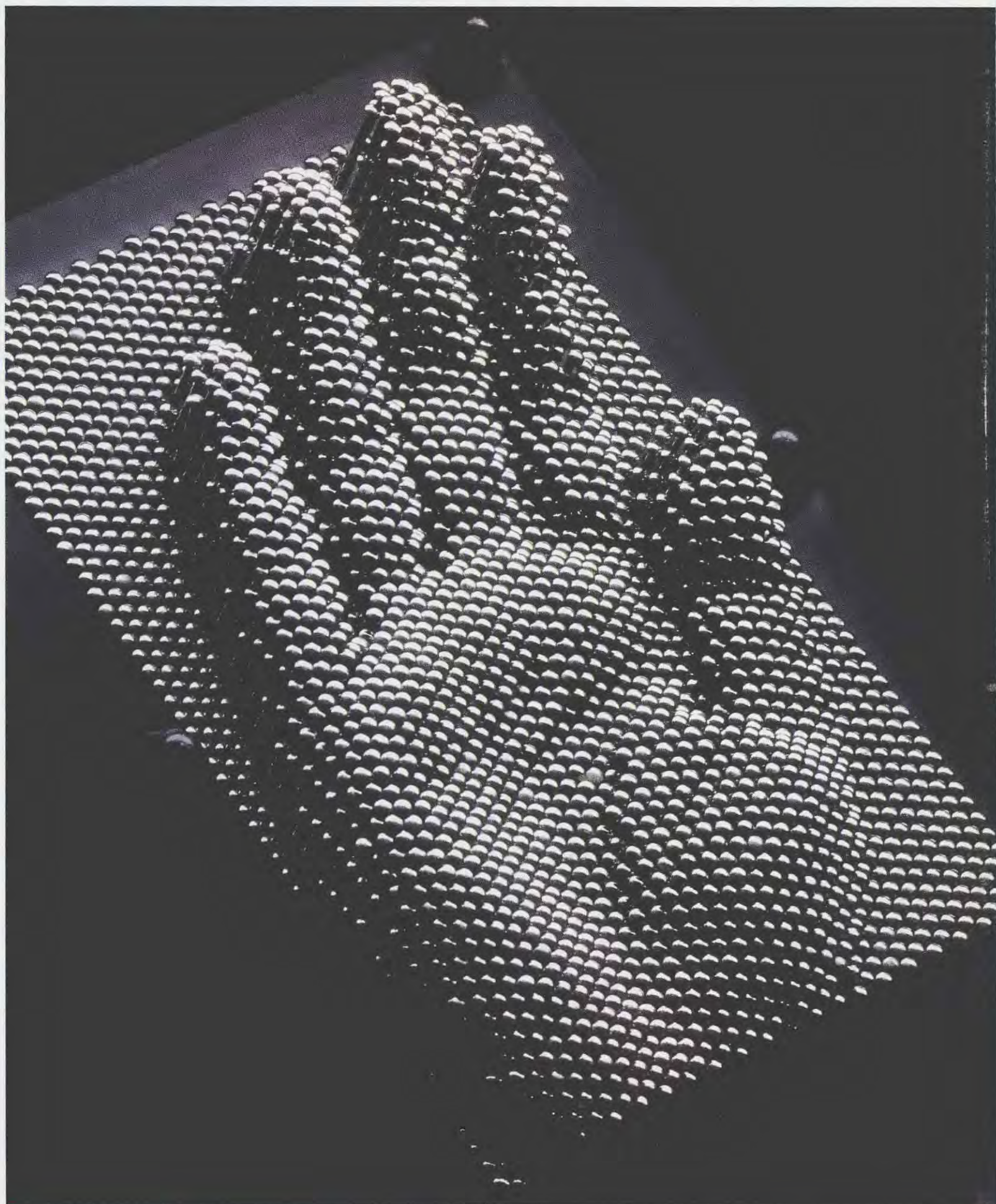
"Clearly, deductibles are too low, and it just encourages people to try to convert the crack in the kitchen into an earthquake claim, he said.

It is just "a matter of time" before separate earthquake deductibles are implemented "across the board," he said.

And all areas of the country would have such a deductible, not just areas identified as earthquake-prone. The city of Newcastle, for example, was not considered earthquake-prone before it was hit by the December 1989 quake.

"Deductibles could be driven by a desire not to have a lot of nickel-and-dime claims or the desire to reduce the need for reinsurance protection. It would make a dent in requirements," Mr. Cloney noted.

—By Kate McIlwaine



Preparing for global markets

By JAMES M. BURCKE

TOKYO—Insurers headquartered in developing countries must prepare themselves to compete with international insurers as barriers restricting global trade continue to fall, a Mexican insurer executive says.

"The opening of markets to foreign competition will surely happen in all places in the world sometime in the future, and most likely sooner rather than later," said Abelardo Angulo, executive vp of Group Nacional Provincial S.A. in Mexico City.

While insurers in developing nations initially are afraid of facing foreign competition in their home markets, they must realize the com-

petition can increase the size of the local market and benefit all players, Mr. Angulo said at the International Insurance Society Inc.'s annual meeting in Tokyo earlier this month.

"It is very clear to us in Mexico... that the opening of our economy will boost economic and social development," he said.

Eliminating barriers against foreign companies "will produce a more productive and employed society, which will certainly constitute a much larger market with the economic power to demand more quantity and quality of all kinds of products and services, including insurance of every line," he noted.

For example, insurance premiums, expressed as a percentage of gross national product, increased by more than 400% during the 1980s in

South Korea, which opened its insurance market to outside interests during that decade. However, during the same period, premium volume as a percentage of GNP increased by only 38% in Mexico, where the borders remained closed to foreign insurers. Mexico currently is dropping prohibitions against foreign insurers and foreign ownership of Mexican insurers. Foreign interests should be able to compete freely in Mexico by the mid-1990s.

However, Mr. Angulo noted that when opening borders, government officials must work with the local insurance industry to ensure that three basic guidelines are followed:

- Establishment principles. Foreign companies must formally establish themselves in the developing country rather than operate from

outside its borders. The same regulations that apply to local insurers also should apply to foreign companies.

- Time frame. A timetable must be carefully established to ease the transition to an open market. For example, regulators must first allow foreign companies to own minority stakes in local companies and then allow them to slowly expand.

- Legal frame. Laws and rules must be established to allow local insurers to attract foreign capital and modernize their products and services. Regulators should not create new costs for local insurers that also are not faced by foreign competitors.

In addition to these basic issues, individual companies in a country that is opening its insurance market must consider other points, Mr. Angulo said. These include:

- Strategies. Companies must assess the direction of the marketplace

and specialize in the areas in which they can make a difference.

- Organizational structure. Insurers must then focus efforts to preserve their local market advantages in each line that they want to write.

- Focus on service. Insurers in a closed market often operate in a vacuum, paying little attention to clients' wants and needs. However, insurers in opening markets must learn about their policyholders' preferences and then draw up an operating plan focusing on them.

- Strategic alliances. Insurers in opening markets must forge strategic alliances with both local and foreign insurers to acquire "resources," including capital and technological support, that they need but cannot furnish on their own.

The session was moderated by Manfred P. Straube, professor of commercial and insurance law at Vienna University of Technology in Vienna, Austria. **BI**

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IIS gathering attracts 640

TOKYO—Nearly 640 insurance company executives, academicians and others gathered July 11-15 at Tokyo's posh Hotel Okura for the International Insurance Society Inc.'s 29th annual seminar.

Registrants represented nearly 50 nations, while seminar speakers hailed from 14 different countries, noted John P. Myerholz, IIS president and chief executive officer.

The IIS is a non-profit education- and research-oriented organization with about 1,200 corporate and individual members from more than 80 nations. Most of the members represent insurance underwriters, with the bulk of the remainder being insurance professors and other educators.

The seminar is organized as an educational gathering. Industry leaders deliver presentations based on papers they have submitted, then the registrants are broken into small discussion groups in which topics raised by the speakers and other subjects of common interest can be informally discussed by industry executives and academicians.

While the papers and discussion groups focused on topics like insurer solvency, fraud and catastrophes, the most popular subject during breaks, receptions and dinners was the high cost of nearly everything in Tokyo.

Those costs—which included 2,700 yen (\$25) for a room-service cheeseburger at the Okura—were addressed tongue in cheek during the opening seminar by Josei Itoh, president of Nippon Life Insurance Co. in Tokyo and chairman of the IIS board of governors.

While the official exchange rate during the conference hovered between 106 to 110 yen to the dollar, the "unofficial" rate, according to Mr. Itoh, was really a much more generous—at least to the Americans attending the conference—171 yen to the dollar, based upon the 380-yen price of a Big Mac in the countless McDonald's outlets in Tokyo.

Next year's IIS seminar will be June 19-23 in Madrid, Spain.

For more information about the IIS, contact Mary B. Silberberg, Executive Director, International Insurance Society Inc., Box 870223, Tuscaloosa, Ala. 35487-0223; 205-348-8974; fax: 205-348-8973.

—By James M. Burcke

Curbing insurance fraud

More policyholder information can help reduce fraud: Reinsurer

By KATE McILWAINE

TOKYO—By seeking more information on the backgrounds and financial positions of potential policyholders, underwriters can reduce insurance fraud, suggests a reinsurance executive.

Banks seek information before giving loans to new customers, and underwriters can do the same before they agree to issue policies, observed Urs H. Winter, a member of group management at Zurich-based Swiss Reinsurance Group, at the International Insurance Society Inc.'s 29th annual seminar in Tokyo.

The incidence of fraud has risen to 10% to 15% of all claims from 5% in the 1980s, and the increase is continuing, he said, noting that fraud predominately affects automobile, homeowners, marine and fire insurance lines.

Fraud perpetrators include professional criminals and casual offenders. To stop the casual offenders, the industry must change its "rich, powerful and anonymous" image, Mr. Winter said.

Policyholders mistakenly compare insurance protection to a bank account and are tempted to "recover" the premium paid over many claimless years, he said.

A 1985 survey cited by Mr. Winter found 10% of respondents thought

insurance fraud was "OK." By 1992, that figure had doubled.

Insurers are far less discriminating than bankers, and the insurance customer's solvency is "too often not handled with the necessary caution," he said.

But the industry has several ways to combat fraud through its own version of risk management. For instance, insurers can avoid writing products that are particularly affected by fraud, develop higher deductibles to make it "economically uninteresting" to commit fraud or introduce alternative products to pay for minor losses. Major risks can still be covered traditionally.

Encouraging solidarity among policyholders by playing up the cost of fraud also can contribute to a better image for the industry, Mr. Winter said. Industry profits could be doubled—or premiums could be lowered—if fraud did not exist.

"Fraud ought to no longer be a socially accepted, pardonable crime," he said.

In a separate conference session, Jurgen Zech, deputy chairman Gerling-Konzern Versicherungs-Beteiligungs A.G. in Cologne, Germany, said insurers deal with crime at two levels: as victims and as compensators for victims.

Mr. Zech criticized insurers that promote "quick, easy and generous claims settlements."

Particularly after the huge wind-

storm losses in 1987 in the United Kingdom, some insurers advertised their prompt, easy claims payments, which only served to lower policyholders' inhibitions about submitting fraudulent claims and encourage a mentality of recovering from the insurer.

Complicating the issue is the fact that insurance employees are expected to handle numerous claims efficiently, even though they have no police detective training. And insurers worry that doubting a policyholder's honesty could damage future sales opportunities and the industry's overall image.

Society's changing values and the fact that insurance fraud, like tax fraud, is not viewed as a crime by many people, are also contributing factors to the increase in fraud, Mr. Zech said.

In many western countries, insurance fraud is "the fastest-growing industry in the world," said Teruo Numata, chief medical officer of Osaka-based Nippon Life Insurance Co., who spoke at the same session as Mr. Winter.

Fraud is embryonic in Japan, but showing "ominous signs of becoming a threat," he said.

Mr. Numata said fraud has never been a serious problem in Japanese society, and the nation's crime rate generally is lower than in the United States or Europe. However, because of Japanese cultural factors, com-

mitting suicide to obtain life insurance benefits is more common in Japan than other countries.

Mr. Numata noted that Japanese life insurance policies only exclude claims related to suicides for one year after the policy is issued, and statistics indicate suicide in the 13th month after policy issuance is "conspicuously high," especially in connection with large policies.

According to research quoted by Mr. Numata, nearly two-thirds more suicides are reported to Japanese insurers in the 13th month of policy periods than in the 12th, even though only 22% more suicides are reported in the entire second year that policies are in force compared with the first year.

The suicide rate in Japan is linked to economic condition, and the suicide rate began to grow near the end of 1990, when the Japanese economy started to cool.

The majority of those committing suicide are corporate executives or business owners, and it was clear "that the insured committed suicide with the intention to secure payment of death benefits."

In many cases, policyholders committing suicide are covered by a large face value amount of coverage and by multiple policies.

Red flags include the purchase of several policies in a short period of time, death of the policyholder soon after the policy is issued, a death that does not look "natural," and a corporate beneficiary that is in debt, he said.

Rudolph Ficker, a member of Munich Reinsurance Co.'s board of management, was moderator. **BI**

Reinsurer warns capacity inadequate for big catastrophes

TOKYO—Current global property insurance premium volume is insufficient to cope with an expected \$30 billion a year in catastrophe losses, a reinsurance executive warns.

"Even with an increase in catastrophe premiums, that doesn't produce enough money," says Walter Jakobi, executive director in charge of overseas treaty business and retrocessions with Gerling Konzern Globale Reinsurance Co. of Cologne, Germany.

Based on current trends, the insured cost of a single catastrophe could reach \$30 billion to \$50 billion, he said. To cope with these huge losses, reinsurance products need to be revised so the risk is shared more evenly, and insurers must limit their catastrophe exposures, he said.

Mr. Jakobi presented a research paper on the future of the catastrophe reinsurance market at the International Insurance Society Inc.'s annual seminar in Tokyo.

Mr. Jakobi said natural and man-made disasters have increased in frequency and severity over the last several years. Insured losses from Hurricane Andrew last year were \$17 billion, or 18% of the total U.S. property premium. And Andrew was not the biggest loss that could hit the insurance industry, he noted.

"An insured loss of \$30 billion to \$50 billion is no longer unimaginable when considering a new Great Kanto or a new 1906 San Francisco earthquake or, with a very low probability, an earthquake in northern Italy or a very major windstorm hitting the east coast of the U.S. or large parts of western Europe," Mr. Jakobi said. "Bear in mind that Japanese Typhoon No. 19 in 1991 was 15 times larger than the previous largest one for 30 years."

Shrinking capacity means reinsurers have to rely on their own net capacity because retrocessional coverage is expensive and not available in large quantities.

"In addition, it would contain a number of restrictions, regional or in regard to reinstatements," Mr. Jakobi noted.

While new capacity is coming into the market, it currently is balanced by withdrawals, he said.

As the size of insured catastrophe losses increases, the international insurance industry is no longer able to absorb them. The spread of risk has to be better balanced, Mr. Jakobi said.

"Insurers, as well as reinsurers, must improve their own risk management substantially. Loss prevention activities must be increased and loss adjustment skills improved," he stressed.

When insurers deliberately withdraw from a market after heavy catastrophe losses, as some are attempting to do in Florida after Hurricane Andrew, it is "a little too late," he said.

"They should have known their risk exposure beforehand or they should have tried harder to evaluate it," Mr. Jakobi said.

Insurers could reduce a portfolio's vulnerability to catastrophe losses by using exclusions, deductibles or limitations. Limitations are "a more elegant method" than exclusions, he said. Deductibles often are fairly small, but Mr. Jakobi said it is difficult to convince clients of the necessity of sensible deductibles on existing policies without a substantial premium reduction.

—By Kate McIlwaine

Educators inducted into Hall of Fame

TOKYO—Two longtime insurance educators and authors are the newest members of the Insurance Hall of Fame.

Kenneth Black Jr. and C. Arthur Williams Jr. were officially inducted into the 84-member Hall of Fame on July 12 during the International Insurance Society Inc.'s 29th annual seminar in Tokyo. The IIS administers the Hall of Fame.

Mr. Black, now regent's professor emeritus of insurance and dean emeritus at Georgia State University, arrived at what was then a one-degree college in Atlanta in 1953 and started to build one of the nation's largest insurance, risk management and actuarial science academic programs. Since his arrival, Georgia State has awarded more than 1,700 undergraduate and almost 2,000 graduate degrees in the three areas of study.

Mr. Black served as Georgia State's dean from 1969 to 1984.

Besides his accomplishments at Georgia State, he also has contrib-

uted to insurance education through his many books and articles. Along with Solomon S. Huebner of The Wharton School at the University of Pennsylvania, Mr. Black is the co-author of the textbook "Life Insurance," which has been used in the Certified Life Underwriter program. He also teamed with Mr. Huebner and Robert S. Cline of the University of North Carolina at Greensboro to write "Property and Liability Insurance," a standard textbook.

Mr. Black has written numerous other books and articles and for more than 30 years was editor of the Journal of the American Society of CLU and ChFC.

He was named chief executive officer of the IIS upon the retirement of its founder, John S. Bickley. Mr. Black served as CEO for four years, before stepping down last year.

Mr. Williams served for 45 years as a teacher of insurance and risk management at several universities in the United States and abroad.

He is best known for his association with the University of Min-

nesota, where he served as associate dean and later as dean of the College of Business Administration as well as chairman of the finance and insurance department. The college's Industry Chair of Insurance was renamed the C. Arthur Williams Jr. Insurance Industry Chair upon his retirement in 1992.

Mr. Williams is the author of 124 publications, including textbooks, technical articles and research studies. "An International Comparison of Workers Compensation Systems," published in 1991, is regarded as a landmark work in the field of workers compensation.

Besides his academic experience, Mr. Williams also has served on the boards of directors of The St. Paul Cos. Inc. and American Hardware Mutual Insurance Co.

The Insurance Hall of Fame was established in 1958 by Dr. Bickley under the auspices of the Griffith Foundation for Insurance Education at Ohio State University. The Hall of Fame is located at the University of Alabama in Tuscaloosa.

In addition to the Hall of Fame

laureates, several other honors were awarded at the IIS seminar:

• Orio Giarini of Geneva, Switzerland, was awarded the society's John S. Bickley Founders' Award Gold Medal. Mr. Giarini is the founder of the Geneva Assn., an organization that promotes the study of insurance issues around the world.

The award is presented to those who have made a creative or innovative contribution to insurance thought, practice or education on an international basis.

• Ronald P. Freres, a partner with Coopers & Lybrand in New York, and Edward K. Trowbridge, chairman and CEO of Atlantic Mutual Insurance Co. in New York, were presented the the Kenneth Black Jr. Distinguished Service Award, which honors those who have had a significant influence on the development of the IIS.

• Josei Itoh, president of Nippon Life Insurance Co. in Tokyo, received the Commissioners General Award, which honors the host country official most responsible for the success of the meeting each year. **BI**

August programming for Premium Dollar Today

The insurance cable television program "The Premium Dollar Today" will feature two all-new programs during August.

The half-hour show, which airs every Thursday at 6 a.m. EST on the USA Network, addresses issues in the insurance industry.

The schedule for August follows:

• Aug. 5. "Mental Health and Substance Abuse Insurance," with panelists John Barlett, vp and corporate medical director at MCC Behavioral Health Care; Jack Romeo, director of health care systems at Bethlehem Steel Corp.; Herbert Nieburg, director of outpatient psychiatry/substance abuse services at Four Winds Hospital; and John Phillips, chairman of Creative Socio-Medics. The program is being

broadcast for the first time.

• Aug. 12. "Solvency Regulation: The John Dingell Bill," with panelists Franklin W. Nutter, president of the Reinsurance Assn. of America; Jeffrey M. Yates, executive vp and general counsel of Independent Insurance Agents of America; Andrew S. Wright, vp-federal affairs of the American Insurance Assn.; and Richard G. Liskov, an attorney with Chadbourne & Parke. This broadcast is a repeat of a show that previously aired.

• Aug. 19. "Stress Claims at Work," with panelists David L. Durbin, assistant vp, National Council on Compensation Insurance; Donald Ellsberg, attorney at law; and Dr. Reed Moskowitz, medical director of the New York University Medical Cen-

ter/Stress Disorders Service. This also is a new program.

• Aug. 26. "Urban Dilemmas—The Chicago Flood," with panelists Jeffrey A. Burchill, vp of Protection Mutual Insurance Co.; Richard D. Rogers, deputy director of the Illinois Department of Insurance; and Sean Mooney, senior vp and economist, Insurance Information Institute. This program is a repeat.

"The Premium Dollar Today" is co-sponsored by Reliance National Insurance Co., The Society of Chartered Property & Casualty Underwriters, KPMG Peat Marwick Financial Services and A.M. Best Co.

Special editorial assistance is provided by Business Insurance and the American Council of Life Insurance.

Insurance stocks

Continued from page 3

be pretty much market performers as a group unless there's any significant turn in the pricing picture, and I don't think there will be," he said. "It's hard to see how they could go much further just based on interest rates and inflation."

Barring any watershed event, the most likely outlook is that the stocks will perform close to the overall market, agreed Ron Frank, an analyst with Smith Barney Harris Upham & Co.

There are two opposing forces at work, explained Mr. Frank. On the one hand, very favorable interest rates are boosting the stocks' performance, and interest rates are likely to remain at about the same level for some time.

On the other hand, the market has already "digested a fair amount of anticipation" about a turn in the cycle as well as enthusiasm for the low interest rates. "That's a factor on the negative side," Mr. Frank said.

"On balance, as long as interest rates remain favorable, the stock performance is likely to be overall close to neutral," said Mr. Frank. "I expect them to be more or less mar-

ket performers in line with the market."

"I don't think you're likely to see big moves into the shares until there's some certitude that pricing is improving, particularly in the liability lines," said Walter Fitzgerald, an analyst with RAS Securities in New York.

Analysts' individual stock recommendations are influenced by their perceptions regarding hardening rates in the property/casualty market.

For instance, Ms. Vogel recommends The St. Paul Cos. Inc. partly because, she said, "I think we'll see something dramatic (in insurance pricing) as we move along, and there's an awful lot of leverage in names like St. Paul."

David Seifer, vp with Donaldson, Lufkin & Jenrette Securities Corp., is recommending AIG, Gen Re and Chubb.

"These are the companies that could take advantage of the tightened conditions when others withdraw," said Mr. Seifer, who believes "the industry's already in a turn."

"We think these are three that will benefit," although it is unclear which one will do the best, he said.

Dean Witter's Mr. Lewis said his recommendations include AIG and Chubb because both are "capable of sustaining earnings growth in a cyclical industry and offering investors a relatively safe way of playing the eventual turn in the commercial property/casualty underwriting cycle."

In addition, "even with the strong performance by both companies, their valuation does not reflect either their earnings growth or profitability ratios."

AIG was the stock most frequently cited by analysts as a "buy."

AIG "has a very well-diversified earnings base, both geographically and in terms of business, and the market is only just now in the process of appreciating that and differentiating it out from its peers," said Mr. Frank of Smith Barney.

AIG is "showing good growth, and of course their expense ratio

Comp conference

Continued from page 3

• Lucy Gallagher, risk management representative for Bechtel Corp. in San Francisco.

• Thomas W. Manley, labor relations supervisor of Bechtel.

• Marie Robinson, corporate ergonomist-safety staff at Pacific Bell in Tustin, Calif.

A key feature of the conference will be three case studies presented by employers—Bechtel, Disney and MERVYN'S—that have adopted innovative workers compensation strategies.

The conference also will include luncheon speeches by Brent Winans, vp-risk management for Concord Services Inc. in Denver and risk manager for the Colorado Rockies baseball team; and Bill Kizorek, president of InPhoto Surveillance in Naperville, Ill.

Also featured are panel discussions, workshops and other presentations by risk managers, insurers, consultants and others on a variety of topics, including:

• Proposals to combine workers comp medical care with the overall group health care system.

• Establishing and implementing a successful ergonomics program.

• Selecting and evaluating third-party administrators.

• Minimizing fraud in the workers comp system.

• Self-administering workers comp claims.

• Workers compensation financing alternatives.

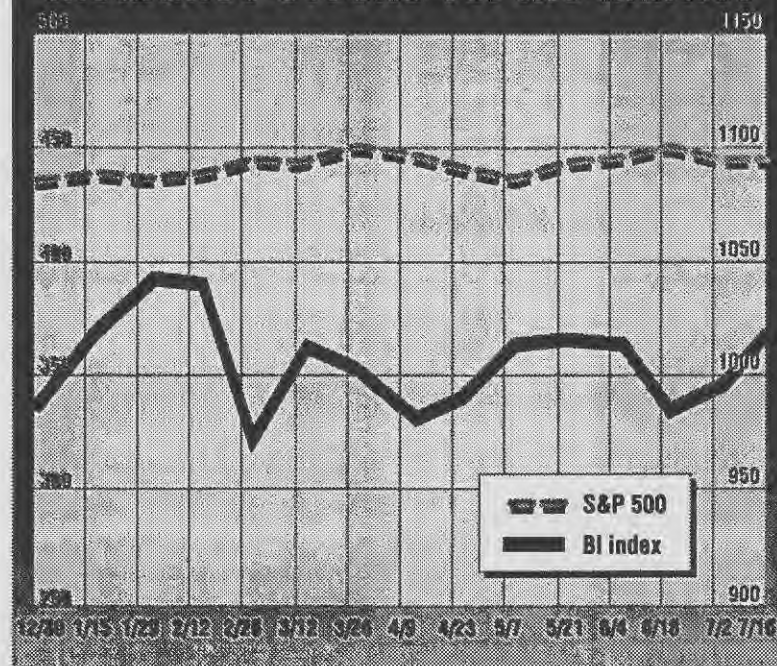
Corporate co-sponsors of the conference include: Commonwealth Risk Services Inc., General Rehabilitation Services Inc., Liberty Mutual Insurance Group, Marsh & McLennan Inc., William M. Mercer Inc. and USA Workers' Insurance Network.

The conference also will include an exhibit area where companies will explain and display workers compensation cost containment and administrative products and services.

The registration fee for the conference is \$595 for risk, employee benefit and safety managers; \$795 for others. A \$100 discount is available for those who register before Aug. 15.

To register or for more information, contact IBF/International Business Forum, 50 Charles Lindbergh Blvd., Suite 400, Uniondale, N.Y. 11553; 516-229-2375; fax: 516-229-2386. **[B]**

Insurance stocks vs. the market



GRAPHIC BY CHRIS ROY

is substantially below those of most commercial insurers," added Mr. Luce of Brown Bros.

Some analysts see California workers compensation insurance as a promising area for investment.

This sector "seems to be in the process of making a very strong recovery in fundamentals," said Mr. Lewis, who recommends Fremont General Corp. of San Francisco and Irvine, Calif.-based UniCARE Insurance Co., both of which focus on workers comp business.

Fremont was also recommended by RAS Securities' Mr. Fitzgerald, who pointed to the comprehensive workers comp reform law enacted in California earlier this month (see story, page 1). The reform package "was quite favorable, it seems to me, in terms of the impact such legislation might have had on the industry."

Given the reforms, this "leads me to suspect" that Fremont, which has shown improved underwriting the first half of the year, "will continue to show relatively high profit margins in the workers comp part of the

business," said Mr. Fitzgerald.

Furthermore, Fremont's stock sells for slightly more than eight times earnings, while a case could be made for it to sell at 12 times earnings, he added.

One analyst who is not recommending any insurer stocks at all is Daniel Murray, a senior analyst with Argus Research Corp. in New York.

"I just don't see any out there that are cheap," he said. "AIG and Chubb are two of the best companies in the business, but the whole group has run up in price over the past year and I just wouldn't be buying anything at these levels. I think they're vulnerable at these price levels."

Other stocks that were recommended by analysts include:

• Aon Corp. Aon has generated consistent earnings on its accident and health insurance business and has a much expanded brokerage business, said DLJ's Mr. Seifer, referring to its purchase of Frank B. Hall & Co. Inc. (BI, Aug. 3, 1992).

• Capital Re Corp. The financial

guarantee insurer is recommended by Ira Malis, vp with Alex. Brown & Sons in Baltimore. "I just think the municipal bond business appears to be a strong business," Mr. Malis said.

Capital Re is only now starting to produce the earnings growth of which it is capable and also is making a bigger entry into the mortgage guaranty business, which is a good use of its capital, he said.

• Harleysville Group Inc. Harleysville, which owns several standard commercial property/casualty subsidiaries, is a good stock for someone who wants to invest in an underwriter that will show a lot of earnings growth when the market turns, said Mr. Malis.

• Intercargo Corp. Intercargo, a customs bond insurer, should benefit from the expected computerization of the Internal Revenue Services' customs department, which will enable fraudulent importers to be tracked down more easily, said Joyce Culbert, an analyst with Chicago Corp., who recommends that stock.

• Mutual Risk Management Ltd. MRM "is our investment play on the growth in the alternative insurance market, or the self-insurance market, which seems to be one of the fastest growing segments in the property/casualty-related area," said Mr. Lewis of Dean Witter.

• SAFECO Corp. SAFECO's strategy is to increase production through existing agencies and pick up a bigger percentage of its agents' volume, said Mr. Luce, who recommends the stock.

It is a "high quality, well-managed personal lines-oriented company that knows its market well and has a good record of value creation for stockholders," according to Mr. Frank.

Business Insurance does not recommend the stocks listed in the BI Stock Index. BI reporters and editors do not invest in insurance industry stocks. Readers should contact a licensed stockbroker or investment adviser before making any investment.

Summer camps

Continued from page 3

The camps were developed by Boston-based consultant Work/Family Directions Inc., in conjunction with the American Business Collaboration for Quality Dependence Care, a consortium of 137 companies working to improve child care resources nationwide.

The summer camps, which generally offer several one- or two-week sessions, are being offered in nine cities in California, Illinois, Indiana, Massachusetts, New Jersey and New York. Most of the camps are open from 7 a.m. to 6 p.m. to accommodate children of working parents. Fees range from \$90 to \$145 per week per child. Some of the programs offer discounts to employees of sponsoring companies.

All of the camps offer adolescents hands-on science and technology experiences.

Through its consulting with corporate clients, Work/Family "found that there are few summer camp programs for children from 10 to 14 years old outside of those which are sports-oriented," said Mary Kay Leonard, vp. "The science and technology camps are designed to generate enthusiasm and interest in science for girls and boys at a time in their lives when many are just beginning to get turned off by the subject in school."

Work/Family tapped Girls Inc., a New York-based non-profit educational organization, to help develop the camp curriculum.

This year, 24 companies partici-

pating in the Work/Family program have spent a total of \$435,000 developing the camps.

The science and technology camps offer several sessions during the summer, each with a different theme. Children can attend any or all of the sessions.

The camps generally are based on a pilot program Work/Family developed last year with Bristol-Myers Squibb Co.-Mead Johnson Nutritional Group in Evansville, Ind.

Linda Minton, coordinator of employee services, said that the company last year gave \$40,000 to a local park district facility, Burdette Park, to start a science and technology camp for older children. The money was spent on staff training and buying start-up equipment like computers and software.

Bristol-Myers sponsored the camp because the company "was interested in (pursuing) some work-family initiatives," Ms. Minton said, particularly expanding infant/toddler care and summer programs for school-age children.

The camp last year attracted 167 children; about 25% were children of Bristol-Myers employees.

This year, Bristol-Myers gave Burdette Park another \$10,000, which was spent on more equipment, Ms. Minton noted.

Each of the five camp sessions has a different theme. For example, the theme of the second session of camp is water and the environment, Ms. Minton said.

Activities during this session include visiting a water treatment plant and a pool to see how water is cleaned and exploring what is found in a local creek.

The camp has been "very, very well-received in the community," Ms. Minton commented.

In Livermore, Calif., AT&T sponsorship is enabling the Livermore Area Recreation & Park District to offer four one-week camp sessions covering marine science, aerospace, electronics, ecology and biology topics.

AT&T provided a grant of \$35,000 to the Livermore Park District to establish the camp and operate it for three years. The grant money was used to pay for staff training and to buy start-up equipment like computers and recreation equipment, said camp director Maurine Kline. Fees paid by parents cover staff salaries and rent paid to the middle school where the camp is held.

Although the camp can accommodate up to 40 children, an average of 25 have registered for each session, Ms. Kline said. Twenty percent of the registrants are children of AT&T employees, she noted.

Activities include: building and launching model rockets; visiting a wind tunnel at the NASA Ames Research Center in Palo Alto, Calif.; and taking apart and putting together radios, telephones and stereos.

In Palatine, Ill., six companies have donated a total of \$35,000 to the Buehler YMCA to start a science

and technology summer camp. The companies include Allstate Insurance Co., American Express Co., Citicorp, International Business Machines Corp., Kraft General Foods Corp. and Motorola Inc.

However, only two of the camp's 30 registrants are children of employees of any of the corporations, noted Terri Pollock, program director for youth and family services at the YMCA. Children of employees of sponsoring companies had priority registration for the camp.

Ms. Pollock said she does not know why so few children of employees have signed up for the camp.

The start-up money was spent on computers, software and staff training.

Camp activities include: building with Christmas lights, batteries, buzzers and small motors; and creating a wetlands environment in a pan with dirt, water, clay, sticks, stones and water spray bottles.

The camp is held at the Little City Foundation, a residential center for developmentally disadvantaged children and adults in Palatine, a Chicago suburb. Some residents of the center are participating in the summer camp program.

Camp directors hope sponsors will continue to see the benefit of funding the camps. Directors noted that in addition to providing a service for employees of sponsoring companies, the camps provide a community service and generate positive public relations for the sponsors. **[BI]**

Berkley

Continued from page 1

easily outpaced the insurance industry average of 3.7%. And even though the wicked 1992 string of catastrophes helped add 2.6 points to the insurers' combined ratio, W.R. Berkley Corp.'s 104.9% still was far ahead of the 115.7% industry average.

But in most years, W.R. Berkley outpaces the competition. So, what's the secret? Why are its companies consistently more profitable? How does a holding company with only 33 employees in a three-story brick headquarters that could pass for a suburban high school operate so smoothly across the country?

Part of the answer is, of course, Mr. Berkley himself. But another critical part of the answer is his insistence upon letting regional officers make their own decisions based on their knowledge of specific regions and products.

"Way back in 1973, when we bought our first insurance company (Houston General Insurance Co., which the holding company sold 14 months later for nearly twice the purchase price), we said you make the most money in this business by having knowledge. Where's knowledge held?" he asks, rhetorically. "We knew then that the best knowledge was held by regional companies, and we still say that today."

"To most, the driving force in this business is lowering expenses, but to us it's knowledge of your products, knowledge of your territory, knowledge of your agents, knowledge of your customers and claims settlement knowledge. The key is to hire people with knowledge of regional markets and let them operate autonomously with guidance from the home office," Mr. Berkley said.

Tell Mr. Berkley this sounds like a real application of the 1990s buzzword "empowerment," and he'll smile and tell you that W.R. Berkley Corp. has empowered its employees from the start.

"I know most people have a difficult time differentiating between Bill Berkley the individual and this company as a whole, but the vast majority of decisions are made by people other than myself," he says. "It's a team approach here and it has to be, because I'm not good at all the things we need to do."

That philosophy has won him widespread admirers among employees, competitors and industry observers.

Michael Snead, chairman of two surplus lines insurers in the Berkley stable, Admiral Insurance Co. and Nautilus Insurance Co., said: "Probably 95% of what we do is on our own. The remaining 5% needs home office approval because it impacts other companies."

Mr. Snead commended Mr. Berkley for his ability to process information quickly and render decisions without much hesitation. "If you have an idea, you better be prepared to present it in two or three minutes and then get an answer right away. He may say 'yes' or 'no,' but he's just as likely to offer you a suggestion that's even better."

"He is one of the finest managers in terms of strengthening a stable of insurance companies," said John H. Snyder, senior vp of A.M. Best Co. in Oldwick, N.J. "He's an innovator as far as fostering autonomous operating entities that function off the guidance of the home office. Berkley's companies have the best of both worlds."

"We're different here because you don't have to do things one way," Mr. Berkley said. "I probably spend 20% of my time thinking, 20% doing and the remaining 60% cheerleading. My feeling is that most of our people know more about how to ac-

complish something than I do."

Empowering associates and delegating responsibility wasn't always the Berkley credo.

When running a \$25 million mutual fund at the tender age of 23, Bill Berkley thought he knew everything. Alienated by his brilliance and considerable wealth, his Harvard classmates also tired of his boastfulness and arrogance. One often-retold anecdote from those days had them smashing a cream pie

Corp. and Mr. Berkley himself avoid the stock market almost entirely when it comes to investment portfolios. Some 98% of the company's investments are in government bonds rated A or better, and Mr. Berkley personally invests in no stocks.

"Some people go for stocks and bonds. I buy companies, and over time it has been very rewarding."

In addition to his insurance holdings, he is chairman of Interlaken Capital Corp., which oversees all his

be the best ventures."

Insurance, however, has been Mr. Berkley's most successful service-based venture.

"Insurance is one of the few businesses that grows faster than the economy because insured values always rise in proportion to economic activity. Over the past 25 years, insurance has been one of the fastest-growing industries in the world."

Conventional wisdom has it that regional insurers—like the Berkley companies—are losing out to the superpowers. Mr. Berkley doesn't buy it; he contends that there is still room to expand his network. "As long as we anticipate what's to come, we should be able to continue to grow. We're an industry that has always looked back before looking ahead. That has to change."

According to Mr. Berkley, other changes need to occur for the industry to grow as a whole rather than in segments.

"The cost of the insurance transaction has become too great. There's no more trust between the insurer and policyholder. Some insurers believe it's their job not to pay legitimate claims, and that's a major problem. Other insurers are too worried about getting sued. Most of the industry is involved in everything but resolving claims in an efficient and fair fashion. It all adds up to an inefficient distribution system," he said.

Insolvencies and inadequate reserving practices are also preventing

the insurance industry from reaching its potential, he said.

"The need for some standard of reserving has never been greater in light of these recent catastrophes," he said. "I don't mind an under-reserved company, but I don't want to pay its claims after it goes insolvent."

Not being a gambler or an aggressive investor, seeing small insurance companies bidding for business with money they don't have turns him off. "Risk-based capital is very important because it will cut out the poorly capitalized, small company that just wants to buy market share. The problem with guaranty funds today is there is little risk in most enterprises buying from the cheapest insurers because ultimately the industry pays. All mechanisms today are geared toward subsidizing the most aggressive players and that needs to change," he explained.

"I'm a collector, and for 20 years we have been collecting good, solid regional insurance companies that are backed with capital. With the people around me, many of whom have been here from close to the start, there's no place else to go but forward. This industry needs dynamism; I'll do what I can for it."

If dynamism is what you're looking for, look no further than Bill Berkley, says Mr. Ingrey of F&G Re. "He's one of a kind. He's like the quarterback with excellent receivers and a great interior line. You just give him the ball and he scores." **BI**

'I know most people have a difficult time differentiating between Bill Berkley the individual and this company as a whole, but the vast majority of decisions are made by people other than myself.'

in his face out of contempt.

"This guy was very confident, there's no doubt. He said he'd be rich. He wanted to be one of the richest people in America. He was arrogant; he exuded it," recalled Dennis Duggan, a longtime reporter and now columnist for New York Newsday, who profiled the young entrepreneur in the late 1960s.

But Mr. Berkley has mellowed considerably. "Twenty years ago, I was sure I knew everything. Now I'm sure I don't," he says, blaming his early cockiness on youth and overly simplistic views.

"Now I realize this is a very complex business that you need to learn about. Age and mistakes teach you a lot. For instance, when it's you against the rest of the world, you should probably bet on the world no matter how right you are."

Not that Mr. Berkley has lost his edge entirely. He still enjoys being considered an unconventional leader in a stodgy industry—as long as profits don't suffer. And profits, to say the least, are not suffering—either personally or companywide.

Mr. Berkley now holds more than 15%—or about \$125 million—of W.R. Berkley Corp.'s stock. Forbes estimates his wealth at about \$265 million—a figure he calls "conservative"—and it includes a wide variety of outside investments, a prominent collection of American art and other personal artifacts.

Not bad for a boy from Newark whose first company, Berkley Dean & Co. Inc., generated a grand total of \$939 in revenues in 1967.

"Bill never has done anything halfway," notes Paul Ingrey, president of F&G Re in Morristown, N.J. "You can't argue with his record. He's made some great companies through the discipline of not competing in down markets."

Yet despite his success, Mr. Berkley remains a relatively private man. He's happiest spending time with his wife and three children. And the drive to collect companies in his professional life is paralleled in his private life by the penchant to collect a diverse range of things, including: model and toy trains, toy soldiers and port wine.

Make no mistake, though, business still drives him.

"Profit is sanity. Volume is vanity," he insists. "A lot of people in this business have spent tremendous amounts of time and effort getting large for the sole purpose of improving how the world perceives them. We realize that you can only use your capital once, so we're very risk-averse. The accumulation of more capital makes you less risk-averse, but you always have to value your money."

For that reason, W.R. Berkley

private investments, including large stakes in BancFlorida, a savings and loan based in Naples, Fla.; Northfield Cheese Co., based in Norwood, N.J.; and Strategic Distribution Corp., a distributor of industrial supplies in Greenwich.

"There are always opportunities to diversify. I then try to judge the business possibilities and the person behind the idea. Service-based companies and specialty niches seem to

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Business Insurance

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INTERNATIONAL

Gooda trial date pressures Lloyd's

By ADRIAN LADBURY

LONDON—With the first court date set for Lloyd's of London members suing over their losses, Lloyd's is under escalating pressure to negotiate an out-of-court settlement between members on loss-making syndicates and their members agents' errors and omissions underwriters.

But Lloyd's efforts to arbitrate between the two factions—assisted by the Commercial Court judges who are keen to avoid having the courts clogged with Lloyd's cases—appear increasingly hopeless.

Lloyd's is eager to settle the issue to speed up the introduction of corporate capital. Corporations are wary of investing in the market before the disputes are settled.

The deadline for members to submit their claims to Lloyd's panels exploring a marketwide settlement expired last Friday. But eight days earlier, the Commercial Court set the first date—April 26, 1994—for a major members action group's case.

"This means Lloyd's has got to come up with a settlement by Christmas, or it's a race for the finishing line," commented one action group leader.

Justice Saville, the Commercial Court judge presiding over most Lloyd's cases, called a meeting of the interested parties and their lawyers last month in an attempt to help rationalize the tangled mass of litigation.

According to meeting notes obtained by *Business Insurance*, Justice Saville recommends the parties settle preliminary issues that are common to all cases as soon as possible so the actual trials can be concluded within a reasonable time frame.

A key issue to be settled is the liability of members agents for the default of some managing agents. This will be dealt with as a preliminary issue on Sept. 14 in a suit brought by the Feltrim Action Group, which represents members on syndicates formerly managed by the Feltrim Underwriting Agencies Ltd.

If, as expected, the courts find that the members agents are liable for losses created by the managing agents in the Feltrim case and the members agents do not appeal, the issue would be settled by the time the Gooda Walker Action Group's case reaches the Commercial Court.

If the Feltrim decision is appealed, Gooda Walker names will probably have to await the outcome of the appeal before they can proceed.

Regardless of any delay, Gooda Walker members and the other action groups agree that the early trial date, coupled with the revelation that the Serious Fraud Office has commenced formal investigations into Gooda Walker Ltd., weakens the chances of a settlement and increases the possibility of a "dash for the E&O underwriters' cash."

A report commissioned by Lloyd's

Continued on page 19

Battle may spark more fraud suits

Banks ordered to honor letters of credit for Lloyd's despite members' charges

By ADRIAN LADBURY

LONDON—Lloyd's of London is claiming victory after a Commercial Court ruling ordered five Canadian banks to honor letters of credit issued on behalf of Canadian members who have refused to pay their Lloyd's losses.

The members, who accuse Lloyd's of fraud, say the banks will have to sue them for the cash to cover the LOCs.

That legal battle, the members claim, will give them a chance to prove their charges of fraud perpetrated by Lloyd's. That would provide vital ammunition to Lloyd's members who are alleging fraud in litigation with the society, they say.

Sources within Lloyd's, however, say that while the Canadian members may be successful in defending litigation brought by the banks, any ruling on fraud made in a Canadian court will not affect any cases brought against Lloyd's.

The Canadian members are hopeful they will win their case because, in the litigation with Lloyd's, the banks had argued that they should not be required to honor the LOCs because the members' case for fraud was strong enough to nullify the letters.

Justice Saville ruled on July 5 that the banks could not refuse to pay Lloyd's on the basis of their customers' claims, regardless of how valid they may be. He said the banks themselves would have to allege fraud against Lloyd's to have a case. He gave the banks until July 20 to produce a new defense.

But the new defense was little changed. The banks continued to argue last week that the court should stay proceedings until a ruling is made in the members' allegations of fraud.

Justice Saville rejected the argument and ordered the banks to pay the LOCs, plus court costs and interest.

"We're home and dry," said Don Kerr, a lawyer with Stewart McKelvey Stirling Scales in Halifax, Nova Scotia, which represents CHAG, the largest group of dissident Canadian members.

Mr. Kerr pointed out that apart from the banks' apparent recognition of the strength of the members' case against Lloyd's, Justice Saville had also indicated the banks could have a weak case against the members in subsequent litigation.

During his concluding address in the original July 5 hearing, Justice Saville warned the banks' lawyers about the possible consequences if they were to decide not to change their defense.

If a bank has notice of matters that might amount to evidence of fraud, then it must make up its mind whether the material is sufficient to justify a plea of fraud, Justice Saville said. If it is, then the bank can resist payment on this basis

and, if it can establish relevant fraud, it will be under no obligation to honor the LOC, he added. But he also said that if the banks incorrectly decided that there was insufficient evidence to plead fraud, they would have little reason to complain if they were not reimbursed.

Efforts to date by the Canadian members and others to directly bring their allegations of fraud against Lloyd's in non-U.K. courts have failed. Under Lloyd's membership agreement, any disputes must be brought in U.K. courts.

The most recent jurisdictional decision was made last December by the Ontario Court of Appeal, which ruled that allegations of fraud brought by a Hamilton-based group of Canadian members must be heard in the United Kingdom. Similar rulings have been made in U.S. and Australian courts.

The reason non-U.K. members want their cases heard outside the United Kingdom is because the burden to prove fraud in Britain is tougher than most other jurisdictions, according to Mr. Kerr.

Nevertheless, the Canadian members contend a Canadian court ruling upholding their refusal to pay the banks because of fraud at Lloyd's will help cases brought in U.K. courts.

According to sources at Lloyd's, only a few lawsuits have been filed in U.K. courts by Canadian members alleging fraud, but Justice Saville last week indicated he believes more will follow. The cases are not expected to reach the courts for another two years.

BI

Fonditaria share offering hits roadblock

GLOBAL BRIEFS

FLORENCE, Italy—Pressure from minority shareholders and Milan magistrates has forced debt-ridden Italian insurer Fonditaria S.p.A. to change its plans to raise 1.06 trillion lire (\$668 million) in capital.

The Florence-based insurer had announced a shareholder-rights issue in June, which was to be subscribed and underwritten by a group of Italian banks and organized by the powerful Milan-based merchant bank, Mediobanca (BI, June 21).

Critics of the rights issue charged that the highly discounted share offering would dilute the stake of the holding company GAIC S.p.A. in Fonditaria to 17% from 34%.

GAIC is partially owned by Ferruzzi Finanziaria, or Ferfin, part of the Ferruzzi family's agro-chemical, financial and energy group.

Shortly after the rights issue was announced, some shareholders of GAIC who are also shareholders of Fonditaria registered complaints that

GAIC's shares would be diluted. Included in this group is Denis Marie Ploton, chief executive officer of the French insurer Groupe AMA, which holds 6.8% of GAIC and 20% of La Fonditaria Assicurazioni, Fonditaria's property/casualty subsidiary. In a letter to Fonditaria, Mr. Ploton said he did not wish to dilute his GAIC shareholding, which would happen if GAIC's share in Fonditaria were diluted.

Originally, analysts did not expect GAIC to be able to take part in the rights issue because of the debt problems of the Ferruzzi family. Further revelations of the Ferruzzi debt have revealed that Ferfin alone owes a group of Italian banks 15 trillion lire (\$9.45 billion).

The corruption scandal has also affected Fonditaria. The Milan magistrates investigating corruption have indicated they are watching

events in Fonditaria with interest.

Those in attendance at the insurer's June 16 general meeting received a hand-written letter from Giuseppe Garofano, formerly chief executive of Montedison S.p.A., the Ferruzzi family's chemical company, and a managing director of Ferfin, stating that he wished to return to Italy to testify before the magistrates.

At the time, Mr. Garofano was one of Italy's most wanted men and was reported to be on the run in Switzerland in order to escape indictment on corruption charges. He allegedly embezzled funds from Montedison to pay off politicians. Mr. Garofano was finally arrested on July 18, and testified to Rome magistrates that Montedison and Ferfin balance sheets had been falsified in order to divert funds, via offshore companies, to the Christian Democrat political party.

A Fonditaria spokeswoman would not comment on either the shareholder-rights issue or Mr. Garo-

fano's allegations, but instead referred all inquiries to the company's extraordinary general meeting, scheduled for Aug. 2.

In a separate development, another Italian insurer has been implicated in the country's corruption scandal.

Salvatore Ligresti, president of the Turin-based Societa Assicuratrice Industriale, was arrested in July. Mr. Ligresti is alleged to have diverted funds to the Christian Democrat party through a captive life insurer. SAI allegedly set up the captive for the state-owned energy conglomerate, Ente Nazionale degli Idrocarburi. An SAI spokeswoman confirmed that Mr. Ligresti was arrested but said he still remains the president of the company.

—By Maria Kielmas

SACE probe begins

MILAN, Italy—The Italian government is conducting a major in-

Continued on page 19

Bermuda may unlock solvency data

By ROGER SCOTTON

BERMUDA

HAMILTON, Bermuda's insurance industry and government authorities are believed to be looking for ways to help U.S. regulators concerned about the unavailability of solvency information on the island's captive insurance companies.

The island is said to be considering measures aimed at allowing certain previously confidential information to be shared with U.S. authorities.

The initiative, which has not been confirmed by officials in Bermuda, is being considered against a background in which U.S. state insurance commissioners are complaining about a shortage of financial information about Bermuda-based captives. The National Assn. of Insurance Commissioners at its recent meeting adopted a resolution, which is a non-binding expression of the NAIC's opinion, that insurers and

reinsurers based in foreign nations with secrecy laws should be barred from writing business in the United States (BI, July 5).

Under the Bermuda government's confidentiality laws, annual solvency information provided routinely by each captive is kept strictly private. This information, which is filed with the Ministry of Finance's registrar of companies, includes non-sensitive statutory financial returns required under Bermuda's 1978 Insurance Act. The information also encompasses details of each company's business plan, the type of business it is writing, gross and net premium volume figures, details of assets and liabilities, and capital and surplus data.

The act also allows the registrar to request more information if needed.

The information-sharing initiative still is in its infancy, and Bermuda government sources have declined to discuss it.

Malcolm Butterfield, Bermuda's registrar of companies, asked U.S. regulators to defer action on their proposal to give Bermuda officials time to consider ways to cope with U.S. concerns.

Mr. Butterfield previously said that before the Bermuda government changes its confidentiality code, it will have to ask the insurance industry and others in the private sector of the economy whether "they consider confidentiality as important today as it was decades ago."

Mr. Butterfield's remarks have been interpreted to mean that the domicile's status has changed since the days when confidentiality was important because taxation was the prime reason U.S.-owned companies were established on the island. Now,

with many insurers in Bermuda electing to pay taxes as if domiciled onshore, the island's status as the world's leading alternative risk transfer center is considered to far outweigh apparent tax benefits.

Startup in the works

Former Focus Insurance Ltd. director David Thirkill plans to raise \$150 million to start a new financial insurance company in Bermuda.

Mr. Thirkill said the name Stellar Insurance already has been reserved with the registrar of companies.

In addition to financial insurance products, the proposed insurer is expected to underwrite property catastrophe risks. "There's no reason not to write both types of business if the capital is sufficient," said Mr. Thirkill.

Stellar could be in business within

Continued on page 19

ADA myths

Continued from page 3
ADA.

Myth No. 6: Union seniority rules will prevent employers from developing light-duty programs to help accommodate injured workers.

Despite lawsuits charging benefits discrimination, most unions are actually working hard to comply with the ADA, said James Ellenberger, assistant director of occupational safety and health for the AFL-CIO.

EEOC talks with the National Labor Relations Board to draft guidelines on this problem have broken off, though the EEOC plans to write its own.

Experts on the disabilities law attribute these myths to fear on the part of employers and insurers, as well as uncertainties in the act itself.

In the past year, employers with at least 25 workers have lived with the act and become more accustomed to considering the rights of the disabled and more willing to accommodate them, federal authorities say.

In addition, the EEOC has reduced some uncertainty—and plans to do more—by clarifying its approach to health insurance and other issues (BI, June 14).

Federal authorities also lessened employers' anxieties by taking action only in fairly egregious cases: when a self-insured employer and a union excluded coverage for AIDS treatment (BI, March 22, March 29); and when a firm discharged a manager with cancer (BI, Feb. 15).

At least one commonly held belief about the ADA has been borne out: The law has increased companies' defense costs and their need for legal advice.

Charges are being filed more quickly than the EEOC had ex-

pected: about 1,500 per month vs. a projected 1,000. An unspecified number of civil suits have also been filed against a wider range of employers in state courts nationwide. One advocacy group in Texas, for instance, expects to file 60 ADA-related suits against companies by September (BI, July 12).

"A lot of employers not familiar with the Rehabilitation Act had a significant learning curve," said the EEOC's Ms. Mastrianni. Under the ADA, as under the Rehab Act, many of the impairments cited in claims are back injuries (see chart, page 3).

For employers overall, though, "things have actually gone quite well," Ms. Mastrianni said.

"I think (the ADA) has had a substantial impact on people's attitude's and their willingness to make changes," said Mr. Semmel.

"On the other hand, there will always be a sizable number of businesses, non-profit organizations and governments that are unaware of their responsibilities or don't care," he added.

BI

ADA cutting some costs

A&P's compliance strategy has paid unexpected dividends

By MEG FLETCHER

MONTVALE, N.J.—The Americans with Disabilities Act has spurred food store giant A&P to make changes that already are generating cost savings while helping employees and customers.

After studying the law, The Great Atlantic & Pacific Tea Co. removed questions from its job application forms that were deemed inappropriate and began training managers to properly interview job candidates. The company also has improved accessibility for employees and customers at all locations.

A&P also has made a healthy dividend from an applicant screening

program for heavy-lifting jobs: The program was a primary factor in A&P saving \$5 million in workers compensation costs last year.

About 70% of new warehouse employees who have gone through the screening process begun in 1990 have not had back injuries. Previously, about 80% of new hires would have had back injuries, a company spokesman said.

"The A&P's policy has always been, and continues to be, to provide a safe shopping environment for customers and a safe working environment for its employees," said Carl J. Frey, corporate safety director. "We picked up on what we were doing and upgraded it to comply with the law."

The Montvale, N.J.-based chain operates 970 stores and 11 distribution centers in the United States, stretching along the eastern sea-

board from Maine to Georgia, and in Louisiana, Michigan, Mississippi and Wisconsin. A&P also has 240 stores and one distribution center in Canada. The company, with \$10 billion-plus in annual revenues, employs 90,000 people, including about 2,400 in distribution center warehouses.

A&P self-insures both its workers comp and its in-store liability exposures, Mr. Frey said. "It's all the more reason to control those losses because the first dollar hits our own pocketbook."

When the ADA was signed into law in 1990, A&P already was seeking to comply with state laws prohibiting discrimination against persons with disabilities.

A&P used the two years before the law went into effect to decide how the law would affect company

Continued on next page

Union obstacles to return-to-work programs can be overcome

LANDOVER, Md.—A return-to-work program for recuperating workers can operate successfully in a union environment, a food distributor says.



However, the program must be controlled or it can become "a gravy train" for workers and a "real headache" for employers, said Dan Dennison, manager of special projects for Giant Food Inc. in Landover, Md.

Giant has operated its program for at least nine years. About half the employers in the food distribution industry operate light-duty

programs, he said.

"Treated correctly, light duty in a union environment is not different from light duty in a non-union environment," he said.

"For a union to argue against it is sort of like arguing against motherhood and apple pie," Mr. Dennison said. Unions benefit from light-duty programs because employers maintain contributions to health and welfare funds for workers on light duty.

The key to a good light-duty program is to keep it temporary and to make sure line managers understand and support the program, he suggested.

Giant Food's policy is that a recuperating worker must be able to re-

turn to full, unrestricted duty in 90 days.

In one warehouse that employs 145 persons, nine people are on light duty, including employees in the physically demanding selector position. The selector removes specified products from racks and places them on a pallet for loading onto trucks.

Light duty for a selector who has been ordered by a doctor to lift no more than 25 pounds may consist of being assigned to work with a trainee who will lift the loads exceeding the 25-pound limit, Mr. Dennison said.

While unions do not pose a barrier, line managers may, he said.

"Line management is used to pro-

ductivity and people doing what they do at 100%. They have a difficult time supervising people on light duty," he said.

Managers must be educated about the financial reasons for light duty, which saves the company workers comp costs and results in some productivity. In addition, light duty is good for humanitarian reasons because it keeps the worker employed and prevents deconditioning, both physically and mentally, Mr. Dennison said.

Giant Food also encourages line managers to support its light-duty program through an incentive plan that rewards low workers comp costs.

—By Meg Fletcher

CSX captive

Continued from page 1

Insurance Co. of America in Newark, N.J. Under the proposal, Aetna and Prudential would continue to issue the policies, but CSX's captive, one of Vermont's largest, would reinsure 100% of the risk.

Rick Hamilton, general manager of the captive, CSX Insurance Co. in Burlington, says that CSX hopes to stabilize and eventually reduce the cost of group life insurance by reinsuring it with the captive.

While declining to be specific, Mr. Hamilton acknowledged there are other factors behind expanding the captive to cover employee benefit risks. "CSX considers all factors that might be relevant in any decision concerning the operation of a

captive," he said.

Captive experts say tax considerations likely are a factor in CSX's proposal. They point to several events—a number of court decisions and an Internal Revenue Service ruling last year—that may make it easier for a parent to deduct property/casualty premiums paid to a captive if the parent also uses the captive to fund employee benefit coverages.

"A lot of developments have come together," explained Yale Tauber, a managing director at William M. Mercer Inc. in New York.

Several appeals courts have ruled in recent years that parent companies can deduct premiums paid to a captive as long as the captive

writes a significant amount of unrelated business. In one case, the 9th U.S. Circuit Court of Appeals ruled that a parent company could deduct premiums paid to its captive even if as little as 30% of the premiums came from unrelated business (BI, Feb. 4, 1991).

In the other development, the IRS ruled last year that employers can deduct group term life insurance premiums paid to their captives because the premiums represent unrelated business (BI, April 26).

The IRS's reasoning, more than the actual ruling, has fueled employer interest.

In Revenue Ruling 92-93, the IRS said using a captive to fund employee benefit risks is different—for

tax purposes—from insuring property/casualty risks.

Employers can't take tax deductions for premiums paid to a captive insuring parent company property/casualty risks because there is no risk shifting, the IRS has said. The insurance subsidiary and parent are one "economic family" and, as a result, those who bear the ultimate burden of loss are the "same persons" who suffer the loss, the IRS said in 92-93, paraphrasing a 1977 ruling.

But the risk assumed when a captive insures or reinsures employee benefits is that of an employee who is not part of the employer's economic family, the IRS suggested in the ruling. As a result, a tax deduction for the premium would be allowed.

"After the premium has been paid, there is a risk relationship between the captive and the employee—who is an unrelated party to the captive," notes a forthcoming Mercer newsletter on funding benefits through a captive.

If a company funds employee benefit coverages through a captive, the captive might be considered by the IRS or courts as writing a significant amount of third-party business. As a result, a company might be able to deduct all premiums, including property/casualty premiums, paid to its captive.

But, before an employer can directly insure benefit risks through a captive, certain regulatory requirements—set by the Labor Department, which regulates benefit plans—must be cleared.

Those requirements, established in a 1979 Labor Department class exemption, include:

• The captive must be licensed

in at least one domestic state.

• No more than 50% of the captive's business can be generated by the parent. There is some ambiguity on whether the 50% ceiling refers to just benefit risks of the parent or all parent-related risks.

If the captive is used to reinsure—rather than directly insure employee benefit risks—an individual Labor Department exemption is required.

Mr. Hamilton said CSX would reinsure rather than insure the group term life insurance coverage because of a number of "gray areas" regarding the use of an insurer that is not admitted in most states to directly write the coverage.

Others note that state insurance regulators likely would object to a non-admitted insurer writing benefit coverages in their states.

If CSX receives Labor Department permission to reinsure group term life coverage through the captive, it would significantly increase the amount of business funded through the captive.

According to its filing with the Labor Department, CSX Insurance Co. last year had earned premiums of \$64.5 million, including \$56.4 million in insurance and reinsurance premiums related to property/casualty risks of the parent and affiliates.

CSX expects premiums this year of between \$7 million and \$9 million for the basic life insurance plan and about \$3.5 million in premiums for the optional plan, according to the filing with the Labor Department submitted by law firm LeBoeuf, Lamb, Leiby & MacRae in New York.

CSX Insurance Co. is managed by Alexander Insurance Managers (Vermont) Ltd.

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policies and operations.

A steering committee of senior representatives from safety, legal, human resources, field operations, and construction and design oversaw the process of complying with the new law.

Initially, the committee met every three or four weeks, with smaller subgroups meeting more often.

At one point, the committee brought in a representative who used a wheelchair. "We learned what it was like to be disabled," Mr. Frey said. That increased the sensitivity of committee members to accessibility issues, such as the width of grocery store aisles and the height of checkout counters and telephones.

However, A&P was already sensitive to such issues, Mr. Frey said.

Even before the act went into effect, the company helped a short cashier reach cash register keys by constructing a box she could stand on inside her checkout stand.

That kind of reasonable accommodation was voluntary at the time, but probably would be required under the ADA.

In another arena, the company conducted an ergonomic analysis of its warehouse operations to reduce load sizes wherever possible. For example, the duties of a warehouse selector include pulling items from tiered rows of stored merchandise, loading them onto pallets—often with the help of forklifts—and into trucks. To ease lifting, heavier items are now on low storage racks, and A&P convinced some suppliers to put handles on the sides of boxes.

Meanwhile, the committee found A&P was especially at risk of violating the ADA during job interviews, which facility managers conduct independently. To remedy this, the committee eliminated questions on application forms the ADA disallows, such as a pre-offer inquiry into prior workers compensation injuries.

Also, a handbook and a "how to" video are now used in an "extensive" training program for all managers. The committee made a list of the essential functions of some key jobs, like warehouse selector, and had additional eight- to 10-minute videos made demonstrating tasks specific to each job. Now, applicants are given the written sheet and asked to watch a video. Then they are asked if they can do the job.

If an applicant responds that he or she needs a reasonable accommodation, like a back belt, A&P will provide one, Mr. Frey said. Such belts are considered controversial (BI, April 26).

"But if he says he can do the job if given a \$10,000 electric cart, that may not be reasonable and is open to question," he said. Thus far, no applicant has requested expensive accommodations.

One issue of concern to A&P was whether the law would increase workers comp costs because it would be hiring more persons with disabilities, Mr. Frey said.

"What if" scenarios were analyzed by the committee. For example, would a deaf person have an increased risk of injury from a falling ladder because he or she would not hear a co-worker shout a warning?

After further research, the committee was not able to say that A&P would be at greater risk from hiring persons with disabilities, he said.

Another particular concern was the job of warehouse selector, which constitute 90% of distribution center positions. "It's a very physically de-

ADA overview

Source of ADA complaint:

Discharge	48.6 %
Failure to provide reasonable accommodation	21.9
Hiring	12.9
Harassment	9.8
Discipline	7.2
Layoff	4.9
Benefits	3.6
Other	33.2

Nature of impairment in discharge complaints brought under ADA

Back injury	17.3 %
Mental illness	11.1
Heart	4.9
Diabetes	3.9
Neurological impairment	3.9
Cancer	3.2
Epilepsy	3.1
Alcoholism	3.1
Blindness/visual impairment	2.7
Arthritis	2.5
Hearing	2.1
Learning disability	2.1
Drug addiction	1.9
HIV	1.9
Other	36.3

Source: Equal Employment Opportunity report on 11,550 charges through June 1993.

GRAPHIC BY KIMBERLY MART

manding job," Mr. Frey said.

A&P adopted a screening program in 1990 to weed out unqualified applicants who cannot lift maximum average loads, which are an essential part of the job.

Under A&P's screening program, an applicant who says he or she is capable of doing the job is put through a post-job offer screening program consisting of select medical tests and physical ability tests.

A combination of isometric and dynamic tests is the best way to analyze a person's ability to use the "whole body"—rather than specific local muscle groups—to do a job, said Charles K. Anderson, president of Advanced Ergonomics Inc. The Dallas-based consulting firm helped A&P develop this program.

The physical ability tests should be validated through scientific studies, Mr. Anderson said (BI, April 26). Although A&P's validation tests have not been reviewed by government agencies in connection with the ADA, two federal agencies have accepted them as verification for employers' actions under other federal laws, Mr. Anderson said.

A&P has spent approximately \$40,000 to develop and implement the screening program and maintain it since its inception. The program is the primary reason company's accident rate per 200,000 man-hours plummeted 68% to 30.7 in 1992 from 94.7 in 1989, Mr. Frey said. A&P plans to extend the program to its Canadian distribution center.

"The payback has been extremely high," Mr. Frey said.

Declines in the cost of injuries, especially back-related ones, translate into "significant" savings, he said. For example, a 21.8% reduction in injuries in 1992 compared with 1991 saved the company more than \$5 million, Mr. Frey calculates.

Despite these gains, the ADA still contains some "grey areas" that may take years to resolve, such as how light duty can work in a union environment, he said.

A&P has a formal program that allows light duty for retail store workers, but not for warehouse workers because "it's difficult" in a union environment in which such lighter-duty jobs typically go to the most senior union members. The company is studying the issue.

Since the ADA went into effect, A&P has received only a few minor complaints from persons with disabilities about access issues, which it has taken steps to remedy, Mr. Frey said. **BI**

California reform

Continued from page 1

ians for Compensation Reform, composed of 2,000 large and small employers—supported the package, which cuts workers comp costs through a variety of measures while increasing benefits to workers by \$747 million (see related story).

While employers are not completely happy with the reforms, they regard the package as a victory, said William George, the CCR's executive director. "The view of employers is, though (the reform) is not all we wanted, we're going to work so that it will achieve the intended results."

"The fundamental structure for reform was put into place," commented Ted G. Westerman, senior vp at Hughes Aircraft Co., an El Segundo-based General Motors Corp. unit, who was one of the final negotiators of the legislation.

"What they have done is establish objective criteria for the first time in workers comp," Mr. Westerman said. For example, absolute limits were placed on how many medical reports an injured worker can introduce into a case, he said.

In some areas of Southern California, a disputed case could generate eight medical-legal reports—at up to \$1,500 a report, he noted. Limits on those reports will generate a half-billion dollars in savings annually, he said.

But, by far the most important structural change is that employers are now allowed and encouraged to implement managed care procedures in the treatment of their injured workers, Mr. Westerman pointed out.

"In the long run, the best news is the legislative commitment to managed care in workers comp, specifically in allowing health maintenance organizations that have proven track records of controlling medical costs to be the providers of medical care," agreed Gregory Johnson, a principal at William M. Mercer Inc. in San Francisco, referring to a provision that extends employer control over an injured worker's medical care depending upon the number of managed care options the employer offers the worker.

The full reform package would reduce Hughes' \$30 million annual workers comp costs by close to \$3.5 million, Mr. Westerman said.

The City of Los Angeles would save more than \$2 million annually, according to Richard Welch, the city's risk manager.

Some of the savings will come from a legislatively mandated 7% cut in workers comp rates in 1994.

Labor representatives also are pleased with the reforms.

Over three years, benefits will be increased 45% for temporary total disabilities to \$490 a week from \$336 a week. "That's the great victory," said Jack Henning, head of the California Labor Federation, AFL-CIO, in San Francisco.

Permanent partial disability and death benefits will be increased by lesser amounts.

"The benefits are fantastic," Mr. Henning said.

Insurers' comments are more muted.

"We just don't know whether these reforms will produce the savings employers need to reduce their workers comp costs. There are too many variables," a spokesman for the American Insurance Assn. in Sacramento said.

The reform "is a long, very complex piece of legislation. Understanding (it) and the process is very difficult for anyone who was not involved," said a spokesman for the Assn. of California Insurance Companies in Sacramento, who noted that the major parties crafting the

legislation were employers, organized labor and lawmakers; insurers served in a consulting capacity.

"The employers that we worked with are confident the legislation will work and will generate significant savings," he said. "The whole attitude is 'Wait and see.'"

The spokesman, noting that many ambiguities exist in the legislation, said "there will definitely be a need for fine-tuning legislation" when lawmakers reconvene in August. "No one doubts that will happen."

The reforms are "so poorly drafted it's impossible to tell what the result will be," asserted William Molmen, general counsel of the insurer-supported California Workers' Compensation Institute in San Francisco.

"One thing is absolutely clear: it has severe, severe drafting problems—so severe (some provisions) do exactly the opposite of what they intend to do in many cases," he maintained.

For example, while the legislation is intended to require that a worker show that employment conditions were the predominant cause of stress leading to psychiatric injury, "literally the bill eliminates stress cases altogether," he said, based on his interpretation of the wording.

Others note that the reforms will not solve all California workers comp problems.

The mere fact that the law encourages the use of HMOs will not remove the "litigious" aspects of treating injured workers, points out Randall Jones, a consultant with A. Foster Higgins & Co. in Los Angeles. "There are hundreds of thousands of attorneys out there that aren't going to give up their practice for the

betterment of the system."

Everyone agrees that the reform effort is not finished: Many of the reforms must be implemented through detailed regulations that must be developed by the administrator of the state workers comp system, Casey Young. Some of the provisions in the law cannot be effectively applied until these regulations are issued.

"What will probably be the big deal here is that this reform has to be implemented by regulation," conceded Mr. Westerman.

Mr. Young is "gonna be lobbied by trial attorneys, applicant attorneys and forensic doctors, who are in cahoots with the applicant attorneys. That's a powerful group with friends in the Legislature. That's why reform was needed," Mr. Westerman asserted.

On top of that, "one of the big problems that I see and how it impacts employers is... the learning curve—trying to educate all of the claims adjusters, defense attorneys, applicant attorneys on how (the reforms are) supposed to work," said Mr. Jones.

"The most important part about (reform) is now it will be up to the employer community to make sure it is administered in the way it was intended," agreed Mr. George. For example, employers should be "aggressive" in handling disputed cases before workers comp judges "and follow the cases all the way" to the state appeals courts if need be, "to make sure the court adheres to the intent of the law," he said.

The AIA spokesman concurred. "How companies implement the reforms will determine in large measure how effective they are. No, the

Continued on next page

California comp reform package contains wide array of provisions

SACRAMENTO, Calif.—The package of bills signed by California Gov. Pete Wilson earlier this month mandates reforms in the following areas:

A.B. 119:

- Requires a worker to show that employment conditions were the "predominant cause" of stress leading to psychiatric injury.

- Disallows claims filed after notice of termination unless the employee had demonstrated existence of the injury prior to the notice.

A.B. 110:

- Reduces workers comp insurance rates by 7% by 1994.

- Adds a medical economist and a physical therapist to the Industrial Medical Council, which is responsible for oversight of medical treatment of injured workers. "Grants the IMC new authority to qualify and discipline qualified medical evaluators and adopt utilization review guidelines."

- Prohibits physicians, insurers and vocational rehabilitation counselors from referring injured workers to facilities in which the practitioner has a financial interest.

- Limits injured workers to one vocational rehabilitation plan, unless the injury warrants a second, with an overall cap of \$16,000 and an internal cap of \$4,500 on counselor fees. Eliminates the rehab requirement for employers that provide alternative or modified work.

- "Provides that no medical-legal evaluations may be obtained prior to 60 days after the employer is notified of the claim," and the treating physician shall do the medical-legal exam and issue the report.

- Allows one additional report from the employee in disputed cases. The employer may only obtain an additional report if the employee is represented by an attorney.

- Allows employers to control the

medical treatment of injured workers for 90 days, 180 days or 365 days, under certain conditions. For the longer periods, the employer must offer more than one HMO for workers comp health care.

- "Requires the administrative director to revise the treatment fee schedule by Jan. 1, 1995, and the schedule for health care facilities, prescription drugs and pharmacy services by Jan. 1, 1996."

- "Requires the employer to notify the insurer of information tending to disprove claims and requires the insurer to provide the employer with certain information, including offers to settle claims."

- "Requires the administrative director in consultation with the insurance commissioner and the rating bureau to develop a workers compensation information system."

- Increases benefits to injured workers by \$747 million, phased in through July 1, 1996.

A.B. 1300:

- Establishes several anti-fraud measures. Among them, it authorizes the state attorney general and "interested parties" to bring a civil action against "cappers" or anyone employing individuals to procure workers comp applicants.

- "Provides that any contract for professional services obtained under fraudulent circumstances is void, and any fees collected shall be recoverable and allocated to the prosecuting district attorney."

S.B. 983:

- "Permits employers and employees in the construction industry to agree through collective bargaining to an alternative workers compensation program," providing it meets the standards of the law.

S.B. 484:

- Earmarks \$11 million from various funds to implement the laws.

—By Louise Kertesz

California reform

Continued from previous page
job is not done."

He added, "(Sen.) Pat Johnston (D-Stockton) said it best: 'We hit the ball. Now we have to see whether it's a double or a home run. But we're definitely on base.'"

The reform "takes much of the ambiguity out of stress claims, which had become really out of control in California," said Hughes' Mr. Westerman.

Employees losing their jobs for a variety of reasons—including the poor economy—were filing post-ter-

mination stress claims, Mr. Westerman said, noting "there have been a lot of layoffs in the aerospace industry."

"Public agencies are particularly pleased by the changes in psychiatric claims, because in anticipation of the state budget problems, there will be layoffs in the public entities" that would have generated quite a large number of post-termination stress claims, according to Mr. George.

The provision on stress claims represents a defeat for labor, conceded the AFL-CIO's Mr. Henning. "But we really didn't lose it. There

are only eight states that recognize stress as a compensable injury (in workers comp)."

Limits on the number of medical-legal evaluations, coupled with a reduction in fees for such reports—mandated by legislation passed earlier this year—are expected to mean big savings for employers.

Although employers have some reservations about whether the cap on vocational rehabilitation services will hold, the trailer bill that legislators have promised to consider when they reconvene will tighten the cap, according to Mr. George. **BI**

Tort reform

Continued from page 2
dants.

- A repeal of the collateral source rule that would require plaintiffs to disclose all sources of insurance.

- A rule that would require plaintiffs to repay their insurers if duplicate payments are made by other insurers.

- A 12-year statute of limitations on personal injury suits, commencing at the time of injury. There had been no limit.

- A rule that allows lawyers for insurers to obtain the medical records of plaintiffs and their family members directly from the plaintiffs' doctors without the plaintiffs' permission.

Supporters remain optimistic. "We still feel we have support for these measures, but now it will take until next year to get them into effect," said William Jones, partner in the Phoenix law firm of Jones, Skelton & Hochuli, who helped the Arizona Chamber of Commerce draft and steer S.B. 1055 through the Legislature this past spring.

"It all depends on how much information we can get out to the people of Arizona," he said. "We're going to hit every school district, Little League and PTA in the state and try to convey how important this is and how much it will save them in insurance costs."

He could not quantify how much the plan could save consumers.

Opponents say the law is nothing more than an insurance company relief bill. "This was orchestrated by insurers and big business. There was a calculated public campaign to mislead citizens," said Clague Van Slyke III, president of the Arizona Trial Lawyers Assn.

Specifically, trial lawyers balked at requiring plaintiffs to disclose insurance information when defendants do not have to do so. Also, FAIR objected to the Legislature's unwillingness to include a two-year sunset provision in the law if it doesn't produce monetary savings for Arizona citizens.

Mr. Van Slyke also criticized backers of the law for refusing to assess what insurance rate rollbacks or other customer savings the law would generate.

Meanwhile, in Alabama, a June 25 state Supreme Court ruling overturned the key element of the state's 1987 Tort Reform Act. In a 5-3 decision, the court ruled that capping punitive damages at \$250,000 unduly infringes on a jury's constitutional authority to determine what, if any, punitive damages are appropriate.

Backers of the law now say it is effectively gutted and Alabama's Legislature has been rendered powerless to stem "runaway" punitive damage awards.

Writing for the majority, Justice Oscar Adams said any legislative prohibition on punitive awards is subject to the same challenge that a directive requiring juries to make such awards would be.

"The Legislature cannot prohibit juries from awarding an amount commensurate to the wrongdoing shown by evidence in a particular case," the court said. "Once a jury is demanded by either party, the jury has the constitutional authority to determine what amount, if any, of punitive damages" is awarded.

"This is not a good sign for tort reform in Alabama," said Forrest Latta, of Pierce, Carr & Alford, the

Mobile law firm that defended Alabama Power Co. against a 1988 suit by the family of a boy electrocuted while climbing an APCo tower. "This was the final bill of substance still left in the 1987 act and now it has been declared unconstitutional."

In 1991 the state high court struck down a \$400,000 cap on non-economic damages in medical malpractice cases and a clause in the tort reform package requiring judgments of \$150,000 or more to be structured over time (BI, Oct. 21, 1991).

"This ruling, along with the other ones, obviously exposes business to another level of damages that they were previously exempt from," said Bill Tillary, senior vp with the Birmingham Area Chamber of Commerce, Alabama's largest business group. "We always worried about the constitutionality question with this court, which has received about 10 times more in contributions from trial lawyers than business."

The ruling reinstates a jury's initial award of \$500,000 in punitive damages and \$15,300 in compensatory damages. The trial judge halved that punitive award to comply with the 1987 law.

Allen Baker of Balch & Bingham in Birmingham, which also represented APCo, said the utility is seeking a rehearing on the compensatory award but, due to the strongly worded opinion, not on the punitive damage cap.

"Alabama is the only state to take such a harsh stance on the Legislature's ability to deal with runaway punitive damages," he said. "Other states have similar constitutions, but their lawmakers have been permitted to take steps to control out-of-line awards." **BI**

Bill aims to protect retiree benefits

By JERRY GEISEL

WASHINGTON—Legislation introduced in the Senate last week would bar employers from terminating or reducing retiree health benefits while litigation over the legality of the cuts was pending.

And, when plan language is silent or ambiguous on whether an employer can reduce or terminate benefits, the burden of proof would shift to the employer to prove by a "preponderance of the evidence" that the plan permits the cuts.

The legislation, "The Retiree Health Benefits Protection Act," introduced last week by Sen. Harris Wofford, D-Pa., also would allow unions and other employee groups to sue an employer over retiree health cutbacks. Generally only plan participants and their beneficiaries can now sue.

Sen. Wofford describes his measure as a stopgap needed to protect retirees prior to health reform.

"There are millions of people who are at a real point of crisis" because their companies have terminated or reduced their retiree health care plans, or plan to do so, he said.

Sen. Wofford said his measure

would "help retired workers maintain their promised health benefits in court... and give companies second thoughts before trying to back out of their legal obligations."

Labor groups immediately backed the bill. William H. Bywater, president of the International Union of Electronic, Electrical, Salaried, Machine & Furniture Workers in Washington, described the measure as a needed safeguard for retirees.

"Corporations can't run away from obligations that they no longer feel they want to pay, leaving thousands of seniors in desperate, often life-threatening situations," he said. Benefit consultants say the legislation could lead to more litigation, since retirees would likely sue whenever companies try to cut benefits so that the benefits continue during the litigation.

"This legislation would seem to invite lawsuits," said Mary Case, a partner with Kwasha Lipton in Fort Lee, N.J.

However, benefits would not have to be maintained during litigation in actions that the court determines are "clearly without merit," a term that the bill leaves undefined.

Others fault the bill as vague on

what constitutes a benefit reduction. For example, it isn't clear if boosting retiree deductibles and premium contributions would be considered a reduction if the percentage of costs paid by the employer and retirees remained the same.

"You can't eliminate or reduce a benefit during litigation. But can you make a change? The legislation is not clear on that point," said Andy Anderson, a Hewitt Associates consultant in Lincolnshire, Ill.

And, as a practical matter, it isn't clear how employers—if a court later determined that they were entitled to reduce benefits—would recover overpayments from retirees.

Benefit experts said they want to examine the burden-of-proof section of the measure more carefully before commenting. But they note that typically in litigation the burden of proof is on the plaintiff.

The Wofford bill appears to turn that around with the provision for placing the burden of proof on employers.

Sen. Wofford said his legislation would not affect employers that unambiguously reserved the right in plan documents to terminate or reduce benefits. **BI**

Update

Agents lose Bank Act lawsuit

Continued from page 2

and remanded the underlying issue of whether small-town banks can issue insurance nationwide to the appeals court (BI, June 14).

The D.C. Circuit Court ruled that the wording of Section 92 "evinces no unambiguous command that the banks may sell insurance only to local townspeople."

"We're saddled up and ready to go up to Capital Hill," said Phil Anderson, Washington representative for the Independent Insurance Agents of America.

Work comp fraud ring arrested

LOS ANGELES—California Department of Insurance fraud investigators arrested 10 suspects last week in what they called one of the largest and most sophisticated workers compensation insurance fraud rings in state history.

Authorities arrested Dr. Mark Kaplan of Beverly Hills, the alleged leader of a scheme responsible for at least \$50 million in fraudulent workers comp payments over the past four years.

The suspects are accused of processing thousands of individuals through medical, diagnostic imaging and psychological clinics. The "patients" were primarily undocumented Latinos usually recruited by "cappers" after plant closures or mass layoffs and through television ads, regulators said. The clinics' staffs allegedly coached the individuals to feign injuries, and doctors and lawyers involved in the scheme filed workers comp claims on their behalf, the department said.

Morton pollution verdict upheld

TRENTON, N.J.—Policyholders cannot tap their general liability policies to cover the cost of intentional pollution, though coverage of unintentional gradual pollution is not barred, the New Jersey Supreme Court ruled last week.

In affirming lower court decisions barring coverage for costs incurred by Morton International Inc. for massive mercury pollution by a predecessor, the court said the mercury was intentionally discharged for at least 20 years. Thus, Morton is not entitled to coverage from the predecessor's insurers between 1961 and 1976 (BI, Oct. 21, 1991). But the court refused to enforce a literal reading of the pollution exclusion clause, which bars coverage unless the pollution is "sudden and accidental." The court said that when the insurance industry introduced the exclusion in the 1970s, it "misled state regulators as to the intended effect" of the exclusion.

Meanwhile, the 10th U.S. Circuit Court of Appeals ruled in an unrelated case July 19 that "sudden and accidental" are unambiguous terms and bar coverage for pollution that occurred over several years. Interpreting Kansas law, the court ruled in *USF&G vs. Morrison Grain Co. Inc.* that insurers had no duty to indemnify the grain company for \$334,000 in cleanup costs.

Briefly noted

House Judiciary Committee Chairman Jack Brooks, D-Texas, has called a July 29 hearing on H.R. 9, a bill that would strip the insurance industry of many of its **McCarran-Ferguson Act** antitrust exemptions. . . . Karen Ignagni, director of employee benefits at the AFL-CIO, has been named president of the **Group Health Assn. of America**, succeeding James F. Doherty, who is retiring. . . . **Transamerica Insurance Group** plans to move its Woodland Hills, Calif., headquarters to the Dallas-Fort Worth area next spring. . . . The U.S. House of Representatives' Subcommittee on Commerce, Consumer Protection and Competitiveness is expected to vote on a bill this week aimed at curbing **insurer redlining** (BI, July 19). . . . General Motors Corp. has settled all class-action suits relating to its 1973-1987 **pickup trucks** with sidesaddle fuel tanks. GM will give the estimated 4.7 million truck owners certificates worth \$1,000 toward the purchase of a new GM truck. . . . Ballot initiative 602, which is expected to be certified in Washington state, would repeal the tax package passed by the Legislature, part of which was designed to fund a **universal health care plan** (BI, April 12). . . . Contending Texas employers are being overcharged by at least \$130 million a year for **workers comp insurance**, Texas regulators are giving insurers until Sept. 1 to review their rates and make reductions. . . . Congressional negotiators hammering out a deficit reduction bill tentatively agreed last week to a new two-tier system of **taxing Social Security benefits**. Currently, 50% of benefits are taxed for individual retirees earning between \$25,000 and \$32,000 annually and couples earning between \$32,000 and \$40,000. Under a new second tier, 85% of benefits would be taxable for individuals earning more than \$32,000 and couples earning more than \$40,000. . . . Lloyd's of London members on 16 syndicates shut down this year by **Sturge Holdings P.L.C.** have set up an action group headed by John Rew to explore whether to contest their losses. . . . A consortium of 37 Blue Cross & Blue Shield plans will lend about \$60 million to the financially strapped **Blue Cross-Blue Shield of the National Capital Area**. . . . Employers in flooded Midwest counties designated as federal disaster areas will be given until Oct. 15 to file federally required **annual pension financial reports** that were due after June 30. . . . **Nebraska workers comp** rates will increase an average of 6.9% beginning Sept. 1. . . . Eighteen Florida strawberry growers are **suing BASF Corp.** for \$5 million in Florida state court, alleging its Ronilan DR fungicide stunts plant growth. . . . Small companies and individuals are not interested in **bare-bones health policies**, a Families USA Foundation study reports. . . . A New York trial court jury on July 20 awarded \$163.9 million—the **largest personal injury award in New York history**—to a woman who was almost completely paralyzed in a 1987 car crash. The truck driver who hit her and his employer, a North Carolina trucking firm, say they are insured for the damages.

EEOC guidelines

Continued from page 2
person.

Several courts have ruled since 1990 that sexually harassing conduct should be judged from the viewpoint of a reasonable woman. Taking that lead, the EEOC now proposes to extend the "reasonable person" standard to include "consideration of the perspective of persons of the alleged victim's race, color, religion, gender, national origin, age or disability."

Also under the proposed guidelines, employees would no longer have to prove psychological harm to prove harassment.

The proposed guidelines will be published in the Federal Register for comments, the spokeswoman said. Comment will also be sought from the federal Office of Management and Budget before any final guidelines are issued.

According to attorneys and consultants, the guidelines would not only increase harassment litigation, they could make it easier for victims of harassment to win.

"This new set of guidelines will raise people's awareness of their rights," which will result in increased harassment litigation, said Karen Ludington, a defense attorney specializing in labor and employment cases with Mirick, O'Connell, DeMallie & Lougee in Worcester, Mass.

In addition, the guidelines will make it easier for employees to win cases in one specific way, she said: Employees will no longer have to prove actual psychological harm to win a harassment suit. Some employees cannot afford to obtain psychological

'This new set of guidelines will raise people's awareness of their rights,' which will lead to more harassment litigation, says Karen Ludington.

help and thus currently cannot prove psychological distress.

Expanding the categories of harassment and evaluating conduct from the victim's viewpoint means more employers could be found liable, added Richard S. Betterley, president of Betterley Risk Consultants Inc. in Worcester, Mass.

But employers at least can avoid strict liability. Under the guidelines, employers are only strictly liable for workplace harassment by supervisors and agents if employers fail to institute an "explicit" policy against harassment and clearly and regularly explain that policy to workers, or if they fail to set up a "reasonably accessible" way for victims to take their harassment complaints to "appropriate officials who are in a position to act on complaints."

Say, for example, supervisors at two companies—one with an anti-harassment policy and another without one—harass workers. Only the second company is going to be automatically liable, said Ms. Ludington. The former will only be liable if it did not take appropriate actions.

Few employers have actually implemented anti-harassment policies with complaint pro-

cedures, as the EEOC advised them to in 1990, Ms. Ludington said.

"Employers will be doing themselves a disservice" if they don't implement the policies the EEOC recommends, she said.

If employers are going to have "state-of-the-art personnel policies" to protect themselves from potential liability, the policies must be expanded to "prohibit any conduct that constitutes harassment on any protected category," said Gerald L. Maatman Jr., a labor and employment lawyer with Baker & McKenzie in Chicago.

Personnel policies must include a complaint procedure for victims to bring harassing conduct to their employers' attention. They also must include an effective investigation process that leads to prompt remedies to eliminate the harassment, he explained.

Additional education is needed for management and other employees to clearly understand the new guidelines and resulting corporate anti-harassment policies, said Stephen Anderson, president of Anderson-Davis Inc., an Aurora, Colo., consultant.

If companies take the appropriate steps, there "is no reason for employees to go outside the workplace" with harassment claims, Mr. Anderson said.

Anti-harassment policies and training will reduce harassment suits, Ms. Ludington added.

Employers that have no policies, and thus have greater exposure to potential liability, have "more reason to buy employment-related practice liability insurance," Mr. Betterley said (BI, May 31). So more employers will buy coverage if the new guidelines are approved, he contended. **[B]**

BI Insurance Index

1010

990

970

950

930

910



Base = 100 on Dec. 29, 1978

Source: Nordby International Inc.

Insurance industry stocks fell last week, as the *Business Insurance Index* dropped 5.9 points to 951.1 July 23 from 957.0 on July 16. Advancing issues for the week were led by: Statesman Group Inc., up 7.9%; Zenith National Insurance, up 7.0%; and Acordia Inc., up 6.7%. Declining issues for the week followed: Hilb, Rogal & Hamilton, down 10.1%; Seibels Bruce Group, down 8.3%; and EXEL Ltd., down 8.1%. The most active issue was Allstate Corp., 5.3 million shares traded. The BI Index was down 0.6%; the NYSE Composite was unchanged; the Standard & Poor's 500 was up 0.3%; and the Dow Jones 30 Industrials rose 0.5%.

British Issues

July 22 Companies	Price pence	P/E	Div. pence	Yield %	1 Week High-Low pence
Comml Union	623	N/M	32.5	5.2	631-616
Genl Accident	632	N/M	35.7	5.6	632-625
Gdn Royal Exch	202	N/M	9.3	4.6	204-200
Royal	325	N/M	6.7	2.1	325-314
Sun Alliance	384	N/M	19.0	4.9	384-382
Brokers					
Bradstock	138	16.1	6.8	4.9	138-138
CE Heath	348	16.8	20.5	5.9	349-347
Hogg Group	210	18.3	10.9	5.2	214-210
JIB Group	212	21.0	10.0	4.7	212-212
Lloyd Thompson	318	25.7	7.5	2.3	318-317
Lowndes Lubert	412	14.6	18.8	4.6	412-411
PWS Holdings	66	9.9	5.3	8.0	66-64
Sedgwick Grp	197	23.8	8.0	4.1	199-196
Steel Brit Jones	253	14.8	17.7	7.0	253-253
Willis Corron	212	19.7	8.8	4.1	212-210

Source: Philip Olsen, London

N.Y. department OKs 14.4% comp rate hike

NEW YORK—New York employers said they will feel the squeeze from the New York Insurance Department's recent decision to approve a 14.4% hike in workers compensation insurance rates, even though it was lower than the increase originally proposed by insurers.

The 1993 rate increase, which becomes effective Oct. 1, was less than the 18.7% increase sought by the Workers Compensation Insurance Rating Board.

"There has been an increase in workers compensation rates in recent years, so this was no big surprise. Until we can get medical costs under control, it's going to be

difficult to keep costs down," said a spokesman for the Insurance Department.

In 1990, the department approved a 29.4% premium increase, while it approved a 15.3% increase in 1991 and a 15.6% hike last year.

Insurers readily accepted the rate increase, but New York employers were not so certain of the fairness of the premium hike.

"We estimate that this increase will cost businesses \$720 million in the coming year" and will cost jobs, said Robert Bellafiore, director of communications for the Business Council of New York State Inc.

The average workers comp insurance cost currently is \$650 per employee, up from \$300 five years ago, he noted.

Paul Sapienza, president of the Nassau-Suffolk Retail Bakers Assn. and himself a bakery owner, is among those already anticipating the effects of the premium hike.

"This is definitely going to hurt because retail bakeries are very labor-intensive, and that increases our premiums. It will definitely force us to raise our prices, and if that means not being competitive anymore, that could cost us our business," Mr. Sapienza said.

—By Mary E. Pflum

BI Industry Stock Report

JULY 19, 1993 THROUGH JULY 23, 1993

BROKERS

		Price	Weekly % change	Year to Date % change	Annual High	Low	Vol.(000)	\$ Div.	% Yield	P/E	Book value	Mkt/Bk. value
Acordia Inc.	NYS	23.88	6.70	11.05	24.75	15.13	41	0.44	1.84	15	7.01	3.41
Alexander & Alexander	NYS	26.25	-2.33	-0.94	26.88	22.13	157	1.00	3.81	22	10.00	2.63
E.W. Blanch Holdings Inc.	NYS	18.13	4.32	N.A.	20.00	16.50	203	0.00	0.00	22	3.75	4.83
Gallagher Arthur J. & Co.	NYS	31.63	0.00	11.95	37.38	21.88	64	0.72	2.28	20	6.35	4.98
Hilb, Rogal & Hamilton	NYS	12.25	-10.09	-21.60	16.88	12.25	173	0.44	3.59	18	3.11	3.94
Marsh & McLennan	NYS	86.25	1.32	-5.61	97.63	77.25	525	2.68	3.11	20	14.40	5.99
Poe & Brown	OTC	19.00	0.00	13.43	21.25	11.25	12	0.40	2.11	34	2.64	7.20
AVERAGE			0.0	1.4					2.4	22		

INSURERS/REINSURERS

		Price	Weekly % change	Year to Date % change	Annual High	Low	Vol.(000)	\$ Div.	% Yield	P/E	Book value	Mkt/Bk. value
ACE Ltd.	NYS	28.25	-3.42	N.A.	32.00	25.50	97	0.40	1.42	10	25.37	1.11
AEGON N.V.	NYS	44.00	-3.03	5.71	49.38	35.38	81	2.90	6.59	8	34.06	1.29
Aetna Life & Casualty	NYS	59.00	3.74	26.88	59.00	38.00	1011	2.76	4.68	128	67.08	0.88
Allied Group Inc.	OTC	25.00	-2.91	18.11	30.34	16.00	106	0.52	2.08	8	11.29	2.21
Allmerica Prop. & Casualty	NYS	59.38	-0.84	17.57	60.38	35.50	54	0.44	0.74	6	40.44	1.47
Allstate Corp.	NYS	29.88	0.00	N.A.	31.50	27.13	5250	0.00	0.00	-142	-	-
American General	NYS	30.75	0.00	7.89	33.25	23.63	1486	1.08	3.51	12	39.89	0.77
American Heritage Life Ins.	NYS	22.00	0.00	9.09	25.34	18.91	18	0.44	2.00	15	16.51	1.33
American Indemnity/Fin'l	OTC	15.00	-3.23	150.00	15.25	4.75	9	0.00	0.53	8	14.43	1.04
American International	NYS	138.63	2.40	19.50	138.63	91.13	1076	0.60	0.43	17	54.21	2.56
American RE Corp.	NYS	37.50	3.45	1.35	41.75	31.38	157	0.00	0.00	82	N.A.	N.A.
Aon Corp.	NYS	56.00	0.45	3.70	56.75	43.75	236	1.80	3.21	18	27.17	2.06
Argonaut Group	OTC	32.25	1.57	5.74	35.25	27.00	285	1.00	3.10	10	21.70	1.49
AVEMCO Corp.	NYS	18.38	-3.29	-21.39	27.00	18.13	29	0.40	2.18	21	7.33	2.51
Baldwin & Lyons Inc.	OTC	40.00	2.56	9.59	41.00	29.50	3	0.48	1.20	13	30.85	1.30
Berkley W.R. Corp.	OTC	43.63	6.08	1.45	50.50	34.00	414	0.40	0.92	17	23.51	1.86
Berkshire Hathaway Inc.	NYS	15700.0	-1.57	33.62	16200.0	9050.00	0	0.00	0.00	-58	6437.25	2.44
Chandler Insurance	OTC	4.50	-6.50	-5.26	5.38	3.50	1	0.00	0.00	16	8.63	0.52
Chubb Corp.	NYS	89.88	-2.84	1.13	96.38	73.50	794	1.72	1.91	13	40.67	2.21
CIGNA Corp.	NYS	58.75	1.95	0.21	68.00	47.13	457	3.04	5.17	11	81.73	0.72
CNA Financial Corp.	NYS	91.00	-0.82	-7.14	102.88	86.75	71	0.00	0.00	-12	80.24	1.13
Continental Corp.	NYS	31.00	-2.36	15.35	34.75	20.00	516	1.00	3.23	23	38.32	0.81
EXEL Ltd.	NYS	44.00	-8.09	-6.88	52.25	35.00	462	1.00	2.27	7	N.A.	N.A.
Fund American Corp.	NYS	85.25	0.29	18.40	86.75	67.75	53	0.00	0.00	14	81.85	1.04
Fremont General Corp.	NYS	26.88	-0.46	-22.10	27.84	14.84	531	0.72	2.68	9	25.62	1.05
Frontier Insurance Group	NYS	44.50	-0.28	2.30	45.50	29.31	43	0.52	1.17	16	13.97	3.19
Gainco Inc.	ASE	11.88	-4.04	-15.93	18.56	9.41	295	0.04	0.34	15	2.65	4.48
General RE Corp.	NYS	119.25	-0.21	3.02	130.50	83.00	524	1.88	1.58	17	46.07	2.59
Guaranty National Corp.	NYS	21.13	1.81	6.96	24.00	16.13	101	0.48	2.27	12	9.12	2.32
Harleysville Group	OTC	26.00	-2.80	-7.96	32.75	20.00	55	0.64	2.46	15	16.77	1.55
Hartford Steam Boiler	NYS	52.25	-0.48	-9.52	59.88	51.88	101	2.12	4.06	19	19.74	2.65
HCC Insurance Holdings	OTC	26.00	6.12	28.40	26.00	12.25	76	0.00	0.00	26	10.12	2.57
ITT (Hartford Group)	NYS	88.75	1.72	23.26	88.75	62.75	978	1.96	2.21	-38	68.23	1.30
Kemper Corp.	NYS	33.38	-3.26	12.66	43.00	20.75	452	0.92	2.76	-8	37.66	0.89
Lawrence Insurance Group	ASE	6.13	-2.00	-28.99	10.25	5.50	17	0.32	5.22	-	4.66	1.31
Liberty Corp.	NYS	31.88	-1.54	12.83	33.88	25.00	120	0.56	1.76	12	18.43	1.73
Lincoln National	NYS	38.63	-1.28	-47.18	41.81	30.63	618	1.52	3.94	10	58.92	0.66
Market Corp.	OTC	37.50	2.04	20.00	38.50	24.75	17	0.00	0.00	11	20.24	1.85

System design: Nordby International Inc.

		Price	Weekly % change	Year to Date % change	Annual High	Low	Vol.(000)	\$ Div.	% Yield	P/E	Book value	Mkt/Bk. value
Mutual Risk Mgmt. Ltd.	NYS	38.50	0.00	-4.94	46.00	26.25	89	0.28	0.73	21	7.51	5.13
NAC Re Corp.	OTC	37.00	-4.23	-8.64	44.75	27.50	145	0.16	0.43	52	13.60	2.72
National Re Corp.	NYS	35.00	0.00	18.14	39.63	18.38	43	0.12	0.34	11	N.A.	N.A.
Navigators Group	OTC	33.50	3.08	3.08	36.00	28.50	4	0.00	0.00	24	15.69	2.14
Nobel Insurance LTD.	OTC	6.88	1.85	17.02	8.25	4.25	79	0.00	0.00	3	3.91	1.76
NWNL Companies	NYS	29.25	-3.70	14.99	32.44	18.13	230	0.80	2.74	13	22.94	1.28
Ohio Casualty Corp.	OTC	62.75	-2.14	-0.59	68.75	57.00	322	2.84	4.53	12	43.08	1.46
Old Republic Int'l	NYS	24.13	1.58	-3.02	27.38	19.50	397	0.44	1.82	8	18.63	1.29
Orion Capital Corp.	NYS	41.50	1.84	17.31	46.38	28.41	44	0.80	1.93	9	28.62	1.45
Phoenix RE Corp.	OTC	28.63	-5.37	81.75	34.00	9.00	206	0.20	0.70	-62	13.32	2.15
Provident Life	NYS	26.88	-1.38	-5.70	31.50	24.75	127	1.04	3.87	10	30.38	0.88
Re Capital Corp.	ASE	14.38	0.00	-12.88	16.63	12.25	0	0.28	1.95	29	16.88	0.85
Reliance Group Holdings	NYS	6.75	-5.26	10.20	8.50	4.25	269	0.32	4.74	3	2.94	2.30
RLI Corp.	NYS	26.13	-0.95	5.56	28.63	18.75	139	0.52	1.99	12	17.92	1.46
St. Paul Companies	NYS	85.00	-0.29	10.39	86.75	67.88	404	2.80	3.29	-14	59.79	1.42
SAFECO Corp.	OTC	61.50	3.14	8.37	66.75	48.63	707	1.80	2.93	16	35.37	1.74
SCOR U.S. Corp.	NYS	16.38	2.34	-6.43	20.75	13.13	13	0.32	1.95	205	14.39	1.11
Seibels Bruce Group	OTC	0.69	-8.27	-63.31	6.13	0.38	93	0.00	0.00	0	6.22	0.11
Selective Ins. Group	OTC	27.25	1.87	23.86	27.25	19.00	221	1.12	4.11	15	20.22	1.35
Statesman Group Inc.	OTC	12.00	7.87	0.00	16.50	6.50	590	0.20	1.67	6	6.71	1.79
TIG Holdings	NYS	24.63	-1.01	N.A.	26.50	22.88	600	0.00	0.00	-20	-	-
Tokio Marine & Fire	OTC	60.50	-1.02	26.04	64.50	37.88	2	0.00	0.00	-	70.93	0.85
Torchmark Corp.	NYS	57.00	3.64	0.44	64.75	46.00	419	1.04	1.82	15	14.87	3.83
Transatlantic Holdings	NYS	53.50	0.00	-4.68	56.75	35.13	89	0.28	0.52	18	21.85	2.45
Traveler's Corp.	NYS	30.38	1.25	11.47	33.00	17.13	2507	1.60	5.27	-4	43.85	0.69
Triewick Group Inc.	OTC	45.00	4.05	10.43	49.75	28.25	124	0.88	1.96	17	23.87	1.89
United Fire & Casualty	OTC	36.25	-0.68	-12.65	43.00	34.75	13	1.00	2.76	84	28.47	1.27
Unitrin	OTC	43.75	0.57	2.34	46.75	35.00	179	1.20	2.74	13	36.51	1.20
UNUM Corp.	NYS	54.38	-2.25	2.59	58.38	38.50	404	0.80	1.47	14	21.83	2.49
US Facilities Corp.	OTC	9.25	-5.13	-7.50	11.50	6.50	86	0.00	0.00	11	9.64	0.96
USF&G Corp.	NYS	17.75	-5.96	43.43	19.63	9.88	776	0.20	1.13	-	10.29	1.72
USLICO Corp.	NYS	18.88	0.67	4.86	20.00	15.00	47	0.24	1.27	-6	29.80	0.63
USLIFE Corp.	NYS	42.00	2.44	15.86	42.63	29.34	474	1.20	2.86	13	64.90	0.65
Washington National	NYS	22.00	-1.68	-4.35	28.00	20.25	133	1.08	4.91	12	30.27	0.73
Zenith National Ins.	NYS	28.75	6.98	45.57	29.25	16.38	126	1.00	3.48	24	14.81	1.94
Zurich Reinsurance Centr.	NYS	33.00	1.54	N.A.	36.38	30.00	354	0.00	0.00	-	23.99	1.38
INSURERS/REINSURERS	AVERAGE		-0.2	7.2					1.9	12.4		

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